



BASICS OF ENTREPRENEURSHIP



**Mentoring for youth entrepreneurship support,
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INTRODUCTION

People have been thinking about business for a very long time, ever since the trading in goods and services has started. Not only ancient Egyptians or Mayans, but also Greeks and Romans knew that wealth that can be built by trade and business is the basis of civilisation's welfare and the mean to obtain power. Till the middle of 19th century, business developed more locally with the domination of family owned companies. Later, industrial revolution became the precondition for overcoming the boundaries of local market, family and friends' group. Now, information technologies and digitisation not only allow us to sell products to any citizen of the world, but also to attract finance for the beginning of our business more easily.

How to start a business? How to efficiently work in a team? How to develop a well-demanded product and a successful brand? How to protect the created innovation? How to efficiently finish the activities that you have started? How to present business idea to the investors? Why social responsibility is so important?

The book consists of 11 chapters. Chapter 1: Business Environment (Verslo aplinka) by V. Stankevicius and I. Ostrovskā analyses theoretical aspects of business environment and talks about business forms and their selection criteria. Chapter 2: New Product Development (Naujo gaminio vystymas) by L. Aleksejeva goes deeper into the development of business idea using Canvas Business Model. Chapter 3: Business Accounting and Financing Options (Verslo apskaita ir verslo finansavimo galimybės) by V. Venckuvienė states the basics of business finance and describes business financing options. Chapter 4: Project Management (Projektų valdymas) by R. Čiutienė and E. Meilienė is aimed at project management processes and practical tools used by companies. Chapter 5: Relationship Between Employee and an Employer (Darbuotojų ir darbdavių santykiai) by A. Savanečienė discusses the role of labour market in the development of relationship between employee and an employer and talks about the regulations of work relations, legal issues between employee and an employer and the possibilities for employee enrolment. Chapter 6: Business Processes (Verslo procesai) by A. Savanečienė presents business process decisions made in companies, coherently states the issues of creating a value chain and managing business, and discusses modern business process management concepts. Chapter 7: Marketing (Marketingas) by A. Rūtelionienė explains the analysis of marketing environment and the performance of marketing research and reveals segmentation, target market and positioning decisions as well as the elements of marketing complex. Chapter 8: Business Ethics (Verslo etika) by I. Ostrovskā

comments what ethics is about, discusses the ethics code, and analyses the cases of ethics in the area of marketing. Chapter 9: Intellectual Property (Intelektinė nuosavybė) by L. Aleksejeva) describes forms and rights of intellectual property. Chapter 10: Socially Responsible Business (Socialiai atsakingas verslas) by I. Ostrovskā reveals the development of social responsibility, its legal aspects and interested parties. Chapter 11: Rhetoric and Negotiation (Retorika ir derybos) by I. Aleksejeva describes the basis for business rhetoric and communication and explains how to use stories and efficiently present business idea to the investors.

The educational book The Basis of Entrepreneurship is aimed not only at those who are still studying business, but also at those who think about creating their own business or have already created it.

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1. BUSINESS ENVIRONMENT OF LATVIA

1.1. Theoretical aspects of business environment

Entrepreneurship is the basis of any country's rapid and sustainable economic development and is most closely related to socio-economic development, as it ensures creation of new workplaces, increase of people's income, development of other industries, improvement of goods and services quality, etc. The main factor affecting development of entrepreneurship is the entrepreneurial environment in the country. **Business environment** means a combination of all individuals, entities and other factors, which may or may not be under the control of the organisation, but that influence its performance, profitability, growth and even survival. The business environment includes internal and external factors.

It is very important for enterprises to understand its **internal environment**, such as business policy, organisation structure, Objectives, Corporate Culture, Human Resources, Vision and Mission, Value System, etc. In such cases, an effective management information system will help to predict the business environment changes. The factors which exist within the organisation, imparting strength or causing weakness to the organisation, come under internal environment.

External Environment: External Environment consists of factors that provide opportunity or pose threats to the business. It is further classified thusly:

Micro Environment: The immediate periphery of the business that has a continuous and direct impact on it is called Micro Environment. It includes suppliers, customers, competitors, market condition, intermediaries, etc., which are specific to the business. The knowledge about increase and decrease in demand, market size, market structure and changes taking place in it, supply, monopolistic practices, government participation in business, relationships with suppliers and your distribution chain, such as retail stores that sell your products, and the number and strength of your competition, etc., is necessary for an enterprise.

Macro Environment: Macro Environment is one such environment that influences the functioning and performance of every business organisation, in general. It is comprised of the following:

Legal factors include laws, regulations, tariffs and other trade barriers, Tax

amount, and tax convenience.

Political factors are governmental activities and political conditions that may affect your business, like State foreign policy, relations with other countries. Examples include war, social unrest and economic sanctions.

Macroeconomic factors affect the entire economy, not just your business. Examples include interest rates, unemployment rates, currency exchange rates, consumer confidence, consumer discretionary income, consumer savings rates, recessions, and depressions. The business environment helps to understand government policies such as export-import policy, price policy; monetary policy, foreign exchange policy, industrial policy, etc., have a great effect on business and global environment.

Socio-cultural and demographic factors are basically sociological factors related to general society and social relations that affect your business. Social factors include Citizenship, national structure, level of education, religious and moral standards, social movements, such as environmental movements, as well as changes in fashion and consumer preferences. For example, clothing fashions change with the season, and there is a current trend towards green construction and organic foods.

Technological factors are technological innovations that can either benefit or hurt your business. Some technological innovations can increase your productivity and profit margins, such as computer software and automated production. On the other hand, some technological innovations pose an existential threat to a business, such as Internet streaming challenging the DVD rental business.

Institutional and informational factors are business-related non-manufacturing spheres and information technology units: banks, insurers, advisory services, advertising agencies, market research centres, and business support centres.

Global environment. For example, these are global challenges: focus sustainability and the Environment, Increasing inequalities, ignorance's flows, gender equality, increasing diversity, climate change, new bugs. Key Regulations & tax structure considerations:

What are the main direct and indirect tax considerations to be aware of in this sector?

What licenses/approvals do you need to do business in a new market?

What tax incentives might you be eligible for?

How should you best structure yourself in order to be able to take profits out?



Case Study: In a cafe Handsome Her in the Australian Melbourne, introduced a gender premium - to pay attention to gender inequality problems, men pay 18% more for coffee than women: <https://www.instagram.com/handsomeher/>

An example: Finland business environment <http://www.investinfinland.fi/business-environment>

Latvian business environment: <http://www.liaa.gov.lv/en/invest-latvia/why-latvia/accessibility-large-markets>

Task: Tell us about the specific business environment factors in your district, city, or region (availability of human resources, availability of a natural resource, tourism objects, specialist knowledge of the population) that could stimulate local entrepreneurship.

1.2. Business environment in Latvia and Lithuania

In order to evaluate entrepreneurial environment in separate countries, the World Bank carries out international research, Doing Business (DB). According to the DB index, in 2017, Latvia ranks 15th in the world (among 191 countries) and this result is three places higher than previously (in 2011 it ranked as the 24th). Latvia ranks amid those countries (85% from all those included in the DB research), whose reforms, implemented during the last 5 years, have facilitated implementation of entrepreneurship. For comparison, Estonia ranks 12th in Doing Business 2017, while Lithuania ranks 21th. In the research Doing Business 2017, entrepreneurial environment is evaluated from 10 aspects. (Doing Business 2017).

For more information: <http://www.doingbusiness.org/rankings>

The European Union Strategy for Europe 2020: A strategy for smart, sustainable and inclusive growth (2010) states that the priorities are education, science and innovation. Innovation is also considered a response to the present problems and future challenges such as climate change, limited resources, demographic and social problems. In the Global Competitiveness Index ranking of the World Economic Forum 2017, Latvia is ranked no. 49, and Lithuania – no. 36 among 138 countries. According to this ranking, Latvia and Lithuania are considerably below a number of EU Member States as well as Estonia, whose rating is no. 30. If the Latvian position over the last year has become worse (- 5), the Lithuanian and

Estonian rating has the same places (Shwab, 2016, p.13).

For more information: <https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1>

In the Innovation Union Scoreboard 2017 study of 27 countries, Latvia is at the end of the list (the 24th place) with regard to innovation performance, while Lithuania and Estonia's positions are considerably higher, 14th and 13th place respectively, still behind the EU average (see Fig.). The study evaluated a wide range of performance in eight key areas significant for innovation development. Compared to 2010, the innovation performance has increased most in Lithuania (1th place) and in Latvia + 8.9 points (10th place). When analysing Latvian innovations, it should be noted that the relatively better performance of Latvia is in innovation friendly environment (6th place), but the indicators for research environment, innovative companies, business and research cooperation are lower (Union Innovation Scoreboard 2017). In Lithuania the better performance is in finance and support (7th place) and the poor one is research systems (25th place). A top research, higher education level and qualification contributes to the fundamental innovation, the transfer and imitation of global high-tech practice. However, these opportunities are minimally used in Latvia and Lithuania.

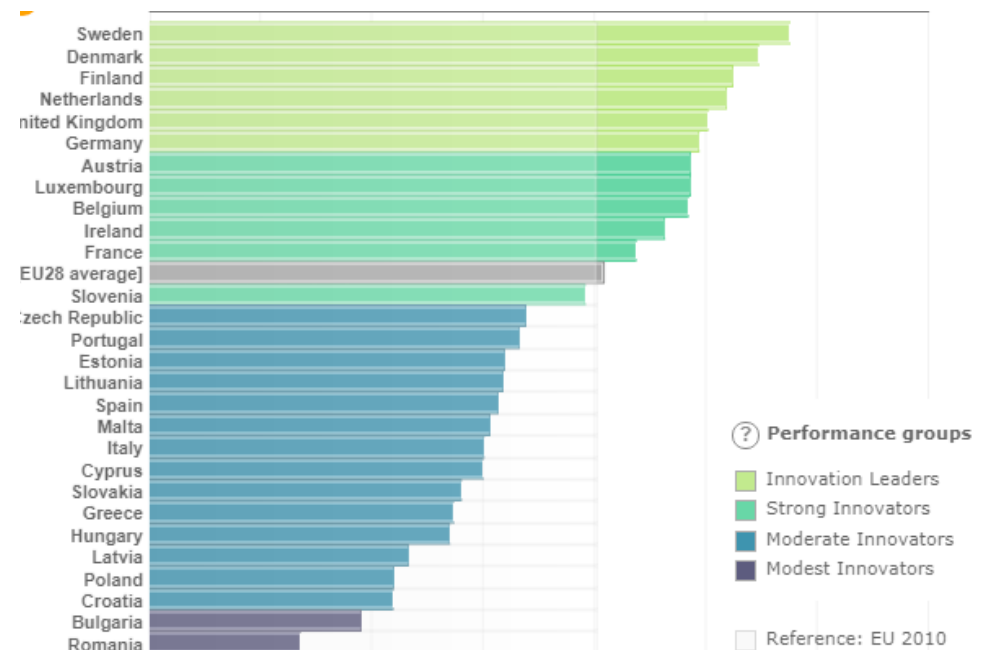


Figure 1. Innovation Union Scoreboard 2017

1.3. Business activity statistics in Latvia

Today when radical changes affect the market economy and employment, its base consists of small and medium-sized enterprises (SMEs). Small and medium businesses in Latvia and Lithuania as well as elsewhere in Europe account for a large part of the economy, and have an important role in the creation of GDP and employment. In European business structure, SMEs account for 99.8% of economically active businesses (in Latvia 99.4%, in Lithuania 99.5%). In SME structure, in turn, micro enterprises have a growing importance: Latvian micro enterprises account for 76.9%, Lithuanian 78.3% from all SMEs. Their main advantage is the ability to respond quickly to market changes, thereby changing trends in the international market and increasing demand in a specific sector brings wide niche opportunities, e.g., in the field of organic farming, eco-tourism, information technology and other knowledge-based areas. The relatively low level of entrepreneurial activity and self-employment in both Latvia and Lithuania is related to the lack of initiative and enterprise spirit in society, as well as government policies on entrepreneurship education.

In 2008, on average 24% of companies in Latvia were innovative, in Lithuania 30%, while in Scandinavian countries, like in EU-27 countries, innovative companies accounted for an average of 52%. The importance of the innovations is also proven by the fact that the turnover of Latvian innovative enterprises (24%) in 2008 was 52.7% of the total business turnover (Eurostat). The development of Latvian economy and increase of the competitiveness of businesses is significant not only for the convergence of economic development levels among EU member states, but also an important precondition for maintaining the economic and social welfare level, retaining and expansion of local business niches in global competition conditions, as well as for the successful transition of Latvian economy into an innovative development model.

A significant problem in Latvia compared to other EU Member States are relatively low entrepreneurial activity and self-employment rates, due to a lack of initiative and entrepreneurial spirit in society.

In the National Economic Development Guidelines, the emphasis is exactly on the medium and small enterprises, because they form the biggest part of the national economy sector. Therefore, their competitiveness has to be raised as well as the total number of these enterprises increased. To get a clearer idea of what type of enterprises (by size) mostly dominate in the national economy of Latvia, the author offers to take a look at the data of the Central Statistical Bureau broken down by size groups. Economically active enterprises and companies are divided into three groups, considering the number of employees: with the number of employees ≤ 49 , from 50 to 249 and ≥ 250 . Overall, significant changes in division of companies by size groups were not observed and the overall trend remains – the largest share is taken by micro-enterprises. The fact that every year the number of new enterprises in the country is gradually but steadily increasing could be explained by increasing business demand, as well as implementation of various measures to improve the entrepreneurial environment and support programs for young entrepreneurs.

Therefore, the focus should be on the study of these micro, small and medium enterprises.

In order to promote the development of innovative entrepreneurs involvement of highly qualified specialists in the SMEs has to be supported. Public funding will have a motivating character, which will embolden entrepreneurs to invest in creation of new workplaces for highly qualified specialists, as well as encourage entrepreneurs to engage in cooperative projects with universities and scientific institutes. The lack of highly competent and motivated employees limits the opportunities for innovation – entrepreneurs have shortage of educated and interested employees, who would not only be able to perform certain tasks, but also devote time to increasing the productivity and acquisition of new technologies and development of new products and services.

Group work

Describe the most important aspects of business activity in your city or district, and analyse the larger companies, industries, sectors, etc.

1.4. Criteria of business form selection

Having decided to go into business, first it is needed to decide which business form is the most suitable to implement your business goals. While selecting a business form, first the following questions should be answered:

Do I intend to invest alone or with a partner?

Do I intend to work alone or hire employees?

Having answered these questions, you'll decide if you'll work self-employed or you'll establish an enterprise. Engagement in an individual activity is simpler: no enterprise, no management structure need to be established, you can start with less money, etc.

Execution of individual activity in Lithuania is allowed by acquiring a *business license* or getting a *certificate of individual activity*. Registration and termination of this business form is fast and inexpensive. The essential difference between the business license (patent) and the certificate of individual activity is in the taxes the entrepreneur must pay. Besides, it needs to be assured that the activity planned is permitted. In particular cases it is necessary to establish an enterprise or to acquire a permission that gives the right to execute activity of that kind, i.e., when the activity can be executed by an enterprise only or the activity requires a special license.

Having answered the questions above, the questions that follow require more profound and comprehensive information:

1. If I'll work with partners, how many partners will I need?
2. What are the limits of liability in case of difficulties in business activities?
3. What initial capital will be required?
4. How are decisions taken?
5. What taxes will apply?

1.5. Business forms

Business can be performed by a Natural person or by establishing an enterprise that will be considered a Legal entity. The following enterprises are most common in Lithuania:

- Individual enterprise (IE)
- Small partnership (SP)
- Closed joint-stock company (CJSC)
- Public institution (PI)

Individual enterprise. Establishment of an individual enterprise is recommended in case you'll work alone, and selected activity type does not seem risky to you. The law does not require minimal initial capital; therefore, a business can be started with an idea and resources required for its implementation or funding source. However, it is IMPORTANT to remember that in case the business will fail, the owner of the individual activity will be personally liable for everything.

Table 1. Advantages & disadvantages of Individual enterprise

Advantages	Disadvantages
No need for authorized capital	In case a business is lose-making and IE goes bankrupt, the owner is personally liable
Can take enterprise's money or other asset for personal needs at any time	Only one person can be the owner of IE
The owner can work alone, without a labour contract. If required, other people can be employed as well	Shares cannot be issued to attract funding in such way
Can be easily transformed into a CJSC	Accountancy of IE in many cases is not simpler in comparison to that of CJSC or PI

Small partnership. A small partnership is usually established when few partners decide to act together to implement a business idea. Earlier SP as a form of business execution was created in striving to stimulate business creation. A set of concessions were applied to this business form, which stimulated a selection to establish SP instead of CJSC. With such concessions establishment was easier, labour contracts with members are not compulsory, and there's easier accounting. However, in the long run, the advantages were dissolvable, and up

to now SP as a form of business stimulation has lost its meaning.

Table 2. Advantages & disadvantages of small partnerships

Advantages	Disadvantages
<p>No need for authorized capital</p> <p>Can be established by one founder or together with partners (up to 10 people)</p> <p>Limited liability of members, i.e., in case of business failure, the members risk only in their contributions, thus protecting their personal assets</p> <p>Can get finances for personal needs from the company by allowing a payment of benefit in advance</p> <p>A member of a Small partnership can quit the partnership by reclaiming his own contribution, as well as sell member rights or transfer them to other people in other ways</p> <p>Can perform any activity not prohibited by law</p> <p>Can be easily transformed into a CJSC</p>	<p>A founder / member can be only a natural person, in total not more than 10</p> <p>Clear order of voting and profit distribution is not set - disputes between members of small partnership can be difficult to be tackled</p> <p>Accountancy in many cases is not simpler in comparison to that of CJSC or PI</p>

Closed joint-stock company (CJSC). A closed joint-stock company (CJSC) is a private legal person of limited liability. This means that the shareholders shall not be liable in their assets for the commitments unfulfilled by CJSC.

The CJSC can be established by one and more natural or legal people. The number of shareholders is limited to 249. Shareholders take the main decisions by voting. Each share grants one vote. CJSC has a sole management body, a manager, and there can be a collegial management body, the board.

Table 3. Advantages & disadvantages of CJSC

Advantages	Disadvantages
<p>In case of business failure, the shareholder risks only in the assets he contributed to CJSC</p> <p>In order to attract additional funds, CJSC can issue new shares that could be sold to existing or new shareholders</p> <p>Possibility to go out of business by transferring shares of CJSC to other people or by selling the business</p>	<p>While establishing CJSC, a deposit of not less than 2500 EUR for the authorized capital is required</p> <p>An employed manager is mandatory</p> <p>Shareholders can pay out an accumulated profit to themselves only through dividends or by receiving wages</p>

Public Institution. A public institution (PI) is a non-profit enterprise the goal of which is to perform a public-benefit activity, thus satisfying public interests. Economic activity is allowed and the enterprise can earn incomes, however, they can be used for everyday needs of the enterprise and to fund the activities of the main goal. PI can be established by one natural or legal person, or by an unlimited number of founders.

Table 4. Advantages & disadvantages of Public Institutions

Advantages	Disadvantages
<p>Partner risks only the assets he deposited to PI</p> <p>No need to deposit funds for the authorized capital</p> <p>Tax concessions - 7250 EUR are tax free (in case income of commercial activity does not exceed 300000 EUR)</p> <p>Can get support from legal people and citizens' support amounting to 2%</p> <p>Possibility to go out of activity by transferring partner rights to other people or to attract additional funding by accepting new partners to PI</p>	<p>Profit cannot be paid out to partners: partners can receive the money from the enterprise only by receiving the wage</p> <p>Cannot be transformed into CJSC</p> <p>Banker attitude are often unfavourable</p>



How do business forms differ?

First of all, business forms differ in the decision- making process and related limits of liability:

Table 5. Business form comparison

	Individual enterprise (IE)	Small partnership (SP)	Closed joint-stock company (CJSC)	Joint-stock company (JSC)	Public institution (PI)
Number of participants	1 owner of the enterprise	1 – 10 of natural people	1 – 249 shareholders (people or companies)	Unlimited	
Limits of liability	Unlimited	Limited	Limited	Limited	Limited
Decision making	Owner makes decisions	1 member = 1 vote	1 share = 1 vote	1 share = 1 vote	
What authorised capital will be required	Undetermined	LT - not required LV - not required	LT - 2 500 EUR LV - 2 8000 EUR	LT - 40 000 EUR LV - 35 000 EUR	Undetermined

TAXES

Tax is a part of money fixed by the state, which has to be paid to the state by a natural or legal person according to the activity results or the activities planned to be performed. The main taxes to be paid are these:

- Personal income tax (PIT)
- Compulsory social security (CSS)
- Public social security (PSS)
- Deposits to the guarantee fund
- Corporate tax
- Value added tax (VAT)
- Real estate tax of enterprises and organizations
- Excise duties

Taxes related to employee wage according to labour contract:

1. *Taxes charged to employee wages on paper.* These taxes are called the taxes paid by the employee, although, technically these taxes are paid by the employer, and in case of increase of these taxes, but agreed wage not changed, the real wage paid will be decreased. The following are the taxes:

- Personal income tax – 15%. This tax goes to the state budget.
- Health insurance (CSS) – 6%. The tax falls into the budget of Compulsory Health Insurance Fund (CHIF).
- Pension and social insurance – 3%. Tax into the budget of (Lithuanian State Social Insurance Fund Board).

2. *Taxes additionally charged to employee's wage "on paper".* Such taxes are being called the taxes paid by the employer. Having changed these taxes, the employee's real wage does not change. The following taxes:

- Contribution to „Sodra“ (PSS) – 27,98%*. The main source of income of “Sodra” budget. (Usually contribution to Sodra is being indicated as 30,98%, together with the contribution of health insurance that is indicated in the next item).
- Health insurance contribution (actually ascribed to CSS) – 3%.
- Deposits to Guarantee fund - 0,2%. This is a relatively small tax intended to accumulate the payments required to pay wages to employees of bankrupted companies.

While predicting expenditures, there is always a possibility to use a publicly available wage calculations (e.g. <http://www.finansistas.net/atlyginimo-skaiciuokle.html>).

Taxes for those working not according to labour contract

PSS tax, which is often called simply tax of Sodra, has to be paid not only by those receiving a wage, but also by the self-employed. The basis to pay the tax of Sodra by oneself appears in *individual activity, working with business license, having established small partnership, etc.*

Each of these activities has a fixed PSS tax tariff (that significantly changed since 2017). Detailed tariffs of taxes of Sodra for the self-employed can be found at [the Sodra website](http://www.finansistas.net/atlyginimo-skaiciuokle.html).



Tax purpose

Personal income tax is the tax applied to natural people living in the country and receiving a particular income. Almost all monetary incomes earned by citizens are levied by this tax: received wage, capital income, royalties and other honoraria and incomes.

PIT for employees is calculated every month from the sum of the wage. PIT for shareholders is paid from the sum of dividends paid to the shareholder (natural person). Natural people engaged in individual activity pay PIT when acquiring a business license or by declaring their income in case of individual activity certificate. The standard tariff of PIT is 15 %.

Compulsory social security is the tax intended to finance a health security system. From the budget of collection of this tax - compulsory health insurance fund, there are sustained hospitals, clinics and their personnel and paid compensating medicines and other medical measures.

Public social security is the tax on working people intended to sustain a social welfare of the state's citizens. This tax can be called a tax of pensions, maternity, sick people allowance and unemployment pay-off

Deposit to the guarantee fund. The guarantee fund is a social security fund established by the state (but not financed by the state) and intended to secure the employees of bankrupted enterprises. When an enterprise starts bankruptcy proceeding, unpaid wage, accumulated holiday allowances (partially), severance pay and other pay-offs are paid from this fund. *Deposits to the guarantee fund are paid by all employers, and their size amounts 0,2% from the agreed wage with add-ons.* Technically this tax is paid by the employer, although it needs to be understood that all taxes related to wage in one or another way are decreasing it, and, actually, these taxes are paid by the employees. Deposits to the guarantee fund are not paid from the sum of dividends paid to shareholder (natural person).

The taxes paid by enterprises

Corporate tax. Operating profit – the profit of the enterprise obtained from operating activities before tax and the financial activity result. Operating profit = *Gross profit – Operating expenditure*

Where: *Gross profit = Income – Cost.*

CT rate is 15 % or 5 %.

The 5 % rate is applied in these cases:

- the average number of employees does not exceed 10 people
- tax period income from 2016-01-01 does not exceed 300 000 euros

Value added tax. It can be stated that VAT is the main tax (it significantly overtakes other taxes according to collection). This tax is a consumption tax, and usually it is paid for the most goods and services consumed in the state.

The main rate of VAT in Lithuania is 21%. This tax is applied on all goods or services sold in the territory of the state, if a preferential tariff is not applied to them and if these goods and services are sold by a VAT taxable person.

The reduced value added tax rate:

- Preferential tariff 9% of VAT is applied on books, newspapers, other informational publications (there are exceptions), shuttle transportation of clients, hotels.
- Preferential tariff 5% of VAT is applied on aids for disabled, medicines compensated by the state (since 2017, on prescribed not compensated medicines are untaxed up to taxable amount of package of which is higher than 300 EUR) and medical measures.

Enterprises and self-employed persons must be registered as VAT taxable persons in case:

the income during the last 12 months in the state exceeded 45 thousand. EUR (including a group of related enterprises); goods acquired in Lithuania and the member states exceeds 14 thousand EUR (apart from new cars).

Latvia

Before starting to implement business it is necessary to decide which type of entrepreneurship would be more suitable from juridical and economic points of view. Different factors should be taken into consideration when taking the decision, e.g., the size of seed capital, how many clients are expected to use your service and the number of workers, service or good price, monthly turnover, costs and incomes. Physical people may choose from two types of entrepreneurship – self-employed person or an individual businessman. Juridical people have got a wider choice as it can be a society with limited liabilities, joint-stock company, unlimited liability company, limited partnership, fishing society, farm, individual (family) enterprise, and cooperative society. It is worth remembering that in case of necessity on type of entrepreneurship may be changed into another, e.g. individual businessman into a limited liability company or a limited liability company into a stock company. It should be also mentioned that an enterprise has to change its business type in frames of law depending on the enlargement of its turnover and number of workers

Most common types of enterprises in Latvia

Physical person:

Self-employed person - *Pašnodarbināta persona*

Individual merchant - *Individuālais komersants*

Microenterprise tax payer IS NOT a separate business form, it is a special status, where 15% tax is paid from the turnover. (15% is the correct number, infographic must be changed)

Legal entity:

Limited liability company (LLC) - *Sabiedrība ar ierobežotu atbildību (SIA)*

Joint stock company (JSC) - *Akciju sabiedrība (AS)*

General partnership - *Pilnsabiedrība*

Limited partnership – *Komandītsabiedrība*

Fishing society - *Zvejnieku saimniecība*

Farm - *Zemnieku saimniecība*

Family enterprise – *Individuālais (ģimenes) uzņēmums*

Cooperative – *Kooperatīva sabiedrība*

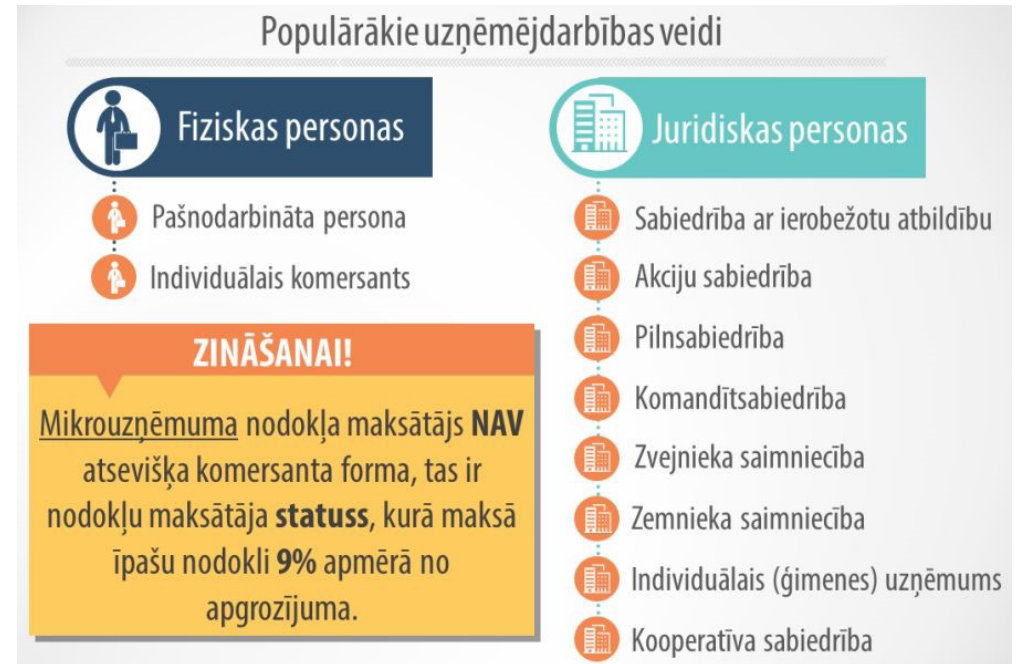


Figure 2. Most common types of enterprises in Latvia

Self-employed person

A self-employed person is a person that implements commercial activity and is registered as a self-employed person. Commercial activity is any systematic, individual activity for payment. Commercial activity means providing professional services in case if there are no employment relationships with clients. It is, e.g., scientific, literary, doctoral activity, services of sworn advocate, sworn inspector, sworn notary, sworn surveyor, composer, musician, counsellor, engineer, etc.

Individual businessman

An individual businessman is a physical person that implements commercial activity and is registered as an individual businessman in the commercial register. An individual businessman is responsible for his liabilities with all his property.

Starting entrepreneurship and choosing its type:

<http://www.liaa.gov.lv/lv/uznemejdarbibas-uzsaksana>

<http://m.lvportals.lv/visi/skaidrojumi/276934-gribu-sakt-biznesu-kadu-uznemejdarbibas-veidu-izveleties/>



Administration of taxes in Latvia:

<https://www.vid.gov.lv/lv/nodokli>

Micro-enterprise — **individual businessman, individual enterprise, farm or fishing society, as well as a physical person that is registered in State Revenue Service as an implementer of commercial activity. Criteria for micro-enterprise activity:**

- a) participants (if there are such) are physical people
- b) turnover per a calendar year does not exceed 100 000 euro
- c) number of participants never exceeds 5
- d) members of the board of a limited liability company are participants of micro-enterprise only
- e) the physical and legal people mentioned in this point are not members of a personal society

About the micro-enterprise tax:

<https://www.vid.gov.lv/lv/mikrouznemumu-nodokla-likmes>

http://fm.gov.lv/lv/sadala/nodoklu_politika/nodoklu_un_nodevu_sistema_latvija/mikrouznemumu_nodoklis/mikrouznemumu_nodokla_rezims_kas_stajas_speka_2016_gada/

<https://likumi.lv/doc.php?id=215302>

2. NEW PRODUCT DEVELOPMENT

2.1. Business idea

Successful business should be based on a good idea. A good idea may be represented both by an innovative product (good or service), including original solutions of everyday problems, and other original elements of business model and product's added value. For example,

Ideas may be found EVERYWHERE:

- business contacts and friends
- business journals and newspapers with published articles on successful business and practical advises and opportunities
- publications on development and tendencies of the sphere
- exhibitions, presentations
- analysis of tendencies for TV, radio, internet (including social networks): observing consumer buying behaviour, as well as other tendencies connected with the chosen business sphere

Demand for a certain product (Peter Drucker's book "Innovation and Entrepreneurship"):

- The organization's own unexpected successes and failures, change of outside circumstances. E.g., the need of an umbrella for tourists is caused by an unexpected rain. But often it is not taken: look for other solutions.
- Incongruities, especially those in a process, such as production, distribution, or incongruities in customer behaviour. Non-compliance between the reality and our comprehension of it, e.g., to sunbathe at the beach we use sun cream but not an umbrella or a warm scarf. In reality weather circumstances change fast and there is a need to warm oneself and not to sunbathe.
- Process needs
- Changes in industry and market structures in local and global level of national economy, e.g., war, crisis, volcano eruption. It is necessary to be able to adjust quickly and to provide the offer in the right time and place. E.g., a ferry accident causes car queues where people have to spend more time than usually. A sudden need of food in large volumes, hygienic accessories, opportunities of children entertainment, etc., occurs.

- Changes in demographics. Current tendency shows that the wider target audience is represented by pensioners but capable of paying - children (their parents, of course)
- Changes in meaning and perception, concepts, culture. E.g., characteristics of foreigners, refugees.



The most successful business is a business where extremely different resources are used (including those that are available for free).

Methods of generating creative thinking: brainstorm, alternatives, problems/solutions tree, orthodox method, analogical discussion, mosaic method, portfolio of my inner resource Organ method. More information: <http://members.optusnet.com.au/charles57/Creative/Techniques/> and Guide to Latvian municipal employees to promote local economic development, 2014.

The typical mistake of young entrepreneurs is the inability to define a product and to describe it shortly.

Table 6. Components of successful idea

Components of successful idea	Peculiarities of successful product news
<ul style="list-style-type: none"> • Essence of ideas may be explained to everyone • Developer feels patriotism and is keen on ideas • Comprehension by the target audience • Investigation of the chosen field • Broadened opportunities • Feedback • Peculiar features of idea 	<ul style="list-style-type: none"> • Simple • Unexpected • Direct (purposful) • Believable • Emotions • Stories



Concise description of business idea

1. Ringing and attracting attention title
2. Essence of product: touchable and untouchable added value, description of principles of activity by keywords
3. Compliance of product with needs of modern individual, client benefits
4. Calculation of costs & organisation of logistics
5. Investigation of market: WHO, HOW MANY and FOR WHAT will be ready to pay?
6. Command / attracted competences
7. Modern marketing & sales channels
8. Opportunity to protect self-business ideas
9. Investigation and management of risks
10. Readiness to invest personal time, knowledge, finances and other resources

2.2. Business Model Canvas

A business model is the way an enterprise or independent organisation provide value to themselves and their clients.



Example of business model (Case): When in 1958 Xerox Corporation investigated one of the first photocopiers, it cost too much, and therefore the company developed a new business model. Xerox rented photocopiers for 95 \$ per month + 2000 copies were provided for free, each next copy cost 5 cents, making the company more available to clients that made thousands of copies per month.

A business model is a system where each element influences the others: it makes sense only as a universe; it is difficult to see the whole image without visualization. Creating the visual image of a business model, the future entrepreneur should interpret uncertain visions and notions in a language understandable for him/her and others. The model gets real functions in such a way and may be subjected to debates and changes.

A. Osterwalder offered Entrepreneurs' a 21st century business plan that can be easily actualized, which is clear and is convenient to be presented to a wider audience.

EElaborated by the Swiss expert Alexander Osterwalder's method of business modelling - Business Model Canvas - in accordance with which the author should describe 9 the most essential elements needed in planning of any business (A. Osterwalder Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers):

1. value preposition
2. key activities
3. customer segments
4. key partners
5. key resources
6. customer relationships
7. channels
8. cost structure
9. revenue streams.

More about Business Model Canvas in video: https://www.youtube.com/watch?time_continue=67&v=QoAOzMTLP5s

Totality of business planning elements forms a business model, which in different combinations provides ideas to author about the most successful way of the idea's commercialization. Worked out by A.Osterwalder business model canvas is a great aid to a entrepreneur-starter to put their thoughts in order, to structuralise information about their future business and convincingly inform the audience about it. For example, how should be the product's value offer changed if to coordinate it the clients' specific segments. Which partners should be attracted in order to decrease possible costs? How relations with clients should be formed in concordance with the existing value offer?

Table 7. Business Model Canvas

Enlarged Model of Business Model Canvas

KEY PARTNERS	KEY ACTIVITIES	VALUE PROPOSITIONS	CUSTOMER RELATIONSHIPS	CUSTOMER SEGMENTS
Who are the most important partners? How does each of them mobilize resources and help to sell the product? Who are suppliers? What kind of resources is bought from them? Existing alternatives?	What are the main activities connected with the product's creation, distribution, attraction of customers and incomes? KEY RESOURCES What are the main resources needed for the product's creation, distribution, for attracting customers and getting income (at the nearest development stages)?	What will be offered to a client? What are the product's touchable and untouchable features (added value) that will motivate clients to buy it? What kind of client's problems may be solved by the product? What kind of needs is fulfilled? What kind of product's package and its variations will be provided?	In which way the relationships with customers will be formed? How will it influence purchasing decisions? How much do the customer relationships cost? CHANNELS What kind of distribution channels will be used? Which channels will join the product and clients in the fastest way? How the potential clients will be reached? Which channels are the cheapest and act in the best way?	To whom the product has been created? What are the most important customer groups? What are their wishes? What is the client's portrait? Who gains the greatest benefit from the product? Early adopters?
COST STRUCTURE		REVENUE STREAMS		
What are the types of payments and their division? What are the most essential payment positions? What resources are the most expensive? What activities are the most expensive?		For what clients are ready to pay? What is the price politics? In what way the product will be paid? How much does each source of incomes participate in		

More about formation of Business Model Canvas:

<https://www.alexandercowan.com/business-model-canvas-templates/>

Competitive advantage		1b: solution		1a: problem	
8	7	2	4	1	9c: development stages of idea
	6		3		9b: hypotheses
9			5		9a: metrics

Order of fulfilment of Business Model Canvas:

Customer segments. Observation of customer viewpoint is the main principle of creation of business model. Customer perspective should stand in front choosing the value offer, sale channels, types of clients' relations and streams of incomes. Organisation is able to serve for one or several customer segments. In different business models the division of customer segments may be based on various criteria.

1a. The next step that should be evaluated from the customer viewpoint is: what are the customers' problems directly or indirectly connected with the chosen business sphere? Which of these problems is the most essential? See part 1, additionally.

1b. Further it is to be considered how the business idea may help to solve the problems.

Value offer is the reason customers prefer one product and not another. This solves the customers' problems and their needs providing value to them. Which is the unique value offer for these groups in accordance with the best solutions of the most essential problems? Which is the maximum benefit for customers from this offer? Where do the added value and uniqueness hide?



Communication channels, distribution and sale channels make an interaction system between customer and enterprise. Value offers reach customers through the information, distribution and business networks. In which way is the offer forwarded to customers?

In relations with customers. Enterprise has to clearly define the preferable way of developing relations with customers from each segment. Relations may be from personal till automatic. How are relations with customers formed? (self-service, community, product's development by oneself, etc.)

Streams of incomes are connected with the success of the value offer. What causes enterprise income? What are the main streams of incomes? How large are they?

Resources are the means that are necessary for offer and supply of the described model elements. Enterprises by developing partner relations in order to optimize business models would decrease risks or even obtain resources, e.g., outsourcing). What resources (material, financial, time, human, informative) are necessary to provide business activity? What resources are available?

Main activities. What activities are necessary for business activation?

Main partners who may support business. What kind of partners could they be?

Payment structure is the result of interaction of all elements of the business model. What are the payments of proceeding entrepreneurship? It is important to minimize payments for any business model, but some models face barriers for decrease of payment. In accordance with the payment structure business models are divided into two groups: with emphasis on payments and with emphasis on values

Next the product's and enterprise's advantages of competitiveness should be evaluated

9a. Metrics. By which rates and criteria it is possible to consider that the business model is successful? Which rates should be calculated first? The desired number of rates is to be defined (e.g. profit, turnover, number of customers, part of market, etc.)

9b. Hypotheses. What from the business plan mentioned represents unchecked information? What causes the business model's success in the strongest way? Method of control and criteria of results.

9c. Stages. What are the development stages of business ideas? What activities should be implemented soonest?

More about the elements of business planning <https://www.entrepreneur.com/article/243753>. Similarly to the work of the brain, where the left hemisphere is responsible for logic, but the right one for emotions, the left part of template is responsible for activity, but the right for value.

Tools for creation of Business Model Canvas:

<https://strategyzer.com/canvas/business-model-canvas>

<https://canvanizer.com/new/business-model-canvas>

<http://bmtoolbox.net/tools/social-business-model-canvas/> (Based on the idea of the Business Model Canvas, this tool helps to develop social businesses – also useful for for-profit businesses.)

2.3. BUSINESS MODELS

In accordance with the experience of different business projects, there is a large amount of types of business models, with the help of which new projects are commercialized (goods, services) and technologies seem to represent impossible elements of business combination, where each has got its own specifics and therefore originality. Similar features, structure or activities may be identified in different business models. For example, many business models, especially those of the service sphere, attract customers, which is a pretty successful element of a business model. The product can cause additional emotions to the customers... For example, a self-made chocolate bar, candle, souvenir envelope. Therefore, there exist similar by sense business models that may be united into one group.

Classical business models contain manufacturer, distributor, retailer, owner of franchise, where the structure is understood by traditional suppositions. In the 1950s new business models came from McDonald's Restaurants and Toyota. In the 1960s the innovators were Wal-Mart and Hypermarkets. In the 1970s a new business models from Federal Express and Toys R Us occurred; the 1980s from Blockbuster, Home Depot, Intel, and Dell Computer; the 1990s from SouthWest Air, eBay, Amazon.com, and Starbucks. Ideas about unbundling of functions of an enterprise, "long tail", multi-sided platform, product offers for free and an open

access represent the fundamentals of a modern business model.

Unbundled business model (authors Michael Treacy and Fred Wiersema, 1993) Specialisation = separating out unrelated activities. The model considers the concentration of an enterprise on one of 3 business values: excellence in actions. Leadership in product development and close relations with customers. Many enterprises try to achieve the highest rates in all 3 spheres (that is an ideal position of an enterprise), however, each of the sphere requires specific resources and actions, therefore causes conflicts and motivates to find compromises. The **unbundling** business model innovation asks companies to **have a separate business focus** on **customer relationship**, **product innovation**, and **infrastructure**, addressing the issue of **unbundling services** with **separate revenue models** applied to each unbundled service.

This business model may provide an essential reply to a young enterprise for implementation of the business model canvas - what should be understood best? What does the greatest value belong to? Because the one does not have to fulfil totally everything!

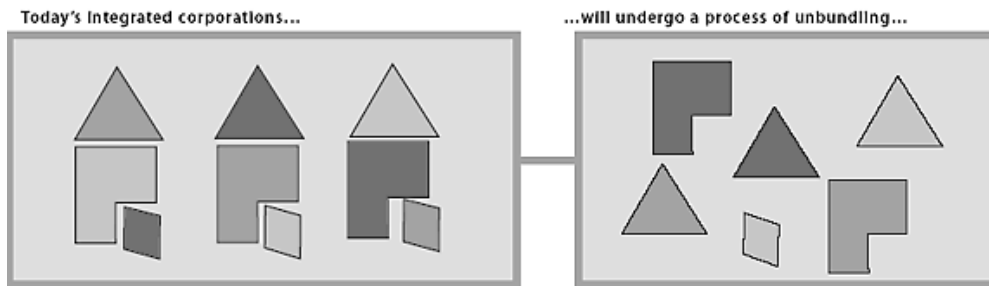


Figure 3. Unbundling the corporation

More about the model: <https://hbr.org/1999/03/unbundling-the-corporation>

Long tail business model (author Chris Anderson, 2006) is made on the basis of products of a niche, which are plentiful and sold in smaller amount, but do provide larger incomes and profit (for example, eBay portal). This model is the contrast to the traditional mass marketing models, which are concentrated on best sellers - an enterprise sells a large amount of different kinds of products but the emphasis stays on the niche products, which are of large amount and sold in smaller amounts, but totally provide larger incomes and profit.

Examples: Netflix, eBay, YouTube, Facebook, Lulu.com

More about the model: Anderson, C., "The Long Tail: Why the Future of Business is Selling Less of More", Hyperion, 2006 Multi-sided platform (authors A.Osterwalder and Yves Pigneur, 2010) puts together two or more different but mutually affecting groups of customers. The platform mentioned is valued by one group's viewpoint only in case there are representatives of the second group, too. The platform stimulates the value of business, motivating group collaboration with other customer groups. The multi-sided platform becomes more significant as it attracts new users, and this phenomenon is known as network effect. The main idea is that the platform value depends on customer amount, especially in cases when users are making content by themselves or providing services. Each platform has a critical user amount, which attracts another user group. Another customer group will provide sufficient revenue to cover the subsidy

Attractiveness of the multi-sided platforms among managers is connected with the fact that they are able to achieve excellence by satisfying the needs of mutually depending participants of the market: eBay - the needs of customers and sellers; Microsoft Windows operating system - application software developers, computers manufacturers and users; Xbox - gamers and game designers; shopping centres - the needs of retail shops, entertainment enterprises, food enterprises, service enterprises and customers; digital media - content owners and users, as well as the needs of advertising agents.

Examples: Visa, Google, eBay, Microsoft Windows, Financial Times Xbox, PayPal

More information about the model: Business Model Generation by Osterwalder & Pigneur in 2010

Model of Google multi-sided platform. One of the customer segments – advertising agents provide income, but two other segments, internet users and content owners would receive free of charge offers. This is logical because the more advertisement is demonstrated to the user, the more income comes from advertising agents. However, this model works only if Google search is used by many people. Using Google search together with the search results ads in each page. Moreover, by analysing the information got from users, Google provides the advertisement connected with





the search results. This service seems attractive to the advertisement agents. In its turn, the enterprise provides their products (search, Android) for free (to the second part - partners), in order to motivate users (the third part) to use the products.

Free business model (author Chris Andersen, 2008) regards that at least one significant customer segment is subsidized and of course cunningly abstains from the free of charge offers. There define 3 different free business models:

- free offer - costs caused by the non paying customers are compensated by income caused by paying customers. It allows enlarging the range of customers (users) that is highly valuable in business, and the non-paying customers are compensated by other parts of business model or in other customer segment. For sure, the fact of getting the product for free has been one of the most interesting offers; however the main question is how to provide a free of charge offer all the time?



In 2017 in the social network Facebook there were more than 2 000 000 000 active users that use it each month and more than 1,2 billion of people who use it every day. It became interesting for many advertisement agents. Therefore, the service of Facebook is provided for free in the exchange of users' personal data and attention, which are used further in advertisement sales.

Examples: free of charge newspapers, Facebook.

freemium – The term freemium combines the words 'Free' and 'Premium'. The basic product is available for free. Company generates revenue by offering connected premium product, i.e., additional functions or services, which usually attract a small number of users. Free platform is the model's most important asset as it allows them to provide basic service for low prices. The majority of customers do not have to pay for the service, only for premium service (additional information, extra comfort, etc.)

Examples: Skype, Linux, Draugiem.lv, Dropbox.com, **LinkedIn**, **Spotify**, vai Flickr.

- bait and hook – The basic product (hook) is offered cheaply or for free; the complementary product (bait) is sold expensively. The basic product cannot be used without the complementary product. It is important to lock the "blade" (bait) to the "razor" (hook) and make it attractive for the customer to buy the razor item or service for a period of time.

Examples: Gillette razors, Inkjet Printer: printer – inkjet cartridges (HP, Epson, Canon), Nestlé – Nespresso: coffee machine – capsules, service (hostings), TV package for free and subscription, free smartphone under the subscription agreement, free or cheap start product + profit from customer's materials.

Open Business model – author Henry Chesbrough, 2006. Open Business Models are complementing internal ownership of assets, capabilities and activities, with access to needed resources and processes from outside actors, to create or capture value. The model may be used by enterprises in order to develop and save value systematically cooperating with outside partners. In other words it may happen both from the outside-in, using outside ideas inside an enterprise, and from inside out, providing outside parts with ideas and assets located inside an enterprise (scanning outside to solve internal problems). Open business structures make contributors and non-contributors visible so that *business benefits are distributed accordingly*. They seek to increase personal engagement and positive outcomes by rewarding contributors in an open way. A frequently used example is Procter & Gamble, sourcing 50% of its ideas and innovations from outside, and capturing value through own products, technology and IP licensing, joint ventures with competitors and so on.

Examples: Procter & Gamble

More about the model H. Chesbrough, [Open Business Models: How to Thrive in the New Innovation Landscape](#).

Modern business models, their working principles and examples:

<http://articles.bplans.co.uk/starting-a-business/examples-of-well-known-business-models/1040>

<http://biznesmodeli.ru/55-business-models-sposobov-monetizacii-chego-ugodno/>

Business model cases

IKEA business model: https://canvanizer.com/canvas/1Ma4WS_4Bc

McDonald's business model: <https://www.finchandbeak.com/1072/the-mcdonalds-business-model-canvas.htm>

Facebook business model: <http://bmimatters.com/business-model-design/understanding-facebook-business-model/>

Google business model: <http://bmimatters.com/business-model-design/understanding-google-business-model/>

Practical tasks

Analysis of business models.

Define the business model types for the following enterprises:

	Enterprise/business idea	Type of model
1.	bureaus of internet acquaintances, booking systems, game systems Nintendo, Sony, Microsoft, Apple iPod, iTunes, iPhone Uber, Booking, eBay Windows (Microsoft), PlayStation iPhone (Apple), VISA и Master Card, Financial Times, Xbox	Multi-sided platforms
2.	Spotify, LinkedIn, Dropbox, Skype	Freemium: main product / service / package free. Additional services or opportunities for add.
3.	Facebook	Free The product or service is provided free of charge in exchange for personal data or customer's attention, which are then used for the sale of advertising, etc.
4.	Kindle / Amazon books, iPod / iTunes, GILLETE,	Bait and hook Insignificant price for consumables or spare parts, in order sell an expensive main product or service.
5.	Private banking, mobile operating systems	Unbundled business model
6.	Procter&Gamble, GlaxoSmithKline, InnoCentiv	Open business model

Work in groups

Describe the main elements of business models of the following enterprises:

1. Lego factory
2. Booking
3. Sony Computer Entertainment
4. Twitter
5. Visa – payment industry

Work in groups + presentation

1. **Looking for a good business idea** (in compliance with part 1 of the chapter).
2. **Developing a business model for new idea** (in compliance with part 2 and 3 of the chapter).

3. BUSINESS ACCOUNTING AND FINANCING OPPORTUNITIES

In this chapter you will learn the following:

- What are the main characteristics of business accounting? What are the main financial ratios?
- What are the business financing opportunities? What are the traditional sources of business financing? What are their strengths and weaknesses?
- What are opportunities for the funding of public sector? What business opportunities are provided by European Union funds?
- What is venture capital and its characteristics? What is special about business angels?
- What is joint capital and how to use it? What opportunities are offered by peer-to-peer lending?

3.1. The Basics of Business Finance

3.1.1. The Essence of Financial Analysis

Properly managed company finances and accounting are one of the key factors in business success. Financial reporting is the main and most important source of information for assessing a company's operations. This is the preparation of financial data on the company's financial situation, operating results, cash flows and their periodic interpretation (usually last year) in the form prescribed by state laws.

In the context of globalization, as companies cooperate not only in local markets but also perform their economic activities on global markets, there has been a need to harmonize the accounting principles applied in different countries by introducing Generally Accepted Accounting Principles (GAAP). These are universally accepted standards for accounting records, such as incurred costs and generated revenue.

The main financial statements of a company include balance sheet,

profit and loss account and cash flow statement. The structure, content and accounting principles of these statements are governed by business accounting standards (hereinafter BAS).

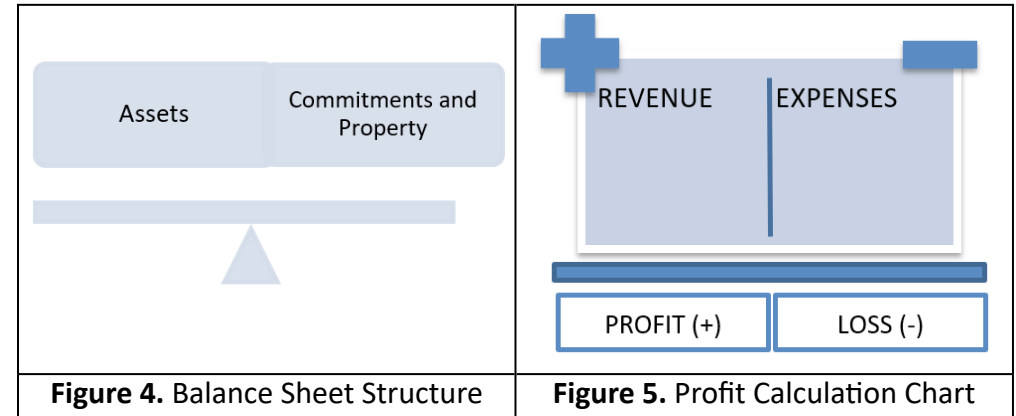
More information about BAS in Lithuania you can find here >> Approved Business Accounting Standards in LITHUANIA. <http://www.avnt.lt/veiklos-sritys/apskaita/verslo-apskaitos-standartai/prese-standartai/>

More information about BAS in Latvia you can find here >> Approved Business Accounting Standards in LATVIA. http://www.fm.gov.lv/lv/sadalas/gramatvedibas_un_revizijas_politika/gramatvedibas_politika/

Balance Sheet Statement is a financial statement showing all the company assets, equities and liabilities for the last day of the reporting period. **Profit (Loss) Statements** a financial statement, which includes the company's revenue, expenses and operating results for the reporting period, that is, profit or loss.

Cash Flow Statement is a financial statement that outlines the company's cash or cash-equivalent receipts and pay-outs for the reporting period. (BAS 1¹)

The logical structure of the Balance Sheet and Profit (loss) Statement is presented in Figures 4 and 5.



In addition to these three forms of the aforementioned documents, there is a statement of changes in equity, an explanatory note and an independent auditor's report that is mandatory for companies quoted on the stock exchange market.

¹ 1ST BUSINESS ACCOUNTING STANDARD "FINANCIAL STATEMENTS" (Official Gazette, 2010, No 57-2828; TAR 29/05/2015, 2015-08345)

Calculation of financial ratios and their monitoring are the main tools for assessing the company's current situation and foreseeing development scenarios in the future (as shown in Figure 6). Financial analysis constitutes a part of an economic analysis that is carried out on the basis of laws and actual economic performance ratios and which investigates the economic processes of the company, their interrelationships and operating results.

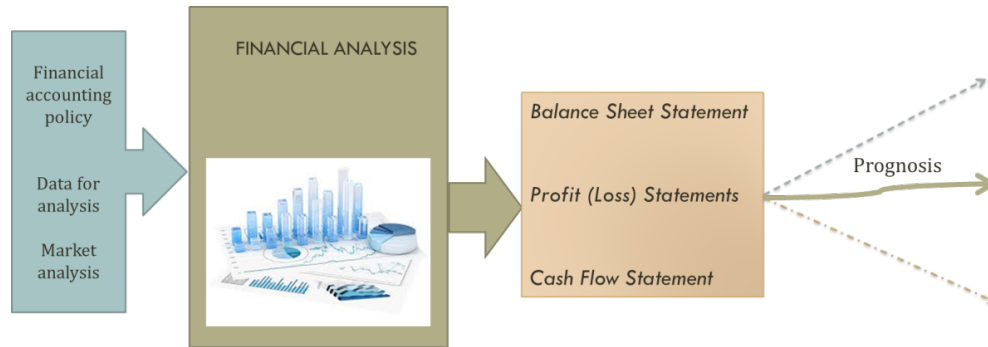


Figure 6. The Essence of Financial Analysis

Detailed analysis requires company performance data of at least few years (several periods) duration. The financial ratio is the absolute size, for example, in 2016, the turnover of a service company was 1 million euros. This raises a question: is it a lot or little? If the turnover reached 800 thousand euros in 2015, then we can conclude that the situation in the company is improving and sales have increased.

Therefore, it is important to understand that the relative ratios are not significant if they are not comparable to:

- Last period ratios;
- Ratios of other companies in the same economy branch;
- Ratios of key competitors;
- Aggregated economic ratios.

To summarize, financial ratios make sense when we compare them, for example, with those of the previous year, the relevant period in the past, or with a company of a similar profile. Some ratios may be better than the average of the branch, others may match the average, and others may be even worse than the average. Together they show the company's strengths and weaknesses.

3.1.2. The Main Financial Indicators

Based on past data, various ratios are calculated² and the following ratio groups are distinguished: profitability, liquidity, financial leverage, etc.

Profitability Indicators show the overall performance of the company. In terms of the company's profitability, it is compared with other companies displaying similar activity and with the average of the industry.

Various profitability ratios are calculated: *gross profit ratio or gross margin, pretax margin or EBT profit ratio, net profit ratio or net income ratio, operating profitability or EBIT margin*, etc. This short book contains some examples.

Gross margin is the gross profit rate and one of the most important ratios of the company's operating results which describes profitability ratios. Its monetary expression shows how much of the gross profit (the difference between the selling price and the cost price) falls to 1 euro of sales.

$$\text{Gross Profit} = \text{Total Profit} / \text{Sales Revenue}.$$

Interpretation of the Ratio: A low ratio may indicate certain problems in the company's price information and its inability to control production costs.

Operating Ratio shows the profitability of a company's activity in relation to realization.

$$\text{Operating Ratio} = \text{Operating profit} / \text{Total Realization}$$

Interpretation of the Ratio: Declining profitability can indicate a decrease in the sold product price or an increase in the production costs.

Liquidity Ratios demonstrate the company's solvency, that is, the ability of a company to meet its liabilities in the short or long term.

$$\text{Short-term LIQUIDITY} = \text{Short-term Assets} / \text{Short-term Liabilities}.$$

$$\text{Long-term LIQUIDITY} = \text{Long-term Assets} / \text{Long-term Liabilities}.$$

Interpretation of the Ratio: *The higher the coefficient, the greater the likelihood that the company will meet its financial liabilities.*

² This short book presents only the main ratios reflecting the company's operating results.



Leverage or Gearing Ratios describe the company's ability to obtain additional credits and shows the company's financial risk profile.

Leverage = All liabilities/Property of the Owners

Interpretation of the Ratio: *The lower the coefficient, the greater the creditor's "protection" if the company's assets depreciate or the company incurs losses.*

In summary, financial analysis involves forecasting, planning, accounting and controlling of certain activities. Various ratios are used to assess the financial situation of a company. Most of them are interconnected and other ratios can be calculated from them. Ratios differ in their importance and purpose. Comparing current and past data, one can analyze and monitor changes in profitability, indebtedness, turnover, assets, liquidity, etc.

Self-control Questions

1. What is the essence of the company's financial analysis?
2. What are the main forms of the financial statements of a parent company?
3. What ratios can be calculated using the financial statements of several periods?

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2. Lithuanian business accounting standards. <http://www.avnt.lt/veiklos-sritys/apskaita/verslo-apskaitos-standartai/priimti-standartai/>
3. Latvian Business Accounting Standards. http://www.fm.gov.lv/en/s/accounting_policy/
4. Guide of accounting organisation documents for micro-enterprises and small scosities: http://www.fm.gov.lv/lv/sadala/gramatvedibas_un_revizijas_politika/gramatvedibas_politika/gramatvedibas_organizacijas_dokumentu_rokasgramata_mikrosabiedribam_un_mazam_sabiedribam_/

3.2. Business Financing Opportunities

The business financing market can be divided into several sectors, where each sector has different borrowing and/or investment attraction terms and conditions.

An alternative to bank-issued credits are business credit companies, which, due to a more flexible risk rating, lend money quickly, but more expensive, as well as venture capital funds, business angels, and peer-to-peer lending platforms (the latest trend). This section briefly introduces the aforementioned business financing forms and highlights their strengths and weaknesses.

Business Credits. Credits are one of the most popular forms of business financing. Credits in Lithuania are provided by banks and credit unions. Credits can be either short-term or long-term.

Short-term Credits are short-term credits (up to 1 year) for increasing the working capital of business clients. The term of the credit may be extended by mutual agreement between both parties.

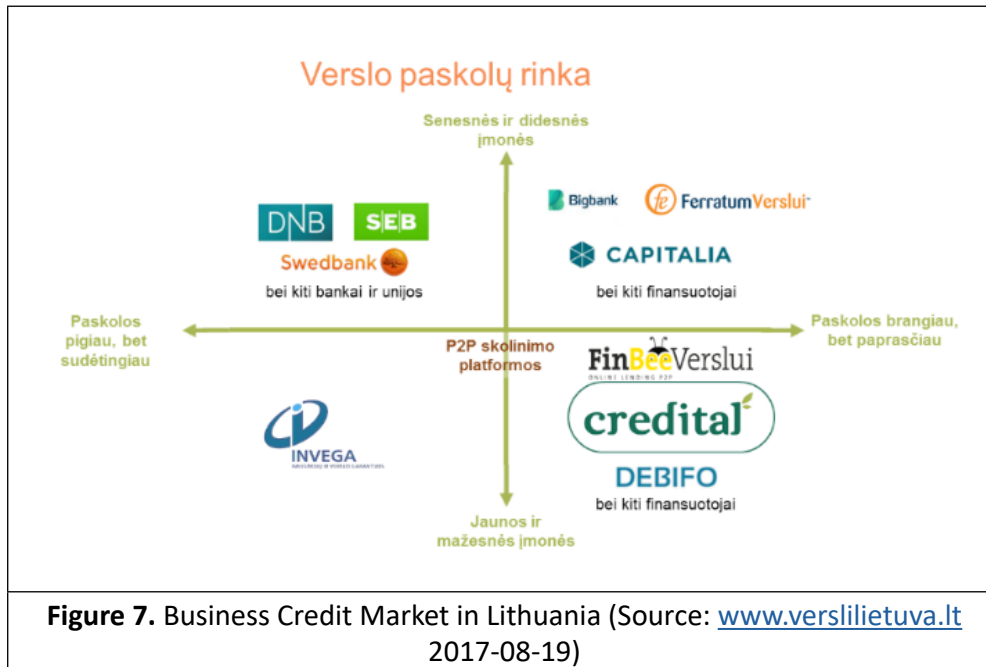
Long-term Credits are investments in small, medium or large businesses.

The credit can be secured by mortgage on movable and/or immovable property at the request of the bank. However, in order to obtain a credit from a bank, it is necessary for the company to provide documents proving that it will be solvent and able to repay the borrowed money for a certain profit margin of the credit institution, i.e. the interest rate.

Business credits are also provided by credit unions, peer-to-peer lending platforms, and private investors. In order to get a credit, it is very important to determine what is the purpose for obtaining it:

- 1) To acquire material resources;
- 2) To finance investment projects;
- 3) To finance commercial economic activities;
- 4) To pay securities, merchandise and other documents;
- 5) To pay taxes and perform other payments;
- 6) To acquire new companies;
- 7) To establish and finance subsidiaries or offices abroad.

Business credits are provided by a large number of financial market participants (see Figure 7).



Types of crediting in Latvia:

1. Bank crediting programmes for entrepreneurs
2. State support programme
3. European Union funding
4. Business incubators
5. Private investors
6. Collective financing

All information is available: <https://www.seb.lv/info/bizness/ka-piesaistit-finansejumu-uznemejdarbibai>

In December 2015 Žanete Hāka in her article „Business crediting becomes more actual“ published on portal Dienas bizness emphasized that banks implement a tough competition in the sphere of healthy business crediting. Banks offer

extremely favourable conditions for enterprises with their own capital, ability to fulfil liabilities, business plan and have got sufficient and clear money flow. Conditions of credits in Latvia are considerably profitable than, for example, in Scandinavian countries. However, an opportunity for enterprises to get a credit is lower than it would be needed for a fast development of economic activity. Criteria for getting a credit should be high. Banks have got resources and interest to credit more but enterprises are not ready to get a credit. Even those who meet the criteria of getting a credit not always are really able to fulfil liabilities and pay a credit back. In Latvia still there are a lot of enterprises with problems to regulate credit. Although during the last years the number of not paid back credits decreases, in 2015 specific weight of delayed credits for more than 90 days is 4,85%, but less than 90 days – 3,76%. In this case both parties face difficulties – an entrepreneur with not enough income, and a bank with a necessity to return the borrowed money to depositors.

The most credited fields in Latvia are: real estate (31% of credit portfolio), manufacturing industry (12%), finances and insurance (11%), wholesale trade and retail business (10%), as well as transport and storage (9%). In 2015 the sphere of transport and storage had the larger increase (+41%), but the potential of manufacturing industry was not sufficiently used – volumes decreased by one third (35%). Entrepreneurs have to choose the appropriate financing for the appropriate stage of business development. The bank credit will be more available for enterprises with a bigger experience, however small businesses may use an alternative financing model, but state supported, that is available at Development Finance Institution ALTUM. <http://www.db.lv/finanses/biznesa-kreditesana-uznem-apgriezienus-442668>

There can be several types of credits: a credit for new/small businesses, an investment credit, a soft credit, a shared risk credit, or a working capital credit. In order to obtain a credit for a business, the manager of the company applies to the issuing authority, completes an application, and provides the necessary documents proving the company's ability to repay the credit. An agreement is signed, defining all terms and conditions, under which the credit institution agrees to issue the credit and the borrower undertakes to repay the credit, charged interest, and other taxes (for example, an administrative fee).

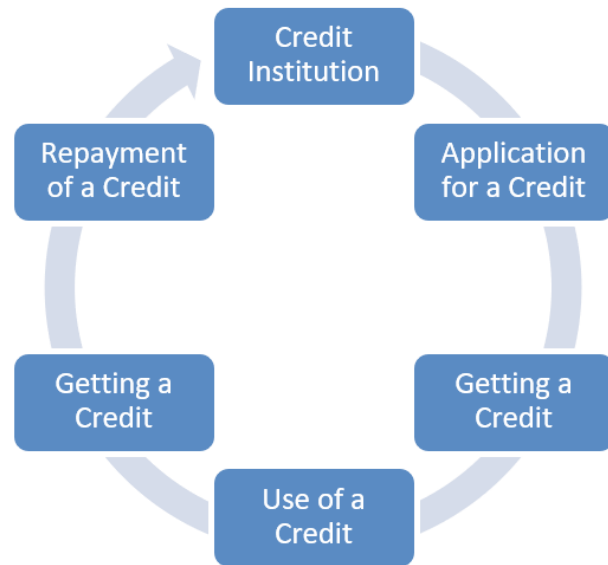


Figure 8. A Simplified Credit Issuance Process
(steps may vary depending on the credit institution)

Advantages and disadvantages of credits. A finance credit is suitable for a business when there is not enough of equities; it is a quick way to obtain the missing funds. The decision to issue a credit is made relatively quickly and the money is transferred to the account. In addition to the commitment to the bank, one of the main disadvantages of a large credit is the need for a guarantor or collateral.

More information about credit institutions in Lithuania (Bank of Lithuania) you can find here >> www.lb.lt

More information about credit institutions in Latvia (Latvijas Banka) you can find here >> www.bank.lv

More information on comparison of Baltic business environment: <http://www.baltic-legal.com>

Self-control Questions

1. What is the benefit to the bank as a lender of the funds?
2. What are the disadvantages of a business credit?

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2. OECD (2011). Entrepreneurship at a Glance 2011, OECD Publishing. doi:10.1787/9789264097711-en>.
3. Website of the Bank of Lithuania: www.lb.lt
4. Website of the Bank of Latvia www.bank.lv
5. <https://www.seb.lv/info/bizness/ka-piesaistit-finansejumu-uznemejdarbibai>
6. Development Finance Institution ALTUM. <http://www.db.lv/finanses/biznesa-kreditesana-uznem-apgriezienus-442668>

3.3. Public Funding Opportunities

Situation in Lithuania. There are some key public funding opportunities for businesses: Municipal Support (<https://www.versliu.lt/en/performance-and-pletra/financing-sources/submissions-part>) and EU support (www.esparama.lt)

In Lithuania, each municipality has prepared separate strategic guidelines which, among other strategic directions, include business incentive initiatives. The size of the funds and variety of initiatives varies from municipality to municipality. Here are some examples of municipal funds for business in Lithuania:



Kaunas City Municipality. Kaunas City Municipality offers the following initiatives for those who want to establish a business:

- Free services provided by various institutions;
- Sample documents for establishing a business;
- Youth Business Promotion Program “Kaunas Startups”.

Read more >> <http://www.kaunas.lt/versla-finansai/steigančiai-versla/>

Siauliai City Municipality. Small business entities (businesses and natural persons) operating in the field of production or services, can apply to the municipality for financial support. The following forms of financial support are granted:

- Youth Business Project Contest: Up to 2000 euros (<50% of the cost sum);
- Business project contest for people over 50: Up to 2000 euros (<50% of the cost sum);
- Partial coverage of participation in an exhibition costs: Up to 550 euros;
- Partial coverage of consulting and training costs: Up to 30% of the incurred costs, but not more than 290 euros.
- Coverage of start-up expenses for new companies: up to 116 euros for “UAB”; up to 87 euros for “MB”, and up to 58 euros for “Į”.

Read more >> (<http://www.siauliai.lt/Parama-verslui305>)

Situation in Latvia. The Investment and Development Agency of Latvia (LIAA) is a direct administration institution subordinated to the Minister of Economics of the Republic of Latvia. Established in 1993 as the Latvian Development Agency. LIAA offers assistance throughout the process of setting up operations in Latvia, acting as a first point of contact and as a “one-stop-shop” in assisting investors and in developing tailored solutions to meet their specific needs, offers implementation of a number of state support programmes for the development of entrepreneurship.. LIAA maintains and regularly updates a database of Latvian enterprises to facilitate partner searches for investment projects and for exporting or subcontracting businesses. The Agency also operates a database of different types of real estate suitable for a broad range of investment projects. For more information: <http://www.liaa.gov.lv/lv/biznesa-abc/atbalsts-uznemejiem-0>

Daugavpils City Municipality. Daugavpils City Municipality offers the following forms of financial support:

1. Discounts on the real estate tax for enterprises that causes new working places in accordance with the council regulations.
2. Catalogue of the Daugavpils city manufacturing enterprises published on the city webpage (120 enterprises, the list is actualized each year).
3. Printed out or electronic catalogue of the Daugavpils enterprises and opportunities for investments
4. Business forums and conferences (150-450 participants).
5. Annual competition for enterprises: The Best Daugavpils Eating Enterprise 2014, The Best Daugavpils Tourist Place of Residence 2015, The Friendliest Daugavpils Youth Employer 2016, The Environmental Friendliest Daugavpils Enterprise 2017.
6. Services of Daugavpils enterprises are offered for participation in the state structure and society competitions.
7. Application for the grant „Impulss“, the whole grant’s volume 50-60 thousands of euro per year.
8. Council’s booths at the international exhibitions in Riga and abroad.
9. Organized together with societies and companies seminars for Daugavpils entrepreneurs till 10 per year.
10. Organisation of meetings for Daugavpils entrepreneurs with leaders and specialists of foreign embassies.

Highly important – about 70 entrepreneurs and future entrepreneurs receive a consultation at the department per year.

The Role of EU Funding for Business in Lithuania

From 2014 to 2020, Lithuania decided to implement an action program, for which the European Union (EU) has allocated 6,709 billion euros from the European Social Fund, the European Regional Development Fund, and the Cohesion Fund. Priority is given to promotion of R&D, innovation and small as well as medium-sized businesses, boosting competitiveness, energy efficiency and renewable energy, increasing employment, and reducing poverty as well as social exclusion³.

³ <https://www.cpva.lt/lt/> and “UAB ESTEP Vilnius”. Europos Sąjungos struktūrinės paramos poveikio Lietuvos konkurencingumui vertinimas. Vertinimas atliekamas pagal 2014 m. birželio 6 d. paslaugų teikimo sutartį Nr. 14P-37 tarp Lietuvos Respublikos finansų ministerijos ir ūkio subjektų grupės UAB „ESTEP Vilnius“ ir VŠĮ“ Europos socialiniai, teisiniai ir ekonominiai projektai“. 2015 m. balandžio 27 d.

EU fund investments are classified according to the financing forms:

- Subsidies;
- Financial Instruments.

Compared to subsidies, the distinguishing quality of financial instruments is the re-use of funds, even in the case of subsidized negotiable credits; when the credits have only a current effect on the specific entities, the overall effect of the measure can be treated as a long-term one, as the returned funds are used to finance the turnover or investment needs of other entities.

Between 2014 and 2020, during the financial period, the EU investments in business will focus on the following areas:

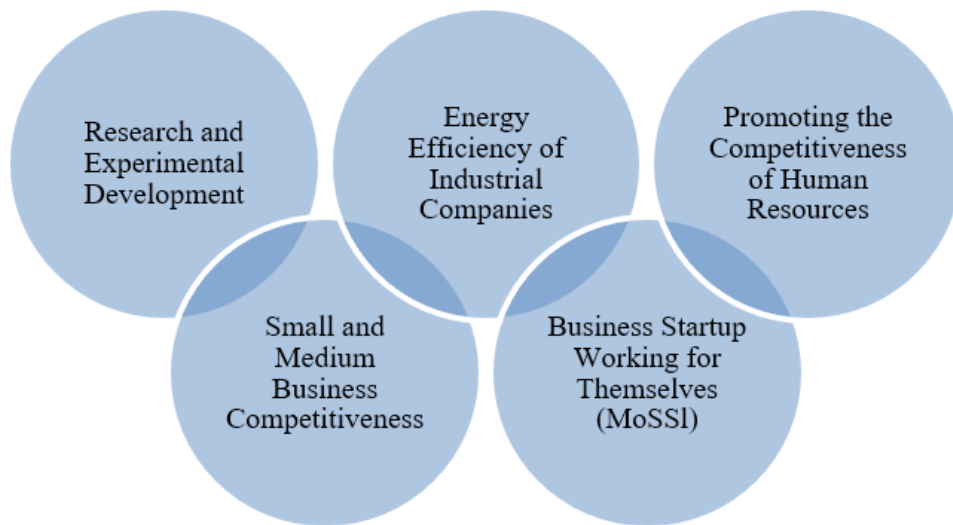


Figure 9. EU Investments in Business During the Financial Period from 2014 to 2020.

To obtain financial support for business development, it is possible to use the financial instruments, provided by INVEGA (guarantees, interest compensation) and credit institutions (subsidized credits). It is also possible to take part in tenders for proposals and to receive subsidies. The tenders are managed and consultations on issues related to preparation of application forms and project implementation are provided by LVPA (www.lvpa.lt; business projects) and MITA (www.mita.lt;business innovation projects).

If you want to start your own business, you can apply to the Entrepreneurship Promotion Fund,⁴ which is a form of financial support on starting a business dedicated for individuals and companies up to 1 year in the form of subsidized credits and free consultations. This fund is administered by the Lithuanian Central Credit Union. From the fourth quarter of 2016, the Lithuanian Central Credit Union (LCCU) provides credits to young businesses with the new EU financial instrument called Entrepreneurship Promotion 2014-2020. LCCU enables very small and small companies and individuals to start or develop a newly started business as well as promote entrepreneurship and self-employment in Lithuania, by crediting natural and legal people from the financial instrument Entrepreneurship Promotion 2014-2020 (hereinafter referred to as Entrepreneurship Promotion) and advising on the start or development of a business. The maximum credit amount is up to 25 000 euros. Variable interest rate is from 3%.

You may find all information about EU support in Lithuania and relevant tenders here >> www.esparama.lt

EU support funds in Latvia. Information about EU support in Latvia >> <http://ec.europa.eu/social/main.jsp?catId=952&langId=lv>

JSC „Investment and business guarantees“ - UAB Investicijų ir verslo garantijos (INVEGA).

In 2001 July 11, the Resolution No. 887 “On the Development of Small and Medium-Sized Business” by the Government of the Republic of Lithuania established the guarantee institution “UAB Investicijų ir verslo garantijos (INVEGA)”. The founding and supervisory functions were entrusted to the Ministry of Economy of the Republic of Lithuania.

The mission is to promote the growth and competitiveness of Lithuanian businesses by an active partner of business financing.

The priority strategic direction of the initiative is to ensure the growth of services provided by INVEGA, using innovative and effective financing models and measures in order to provide financial and other services to businesses.

The Articles of Association of INVEGA determine the following activities:

1. Provision of individual and portfolio guarantees;
2. Provision or administration of provision of subsidized credits given to small and medium-sized businesses (hereinafter referred to as “SMBs”);

⁴ You can find more information here: <https://lku.lt/juridiniams-asmenims/kreditas-verslo-pradziai/>



3. Implementation of venture capital investment measures;
4. Partial compensation of interests;
5. Management of the functions of intermediate institutions for the ES structural funds and control system in the administration-related area;
6. Management and/or implementation of financial engineering instruments and financial instruments intended to finance business entities, including holding funds and fund of funds;
7. Compensation and subsidization of available and State-supported expenses incurred by business entities on establishment, training, consultations, research, certification, conformity assessment, guarantee fees, etc.;
8. Provision of grants and/or subsidies for the creation and/or maintenance of jobs and to increase competitiveness.

Analogous institution in Latvia: ALTUM is a state-owned development finance institution, which offers state aid for various target groups (business start-ups, enterprises, rural enterprises, individuals) with the help of financial tools (such as loans, credit guarantees, investing in venture capital funds, etc.). ALTUM develops and implements state aid programmes to compensate for the market's shortcomings that can't be solved by private financial institutions. For more information: <https://www.altum.lv/en> in LATVIA?

ALTUM is a state-owned development finance institution, which offers state aid for various target groups with the help of financial tools (such as loans, credit guarantees, investing in venture capital funds, etc.). ALTUM develops and implements state aid programmes using Latvian and EU funds.

ALTUM provides loans and credit guarantees, offers insurance for business export deals and investment to venture capital funds, and offers non-financial support in the form of consultations, education, mentoring, and more.

ALTUM supports enterprises at different stages of their development, starting with developing business ideas to carrying out large projects if financing is not available in the private finance sector. State aid financial instruments administered by ALTUM, are meant for business start-ups, enterprises, rural enterprises and individuals. <https://www.altum.lv/en/about-altum/what-we-are/>

Information for business starters <https://www.altum.lv/en/services/business-start-ups/>

All information <https://www.altum.lv/en>

Self-control Questions:

1. What are the sources of public funding?
2. What is the role of the European Union in promoting establishment and development of new businesses?

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1. <https://www.cpva.lt/lt/>
2. UAB ESTEP Vilnius. The evaluation of the impact of European Union Structural Assistance on the competitiveness in Lithuania. The evaluation was conducted according to the service provision agreement No. 14P-37 signed in 2014 April 6 between the Lithuanian Ministry of Finance and group of economy entities UAB ESTEP Vilnius and VšĮ Europos socialiniai, teisiniai ir ekonominiai projektai. 2014 April 6.
3. <http://www.siauliai.lt/Parama%20verslui305>
4. lupa.lt/
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6. <https://lku.lt/juridiniams-asmenims/kreditas-verslo-pradziai/>
7. <https://www.altum.lv/en/about-altum/what-we-are/>
8. <https://www.altum.lv/en/services/business-start-ups/>
9. <https://www.altum.lv/lv>

Venture Capital Funds and Business Angels

Venture capital is an alternative source of business financing in the form of investment in corporate capital (stocks). Such investments are usually made in innovative companies with rapid growth and development potential. The term “venture capital” is understood as the direct or indirect investment of funds in the formation of companies and their development or as a measure to include their securities for trading purposes in a regulated market or a multilateral trading system⁵.

⁵ VENTURE CAPITAL INVESTMENT STRATEGY GUIDELINES. Approved on August 2 of 2013 with the decision No. 241-169 of the Director of the Supervisory Authority of the



Unlike borrowing from banks, where interest is paid for the received funds, the venture capital fund or VCF buys a part of the company's stocks and earns dividends and/or sells those stocks at a later period when the value of the company increases. A VCF typically plays an active part in the activities of the invested company and contributes to the development of the company with knowledge, connections and experience.

As a rule, a VCF collects money and invests them in unlisted companies (i.e. those companies whose stocks are not listed on the stock exchange) by acquiring a minority of their stocks which gives the VCF control over a period of three to seven years. The benefits of such financing model are not the invested funds but rather the involvement of the VCF in the company's board, as the VCF managers have experience in corporate governance and the ability to predict market trends which allows them to carry out thorough checks of the funded businesses and share valuable contacts with their representatives.

Venture funds focus on dividend earnings and profitable stock sales. Venture capital managers do not seek to take over the management of the company, but they want to have their representative in the company's management bodies: the board or the supervisory board.

The distinctive features of business angels and venture capital investors are presented in Table 8.

Table 8. Distinctive Features of Business Angels and Venture Capital Investors (more information about EBAN <http://www.eban.org/>)

The Main Differences	Business Angels	Venture Capital Investors
Personal Characteristics	Business executives, private individuals, entrepreneurs with business development experience	Financial managers
Funds	Equities	Funds of fund investors
Portfolio Companies	High potential start-ups in early development stages	Medium sized (large) growing companies
In-depth Due Diligence Process	Experience-based Low costs	More formalized process Expensive
Geographic Distance	Important factor	Less important factor
Form of Agreement	Simplified structure of the transaction, honesty is emphasized.	Complex and demanding
Post-investment Monitoring	Active, hands-on	Strategic
Engagement in Leadership	Important factor	Less important factor
Exit Method	Less important factor	Important factor

In summary, the company's life-cycle curve and appropriate funding sources are presented at different stages of the company's maturity.

Figure 10 provides the company's life-cycle curve and possible funding sources at different stages of the company's growth. In the first phase, companies often use their own financial resources borrowed from friends, relatives or private wealthy resources/business angels (OECD, 2004), as shown in figure 10.

As can be seen from figure 10, venture capital investors invest in early-stage companies that had passed the initial development stage and have a specific vision for the business and product development (OECD, 2004).

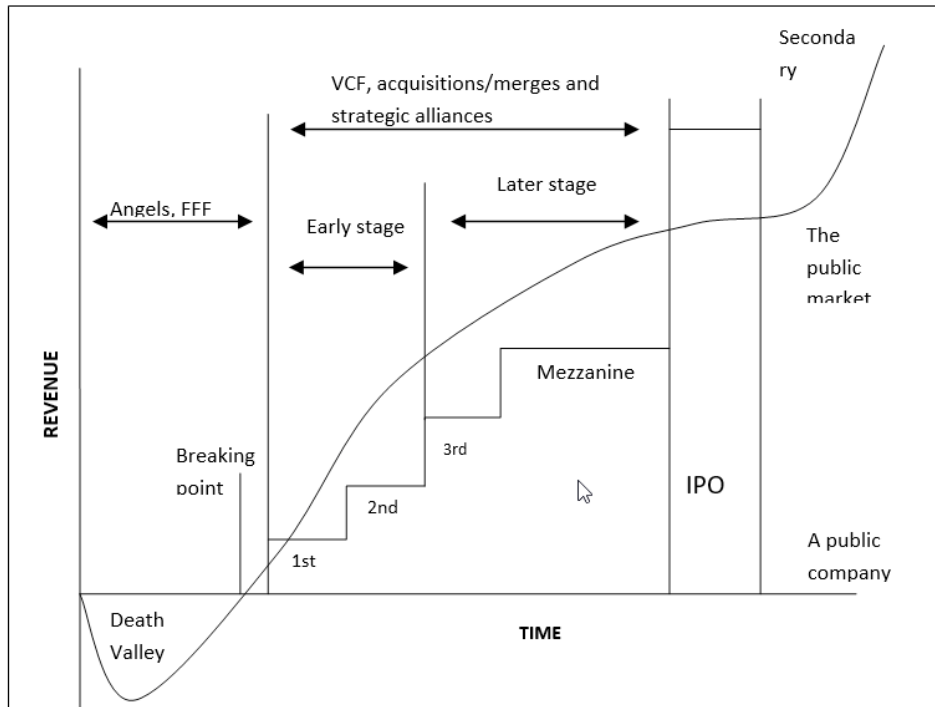


Figure 10. Financing Life Cycle (Translated Chart by Cardullo) (OECD, 2004)

Venture Capital Funds in Lithuania. At present, the risk capital measure of the INVEGA Fund is implemented in Lithuania, i.e. the Baltic Innovation Fund, under which very small, small and medium-sized companies can apply to the following venture capital fund managers: BaltCap, Livonia Partners, BPM Mezzanine, and Karma Ventures.

For more information on Latvian venture capitals: <http://www.liaa.gov.lv/en/invest-latvia/investor-business-guide/incentives-investors/venture-capital>

Lithuanian Private Equity and Venture Capital Association (LT VCA) <http://vca.lt/en/>

Latvian Venture Capital Association: <http://www.lvca.lv/en>

Self-control Question:

1. What is risk capital? How does it differ from traditional bank credits?
2. What is a business angel? How does it differ from venture capital funds?
3. How can a country contribute to the development of a venture capital market? What is the state interest?

Test Question:

Which answer is wrong? Business angels are:

- Private wealthy individuals investing their own funds in risky businesses (+);
- Institutional risk funds investing their own funds in risky businesses (-);
- Funding carried out through internet platforms (-).

Case Question:

You have a product idea and you need money to develop the product. The bank refused to issue a credit because you have no assets as collateral. What other alternatives do you have? What type of funding would you choose?

References

1. <http://vca.lt/en/venture-capital/>
2. <http://invega.lt/en/venture-capital/>
3. http://vca.lt/wp-content/uploads/2016/06/LT-PE_VC-market-overview_2016.pdf

Further reading

For more information on Latvian venture capitals: <http://www.liaa.gov.lv/en/invest-latvia/investor-business-guide/incentives-investors/venture-capital>

Lithuanian Private Equity and Venture Capital Association (LT VCA) <http://vca.lt/en/>

Latvian Venture Capital Association: <http://www.lvca.lv/en>



Crowdfunding and Peer-to-Peer (P2P) Lending Platforms

The provisions for crowdfunding in Lithuania are defined in the Law on Crowdfunding of the Republic of Lithuania (effective from 01/12/2012). It regulates the possibility of alternative business financing, including the possibility of lending or investing through crowdfunding platforms.

Here are some basic concepts defined in this law:

Crowdfunding funds is the funding provided by the funder to the project owner through a crowdfunding platform, irrespective of the type of financing transaction.

Crowdfunding Platform is an information system managed by a crowdfunding platform operator, which is used to perform crowdfunding activities.

Crowdfunding is a widely English term. Crowdfunding is an alternative way of financing a business or any other project where other sources of funding, such as personal capital, bank credits or private and venture capital funds, do not qualify or do not provide funding. The project owner is a person who has presented his/her fundraising idea through the platform and can expect support from private people who believe in the idea.

Crowdfunding is a method of financing a project which is publicly announced on a financing platform and funded by people who are not related to the project at their own expenses or when the funders purchase the owner's rights to the project.

In other words, crowdfunding is a way to raise funds for projects and businesses through online platforms when money is collected from a large number of people. When a project owner presents a project to a selected crowdfunding platform, investors (including private individuals) who are familiar with the idea can dedicate some of their financial resources.

There are several possible financing ways, such as granting or acquiring credits, or financial instruments issued by the owner of the project, including shares and bonds. Transactions of up to 5 million euros can take any form, for example, of a credit; after the amount of the transaction is exceeded, financing is obtained through the issuance of securities.

The Lithuanian Peer-To-Peer Lending and Crowdfunding Association is operating in Lithuania. The Association seeks to promote peer-to-peer lending and crowdfunding activities, encourage alternative financing and refinancing in Lithuania, promote fair and ethical behavior of peer-to-peer lending and

crowdfunding market participants, and co-operate with legislators and the supervisory authorities in order to create an effective and competitive legal regulation of peer-to-peer lending and crowdfunding in Lithuania. The association unites almost all market participants⁶:

- UAB Bendra finansavimas (www.savy.lt);
- UAB Finansų bitė (www.finbee.lt);
- UAB Sutelktinis finansavimas (www.manu.lt);
- UAB Lenndy (www.lenndy.com).

Like banks, most of the business credit companies focus on larger amounts of business credits, as well as more mature businesses with a multi-year history of operations, so these funding sources are rarely available to younger businesses. As an alternative, peer-to-peer platform (P2P) are entering the market which provide businesses with more flexible ways of borrowing and allow people who have free funds to invest them in other business.

The Ministry of Finance of the Republic of Latvia had worked out regulations for a **crowdfunding service that envisages the development of mutual loan services between financial and capital market. More information on the project of „Law of crowdfunding service“ is available here:** <http://tap.mk.gov.lv/lv/mk/tap/?pid=40435945>

Self-control Questions:

1. What is crowdfunding?
2. What are the key functions of peer-to-peer lending platforms? What lending platforms operating in Lithuania do you know?
3. What risks does the money lender face through a peer-to-peer lending platform?

References

1. The Lithuanian Peer-To-Peer Lending and Crowdfunding Association: Members of the Association. <http://www.ltsa.lt/>

⁶ The Lithuanian Peer-To-Peer Lending and Crowdfunding Association: Members of the Association. <http://www.ltsa.lt/>



4. PROJECT MANAGEMENT

In this chapter you will learn the following:

- *Historical facts about projects;*
- *What is a project and how does it differ from a product and a process;*
- *Project management processes and key tools;*
- *What is the importance of project stakeholders;*
- *Project manager and team roles.*

4.1. Historical Aspects of Project Management

Project management has been around for thousands of years. We can identify planning and coordination of activities already in the ancient antiquity structures.

In 2570 BC the construction of the Great Pyramids of Giza was completed. Archaeologists are still looking for an answer as to how such results were achieved. Ancient records show that chiefs were appointed who were responsible for planning, executing activities, controlling, and finishing of the construction.

208 BC the construction of the Great Wall of China was completed. In order to execute this project, the workforce was divided into three groups: soldiers, ordinary people, and criminals.

In 1917, Henry Gantt (1861-1919), considered to be the father of project management, created a planning tool, named after his name – the Gantt Chart. It was a radical idea and world-famous innovation, which is still in use today as one of the main tools for project planning.

In 1962, the US Department of Defense had used the Work Breakdown Structure (WB) for executing the submarine launched ballistic missile project „Polaris“. Later on, the work breakdown structure was used to define the scope and size of the project.

In 1987, the Project Management Institute (PMI) has released A Guide to the Project Management Body of Knowledge (PMBOK Guide). In 1998, the American National Standards Institute (ANSI) recognized PMBOK as a standard. The publication remains one of the main documents and standards in project management today.

4.2. What is a Project?

Project is a temporary activity designed to create a unique product or service (PMBOK® Guide). The purpose of projects is to implement changes and innovations. Each project generates unique results within a strictly scheduled period. For the implementation of the project resources are predicted and budget is calculated.

Often, people confuse projects with concepts, such as:

Process. A process is a series of routine steps, designed to implement a certain function, for example, procurement process of raw materials, budgeting process, etc. In addition, a process is not a one-off activity, designed to produce a specific result.

Product The product is a good, idea, method, service, or other object created as a result of a process and with visible and invisible attributes (benefits, properties, functions, etc.) that are usually offered by the seller to the buyer.

4.3. Project Management Processes and Key Tools

Project management is a process leading the project from its beginning to the end. PMBOK refers to five process groups:

- **Initiating.** Defining the project, justifying its need and determining the preliminary expected results.
- **Planning.** The objectives of the project are defined and/or clarified, and a detailed project plan is set up to achieve the objectives and results.
- **Executing.** Allocating human and other resources as well as carrying out the planned activities.
- **Monitoring and Controlling.** A continuous evaluation of the progress of the project is carried out, which allows to identify inconsistencies and take necessary actions to eliminate them.
- **Closing.** The formal acceptance of project results.

Project initiation raises the following questions:

- Why a project is needed?
- What problem will be solved or what added value will be created?
- What will change after the project?
- Who will be the main receivers of the project results or who will benefit from them?
- Who else are interested in the project results?



Various methods can be used to analyze project needs. The choice of methods often depends on the scope of the project. Informal methods may be sufficient for small projects when the idea of the project is discussed during a meeting. However, in the case of larger projects, methods, such as *mapping ideas*, *building problem trees*, *SWOT analysis*, *cost-benefit analysis*, etc., can be adopted.

Problem tree is a tool we can use to initiate and justify a project. Making of a problem tree allows to carry out a comprehensive analysis of the problem as well as its causes and consequences.

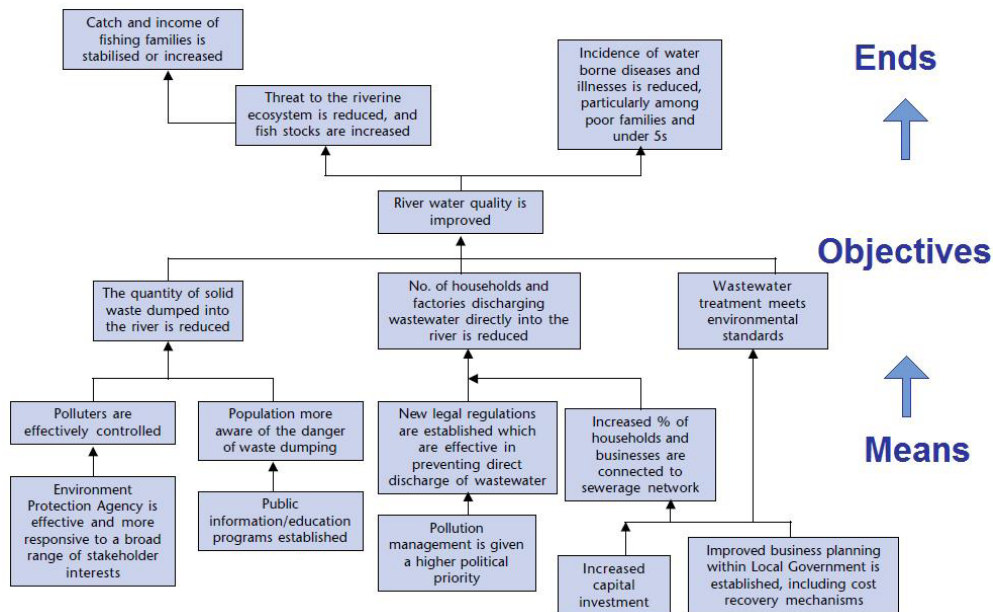


Figure 11. Problem Tree

(Example, <https://www.sswm.info/planning-and-programming/decision-making/situation-and-problem-analysis/problem-tree-analysis>)

When building a problem tree, first the **main problem** is determined. After that, the **causes**, responsible for the main problem, and **consequences**, which may arise if we do not solve the problem, are determined. The causes can be considered as lower-level problems. In other words, the problem tree reveals different levels of the problem. The causes, consequences and the main problem indicate a situation which is not satisfying. When analyzing a problem or justifying the need for a project, you need to define:

- For whom the problem is relevant;

- Territory (geographically).

If a new product is developed with the project, it would be worthwhile to create Value Proposition Canvas. Video: <https://strategyzer.com/canvas/value-proposition-canvas>.

The project stakeholders are natural people or organizations that are actively involved in the project or whose interests can be affected by the progress or outcome of the project. Project stakeholders can influence the progress and outcomes of the project. For each project, we can have different stakeholders and varying interests. We have to answer the question What are the people who are interested in the project now or may be interested in the future? The key stakeholders may include:

Project Manager: the person responsible for managing the project.

User: the person or organization who will benefit from the product created during the project.

Organization Executing the Project: the organization whose employees are directly involved in the project activities.

Project Team Members: group of people who carry out project activities and works.

Project Management Team: it is a group that performs project management functions.

Sponsor: the person or group of individuals who provide the project with financial resources.

Analysis of stakeholders helps to assess their interests, expectations and impact on the project as well as anticipate the actions of their management (table 9).

Table 9. Management of Stakeholders

Stakeholder	Interests	Impact on the Project	Management Processes

The **project planning** process includes **Formulation or refinement of the goal and objectives**; **Preparing a plan of project activities** (activities, works, works breakdown structure (WBS), scheduling (Gantt chart)); **planning of costs** (anticipation of resources and budgeting).



If the goal and objectives of the project are not clearly formulated, it will not be possible to assess whether they were achieved!

Triple project goal consists of three components:

- Quality (What?)
- Time (When?)
- Costs (How Much?)

Example: Create a new product within 12 months for € 50,000. The formulation of the project goal must reflect the quality component, but there will be no mistake if the duration and/or costs are not specified. The duration of the project will be available in the project schedule, while the costs may be found in the budget.

The purpose or goal of the project is to answer the following question: What results or impact do we want to achieve? The objectives of the project answer the following question: What actions will we take to achieve the goal? It is recommended to apply the objectives rule SMART. Read more in chapter ...

Works Breakdown Structure. The Project Management Body of Knowledge (PMBOK) defines the work breakdown structure as a *deliverable oriented hierarchical decomposition of the work to be executed by the project team*. The work breakdown structure visually defines the scope for manageable chunks that a project team can understand, as each level of work breakdown structure provides further definition and detail.



Figure 12. Works Breakdown Structure

After creating the works breakdown structure, it is necessary to determine the logical sequence of works and properly determine the beginning and ending of the works. Project works can be carried out by:

- Starting the works simultaneously;
- Finishing the works simultaneously;
- Starting another work after the previous work is finished and a result is achieved;
- Ending the work until the next work begins.

For the work breakdown structure, we can use graphic representation (figure 12) or table form (table 10)

Table 10. Work Breakdown Structure (Table Form)

Objectives	Activities	Works	Results
Objective 1	1.1.Activity	1.1.1. Work	
		1.1.2. Work	
		1.1.3. Work	
	1.2.Activity	1.2.1. Work	
		1.2.2. Work	
		1.2.3. Work	

Calendar Project Planning. Once we have prepared the work breakdown structure and determined the project results, we need to estimate how much time it will take to implement the project and set a timetable for the project. The goal of the calendar schedule is to determine the duration of the whole project and the individual activities/works. The following has to be taken into account while estimating the duration of the project: time constraints upon preparation and approval of various documents as well as legal and technological constraints. It is also necessary to keep in mind and evaluate whether the human resources will be available at the scheduled time.

The Gantt chart can be used to create a project calendar schedule

Table 11. Time Schedule (Example)

Objectives	Activities	Works	Months of Project Execution					
			1	2	3	4	5	6
1. Attract attendees for the exhibition	1.1. Creation of a database for potential participants	1.1.1 Filling of the DB with data from the latest specialized journals, directories, and special publications						
		1.1.2. Building the DB from other auto exhibition catalogues						
		1.1.3 Filling of the DB with data from the company directory						

Allocation of Responsibilities for Project Activities. Responsible people must be appointed to the implementation of every activity and the achievement of the results. The sharing of responsibilities helps to anticipate who and when will be doing something, to whom you need to report for the project results, etc. If the project is executed with partners, it is also necessary to provide them with responsibilities.

Responsibility Assignment Matrix (RAM) is used to define individuals responsible for activities and project results. It is often suggested to use the following responsibilities:

Responsible. The person directly performing the task. Usually, there is only one such responsibility; others may be appointed as assistants.

Accountable. This is the person who is responsible for the correct final achievement of the result. Usually, the Responsible accounts to Accountable. In other words, the Accountable person confirms the work performance of the Responsible.

Consulted. These are the people whose opinions are taken into account and the project involves mutual communication.

Informed. Most often, these are the individuals who need to be informed about the progress of the project and achievement of the results. There is only one-way communication with such people.

Table 12. Responsibility Assignment Matrix

Project Name:						
Project Start:						
Project End:						
Code	Work	Duration (months)	Responsible People			
			Project Manager	Engineer	Accountant
1.1.1						
1.1.2						
1.1.3						
1.2.1						
....						

R – responsible for performance and achievement of the results; A – approves the achieved results; C – advises; I – must be informed.

Project Resources and Budget. Resource prediction is the first step towards the project budget. The following resources are predicted for each activity/work:

- **Human Resources.** For each activity specific people are planned and the amount of time it will take to carry out these activities and achieve the results. Later on, the duration of the project work will be used to form the project budget.
- **Material Resources.** It is estimated how much and what kind of equipment, goods, services, travel, etc., will be required for the implementation of specific project activities.

Project costs can be divided into direct and indirect. The direct project costs are calculated directly by linking them to the activities and volumes of the project. Indirect project costs are usually calculated as a percentage of direct costs. Generally, indirect costs are 7 percent from the direct costs. Indirect costs include costs incurred in the day-to-day activities of the organization but also required for the implementation of the project, although their calculation is complicated. **For example**, the project manager is the senior engineer of the organization who uses mobile communication not only for project purposes, but also the performance of his/her direct functions. In this case, the percentage of



mobile communication costs can be attributed to the project.

You can use the table 13 form for creating the project budget.

Staff costs are calculated by considering all relevant taxes.

While calculating the travel costs, legal documents which govern the calculation of mission expenses must be taken into account.

The project manager is responsible for the results of the project, but may only have access to resources with the permission of the functional managers. Project manager responsibilities include:

- Responsibility for the results;
- Responsibility for the teamwork;
- Responsibility for the compliance with the terms;
- Responsibility for using the project budget.

In day-to-day work, the project manager constantly faces the challenge to manage the project team and encourage it to collectively pursue the project objectives. The project team can be defined as a group of people who work closely together to achieve the intended project goals.

According to the psychologist R. M. Belbin, successful teams are those who are formed with regard to its members' ability to cooperate in pursuit of a common goal.

When designing project teams, functional and team roles have to be taken into account. *Functional role* is related to the work, for which a person is employed; he/she must possess some knowledge, technical skills, experience, etc. It may be the finance manager of the project, engineer, programmer, designer, etc. Each member of the team also has his/her own *team role*, which is related to the person's behavioral tendencies in certain situations. These roles are not given by anyone and depend on the members of the team.

R. M. Belbin developed one of the most popular model for team roles

Table 13. Project Budget Form (Example)

	Category of Costs	Pc	Pc Rate	Amount (not including VAT)	VAT	Price (including VAT)	
Direct Costs							
1.	Staff cost						
1.1	Employee A						
1.2	Employee B						
....						
2.	Goods						
2.1.	Product A						
2.2.	Product B						
....						
3.	Services						
3.1.	Service A						
3.2.	Service B						
....						
4.	Works						
4.1.	Work A						
4.2.	Work B						
....						
5.	Travels						
5.1.							
5.2.							
6.	Other Expenses						
6.1.						
6.2.						
Total Direct Costs							
7.	Indirect Costs						
Total Project Costs							

Table 14. Team Role Models

	Role	Strengths	Weaknesses
Thinking/Problem-solving	Implementer	Disciplined, conservative, trustworthy, and well-organized employee. A great organizer of practical activities who is able to transform ideas and strategic decisions into practical activities.	Feels discomfort in unstable and rapidly changing environment and slowly adapts to new opportunities.
	Shaper	Dynamic, friendly, emotional, responsive to change, result-oriented, energy-generating, and capable of encouraging others to move forward.	Tend to provoke others and does not like uncertainty
	Completer/Finisher	Thorough and honest. Constantly looks for mistakes or missed jobs, attentive to details, adheres to terms, promises and highest standards. Reliable.	Sometimes may be too uneasy, appear gloomy and lose sight of a common goal, avoids to delegate tasks, tends to worry about small things, finds it hard to trust others.
People/Feelings	Plant	Creative, has good imagination and a lot of original ideas, can push extremely radical solutions. Solves complex problems using original and creative ideas.	Dreamer who ignores and breaks well-established rules of conduct.
	Monitor/Evaluator	Has excellent strategic thinking and insight as well as critical and analytical thinking, can have a bird's eye view of an idea. Good ability to analyze problems and interpret large-scale complex data.	May be too critical and a little bit separated from the team. Lacks the ability to inspire others.
	Specialist	Focused and dedicated. Has great technical knowledge. Able to reconcile creativity with pragmatism. Has expert knowledge and can solve field-dependent problems.	Too focused on technical solutions and lacks holistic vision. Not interested in other areas, contributing only to a very narrow area.
Doing/Acting	Coordinator	Mature, feels confident about himself/herself and others, good leader, able to convey goals and decisions. Peaceful and self-controlled, able to include all team members and ensure the achievement of goals. A dear leader who helps everyone concentrate on doing the work.	May not be the most intelligent and creative person in the team, also controls others too much.
	Team Worker	Sociable, cheerful, flexible, cares about team spirit and people's welfare. Tends to avoid friction, good listener and social problem solver.	Does not like personal confrontation and may be hesitant in the event of a crisis.
	Resource Investigator	Extroverted, communicative, enthusiastic. Looks for new opportunities, develops contacts, likes new and challenging situations. Good at networking and meeting new people.	May be too optimistic and loose interest in the project or idea after the enthusiasm fades.



At the **closing stage** of the project, we check if everything what was required is actually done, that is, the final results of the project are checked. At this stage, all administrative work is completed, the project documentation is completed, the final payments are made in accordance with the concluded contracts, and the contracts are closed. At the end of the project, the project team is disbanded and the temporary structure is removed. However, before disbanding the team, it is still necessary to evaluate the project's lessons learned, that is, to analyze how successful the project was, what were the main challenges, how they were solved, and what was very good. Lessons learned allow you to improve and manage projects more effectively in the future.

Useful links:

<https://strategyzer.com/canvas/value-proposition-canvas>.

https://www.mindtools.com/pages/article/newPPM_07.htm

https://www.mindtools.com/pages/article/newPPM_03.htm

Questions for Self-Control:

1. What are the essential differences between a product, project, and process?
2. What is a project?
3. What are the essential characteristics of a project?
4. What is the purpose of WBS?
5. What tools can be used for project scheduling?
6. What are the main responsibilities of project manager?
7. What is the difference between functional project manager role and team roles developed by R.M. Belbin?
8. What works have to be done in project closing phase?
9. What cost can be recognized as direct cost/indirect cost?

Practical Task

1. Customize project management tools to create a new business. For example, you decided to set up a bakery. The task:
2. Justify the need for such a business in your city or area: analyze what kind of problem you will solve, what will be your customers, what their expectations are.
3. Think of anyone else who would be interested in implementing your idea. Develop a list of stakeholders, identify their interests, evaluate how the behavior of the stakeholders might affect your project.
4. Formulate the goals and objectives of the project. Make a list of the necessary works. Define the expected results.
5. Prepare the works breakdown structure and project schedule.
6. Decide who can constitute your team and what responsibilities you will assign to each team member.
7. Evaluate the resources required for project implementation and prepare the project budget.

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5. EMPLOYEE RELATIONS

In this chapter you will find out:

- What role plays a labour market in a development of relationship between employers and employees?
- How is forming a balance of labour force supply and demand?
- What are tendencies of development of Lithuanian and world labour markets?
- What main legal documentation regulates a labour relationship?
- How relationship between employers and employees was changing in historical retrospective?
- What are possible strategies of relationship with employees, what are their advantages and disadvantages?
- How to stimulate employees' engagement?

5.1. Role of labour market in development of relationship of employers and employees

One of the most important sources of enterprise's competitive advantages are human resources. To be competitive, the enterprise must retain present employees and attract new talented ones. Labour market is the place where enterprises clash over the best employees in a competitive fight. However, in labour market, employees also inter-compete in striving to get a more attractive work place. Picture 13 shows interaction between labour force demand and supply, which is determined by:

- Number of employers willing to recruit the employees with particular competence (labour force demand).
- Number of employees with particular competence and willing to be recruited (labour force supply).
- Wage that plays a role of mediator.

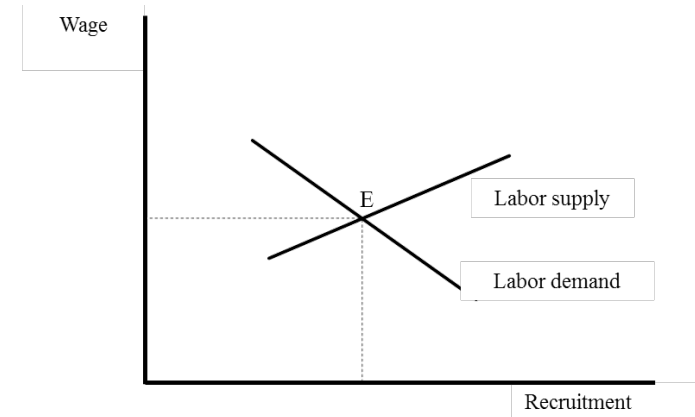


Figure 13. Interaction between labour force demand and supply

As indicated in the picture, wage of balance is of the size that ensures the balance of labour force supply and demand at a particular moment. At these conditions, there are no vacant work places or unemployed people. This is indicated by the supply and demand intersection point E.

However, in the market there often appears the situation when employers inter-compete due to a lack of specialists with particular competence, or, on contrary, employees compete in the market due to an excess of specialists with particular competence. A wage as mediator is a very important, but not the only factor. Especially this could be said given employers' competition for talented employees. A whole package of benefits proposed by the enterprise, image of the enterprise itself play a very important role in a competition for talents.

Another situation might appear when there is an excess of employees with a particular competence in the market, therefore enterprises are not willing to pay higher wage. However, employees are not willing to work for a minimal wage and chose a status of unemployed, because available relief is not significantly smaller than a wage offered in the labour market. In this case, enterprises are facing the problem of large change of employees and free work places, and a burden of sustenance of unemployed falls on the state.

Therefore, there should be remembered few more participants of the market that might play the role of regulator. First, there is a state that determines the size of minimal wage; foresees the size of unemployment reliefs and the order of their commitment; forms the education system, stimulates the acquiring of particular professions by financing state places and alike. Lithuanian Business Employers' Confederation that protects employers' interests and trade unions

that represent employees' interests also play up in discussions while preparing a legal documentation.

Questions of self-control

1. What determines a labour force supply?
2. What determines a labour force demand?
3. How is forming a balance of labour force supply and demand?
4. What is state's role in regulation of the labour market?

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5.2. Tendencies of labour market development

Labour market is very dynamic, its development is determined by many factors:

- Country's economic political situation
- Globalization tendencies
- Demographic environment
- Technological environment
- Cultural environment

Country's economic political situation forms an environment that stimulates one or another tendency of labour market development. Growing economics stimulates business development, and that determines an increasing demand of labour force, a decrease of unemployment and a growing wage in the market.

Picture 14 presents a comparative analysis of unemployment level in the EU states. As indicated in the picture, unemployment in Lithuania reaches 7.3 % and is less than the average of the EU states (7,8 %). However, there should be assessed the fact that this index was determined not by the upturn of economic situation but by the high rates of emigration.

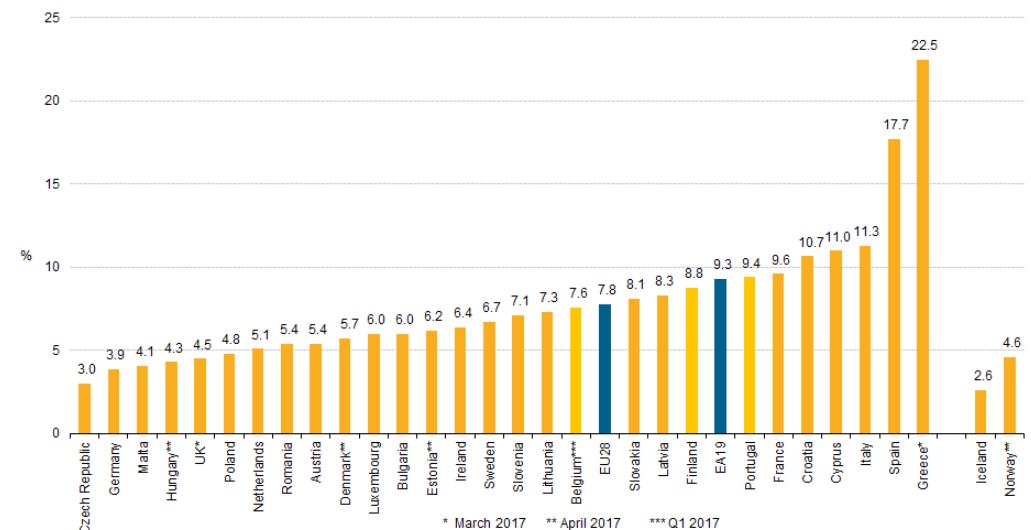


Figure 14. Comparative analysis of unemployment level in the EU states



EUROSTAT forecasts that the highest growth of employment in the future (2015-2025) will be in following five sectors:

1. Realty, professional, scientific and technical activity (20,1%)
2. Administrative and service activity (15,8%)
3. Education (9,6%)
4. Information and communication activity (9,2%)
5. Human health and social work activity (8,6%)

Also, there are forecasted five professions in which there is expected the highest employment in the future, the years 2015-2025:

1. Scientists of law, social, cultural and other related areas. (38,6%)
2. Specialists of clients' service (20,1%)
3. Administration and commerce managers (13,8%)
4. Engineers (12,5%)
5. Business and other specialists (12,3%)

Political decisions in warranting of social guarantees are especially topical in case of stagnation. Policy of open doors creates the conditions to attract employees from the third countries (more about it read in: http://ec.europa.eu/eurostat/statistics-explained/images/c/c8/Immigration_by_citizenship%2C_2015_%28%C2%B9%29.png); by the programmes of attraction and return of talents there is a striving to stimulate young talents to use acquired knowledge for development of country's economy.

Globalization's tendencies stimulate a mobility of labour force, however, emigration in Lithuania and Latvia significantly exceeds immigration (more about it read in: <http://ec.europa.eu/eurostat/statistics-explained/index.php/Population>).

Changes of technological environment are opening new possibilities for virtual work, deleting spatial barriers, expanding worldwide possibilities for search and recruitment of employees. However, a rapid development of technologies is challenging representatives of many professions. US Bureau of Labour Statistics calculated the representatives of what professions will be decreased most till 2022. Employees of the post services are on the top of the list. The demand for them is decreased by the development of automatic distribution system and internet as well as telecommunication. They are followed by the farmers, reporters, correspondents, newscasters. The same US Bureau of Labour

Statistics, based on country's statistics, forecasts the demand for what jobs will be increased most till 2024. First place takes mechanics of wind turbines, the need for which is determined by the rapid development of renewing energetics. Population's ageing will determine the growth of the need for nursing specialists. The analysts of large data should not worry about their work as well.

- An impact of demographic environment is expressed through the changes of labour force structure and variety:
- Ageing society (increasing number of mature age citizens and employees, extended retirement age)

Growing level of education, on the one side, echoes the challenges determined by the rapid development of technologies, however, on the other side, there is felt a lack of the specialists with high qualification of professional-technical education.

An impact of cultural environment is being related to a cultural variety (religious, racial) in the global labour market. However, for some time past, employers pay a lot of attention to the discussion about management of generations. Employees who grew in different time due to different historical, economic, social and cultural experiences have different creed, expectations and values, goals and objectives; use different methods of communication and interaction; their thinking and behaviour differ. Representatives of different generations have different career expectations, work habits, life goals and attitudes. Table 15 presents a comparative analysis of generations.

Table 15. Comparative analysis of generations

	Traditional generation (1926-1945)	Boom of babies (1946-1965)	Generation X (1966-1985)	Generation Y (1986-2005)	Generation Z (2006-2025)
ATTITUDE TOWARDS WORK					
<i>Work ethics and values</i>	Strong work ethics. Most important at work: enterprise's manager and enterprise's reputation	Strong work ethics. Most important is work content	Sceptical ethics A balance between work and personal life is important	Business work ethics Reputation and possibility for development are important	Strong work ethics Most important is to work for maximal wage at least input,
<i>Work is...</i>	A duty. Believes that will work at the same enterprise for a whole life.	An interesting adventure, therefore keeps a balance between work and family. Life for work.	A hard challenge; contract is signed therefore wants to reconcile a work and life. Work for life.	A satisfaction, therefore does not sacrifices personal life for promotion. Attitude „I'm the first“.	Works to satisfy personal needs.
<i>Motto</i>	“Work is first”, “Respect me for my experience”	“Work, then die”, “Value me for my endeavour”	“First live, then work”, “Respect my independence”	“Work is a part of life”, “Value my knowledge”	“Everyone can be a star”, “Works to live, but not lives to work”
<i>Work style</i>	Strives to create an identity, space reflects the achievements and position, boundaries of hierarchy	Enterprise's culture is important, and must feel himself a part of totality, separate office, belonging to close groups, spaces of cooperation	Appearance and qualitative-ness are important, likes accessories, supports individuality, mobile work places, open offices of managers	Can work anywhere, informal use of space, mentor places, fun communication zones, absence of boundaries or hierarchy	Hard communication face-to-face, unable to tackle conflicts, easy cooperation in internet, sensitive, distracted
WORK ENVIRONMENT					
<i>Attitude towards management / rules</i>	Values authority, rules and management from top to bottom	Part of them feel small during a communication with managers.	Kindly communicates with managers, it is a natural process, but is not delighted in a position taken	Thinks that respect must be deserved. Management by connecting: cooperation during a decision making	Managers have to be mentors: cooperating and communicating respectively, considering the opinion and listening.
<i>Communication</i>	Official letters, face to face. Devoted to a team work and cooperation, slowly adapts to technological innovations	Face to face, but already uses a phone or e-mail. Desires for a meaningful, purposeful and sophisticated work, strives for a constant development and a possibility to be promoted, is in good terms with others and easy works in team	E-mail and SMS. Trouble with work in team, strives for learning and development possibilities, likes flexible work schedule, wants amusement at work place	SMS or social websites. Looks for a meaningful, non-monotonous, interesting and sophisticated work, strives for constant feedback, likes work in team	Gives priority to communication through smart technologies. Hopes that will be able to communicate at any time and anywhere, when will have a wish. Tells own opinion publicly in social websites.



Employers are interested not only in the employee – specialist, but also in the employee - personality. Generation Z, that only starts entering the labour market, and sometimes called Techno-addicted, is a challenge for the employer of generation Y, and especially of generation X. Intersection of generations in the labour market makes a guessing which enterprises and how will be able to integrate as soon as possible and adapt themselves to generation Z, and will acquire a competitive advantage in a synergy of combination of generations.

Questions of self-control:

1. How country's economic situation is related to a level of unemployment?
2. How might change a labour market during the nearest decade? What reasons will determine these changes?
3. How differ the attitudes of generations X, Y and Z towards work?

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5.3 Regulation of labour relationship

Labour relationship is regulated by the Law of Labour that includes the Code of Labour and other laws regulating a labour relationship.

Code of Labour

The Code of Labour regulates a labour relationship related to implementation and defence of the labour rights and duties determined in this Code and other legislation.

The Code of Labour regulates the types of labour contracts; necessary and additional conditions of labour contracts; making, execution and expiration of labour contract, work and rest time; wage; restitution; employees' safety and health and other important areas of labour relationship.

The enterprise with regard to requirements of the Code of Labour makes a collective and / or individual labour contract.

Enterprise's collective contract

Enterprise's collective contract is a written agreement between the employer and the collective of the enterprise's employees regarding the work, payment for work and other social and economic conditions. While signing a collective contract, the employees are represented by the enterprise's trade unions. In case no trade union acts in the enterprise and a meeting of employees' collective haven't transferred the function of employees' representation and protection to the trade union of a corresponding branch, the employees are represented by the labour council elected by secret vote during the general meeting of employees' collective.

A content of enterprise's collective contract is a totality of conditions that describe the rights and duties of its parts as well as the order of contract's making and execution and responsibility of the parts. In the enterprise's collective contract the parts determine the working, professional, social and economic conditions and guaranties that are not regulated by laws, other legislation or national, branch and territorial collective contract or that do not contradict them and don't aggravate employees' situation. By discussing a content of enterprise's collective contract the parts must negotiate benevolently and to take into account reasoned interests of the other part of the agreement.

Labour contract

Employment contract is an agreement between employee and employer by which the employee commits to perform a job of particular profession, speciality, qualification or to take a particular position by obeying the order determined in the enterprise, and the employer commits to give a job determined in the contract, to pay a stipulated wage to the employee and to ensure working conditions determined by the labour laws, other legislation, collective contract and agreement of the parts.

In the regulation of labour relationship, other laws are very important as well:

- **The Law on Equal Treatment and the Law on Women and Men Equal Treatment.** Following these laws, the employer must: to apply equal requirements to all people while recruiting; to create equal possibilities to all employees to refresh qualification and learn; to assess fairly work results of all employees; to fire fairly; to pay fairly for work; to prohibit harassment at work; to prohibit sexual harassment at work.

- **The Law on Legal protection of Personal Data.** Purpose of this law is to protect the right of humans' private life immunity while dealing with personal data. Lately more and more discussions arise regarding violation of this law by the employer. Usually this is related to observation of private life of potential or present employees in social media. Surveillance of employees at work place, even if it can be justified, when employer strives to prove the employee goes into illegal activity. However, such surveillance contradicts the main and most sensitive principle of labour relationship – the principle of trust.

Questions of self-control:

1. What laws regulate labour relationship in the market?
2. What parts interested participate during making of collective labour contract?
3. What is regulated in the collective labour contract?

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5.4 Legal and psychological contract between employer and employee

Contracts or agreements between two or more interested groups increase their safety. It is especially said about the contracts between the employer and employee, that give a clearness to relationship and outline the rights and commitments of both sides. However, most often legal labour contracts are kept in mind: collective labour contract, individual employment contract (see chapter 3.3). However, legal labour contracts could be compared to the top of an iceberg that is seen to everyone. Psychological and social contract between the employer and employee is not less important (figure 15).

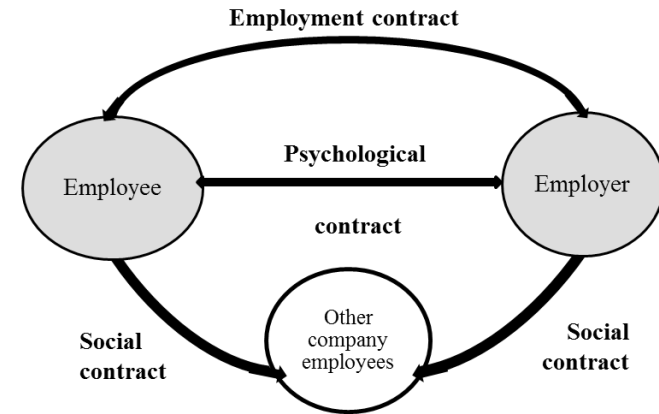


Figure 15. Employment contract and psychological contract

If legal employment contract is made in written and confirmed by signatures of both sides, the employer and employee, then psychological and social contract has no legal status, it is not documented.

In the employment contract, there are written the main negotiating questions, however, both the employee and the employer have much more expectations to each other. Some conditions topical to the employees are not introduced into official labour contract, are not discussed openly, and in case they are discussed then they are being foreseen only as possibilities. The employer also has expectations regarding the employee that could be told but not written. The totality of these unwritten expectations between the employee and employer based on mutual commitment forms the base of the psychological contract. By signing the psychological contract, the employee makes a commitment to give his endeavour, knowledge, skills, creativity, time, loyalty, and to contribute to the striving of the enterprise's goals. The enterprise makes a commitment to satisfy employees' needs for that: wage, safety, status, carrier. Such interchange of undefined content between the employee and employer are called a psychological contract. In case at least one side does not follow its commitment, i.e. does not satisfy expectations of the other side, the psychological contract is weak.

A balanced psychological contract, based on satisfaction of expectations of both sides, is necessary for a long time harmonious relationship between the employee and enterprise.



As indicated in figure 15, labour relationship is forming in a particular social environment – the collective, which has established particular values, attitudes, behaviour. The more employee intercepts prevailing provisions, standards, values and basics of the behaviour that are expected from the employee by the enterprise and subdivision where the employee works, the more expected is that his expectations will be more adequate to the enterprise's possibilities. On the other side, it is very important that a direct manager also will follow the values of the collective, because it is a direct manager, on whom mostly depends a satisfaction of employee's expectations.

Questions of self-control:

1. What is a psychological contract?
2. How differ legal employment contract and a psychological contract?
3. Why psychological contract is important?

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5.5. Engagement of employees

Good relationship between a manager and employees ensures high work results. If there is no mutual understanding between the manager and employees, that will determine a tension and stress at work. Therefore, managers of any department or subdivision must be able to know employees and to engage them into activity.

A goal of strategy of relationship with employees is to form such relationship between the managers and employees and a relationship between employees that would ensure an efficient cooperation and resultativeness of activity.

This is pursued by following the steps:

- There is formed a stable relationship with employees and trade unions based on cooperation
- Decisions are taken by involving the employees into discussions
- There is stimulated a pouring of employees' opinion and feedback
- Conflicts are not hided but discussed and tackled
- There is developed a commitment of employees by communicating with them and involving them into decision taking

There can be distinguished 4 different opinions of how a strategy of relationship with employees could be formed:

- *Hostility* – organization decides what it wants and requires from employees for thoughtless execution
- *Traditional attitude* – a support of relationship with employees, but when management presents proposals, they are being reacted in the name of employees only by the chosen ones.
- *Cooperation* – an organization engages the employees into formation and implementation of organizational policy, but keeps the right of final decision
- *Division of authority* – employees are engaged into everyday decisions and strategical ones

Employees' engagement is available only by forming a strategy of relationship with employees based on cooperation and authority's divide. However, employees' engagement can be a partial. As indicated in figure 16, the employee can be proud of the enterprise he is working in, talk well about it, however, he is not ready to make additional endeavours or to show initiative. In this case, the employee's engagement is only a partial, because he feels a commitment to the



enterprise, however that does not affect his behaviour at work. Another variant is possible as well, when the employee is engaged only as much as it is related to the satisfaction of his personal interests. In this case, the employee is committed to himself, however, he has no sentiments to the enterprise. And only when both personal and organizational commitment exist, it is possible to talk about an engaged employee.

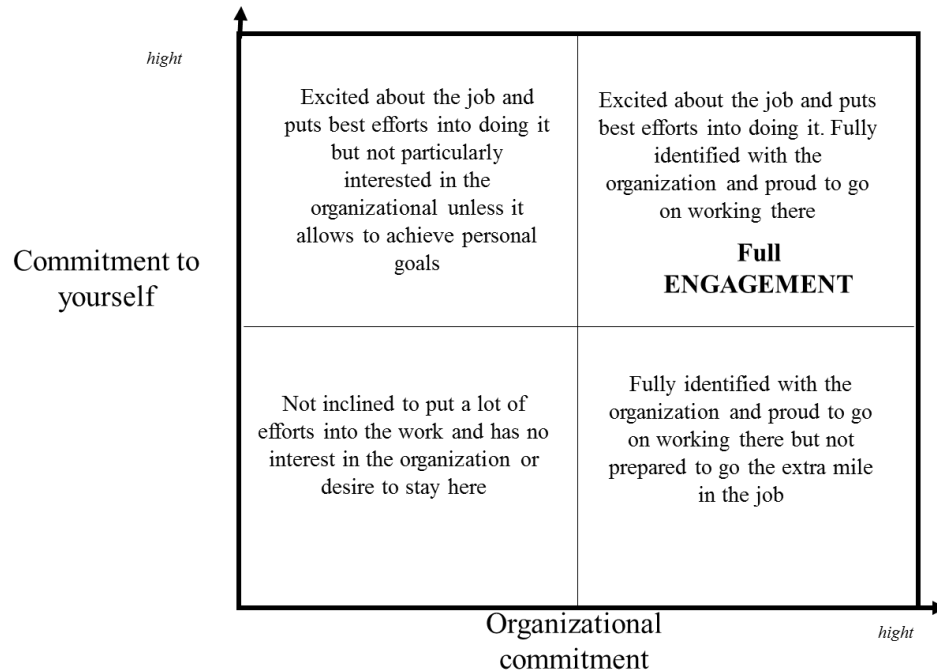


Figure 16. Constituents of employee's engagement

Following features of engaged employee could be named as follows:

- Positive attitude towards work
- Belief in organization and identification with it
- Striving to work better
- Respectful behaviour with others and support to co-workers by helping them to work more efficiently
- Work orienting towards raised requirements or by their surpassing
- Seeing of wide context and own work inside it

- Perfection in own professional activity
- Seeing how organizational activity could be developed and its development

Worldwide known companies present following descriptions of employees' engagement:

- Johnson and Johnson: how much the employees are satisfied in their work places, feel values by cooperation and trust. Working employees longer will stay with the company and will look constantly for smarter, more efficient methods how to increase an organizational value. The final result is the company of high efficiency where people prosper and efficiency is increased
- Barclays: at what extent the employee feels dependence to organization he is working for, believes in own goals and supports organizational values.

It is important for the enterprise to have engaged employees, because, first, they perfectly understand their role in the organization, know how they can contribute to reaching of strategical goals. Secondly, it is an emotional aspect that forms an attachment to the enterprise. Engaged employees more rarely leave the enterprise and make no truancy. Such employees are dedicated to their organization.

Following factors that allow increasing of employees' engagement could be distinguished:

- Work character. Interesting and pleasing work for the employee increases engagement per se. Work challenges allowing the employee to feel own competency and direction of development, responsibility enables a perception of importance of the performed work.
- Work environment. If physical work environment nowadays is treated as hygiene, then employees' engagement is especially stimulated by the labour relationship in the collective, colleagues cooperation
- Leadership. Manager's support and stimulation is a very important factor because, thus, there is shown a manager's assent to employee's initiative and engagement.
- Possibility to develop. Possibility to develop engages the employee into own competence training and constant development, and is assessed by the employee as an assent.
- Possibility to be heard. Possibilities to express own opinion and get feedback indicate employees' engagement into decision making



Questions of self-control:

1. Explain how you understand employees' engagement?
2. What are the features of engaged employee?

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6. BUSINESS PROCESSES

In this chapter you'll find out:

- What is a value chain?
- How enterprise's activity is organized?
- What are concepts of modern enterprise processes management?

6.1. Enterprise's value chain

A value chain is internal processes, which the enterprise performs while creating, producing, selling, supplying products to clients and servicing them. A concept of value chain was presented by M Porter in 1985 in his book „Competitive advantage“.

Porter's value chain

In Porter's value chain, there are distinguished primary processes that are directly related to product's getting to user, and secondary processes ensure a continuity of the primary processes (figure 17). However, analysis of value chain is not limited by the internal processes only, it is also related to the creation of competitive advantages with regard to situation of the market and the branch. The enterprise must be able to arrange own internal processes in such a way that it will be able to present competitors with a product or service of the desired quality and the price that would be better than that of competitors.

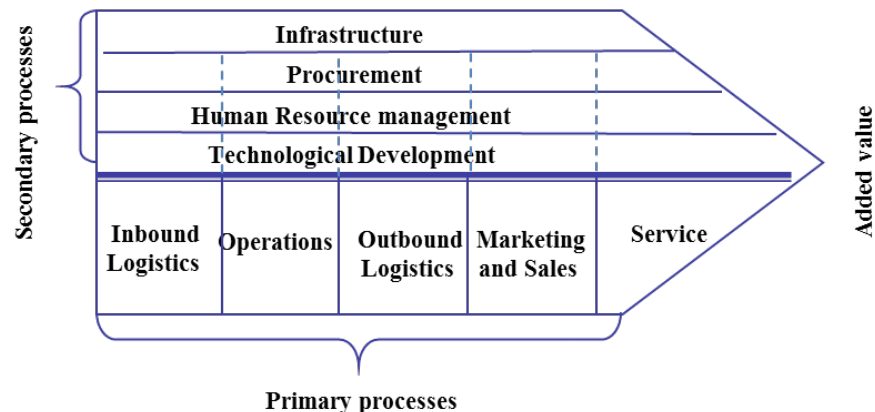


Figure 17. Porter's value chain

Additional value in the right side of figure 17 indicates that the enterprise is competitive and reaches a benefit obtained from additional value when a whole value chain is well functioning, i.e. is managed efficiently and

The primary processes are strategically important functional areas in which the enterprise can obtain a competitive advantage against a competitor: to decrease price, improve product's quality and likewise. Figure 18 presents a detailing of the primary processes.

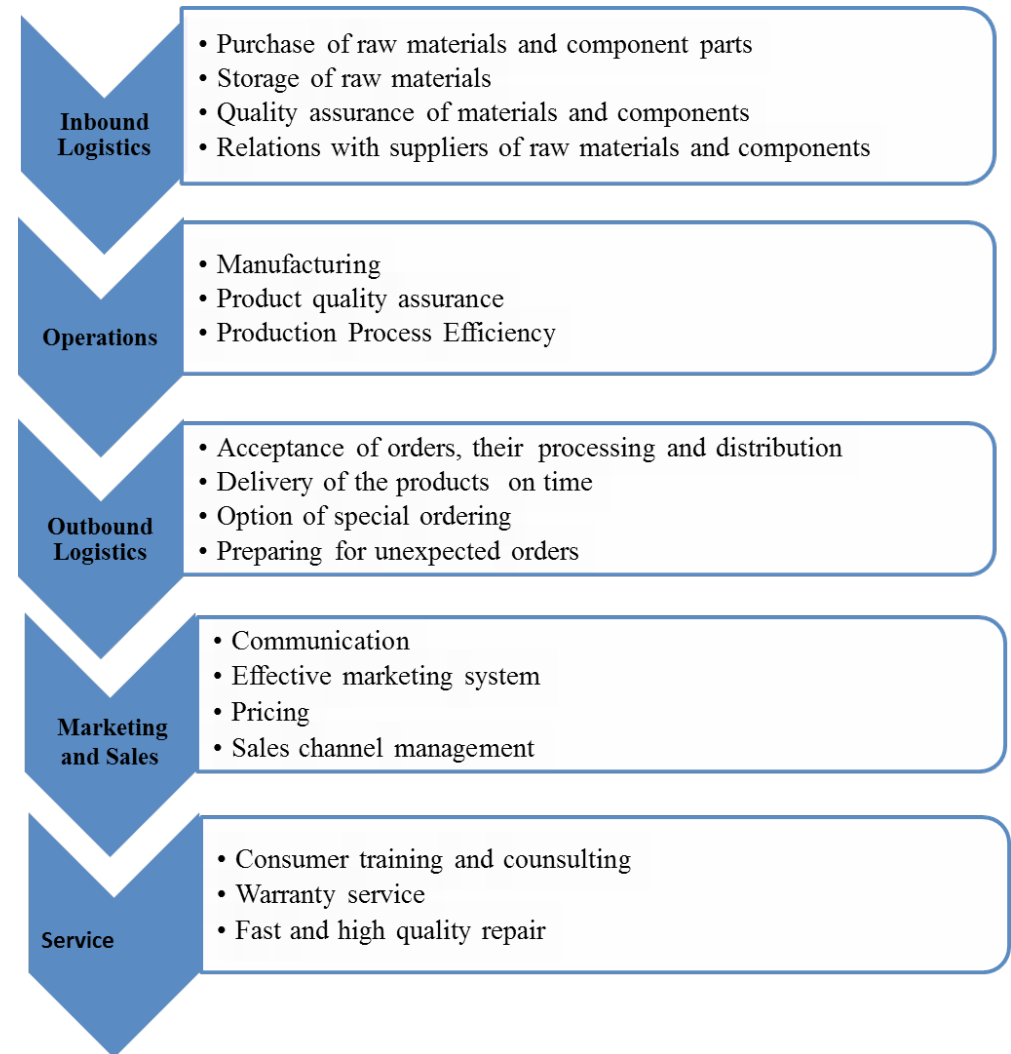


Figure 18. Primary processes



Inbound Logistics – all processes related to receiving, storing and distributing of raw materials and component parts internally. Relationship with suppliers are a key factor in creating value at this stage. Suppliers' reliability enables assurance of synchronized supply for production, thus decreasing the costs of storing of raw materials and component parts. Constant search for new suppliers allows to find materials and component parts at lesser prices

Operations cover all processes related to manufacturing of the product, logistics, assembling, quality control and packaging of semi manufactures. A competitive advantage created at this stage is related to decreasing of production costs, assurance of product's quality and product's manufacturing time.

Outbound Logistics is related to acceptance of the order for a product or service and its presentation to a client. A competitive advantage is acquired due to responsible acceptance of the orders, close relationship with production and ability to assess real terms of product's manufacturing.

By the processes of **marketing and sales** there is a striving to persuade clients to purchase a product or service from you instead your competitors. A competitive advantage is acquired due to benefits the enterprise can offer to a client and the way how a client is informed about these benefits.

Service processes are related to maintaining of product or service value to your client once it's been purchased.

The secondary processes maintain the primary processes. Highlighted lines in figure 19 indicate that all secondary processes can perform a particular role for every primary process.

Procurement processes are intended to purchase the resources required in the primary processes. These could be IT, transportation services, office equipment and likewise. A competitive advantage is acquired by constant search for suppliers able to supply required qualitative goods at the best price.

Technological Development is related to managing and processing information, as well as protecting enterprise's knowledge base. Decrease of input of information technologies, implementation and maintenance of advanced technologies are the sources of creation of competitive advantages

Human resource management is related to search, selection and recruitment of employees, their motivation and retaining. People in every primary and secondary process of value creation are one of the most important sources of value, therefore, the enterprises can create a clear competitive advantage that is

impossible to be copied, with good human resource management practise

Infrastructure is the systems and functions necessary for enterprise's sustantation, without which other processes are impossible.

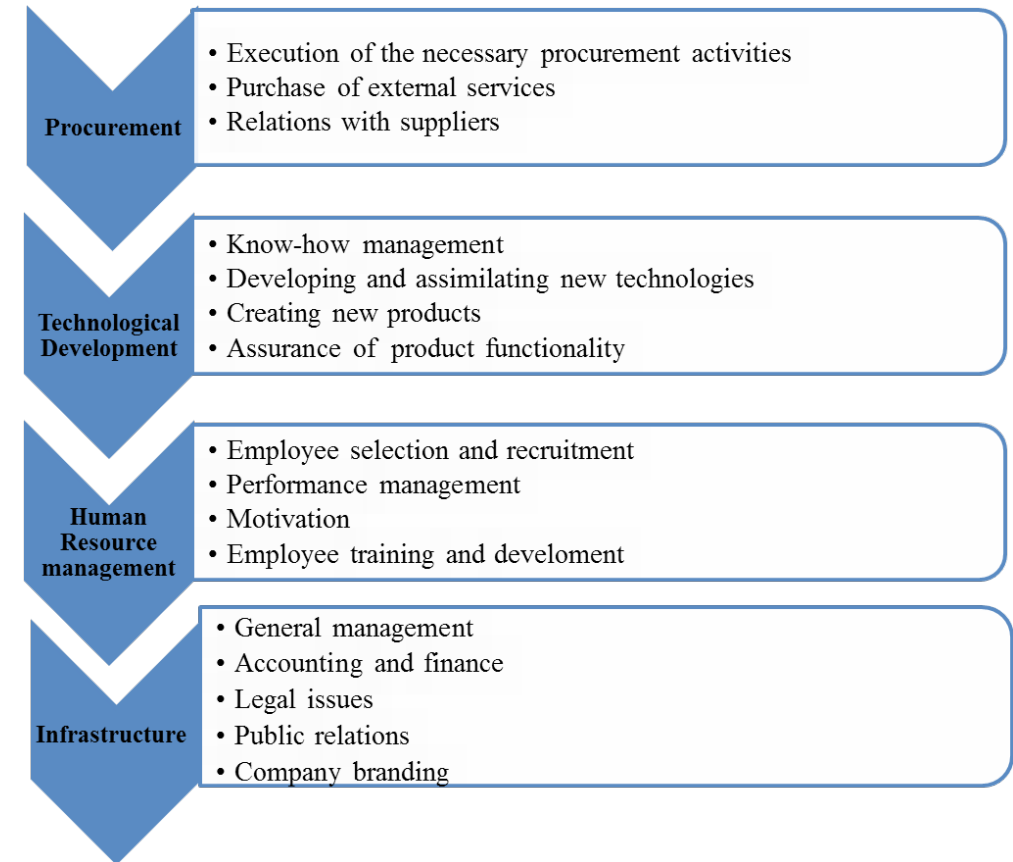


Figure 19. Secondary processes

Value chain is a totality of primary and secondary processes, and if at least one process will be inefficient, the enterprise can face following problems:

- Products or services might become more expensive than those of competitors
- Unsatisfied clients, their claims or complaints appear
- Products' manufacturing or servicing goes slowly

Questions of self-control:

1. Explain how you understand a value chain.
2. Name primary processes of enterprise's value creation. What competitive advantages could be acquired during these processes?
3. Name secondary processes of enterprise's value creation. What competitive advantages could be acquired during these processes?
4. What consequences could be faced in case at least one process in value chain is executed inefficiently?

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6.2. Management of enterprise's processes

Enterprise's value chain discussed in the previous chapter and consisting of primary and secondary processes, revealed a complexity of enterprise's processes. Therefore, to ensure a smooth activity of the enterprise, the management of the processes is necessary. Stages of enterprise's processes management presented in figure 20.

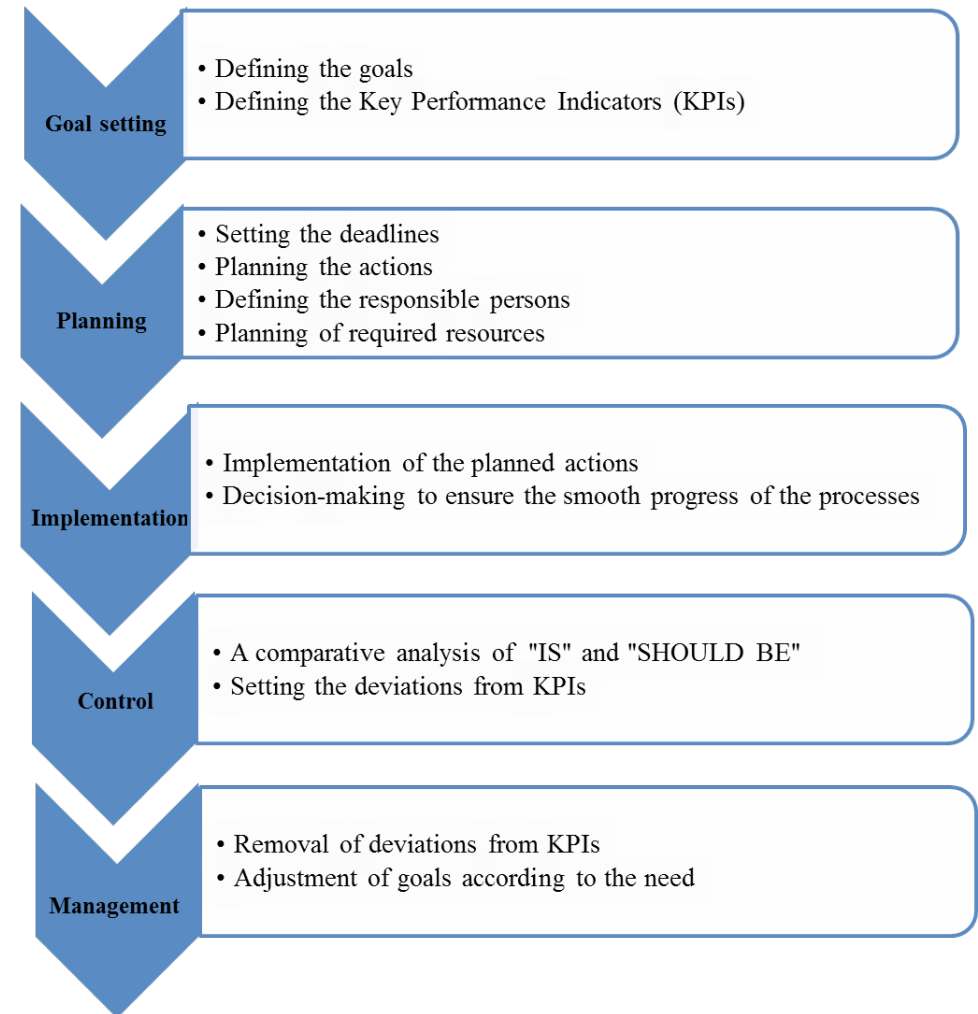


Figure 20. Stages of enterprise's processes management

We'll discuss every of these stages shortly.

Goals setting

Goals setting is a first and very important stage, because it shows what the enterprise wants to achieve in future. If formulation of goals will be not precise and not clear, the enterprise will lose its mark. Therefore, it is important to follow a principle SMART during formulation of the goals:

- **S (specific)** – clear. It has to be told clearly what should be achieved, for example, to increase market's part, to decrease production costs, to implement new technologies.
- **M (measurable)** – measurable. The goal should include quantitative or qualitative measures of goal achievement, for example 5 % (market's part or production costs), CAM - computer-aided manufacturing (new technologies).
- **A (agreed upon)** – coordinated. Goals have to be not contradicting each other.
- **R (realistic)** – real. Goals must be formulated by assessing available resources and competencies.
- **T (time-bound)** – reasoned in time. There must be enough time to achieve the goals, however, there should be not too much time to avoid indulgence.

It is very important that employees in every functional department and level of the enterprise would clearly understand what goals are raised for them. Therefore, key and secondary goals of the enterprise could be distinguished. If the key goal is to increase an available part of the market by 5 percent in 3 years, the question arises what, for example, departments of research and development, production, marketing or human resources should do? Therefore, there are secondary goals formed for these departments, which reflect specifics of activity of these departments. For example, for the research and development department there could be raised a goal to create a prototype of generation X, the manufacturing department has to decrease production costs by 3 percent, the department of marketing has to prepare a concept of new generation products' implementation into the market, and the human resource department has to decrease employees' change by 2 percent.

All these goals have to be coordinated in time. Therefore, the goals are also distinguished according to their time:

- Strategic goals – from 3 to 5 years.
- Medium term (tactical) goals – from 1 to 3 years.
- Short time (operative) goals – to 1 year.

Planning

Planning describes what actions the enterprise or its subdivision should take to reach the goals raised to them. The created plans also are strategical, tactical and operational. The plans indicate who should achieve what indices during a particular period, to foresee resources. Plans can be created by following three principles:

- **Planning from top to bottom.** Plans are created at the enterprise's highest management level and given to medium and lowest management levels. It is purposeful to follow this planning principle while creating strategical plans when they are detailed at the lowest management levels. The main advantage of this planning principle is a high compatibility of enterprise's goals and plans. However, if enterprise uses this planning principle only, there appears a large need for information, employees' engagement decreases because they are not participating while taking important decisions related to their work.
- **Planning from bottom to top.** The goals and instruments to reach them are formed at the lowest management level. These plans usually are related to specifics of subdivisions' processes, therefore, it is purposeful to follow this planning principle by creating operational plans. The main advantage of this planning principle is employees' high motivation regarding the engagement to decision making. However, the risk arises to give priority to the goals of own subdivision, by not seeing totality of enterprise's plans. If the enterprise uses only this planning principle, this leads to disorganization, by giving priority not to the key but auxiliary goals, as result of which there arises a problem of distribution of resources and incompatibility of actions.
- **Countermining.** This is combination of the first and second planning principles, however, here the main role goes to the medium management level that has to assess if the operational plans created at the lowest management level echo and concretize the strategical plans created at the highest management level. The main advantage of this planning principle also is a high employees' motivation regarding the engagement to decision making. However, there appears large need for time regarding discussion between the plans created at different management levels.

Implementation

The highest management level is responsible for implementation of strategical plans of entire organization. The medium and lowest management levels are responsible for implementation of tactical and operational plans of particular areas. One of the most sophisticated tasks in the implementation of plans is



a foreseeing of interference and their timely elimination. For example, the highest management level can face a problem how to reach a planned profitability index without increase of prices while costs of raw materials increase. The medium management level might have to tackle a problem how to reach planned selling indices without additional investment into marketing while sales drop regarding a decreased purchasing power. The lowest management level might have to tackle a problem of increased change of qualified labour force, or to explain the reasons of increased spoilage.

Control

Control allows to assess if the situation „IS“ corresponds the situation „SHOULD BE“. Control is closely related to goals and plans. There can be performed a final – strategical control, and an intermediate – tactical and operational control. In point of view of the object, control can be of two types:

- Control of results. As was mentioned earlier, strategical, tactical and operational goals must be measured, therefore, control of results indicates if the goals are reached.
- Control of a course, resources. There is a control if resources and terms foreseen in the plans are not exceeded. This control indicates effectiveness of processes.

Management

Control reveals deviations from planned indices, therefore, it is necessary to foresee actions required to eliminate interferences. However, it is very important not only to react to deviations, but also to follow possible changes in the market that would allow to forestall the problems and, if required, to correct the plans. There can be corrected both indices under striving and actions and resources to reach them, or terms.

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6.3. Concepts of management of processes of modern enterprise

Every enterprise's success depends on three main criteria:

- Price
- Quality
- Time

All processes in the enterprise must be arranged insomuch that costs would be decreased, quality assured, and products and services supplied in time. Therefore, further we'll discuss modern methods and concepts of management of enterprise's processes that allow enterprises to increase their competitive advantages.

Total quality management (TQM)

Total quality management appeared in the beginning of eighties of XX century, when organizations strived to increase a quality of their products and services. Total quality management is a constant improvement of quality in all enterprise's processes. Total quality management means:

- **T - Total.** Engagement of all employees, managers and clients into the process of quality improvement. Constant communication with clients allows to find out their expectations and improve the quality of products or service. Communication inside enterprise allows improvement of processes.
- **Q - Quality.** Constant orientation towards quality in all areas of enterprise's activity. Emphasized improvement of processes that assure product's quality.
- **M - Management.** Managers of the highest level are responsible for implementation of responsible attitude towards the quality in the enterprise. They are initiators and make the running.

There could be distinguished following main features of total quality management:

- **Strong orientation towards internal and external clients.** TQM emphasizes not only the importance of external clients, but of internal ones as well. Employees are called internal clients, thus indicating that inter-behaviour of co-workers has to be based on the respect and readiness to satisfy expectations of co-workers.
- **Stimulation of engagement of all employees.** One of the most important tasks of managers is to stimulate employees' personal initiative and willingness to take responsibility. It is very important to create an atmosphere based on cooperation where team work and open conversations both between co-workers and between employees and managers are stimulated, thus eliminating hierarchical barriers.
- **Use of quality management instruments.** TQM has many instruments, including Six Sigma, quality management circles, JIT (just in time), Kaizen, Kanban and likewise.
- **Constant striving for quality improvement** without costs increase. The goals of quality must be planned realistically, by developing in small steps, but constantly.
- **Integration of all processes and functions of the enterprise.** Quality management must become the main work concept of entire enterprise, its all subdivisions.

• **Prevention of mistakes instead of correction of mistakes.** According to „philosophy of 0 spoilage“ the mistakes need to be not corrected but prevented.

Total quality management allows for more efficient use of employees' potential by involving them into the process of constant development and giving them responsibility for their work. However, its implementation requires time, and first, by changing employees thinking.

6 Sigma

In the middle of nineties, there was created a “Six Sigma” instrument, that was first implemented in Motorola. “6 Sigma” uses different statistical methods by which there is a striving to develop business processes and thus to decrease a spoilage in manufacturing and is based on DMAIC methodology, that states that processes taking place in the enterprise can be described, measured, analysed, developed and controlled (figure 21).

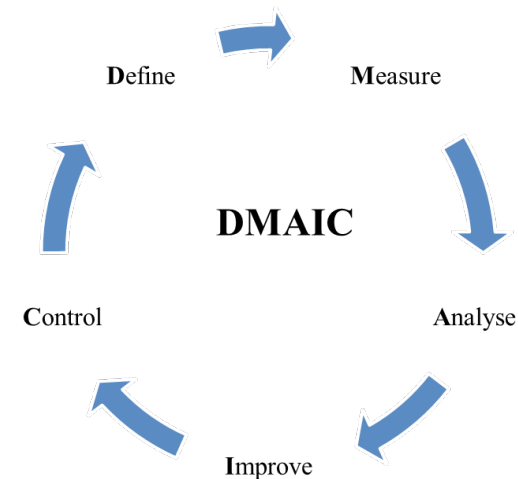


Figure 21. DMAIC methodology

DMAIC is acronym of five stages that make the process:

- **D - Define:** to define the goals and users (internal, external)
- **M - Measure:** to measure a deviation from a desired result
- **A - Analyse:** to examine the reasons of deviation
- **I - Improve:** to improve the process by eliminating deviations
- **C - Control:** to determine how control will be performed.



6 Sigma gives priority to decisions that are done based on verified data and statistical methods, not on assumptions and speculations.

Quality circles

Quality circles are work groups of 5-15 people that meet to tackle particular problems arising at work or to improve something in their work places. Quality circles also appeared in Japan in seventies of XX century, therefore, in the beginning they were meetings of co-workers after work. However, after wide spread of this method in the USA and Europe, quality circles usually are organized during work time. Usually, during these meetings there are tackled such questions as follows:

- To improve a labour productivity
- To eliminate mistakes in manufacturing
- To assure product's quality in all stages of its manufacturing
- To struck on and/or implement new methods of work organization
- To improve a climate in work group
- To improve industrial safety
- To increase employees' identification with enterprise and alike

Main rules of quality circles are following:

- If wants, group selects its leader.
- Employees participate in quality circles voluntarily; participation is not mandatory.
- All members of quality circle are equal and hierarchical position plays no role.
- Employee best knows the problems of own work place, therefore, the opinion of every employee is the information that should be taken into account whatever unpleasant it would be.
- Openness and respect to opinion of others is a base of a constructive discussion.
- Members of quality circle are responsible for taken decisions and their implementation within limitations of own competence.

Proposals of decision of quality circle's problems, if they exceed boundaries of competence of its members, can be presented to managers. It is very important that all these proposals would be thoroughly analysed and a feedback

about possibilities of their implementation would be presented. It is especially important that members of quality circle would feel management's support and interest and would assess employees' endeavours.

LEAN management

LEAN management concept was first used by Krafcik in 1988, who focused a lot of attention towards manufacturing, where he envisaged the main possibilities of efficiency increase. LEAN manufacturing, first, is related with Japanese attitude towards manufacturing management. Although such concept is not used in Japan, however, their work methods allowed a competition with the West, first, due to twice lesser costs and twice shorter time required to produce production. The principle of LEAN manufacturing is, first, to decrease costs by using advantages of mass and unit production, and petrification, secondly, and to increase enterprise's flexibility. In practice, attitude of LEAN manufacturing view was first implemented in 1990 by Toyota Motor, and that allowed better satisfaction of clients' needs and decrease of costs.

Concurrent engineering

Concurrent engineering is a cooperation of different value chains from project's beginning till end based on the principles of project management.

Figure 22 presents a process (A) of traditional consistent product / service creation in different value creation stages and a Concurrent engineering process (B). During the process of traditional consistent product / service creation in different value creation (A), following functional area is involved into its creation only when creation of a product or service in a particular stage is finished. For example, product's prototype is forwarded to production only when department of research and product development creates it.

During the process of Concurrent engineering (B), following functional area is being involved into product's creation, when intermediate results are available. For example, department of research and product's development creates a product's concept, then discusses it with production, by ascertaining that available technologies will allow to produce it, and only then produces a prototype.

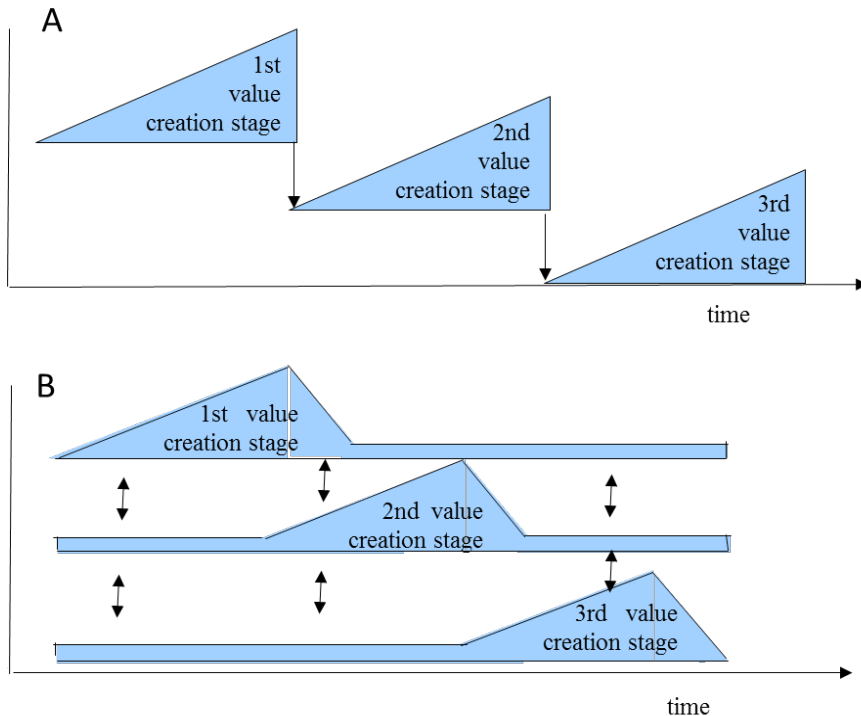


Figure 22. Traditional consistent process of product / service creation (A) and Concurrent engineering (B)

Concurrent engineering is based on the principle that, in value chain, involvement of functional areas that are present in latter stages into value creation and knowledge with actions performed at earlier stages of value chain and results that will be used in latter stages allow early noticing of mistakes, a decrease of latter corrections, redo.

Questions of self-control:

1. On which main criteria of enterprise's activity depends its success?
2. What is an essence of total quality management?
3. On what purpose can be organized quality circles?
4. What is an essence of LEAN management?
5. How Concurrent engineering differs from traditional consistent process of product / service creation?

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7. MARKETING

Aims of the chapter:

- Gain the understanding of key marketing concepts;
- Appreciate how important effective marketing is (and how interesting and fun it can be);
- Develop the product using the creative technique.

7.1. Marketing and its environment

Marketing has commonly been associated in people's minds with trickery and even outright lies, and there is a commonly-held perception that marketing is about persuading people to buy things they do not need or want. Still it is not the true: marketing is about creating value, not creating needs, and it is concerned with creating and retaining customers. The ideal situation for marketer is that customers return regularly and buy again and again. Still long-term customer satisfaction can only happen if the organization offers value for money- not necessary cheapness, but good value. Research shows that it is 6 times more expensive to recruit than to retain.

Marketing is therefore concerned with providing people with products and services which work effectively, continue to work effectively in the longer term, and are offered at a fair price. With this in mind, marketers act at the interface between the organization and its customers. They need to coordinate the organization's activities with the needs of customers and to communicate the company's offerings to its target groups.

American Marketing Guru Philip Kotler defines marketing as follows (Kotler et al. 2008):

Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

For some people marketing is about managing exchange. For others, it is about meeting customer needs at a profit. The key issue in practice is that marketers should not try to please everybody. A marketer should be content

to meet some of the needs of some of the customers most of the time- trying to do more unlikely to be practical.

No business operates in a vacuum. Decisions are made within context of competition, customer characteristics, behaviour of suppliers and distributors, and of course within a legislative and social framework. The central point of marketing activity is customer. The marketing activities are related with marketing mix, i.e. product, price, place and promotion.

Some environmental factors are easily controlled by managers within the firm, whereas others cannot be changed and must therefore be accommodated in decision-making. In general, the larger firm, the greater the control over the environment: on other hand, larger firms find it difficult to adapt to sudden environmental changes in way that a small firm might. In order to assess the impact of environmental factors, manager should need to classify them (see figure 23).

Environmental Factors.

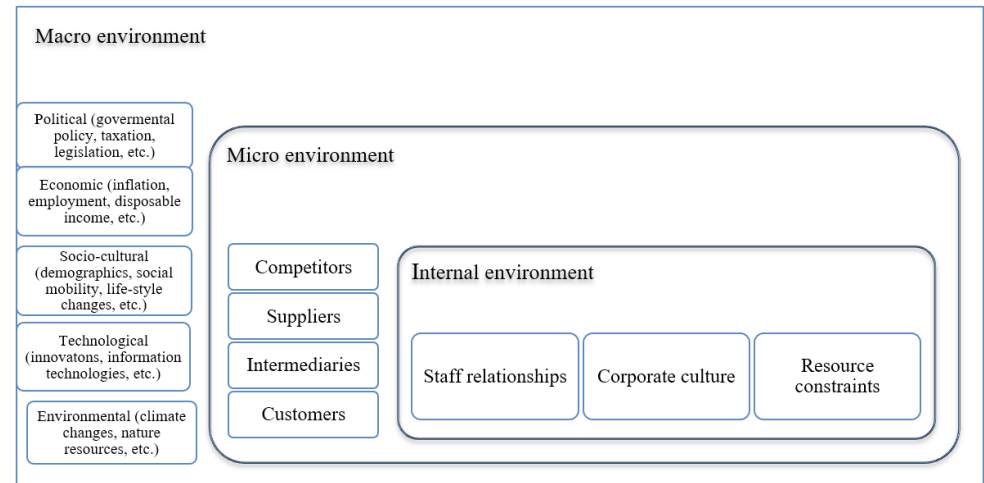


Figure 23. Environmental factors (Blythe, 2014)

The macro environment is largely uncontrollable, the micro environment is much more susceptible to influence or control. Marketers are always have to look forward, mainly towards customers and competitors who make up the market, but they also need to consider the internal environment because this is where



the resources come from to maintain marketing activities. While evaluating the marketing environment, the marketer usually carry on marketing research.

7.2. Marketing research

As with other business functions, marketing relies heavily on information. Some of this information exists, buried within corporate records and some of it needs to be collected from outside sources. Marketers need to decide which information-generating method is most appropriate and which will be the most cost-effective in generating the right information. Marketing research can be defined as follows:

Marketing research is the search, collection, analyse and interpretation of information needed for marketing decisions. This function links organization with customers.

All business decisions involve an element of risk: the purpose of marketing research is to minimize the risk. Marketing information that can be used for business decisions is divided into three groups:

1. Macro environment: demographical, economic, lifestyle, technologies and political-legal information;
2. Target groups: information about customers, business partners and competitors;
3. Micro environment: information about sales, market share, costs of the company, profitability according to buyers, products, market segments, distribution channels, etc.

Data can be selected in many ways, but these fall into four main types, as shown in table 16. Also the information can be found in internal and external sources.

Table 16. Data typology

Primary data	Data that are collected from an original source, for example by running the questionnaire survey or by interviewing respondents (people who have information).
Secondary data	Data that are second-hand. These are data that have been collected by someone else (for example, a commercial market research company) and which already existed before the problem was identified.
Quantitative data	Data can be expressed numerically, for example in terms of percentage. This type of research is good for finding out what people do in terms of purchasing behaviour, but it is not good for finding out why they do it.
Qualitative data	Data that cannot expressed in numbers, for example interviews. This type of research is effective for finding out why people behave in the ways they do, but it is not so good for finding out what people in general do.

Secondary qualitative data can be company reports, complaint letters, and primary qualitative data – focus groups or in-depth interviews. Quantitative secondary data can be past sales figures, published market research, customer records, and primary quantitative data are related with questionnaire surveys, observations and experiments.

Marketing research has steps, i.e. problem formulation (1), research design (type) selection (2), research method selection (3), defining sample (4), data gathering (5), data analysis (6), research report (7). The company can fulfil the marketing research itself or hire the market research company, i.e. Kantar TNS (see more in <http://www.tnsglobal.com>) or Nielsen (see more in <http://www.nielsen.com>).

The step of the **problem formulation** is the most important in marketing research. Usually the marketer has the marketing decision problem (i.e. should we enter the new product to the market?) and then is formulating the corresponding marketing research problem (i.e. to evaluate priorities and purchasing intentions of potential customers regarding the product?)



If the marketing problem is identified not properly then other steps are unsuitable as well. A good way to link the broad statement of the marketing research problem with the management decision problem is through of a conceptual map that involves three components:

- Management wants to **(take an action)** (*example: develop retention programs that will retain 90 % of heavy users of wireless services and lead 10 % higher sales over 2 next years*)
- Therefore, we should study **(topic)** (*example: we should study heavy-user loyalty*)
- So that we can explain **(question)** (*example: what will be the most important variables in retaining these customers over the next 2 years*)

After the problem and objectives are defined, marketer has to select **the marketing research design**. Marketer is selecting the type of research depending on the level of the problem awareness. dissatisfaction. There are three types of research design (see table 17).

Table 17. Comparison of basic research designs

	Exploratory	Descriptive	Causal
Problem awareness level	Problem is not known	Problem is known	The problem is precisely defined and indicates possible causal relationships
Objective	Discovery of ideas and insights	Describe market characteristics or functions	Determine cause-and-effect relationships
Characteristics	Flexible, often the front end of total research design	Preplanned and structured design	Manipulation of one or more independent variables
Methods	Case studies, secondary data, qualitative research (i.e. in- depth interviews, focus groups, projective techniques)	Secondary data, surveys, observational data	Experiments

Then the research design is selected, the researcher has to choose **the research method**. The choice of research method depends on the selected research design (see in table 17). The research instrument is designed in this stage (i.e. questionnaire, focus group plan, observation form, etc.).

In most cases, it is not possible to ask everybody their opinions. Occasionally, the number of potential respondents is small enough that all of them could be questioned: this is called census survey. In the vast majority of cases, however the number of potential respondents (i.e. people who are drinking milk) that only a small number of them can be included. **Sampling** from among potential respondents is essential. In case of qualitative research, small number of respondents are used, in case of quantitative- the large number.

Sampling methods are classified as either *probability* or *non-probability*. In probability samples, each member of the population has a known non-zero probability of selected. Probability methods include random sampling, systematic sampling, and stratified sampling. In non-probability sampling, members are selected from the population in some nonrandom manner. These include convenience sampling, judgement sampling, quota sampling, and snowball sampling. The advantage of probability sampling is that sampling error can be calculated. Sampling error is the degree to which a sample might differ from the population. In non-probability sampling, the degree to which the sample differs from the population remains unknown. Calculation of sample size can be found here <https://www.surveysystem.com/sscalc.htm>.

Then the sampling plan is prepared, the **data gathering** is starting. Data collection is accomplished using a staff that operates in the field. Fieldwork involves personal, phone, mail or electronic interviewing. Data analysis includes the editing, coding, transcribing of collected data. The data are analyzed using different statistical techniques. The results are **analyzed** and interpreted in order to find conclusions related to the marketing research problem. Then **the report** is prepared and management decisions are taken.



7.3. Segmenting, targeting and positioning

Market segmentation is about separating the overall market into groups of customers with similar needs. Targeting is about developing variations on the basic product to meet the needs of these different groups. There are very few products that please everybody- in fact, it is difficult to think of any. Even products such as Coca Cola is almost in every country in the world, only has minority share of world's soft drinks market. Marketers therefore seek to position their products appropriately relative to competitors: positioning is, of course, in the minds of consumers.

Everyone needs water to drink, but does everyone need bottled water? For companies to successfully reach their precise customer, they need to divide a market into similar and identifiable segments through **market segmentation**. There are several definitions that are used then talking about segmentation:

- **Market** – people or organizations who have ability to purchase a product or service.
- A **market segment** is a subgroup of people or organizations that have one or more characteristics in common that cause them to have the same product needs.

It is also important to know differences between customer (individual who buy the product) and consumer (the individual who consume the product, but not necessary buy it).

Through **market segmentation**, companies divide large, heterogeneous market into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs. Segmentation operates at these levels:

- *Mass marketing*. Company produce same products to that everyone would want, then produce it in vast quantities at low prices and promote it heavily to gain a market share.
- *Segmented markets*. Here the company seeks to identify substantial groups of individuals with similar needs, and aims to satisfy those needs. Different products to one or more segments.
- *Niche market*. Focus on small subgroups within target markets and produce very carefully targeted products.

The starting point for successful segmentation is a good marketing research (see previous 7.2.).

Understanding the needs of customers, and the characteristics of those customers the firm wants to reach, is basic to deciding how to meet those needs. Segmentation occurs in three stages, as follows:

1. Understanding the needs of various customers in the total market needs to be developed. This happens through marketing research, and sometimes through internal knowledge of the company.
2. Customers are grouped according to their needs and characteristics. They are segmented basing on various factors.
3. Groupings are selected for targeting. Segmentation implies rejecting groups that are unprofitable, or do not otherwise fit to with the company's strategic plans.

Grouping people into segments can be carried out a large number of ways, but the generally accepted view is that segmentation of consumers markets can be based on the following:

1. *Behavioural segmentation*. The main bases of segmentation are benefits sought, purchase occasion, purchase behaviour (time, place, quantities, degree of willingness to buy innovative products), usage, buyer readiness stage, attitudes towards the product.
2. *Geographic segmentation*. The area where people live can make a market effect to their purchasing behaviour. An obvious example is effect of climate- people in cold countries need to spend more on warm clothing. Language tends to be strong influence in linking people together. People can also be segmented using ACORN (according postcodes), see more in <http://acorn.caci.co.uk/>.
3. *Demographic segmentation*. Demographics concerned with factors as age, gender, sexual orientation, family size and life cycle stage, incomes, occupation, education, religion, ethnicity and nationality.
4. *Psychographic segmentation*. People can be divided according to lifestyle or personality characteristics. Lifestyle segmentation has the major advantage that is relates directly to purchasing behaviour, the technique used is [VALS](#) (Values, Attitudes and Lifestyles).

Segmentation methods are differ between consumer and business-to-business markets. Business-to business segmentation variables are:

1. Geographic (countries, regions, administration territories, cities; internal, international or global markets);
2. Demographic (i.e. industry classification, company type, size, geographic



location, financial info);

3. Behavioural (buying situation; current relationships, attitude toward the company)
4. Purchase situation (the frequency of buying, the size of order, product adaptability, personal characteristics, loyalty, risk level, similarity of buyer and seller).

Targeting is the next step after segmentation. It is a process of choosing segment or segments, deciding on a tactical approach to marketing the products to that segment, and developing the tactics into practical actions. For a segment to be viable, it must have the following characteristics:

- It must be definable or measurable. There must be some way of identifying the members of the segment and knowing how many of them there are.
- It must be accessible. This means it must be possible to communicate with segment as a group, and get the products to them as a group.
- It must be substantial, i.e. large enough to be worth targeting.
- It must be congruent. The members must have closely similar needs.
- It must be stable. The segment should not change substantially over time, either in its needs or in its membership.

Also it is recommended while choosing segment using 2 major criteria: customer conversion analysis (how many prospects in segment can be converted into customers and how large this served segment will be) and segment profitability analysis (determination of the contribution margin per euro to serve that segment).

Then the target market has been chosen, the positioning is starting that essentially means developing a theme that will provide “meaningful distinction for customers”. There are eight generic factors, which are used in positioning products: top of the range, service, value for money, reliability, attractiveness, country of origin, brand name, selectivity. Positioning of brand can also rely on four factors (the four Cs of positioning):

- **Clarity.** It must be obvious to the consumers (or customers) what the brand is and where it sits relative to other brands.
- **Credibility.** The position must be logical and believable- an obviously cheap and basic product cannot position itself as premium brand. Also the well-designed and well-made product cannot be sold for a low price.
- **Consistency.** Whatever position is adopted, the marketers must maintain

a consistent brand message.

- **Competitiveness.** Successful positioning should mean that the company is not trying to occupy a position already taken by a competitor- it is far better to find a position that is currently not subject to competition.

Correct positioning ensures that customers are not disappointed when they buy the product, and also the target customers will prefer the product over rival companies' products, thus ensuring long-term success for the company.

7.4. Marketing mix

Several models exist for defining the marketing mix, and each model has drawbacks. One of the earliest attempts to define the mix came from McCarthy (1964), and defined the marketing mix in terms of product, price, place and promotion.

Marketing mix is a set of interrelated actions and solutions that meet the needs of customers and achieve the goals of the company's marketing.

In 1981, Booms and Bitner added three more Ps (people, process and physical evidence) to encompass the extra elements present in service industries. This **7P model** has been widely adopted, not so much for its accuracy but because it is easy to remember and understand.

PRODUCT is the bundle of benefits the supplier offers to the purchaser. The particular set of benefits on offer will appeal to a specific group of consumers: it is extremely unlikely that any product will appeal to everyone. Even products such as Coca Cola, which is sold worldwide and is the world's recognized brand name, has only a minority share of soft drinks market. Many people simply don't like it, or think it is too expensive, or prefer other drinks which meet their needs better.

Usually the company has not the one product, but the portfolio of products. Companies need to manage this portfolio in such a way to ensure that it still meets the needs of customers, dropping products that no longer meet customer needs effectively and introducing ones that fit the market better.

Most products pass through most of the stages (see figure 24).

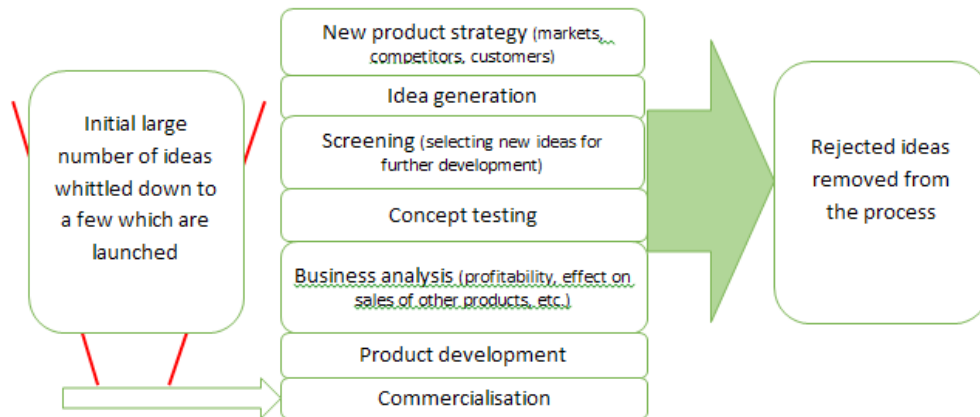


Figure 24. New product development process

For companies to remain in business therefore, constraint streams of new products needs to be developed in order to replace those have reached the end of their useful lives. Additionally, companies need to add new products to the range if they are to grow: new markets demand new products.

Considering the product, the main vehicle by which marketers focus their activities is the brand. According to American Marketing Association, **a brand is a name, term, design, symbol, or other feature that distinguishes an organization or product from its rivals in the eyes of the customer.**

For example, people don't buy Porsche simply as the mean of transport; they buy it because it conveys an image of engineering excellence, reliability, sporty styling, high speed and high prices. The brand has advantages for the customer: it is easy to recognize the products and easy to identify with it. Brand names catch the customer's attention, should be alliterative, should connect to the product's positioning in the customer's perceptual map, link to a visual image and communicate something about the product, or be capable of used to communicate about the product.

PRICE is the total cost to the customer of buying the product. It therefore goes beyond the simple monetary costs; customers also consider the difficulty of purchase, the costs of ownership of the products, and even the 'embarrassment' factor of owning the wearing brand. Price has a strategic dimension for marketers, in that there is a relationship (for most products) between price and sales volume. The lower the price, the greater the volume (in general). On other hand, there is also reverse relationship between price and perceived quality (the higher price, the greater the quality). For marketers the problem often lies in finding ways to justify a price rise to consumers.

The price is the only element of the mix that generates revenue. Price should relate to the market, not to the firm's costs of production. The *pricing has the process*: set pricing objectives (1), develop pricing strategy (2), determine demand (3), estimate costs (4), review competitive offerings (5), select pricing method (6), establish pricing policies (7), determine prices (8).

Pricing methods are non-market based and market based. Non market based is cost-based pricing that is distributed to cost plus pricing and mark-up pricing. Mark-up pricing is similar to cost-plus pricing, and is the method used by most retailers. Mark-up is the amount added to the cost price of goods to cover overhead and profit. Typically, a retailer will buy in stock and add on a fixed percentage to the bought-in price (a mark-up) in order to arrive at the shelf price. In some cases the mark-up vary from retailer to retailer: from near zero to 100 %.

Market based pricing are customer-based pricing and competitor-based pricing. Customer based pricing are demand pricing (calculating the price according to what consumers are prepared to pay), psychological pricing (i.e. using .99'endings on prices), product-line pricing (sales of one product depend on sales of another, calculating both prices to take account of the price of each product) second market discounting (brand is sold at one price in one market and at a lower price in another). *Competitor-based pricing* are penetration pricing (setting lower prices in an attempt to capture a large market share) and predatory pricing (pricing at extremely low levels with the intention of damaging competitors or forcing them to leave the market).

PLACE is the location where the exchange takes place. This maybe be a retail store it may be a catalogue, it may be a restaurant, is it may be a website. Deciding on the appropriate place for the exchange is not merely a matter of moving goods around (although the physical distribution is one aspect of the process) but rather a strategic issue. The decisions to revolve around making it easy to as possible for customers to find the goods and make the purchase, and also using channels that give the appropriate image of the product.

Marketing (distribution) channel: is path through which products - and legal ownership of them - flow from producer to consumers or business users.

Distribution channels may be of any length, ranging from direct channels from producer to consumer, through to the seven or eight member channels common in the food industry (see figure 25).

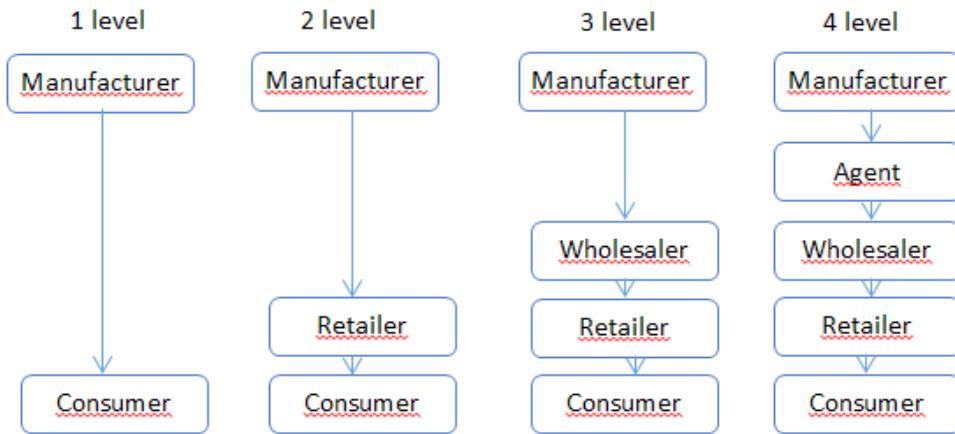


Figure 25. The length of marketing channel

Choosing an appropriate intermediary is not necessarily a simple matter, especially, as intermediaries frequently have more power in the supply chain than do producers, and can therefore pick and choose between suppliers.

Producers also need to consider the intensity of market coverage. There are three main distribution intensity types:

1. Intensive distribution. Seeks to obtain maximum product exposure at the retail level, i.e. soft drinks, candy, gum, etc.
2. Selective distribution. Companies who want to maintain a specific quality store for their product will use selective distribution, i.e. bicycles, hi-fi systems, toys, etc.
3. Exclusive distribution. Product is sold in only one of place in a given area. For example, Rolls Royce vehicles are exclusively distributed.

The marketer is responsible for marketing channel management that is implemented using these steps:

1. Formulating channel strategy, i.e. selecting the most effective distributors basing on market, producer, product and competitive factors;
2. Design channel structure, i.e. set distribution tasks, consider alternative structure, choose optimal structure;
3. Select channel members, i.e. according to sales strength, market coverage, reputation, attitude, etc.
4. Motivate channel members, i.e. informal support, establishing strategic alliances, partnerships.
5. Coordinate with marketing mix, i.e. retailers (a channel member) play an important role in product positioning, personal selling, profit margins available to channel members, pricing policies, promotions interface with channel members, point-of-purchase displays, inventory levels, sales person training, etc. and
6. Evaluate member performance.

PROMOTION is such a large part of marketing that is often mistaken for the whole marketing. Promotion (or marketing communications) encompasses all the communication activities of marketing: advertising, public relations, sales promotions, personal selling and so forth. It is important to know that all marketing communications have to be integrated, i.e. communicate the same message to the target group. See a classification of marketing communications in Figure 26.

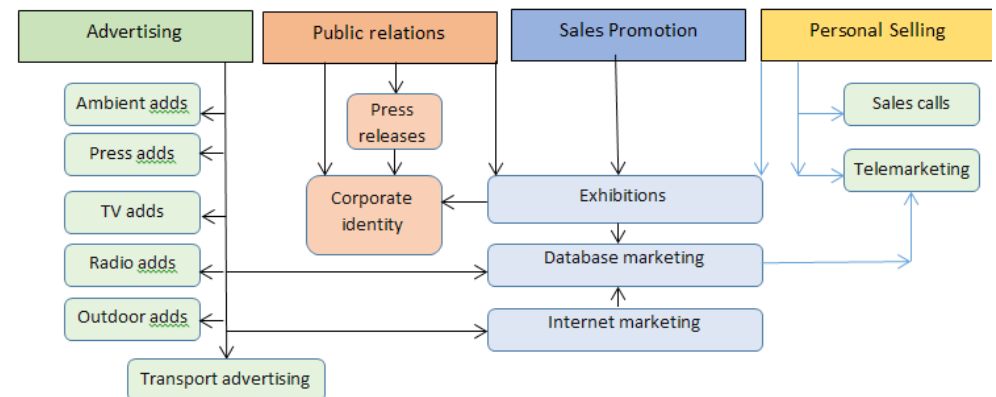


Figure 26. Classification of marketing communications



Developing effective marketing communications follows a six-stage process, as follows:

1. Identify the target audience, i.e. decide who the message should get to.
2. Determine the response sought, i.e. what the marketer would like the audience to do after they get the message.
3. Choose the message. Write the copy, or produce and appropriate image.
4. Choose the channel. Decide which newspaper, TV station, social media or other medium is most appealing to the audience.
5. Select the source's attributes, decide what it is about the products or company that needs to be communicated.
6. Calculate costs, basing on objective and task, percentage of sales, competitive parity or all-you can afford methods.
7. Collect feedback, i.e. carry out the market research to find out how successful the message is.

The marketer is planning campaigns that can be image, product differentiation, positioning or direct-response campaigns.

In case of services marketing, the marketing mix is supplemented with other three elements: people, process and psychical evidence.

People are crucial to success in marketing, particularly in service industries. Customers in a restaurant are not simply buying a meal: they are buying the skill of chef in preparing and presenting the food, the service of the waiters in delivering the food, and even the quality of the washer –up ensuring clean cutlery and crockery.

Process is the set of activities that lead to delivery of the product benefits. In service industries the process of delivery make a difference to the benefits obtained. Process include before-sales service, during-service and after-sales processes.

Physical evidence is the tangible proof that the service has been delivered. Physical evidence is important in service marketing because often the customer is buying a promise. The evidence might be useful to show to other people (i.e. a certificate from training course) is it might be simply something to act as a reminder of a pleasure the consumer obtained from the service (souvenir of a holiday, a menu from restaurant, a travel kit from an airline).

Control questions:

1. If you would be a marketer, what are your main functions would be? What marketing environment variables you could control?
2. The company has a management decision problem: how to attract more participants to music festival. Formulate the marketing research problem.
3. Let's suppose that you are selling ecological baby food, what level of segmentation would you use? How would you target and positioning to your consumers?
4. Use the demographic segmentation for iPhone costumers.
5. If you have a fast food restaurant business, how many marketing mix elements you would develop? Describe.

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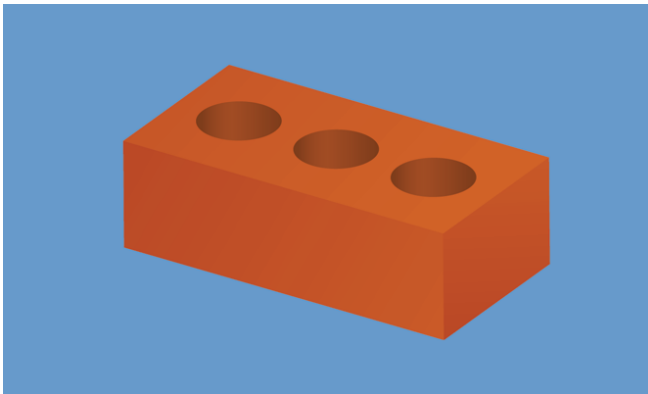
Marketing. Practical task.

State a problem you'd like to solve or an idea you'd like to develop by using SCAMPER technique that is used to spark your creativity and help you overcome any challenge you may be facing.

Condition for the task: pupils should have an idea of the product.

Step 1. Brain gym.

Look at the brick and write down as many as possible ways how to use this brick.



Time: 3 minutes.

Step 2. SCAMPER technique.

This technique can be used individually or in groups, but in groups it is more efficient.

Use the large sheet of paper and pens.

Write down the product in the middle. Using the information and helping questions in the table below, write down your new ideas regarding the product.

Present your new ideas.

Time: 1 hour.

SCAMPER element	Description and helping questions	Trigger words
S=SUBSTITUTE? What can you replace/substitute in your product?	<p><i>Think about replacing part of the problem, product or process with something else. By looking for replacements you can often come up with new ideas. You can change things, places, procedures, people, ideas, and even emotions.</i></p> <p>What will happen if you change your feelings or attitude toward this product?</p> <p>Can you use other materials or resources to improve the product?</p> <p>Can you replace or change any parts?</p> <p>What other product or process could you use?</p> <p>Can the rules be changed?</p> <p>Can you use other procedures and processes?</p> <p>Can you change its shape? Can you change its colour, roughness or smell?</p> <p>What if you change its name?</p> <p>Can you substitute one part to another?</p> <p>Can you use this idea in a different place?</p>	<p>alternate, colourize, exchange, fill in for, relieve, rename, repack, replace, reposition, reserve, shape, surrogate, swap, switch, take the place of</p>
C=COMBINE? How can you combine X product with Y product, what happens, if you joint these two ideas?	<p><i>Think about combining two or more parts of your problem to create a different product or process or to enhance their synergy. A great deal of creative thinking involves combining previously unrelated ideas, goods, or services to create something new.</i></p> <p>What would happen if you combined this product with another, to create something new?</p> <p>What ideas or parts can be combined?</p> <p>What could you combine to maximize the uses of this product?</p> <p>What materials can be combined?</p> <p>How could you combine talent and resources to create a new approach to this product?</p>	<p>amalgamate, become one, blend, bring together, come together, conjoin, fuse, join, link, merge, mingle, mix, package, relate, unite</p>
A=ADAPT? What can you adapt from other products? Or what happens if you adapt something?	<p><i>Think about adapting an existing idea to solve your problem. The solution of your problem is probably out there already. Bear in mind that all new ideas or inventions are borrowed to some degree.</i></p> <p>How could you adapt or readjust this product to serve another purpose or use?</p> <p>What else is the product like?</p> <p>Is there something similar to it, but in different context?</p> <p>Does the past offer any lessons with similar ideas?</p> <p>What could you copy, borrow or steal?</p> <p>What ideas could you incorporate?</p> <p>Who or what could you emulate to adapt this product?</p> <p>What other context could you put my product into?</p> <p>What other products or ideas could you use for inspiration?</p>	<p>acclimatize, adapt, adjust, alter, amend, become accustomed, bend, change, conform, contextualize, copy, emulate, familiarize, get used to, incorporate, make suitable, match, modify, readjust, refashion, revise, rework, settle in, transform, vary</p>

SCAMPER element	Description and helping questions	Trigger words
M=MODIFY=MAGNIFY? What features of your product can you emphasize/magnify/minify?	<i>Think about ways to magnify or exaggerate your idea. Magnifying your idea or parts of it may increase its perceived value or give you new insights about what components are most important.</i> How could you change the shape, look, or feel of your product? What could you add to modify this product? What could you emphasize or highlight to create more value? What element of this product could you strengthen to create something new? What can be made higher, larger or stronger?	amplify, augment, boost, enlarge, expand, extend, grow, heighten, increase, intensify, lengthen, make seem more important, multiply, overemphasize, overstress, raise, strengthen, stretch out
P=PUT TO OTHER USES? Where/how else can you use product?	<i>Think of how you might be able to put your current idea to other uses, or think of what you could reuse from somewhere else in order to solve your own problem. Many times, an idea only becomes great when applied differently than first imagined.</i> What else can this be used for? Can this be used by people other than those it was originally intended for? How would a child use it? An older person? How would people with different disabilities use this? Are there new ways to use this in its current shape or form? Are there other possible uses if it is modified? Can you use this idea in other markets or industries?	apply, avail yourself of, behave, benefit, bring into play, deplete, draw on, consume, employ, enjoy, exercise, exhaust, expend, handle, make use of, manage, manipulate, operate, reposition, source, spend, take advantage of, take pleasure in, tap, treat, use up, utilize, waste, wear out
E=ELIMINATE OR MINIFY? How can you simplify your product?	<i>Think of what might happen if you eliminated or minimized parts of your idea. Simplify, reduce or eliminate components. Through repeated trimming of ideas, objects, and processes, you can gradually narrow your challenge down to that part or function that is most important.</i> How could you streamline or simplify this product? What features, parts, or rules could you eliminate? What could you understate or tone down? How could you make it smaller, faster, lighter, or more fun? What would happen if you took away part of this product? What would you have in its place?	abolish, control, curb, destroy, disregard, do away with, eradicate, exclude, excrete, exterminate, get rid of, limit, liquidate, lower, moderate, modulate, pass, play down, purge, reduce, reject, remove, restraint, restrict, shorten, simplify, temper, throw out, tone down, under emphasize, waste, wipe out
R=REVERSE?=REARRANGE? Can you reverse your product?	<i>Think of what you would do if part of your problem, product or process worked in reverse or were done in a different order.</i> What would happen if you reversed this process or sequenced things differently? What if you try to do the exact opposite of what you are trying to do now? What components could you substitute to change the order of this product? What roles could you reverse or swap? How could you reorganize this product? What if we do step B before step A? What if we do both steps together?	adjourn, annul, back up, change the date, change, delay, drive backward, go backward, invalidate, invert, move backward, move, overturn, postpone, put off, withdraw, readjust, rearrange, relocate, render null and void, reorder, reorganize, repeal, reposition, reschedule, reshuffle, retreat, swap, switch, transpose, turn around, undo

8. BUSINESS ETHICS

8.1. Definitions and explanation of notions.

The word *ethics* (in Greek *ethos* means custom, habit, character) firstly was used by Aristotle in the 4th century. BC. He considered that ethics helps to understand what should be done and from what it is necessary to refrain. In modern comprehension ethics means the study of good and bad and their expressions through human actions and behaviour. Its objects of investigations are morality and virtue.

Morality develops from the necessity to limit one's egoism, one's selfish tendencies and to link them with totality: with society, some part of it, people or interests of humanity. If to think on the values of ethics, it humanizes people, makes them become better and more human. The easiest way to define the notion of entrepreneurship ethics is to merge basic notions of entrepreneurship and ethics. In accordance with them, entrepreneurship ethics is the study on good and bad, fair and unfair, true and false, freedom and responsibility, power in certain relations and situations that occur in entrepreneurship.

Ethics is the branch of philosophy that studies the essence of morality, individual responsibility in front of society and the nature of Universal Virtue. Ethics is the system of ideals, or it is a standard, towards which the norm of behaviour of evolutionary and socially organized humans – morality - tends. Ethics is the system of self-control. Ethics is the system of ideals that regulates human interrelations. Ethics is the practice that roots in religion. Ethics represents the limit of the achieved opportunities for every culture. (<http://www.philos.lv/definicijas.html>)

The Greek term *ethics* contains the original sphere of the best and the fullest life of an individual, as well as the communication and organization of social relations, including both moral obligations (morality) and its theoretical substantiation (ethics), and the character of real relations (habits, virtue). By this wider meaning, ethics is used as a synonym for both fields of morality and virtue. Secondly, in a narrower context, *ethics* refers to identity, individual cognition, thinking, action and self-perfection, leaving the denomination of morality to institutionalized and organized structures. Thirdly, the notion of *ethics* defines the philosophy and the theory of morality.

The notion morality, conversely to ethics, signifies normative and

institutionalized structures included in the professional codes and practical behaviour of organizations. However, in everyday usage, these expressions are used as codes referring to principles, norms, totality of values of ethics, and the notion morality is used concurrently to ethics. Sometimes morality is understood as social norms but ethics as the behaviour or totality of values of an individual. Finally, quite an archaic term *virtue* expresses both self-moral identity, the conjunctive element of which is the realization of virtues and values in choice and action, and the level of morality characteristic to a definite society.

Because ethics as a philosophic theory simultaneously participates in the creation and substantiation of moral obligation, both definitions – ethics and morality – may be used as synonyms.

Both the Greek word *ethics* and its Latin equivalent *morality* have historically defined and one and the same paradigm – the expression of virtue, habit, custom, character.

Ethics serves as a significant measure of evaluation in order to separate reasonable from unreasonable, meaningful from non-meaningful, right from wrong, good from bad, fair from unfair, false, deceptive and untruthful from true, real from unreal, valuable from invaluable, reliable from unreliable, etc.

8.2. Theoretical aspects of ethics

Theoretically, ethics forms and reproduces the network of paradigms and notions connected with morality – normative traditions, institutional mechanisms, customs, virtues, dispositions, values etc. Ethics deals with strategic substantiation of aims of morality and virtue, cognition and reflection on the basis of virtual experience that was especially emphasized by one of the most known theorists of ethics of the 20th century *Bernard Williams (1929-2003)*. More information: https://philosophynow.org/issues/42/Bernard_Williams_1929-2003

In reality ethics deals with the disposition of cognition towards the good, noble and rational. Ethics more or less seeks and replies in different ways to one and the same question defined as the question of Socrates - how to live better, how to take a more reasonable and cleverer decision and follow it.

Ethics is not the end in itself. Its main purpose is to improve, develop, transform, and change. Therefore, it is possible to conclude that its role historically and depending on the situation increases in accordance with a demand. For example, in crisis situations ethics is called upon more, and it develops faster, because



the process of seeking a way out becomes more intensive. Among the factors that have caused the crisis, usually the problems of morality are named, too. In crisis situations the demand for a moral attitude and orientation of common aims become intensive, and the morality actualizes in communication stimulating the development of ethics. There exists a metaphorical similarity with the health people think more about in case of illness. Also ethics is called up more in case of difficulties in life and relations.

Ethics forms a peculiar field of cooperation and social organization, which may be investigated in different aspects, acknowledging the impossibility to express the totality of paradigms and procedures by one, overall and satisfying everyone definition. Ethics describes a complicated and possibly the most essential feature of *Homo sapiens* – the ability to recognize oneself, interconnection with others, with community and organization, and to act accordingly.

In 1929, which cannot be regarded as nowadays any more, *Ludwig Wittgenstein (1889-1951)* in frames of “Lecture on Ethics” offered his variants of definitions of ethics: “Therefore, it is time to declare: “Ethics is the study on what is good” - I would say that ethics is the study on what is valuable or on what is really important, or also I could say that ethics is the study about the meaning of life or why is it valuable to live, or it is the study on the correct living. I am sure that analysing all these phrases you will be able to get an approximate idea on what does ethics deal with.” More information: https://philosophynow.org/issues/87/Ludwig_Wittgenstein_1889-1951

Ethics refers to the good self-control theory of individual actions and life. Ethics is the product of communicative action and functional guide/regulator. Ethical perspective is moral obligations and values that are formed by communication: the permanent exchange of thoughts, feelings, actions among the individual, organizations and community in speech, discussions, critical evaluation, substantiation of traditions, etc. This is communicatively established and acquired experience. The communicatively formed model of virtual thinking is transmitted by media, art, philosophy, religion, popular culture, etc.

8.3 Code of ethics and its essence

Code is the totality of morality, values and norms, formed with purpose in cognition and capacity to ask. It demonstrates the necessity of three types of interaction: with other people, organization, and community.

Status of morality in organization is a usual subject of dispute. Sometimes it is regarded as a law but sometimes as an individually respectful document. Code indicates the field of responsibility that is professionally significant but individually realized.

Code is not only the element of normative ethics and does not fulfil only the role of regulation. Firstly, the code implements a cognitive function. It includes norms and principles: elementary knowledge that allows people to produce a qualitative professional activity. Code is a cognitive document that summarizes the model of the desired, estimated and reliable ideal. Code offers knowledge on the professionally qualitative thinking, choice and action, therefore it may be referred to as advice in a professionally complicated situation when the choice should be done between opposite, different, often incompatible loyalties, when aids should match aims. Secondly, codes direct towards moral behaviour. Principles, norms, especially values, as it was mentioned before, inspire to change one's behaviour towards perfection. Codes represent a handbook on how to act better. A good code contains potential and often even existing problems paying attention to them and allowing to recognize them in order to avoid every day's evil that was mentioned before. Thirdly, the code forms the identity of organization in order to motivate to trust it. Simultaneously, the code defines roles and the quality of their implementation in the organization.

Code is a cultural document of organization with a regulative meaning that still differs from the codes of court and law in the sense of formalization and sanctions. Status of the code as of a normative document is not defined. It is not of legal character, but is still accepted and institutionally confirmed by the organization; however its normative power is kept in the situations when it is hard to separate the law and morality. It does not possess any legal formal strictness and sanctions, but still more and more motivates workers to request observation of the rules in order not to allow disloyalty in the organization, but to encourage and attest workers to be honest and fair, which is the basis of an individual's respect and organization's reputation. It is located quite between the law, socially moral and individually responsible order of actions.



Sometimes it is supposed that a document with no legal force regulates nothing and is not able to make somebody do or not do something, therefore it has a small effect, which is formal and regarded as an abstract artificial formation. This is a legalistic way of thinking. Code is a document of voluntary usage that organizes an individual as a member of organization. It appeals to the honour and responsibility of everyone by mobilizing a person's inner mental resources.

Theorist of ethics in media *Johan Retief* identifies the code as a moral compass directing towards action, totality of rules, while a moral responsibility on the chosen action is individual. Code serves for the three mentioned functions in complicated situations but only in case if it tends towards a more reliable action and respect and does not just demonstrate outside reputation. **More information:** Johan Retief Media Ethics: An Introduction to Responsible Journalism Paperback <https://cynebaldjagdishadd.firebaseio.com/media-ethics-an-introduction-to-responsible-journalism-by-johan-retief-2002-04-18-B01K0U9CMG.pdf>

Codes have represented the totality of elementary moral knowledge for a long time. Professional codes have been known since healer's Hippocratic oath texts. Codes had been created by professional philosophers: for example, Confucius is the creator of the official code in ancient China. Now almost each enterprise and institution has got their own ethical codes, that is also a totality of regulating norms and sign of fidelity – it confirms that liabilities of agreement are fulfilled. It motivates confidence and attests that an organization complies with integrity and justice. Code is the public resolution of individual responsibility.

Nobody lives hanging the ready moral code in their hands. Code of ethics sketch the professionally significant points of junction with purpose to follow the logic of social order where a hierarchy of some kind exist.

Morality of organization has got a tendency towards a partial institutionalization; therefore the code manages as an original instruction. Possibilities of information nowadays allow the codes to intensively multiply and spread in the public space. Possibly, this is not the most interesting material to read, and probably even not the most valuable, but also is not the most harmful and unreliable.

Norms are the language of codes. They define the desired and the socially needed aspects, as well as indicate the way to arrange things and relations. Norms are not a spontaneous invention to forcibly limit human's choice of action. They contain necessary limits based on experience and rational foresight of consequences. Therefore, the code contains dual norms: ones that forbid and limit and others that inspire, motivate towards a fuller decision taking and

action in order to get included into organization, community, society and develop oneself.

Codes contain both norms and values. Values are the rules of life that promote prosperity, sense, beauty: everything needed or a qualitative and safe life. They affect action by knowledge: codes, study literature, personal experience, and thinking.

Task. Think of two professions (e.g., teacher and career counsellor) and their ethical codes, to compare the norms and values concluded in them.

1. Role of ethics in entrepreneurship.

By which criteria is entrepreneurship evaluated? Entrepreneurship is evaluated in accordance with the concordance of its aims expressed or not expressed by the market participants. Currently, there is no such concordance in Latvia, and therefore there exist different and incompatible opinions on the ethics of entrepreneurship.

The notion of entrepreneurship includes all the relations an enterprise implement with individuals or organizations with purpose to make the activity of an enterprise possible. Ethics of entrepreneurship is the normative evaluation of such relations. Namely, ethics of entrepreneurship analyses whether certain relations of entrepreneurship are supportable or condemnable.

More information:

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7. <https://www.scu.edu/ethics/focus-areas/business-ethics/>
8. <https://www.scu.edu/ethics/focus-areas/business-ethics/resources/a-history-of-business-ethics/>
9. <http://www.dictionary.com/browse/business-ethics>
10. Show W. Business Ethics. – <http://trove.nla.gov.au/work/5655853>

Tasks:

1. Find ethical codes of two organizations and to compare their structure, norms and totality of values.
2. Using the example, create an ethical code for your school. http://delna.lv/wp-content/uploads/old_files/Etikas_kodex_060817_WWW.pdf

8.4. Ethics and marketing

Marketing from the viewpoint of social responsibility has been examined since 1970 analysing also the ethical part of sales. The notion of marketing social responsibility attracted both supporters and critics.

Developing the usage of the concept of marketing social responsibility in practice, many critical moral aspects stay not understood. Especially, the one on how to separate what is done in the interest of society and how to specify the lack of morality in the rationally instrumental process.

Social responsibility of an enterprise means comprehension of its influence towards society by planning marketing activities. Social responsibility is highly welcomed to be used in the spheres of economics, law and ethics. In its turn, business ethics is a story about right and good human action in some situation and is more referable to separate marketing directors, considering how the social responsibility is connected with the whole field of marketing activity and interests of the enterprise. Business ethics and social responsibility together form the concept of marketing social responsibility that again is limited by borders of how profitably makes the marketing director satisfy client wishes and needs, simultaneously realizing corporative aims.

<http://www.slideserve.com/kiele/korporativa-sociala-atbildiba-ka-marketing-instruments>

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9. INTELLECTUAL PROPERTY (IP)

“Property does not mean things but means thoughts. You may own things and at the same time not to be an owner” (Siddhartha (Buddha) Gautama)

9.1. Introduction and definition of notion

Mind inventions, literary and artistic works and symbols, as well as words, pictures and design used in entrepreneurship (WIPO) are regarded as the elements of intellectual property. Intellectual property consists of products, work or processes that you have created and which give you a competitive advantage. (Intellectual property rights) IP rights (IPR) give owners the opportunity to protect their creation. Intellectual property rights are key to stimulating innovation and creativity.

The first juridical document acknowledging the existence of intellectual property was the Declaration of Venetian Republic in 1474. In accordance with the declaration every citizen, who produced a device that had not been used in the country before got a privilege, in accordance with which others could produce the same device during next 10 years. The Declaration of Venetian Republic was the first time the term patent was mentioned. The importance of intellectual property was first recognized in the Paris Convention for the Protection of Industrial Property (1883) and the Berne Convention for the Protection of Literary and Artistic Works (1886). Both treaties are administered by the World Intellectual Property Organization (*What is Intellectual Property?*)

The World Intellectual Property Organization defines it thus: “Intellectual property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce.” Intellectual property is the totality of exclusive rights characteristic to the works of intellectual creation. Effective protection of intellectual property is necessary in order to make people, having created some inventions or work, for example, a song, a film, a painting or a computer programme, feel safe that they will be able to get compensation for work, devoted time and often also money needed for the work’s formation, for example, films and computer programmes.

Intellectual property is:

- Products created by the human brain
- A certain volume of systematized information (knowledge) that may be used in material objects simultaneously in unlimited number of exemplars in different parts of the world
- Property does not mean these objects but the information they reflect

9.2. IP forms

There are 3 subcategories of IP:

- **Industrial property:** inventions (patents), trademarks, industrial designs, new varieties of plants and geographic indications of origin
- **Artistic work protected by copyright:** original literary and artistic works, music, television broadcasting, software, databases, architectural designs, advertising creations and multimedia
- **Commercial strategies:** trade secrets, know-how, confidentiality agreements, or rapid production. Confidentiality, trade secrets, privacy, reputation and image rights can be associated with the creation of intellectual property, and may be referred to as ‘quasi intellectual property’

To protect intellectual property by means of the intellectual property rights (IPR) laid down by the World Intellectual Property Organisation (WIPO). The form of protection depends on the type of IP:

- **patents** allow you to stop third parties from making, using or selling your invention for a certain period depending on the type of invention
- **trademarks** protect the name of your product by preventing other business from selling a product under the same name
- **copyright** informs others that you (as the author) intend to control the production, distribution, display or performance of your work. Copyright is granted automatically, with no need for formal registration. You can start using the copyright symbol immediately.

Table 18. Categories of IP

Rights	To which purpose?	How?
Patents	New inventions	Application and investigation
Brands of good	Different identification of goods and services	Usage and/or registration
Registered examples of designs	Outside appearance of industrial or artisanal product	Registration
Copyrights	Original, creative or artistic (dramatic, musical, literary, photographic and others) authors' works	Automatically, since the moment of creation
Commercial secrets	Publicly unknown valued information	Prudently hidden events

Unprotected works: ideas and methods

PATENTS

Patents are exclusive, state monopoly guaranteed rights to an invention in a certain period of time. A patent is a type of the intellectual property that protects products of technical creation providing its exclusivity at a market that allows getting a maximum benefit of its usage. Patent is granted to the person who first submitted for it in concordance with a certain invention and not to the person who invented or discovered it. The owner of a patent is rightful to forbid other people to use an invention protected by the patent, to sell the patent or to delegate the license (allowance to use), as well as is able to independently set the price for each of the mentioned actions.

Patented inventions have pervaded every aspect of human life, from electric lighting (patents held by Edison and Swan) to the iPhone (patents held by Apple). The first step in securing a patent is to file a patent application. The application generally contains the title of the invention, as well as an indication of its technical field: bibliographic information, descriptions of invention (paintings), claims, and abstracts.

The aim of patent is the following:

- To guarantee terminated monopoly rights to a novelty used in industry
- To make an invention known in society
- Information of invention signals about the potential of investments

A patent is the totality of exclusive rights that, for the invention's publication, for a certain period of time, is provided to inventor or to their legal assignee by any sovereign country. A patent for an invention should be requested at a special institution (in Latvia – at the Patent Office), where it is verified whether the patent has not been registered before. Patent proved rights to its owner to forbid others to produce, use or sell an invention in the territory of certain country.

Any person wishing to use an invention in business when the invention is protected by a patent should ask for an allowance (license) to the patent owner and to potentially pay to him the license cost. If a patent stays in force and the maintenance costs are regularly paid, exclusive rights of the owner of a patent to commercially use an invention are valid for 20 years from the date of submitting an application.

Trade mark

So, the creation and development of a trade mark is an integral part of each new business. The development of the trade mark is an important component of each new business because it makes the business image of product and merchant. The trade mark solves the most essential problem of a product: it is impossible not only to identify anonymous products, but also to add them to an additional experience and to repeatedly purchase them.

TM A trademark is the label used for distinguishing goods and services of some enterprise from the goods and services of other enterprises. Its main function is to guarantee the identity of a product's commercial origin in comprehension by customers.








The following trademarks are valid in Latvia:






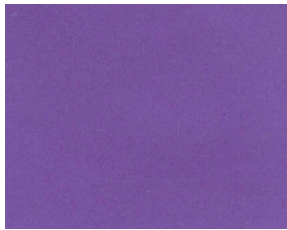

- National trade marks
- Internationally registered trade marks
- Community trade marks



Registration of trademarks provides to an enterprise the rights of a trade mark, which means the right to forbid use of any identical trade mark or of similar design in compliance with identical or similar goods to other people in business. A trade mark is valid in the territory of a certain country. In Latvia trademarks registered here are protected, but if the manufacturer of a service provider wants to register a trade mark in another country, it will be protected by the law of that country only. Trademarks are registered for 10 years with that opportunity to prologue the registration indefinitely. Already registered in Latvia or even submitted for registration trademarks may be registered also internationally and get protected in certain countries. The trade mark is protected only in the country where it was registered. Registration of the trade mark is not obligatory, however it is harder to argue the fact of its identity or similarity without it.

Trade marks may be:

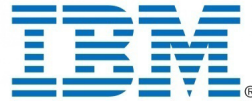
 Wordily trade mark	 Graphic trade mark	 Three dimensional trade mark
Consists of letters, words, also of person's names, surnames, of numbers; also the advertisement slogan may be protected as a trade mark	Image, painting, graphic, special writing or colour, logo symbol, colour tone, colour composition, label	Designed using three dimensional forms, volume of space, goods or its form of package,
<i>Philips, Coca-Cola, Sony, Ford, Peugeot, LG - Life's good, Nokia Connecting People); i'm lovin' it (McDonald's Corporation slogan)</i>	  	For example, the product itself or its package. 

 Combined trade marks	 Colours as a trade mark	 Unordinary or special trade mark
Consists of the mentioned before combinations (label and others)	Colours as such are used in trademarks just to register real colour and therefore to define goods and services.	Sound or light signals, smell, hologram, animation), etc.
 	 Kraft Foods  Baltic Taxi	A popular fragment of a melody or specially composed melody is used, that becomes a characteristic recognition element of an enterprise. A classical example is the musical accompaniment of Nescafe advertisement. Examples of sound trademarks are also the introductory melodies of TV programmes (Panorāma, В Мире животных), original radio melodies ("Auto"), ring tones of mobile phones (Samsung).

More about EUIPO http://www.wipo.int/edocs/pubdocs/en/intproperty/450/wipo_pub_450.pdf Publication n°450(E).



The owner of a trade mark has got the right to put a circled letter R or text beside the registered trade mark that warns about the trade mark's registration.



A **collective mark** is trade mark or service mark used by manufacture, trade or service enterprise communities, associations or similar organisations for identification of goods or services. For example, Latvian Associations of Accountants aim is to protect professional interests of members, as well as to motivate the development of creative skills and business features.

Specification mark is a mark that defines that the product is characterized by special features or corresponds to certain quality requirements. Famous certification marks include WOOLMARK which certifies that the goods on which it is used are made of 100% wool.

Choice (development) of trademarks is a very important component of each new business. Specialists say that before choosing a trade mark, it is necessary to investigate market situation and whether a similar trade mark has not been registered or submitted for registration by any other person. Also it is obligatory to check whether the trade mark is easily readable, writeable, pronounceable and is easy to remember, or the trade mark does not call negative associations, is not misleading, describing or immoral (in frames of requirements for registration). A trade mark must not have negative associations potential export countries, and it is important to define whether the according domain is free: the highest domain registrar for the ".lv" zone (<http://www.nic.lv/>) To read more: *Creating or Selecting a Trademark*. World Intellectual Property Organization (WIPO) http://www.wipo.int/sme/en/ip_business/marks/tm_creation.htm. The domain itself is not the object of copyrights. The right to use a domain is a service that is provided to the user of domain for the chosen and paid period of time. For example, do not register a trademark with no significant difference from the service provided, for example mini, extra or BIO.



Advantages or registration trademarks:

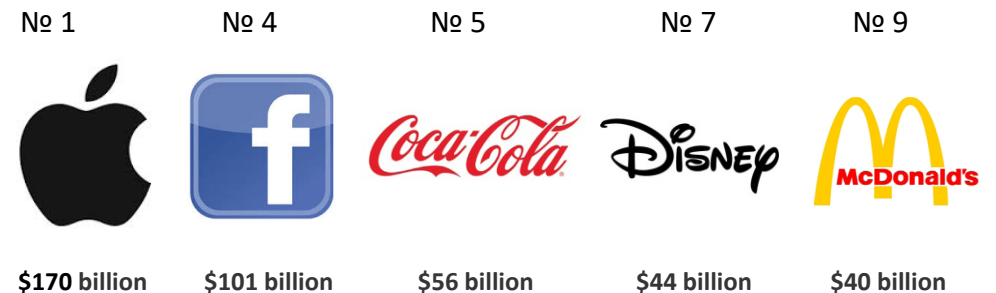
- Defines the rights of an enterprise.
- Protects the values of brand.
- Forms fixed assets. It may create an active part of an enterprise and be a basis for acquiring finances (may be used as deposit).
- Protects against competitor trademarks. Marketing tool and a basis for developing an enterprise image and good reputation.
- Prevention of fraud and deception.
- May be transferred to another person for usage on the basis of licence, franchise or other agreements, getting profit from it, may be given as a gift or heritage.

Trade mark, also *brand* is the image of product or enterprise. It may be represented by a word, picture, sign, symbol, design or all these elements together, that differs a certain product from other enterprises and competitors.

The „Latvian trade mark 2016” award was given to the international competitive art centre, State LLC Latvian National Opera and Ballet for the created by artist Gunārs Lūsis trade mark “Latvian National Opera and Ballet” (M 69 682)



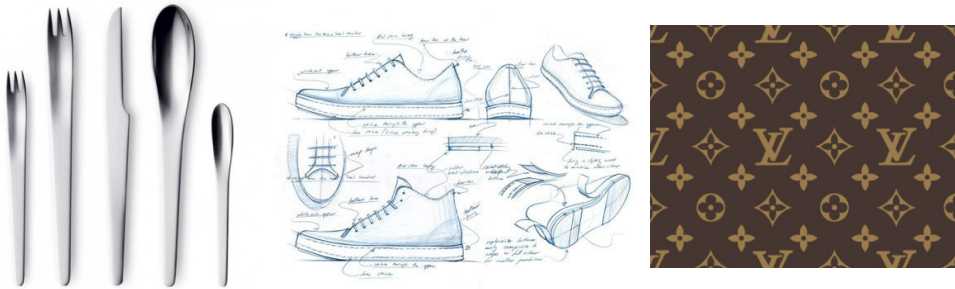
Examples of the most valuable intellectual properties/The World's Most Valuable Brands:



Source: Powerful brands

Design examples

Design example is the appearance of a product or its part that was created on the basis of features of the product itself and/ or its decoration (ornament), especially the peculiar features of lines, shape, form, structure of surface and material used. Design example may be represented both by dimensional and flat product (graphics of package, image of animation films and video games, design of a web page). Regulations of design example, clause 3. There exist two features of design examples: **visual attraction** and manufactured and **artificial application**.



Design example is a practical way to define and protect one's innovation. Design example is a value of an enterprise that may be sold or used as a provision. It pays your creative efforts and may be identified as your intellectual property signature.

GEOGRAPHICAL INDICATIONS (GIs)

Geographical indications and appellations of origin are signs used on goods that have a specific geographical origin and possess qualities, a reputation or characteristics that are essentially attributable to that place of origin. Most commonly, a geographical indication includes the name of the place of origin of the goods. An appellation of origin is a special kind of geographical indication used on products that have a specific quality exclusively or essentially due to the geographical environment (such as climate and soil) in which the products are produced. Whether a sign functions as a geographical indication is a matter of national law and consumer perception. Geographical indications are typically used for agricultural products, foodstuffs, wine and spirit drinks, handicrafts, and industrial products. A geographical indication right enables those who have the right to use the indication to prevent its use by a third party whose product does not conform to the applicable standards. The right to use a

protected geographical indication belongs to producers in the geographical area defined, who comply with the specific conditions of production for the product. Geographical indications (GIs) identify a good as originating from a particular place. By contrast, a trademark identifies a good or service as originating from a particular *company*.



Copyrights

Copyrights (*Copyright*) are the rights defined in 1952 by *Universal Copyright Convention – UCC* that determine special rights to publish, reproduce and expand the works of literature, music, art, etc. Copyrights are the totality of norms regulating relationships between the authors of works of science, art, literature or other intellectual property, and other people or organisations in the sense of creation and application of works. In contradiction to the confirmation process of other industrial property rights, for example, patents copyrights do not require any special registration, processing or other formalities.



Copyrights belong to the author of a work (book, song or intellectual work) from the moment of its creation. Created work is protected from the moment of its formation even if it is not finished yet. Any created work is protected without consideration of its value (price) or aim of formation. Also the form of work is not important: it may be any painting, written by hands or a computer typed article.

In order to confirm that the certain work was created by him/her, its author uses the symbol of protection of copyrights, which is a circled letter C ©, the author's name and the year of first publication.

In order to demonstrate the work or to allow others to use it, the author issues a **licence**. A licence means an allowance to use a certain work. The licence should include information on how long and in accordance with which rules the work



may be used. **Licence** is the allowance to use work in the aspect of copyrights and in accordance to the rules indicated in the licence. Copyrights belong to the author; the holder of a licence (user) gets only the allowance to use the work. **The author's fee** is a fee or compensation of any kind for the usage of protected work. In Latvia copyrights are valid for 70 years after the author's death, but in other countries this period may differ.

In Latvia the following works are protected by copyrights:

- literary works - books, brochures, speeches, computer programmes, lectures, sermons, etc.
- dramatic and musically dramatic works, scripts, literary projects of audio and visual works
 - choreographic works and pantomime
 - musical works with texts or without it
 - audio and visual works
 - pictures, paintings, sculpture and graphic works and other works of art
 - works of applied art, decorations and scenography works
 - design
 - photographs and works done similarly to photographs
- sketches of buildings, constructions, architecture works, warps, projects, solutions of buildings and constructions, other architecture creations, city construction works and garden and parks projects and solutions, as well as fully or partially built buildings and realized objects of city construction or landscape
 - geographical maps, plans, sketches, plastic works that are connected with geography, topography and other sciences and other works of copyrights

Confidential information - (commercial secrets, know-how)

Open innovation is a catalyst for new ideas which meet the needs of consumers and tackle societal challenges, and allows those ideas to find their way to the market. Such innovation is an important lever for the creation of new knowledge, and underpins the emergence of new and innovative business models based on the use of co-created knowledge. Innovative businesses are increasingly exposed to dishonest practices aimed at misappropriating trade secrets, such as theft, unauthorised copying, economic espionage or the breach of confidentiality requirements. Trade secrets have an important role in protecting the exchange

of knowledge between businesses and research institutions. Trade secrets are one of the most commonly used forms of protection of intellectual creation and innovative know-how by businesses.

Not all information held by businessmen may be protected by regulations of intellectual property, however part of this information is vitally important for the businessman's success, for example, information about clients and suppliers, business plans, strategies and results of market analysis. 'Trade secret' means information which meets all of the following requirements: (a) it is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to people within the circles that normally deal with the kind of information in question; (b) it has commercial value because it is secret; (c) it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret. (EU directive 2016 and part 1 of clause 19 of Commercial law)

A commercial secret is private information that allows its owner, in accordance with current or possible circumstances, to increase incomes or to escape non-obligatory costs, to keep the market position or to obtain commercial benefit.

In order to use the rights regarded by normative acts and the protection of commercial secrets, businessmen need to implement technical and organisation steps identifying the commercial secret, protecting it, as well as to record the process.

Know-how are any pieces of news (manufacturing, technical, economic, organisational, etc.), including news about the results connected with intellectual activity in the sphere of science and technology, as well as information about the methods of realization of professional activity, that is of real or potential value, as this information is not known by third parties and stays unavailable to them.

INTELLECTUAL PROPERTY RIGHTS (IPRs).

IPRs allow creators, or owners, of patents, trademarks or copyrighted works to benefit from their own work or investment in a creation. These rights are outlined in Article 27 of the Universal Declaration of Human Rights, which provides for the right to benefit from the protection of moral and material interests resulting from authorship of scientific, literary or artistic productions.

Table 19. Types of rights



Registered rights	Non-registered rights
Patents	Copyrights
Trade marks	Commercial secrets(know-how)
Design examples	Protection against unfair competition

Without the rewards provided by the patent system, researchers and inventors would have little incentive to continue producing better and more efficient products for consumers

Notwithstanding intellectual property rights regulation by different normative acts of member countries, they are also included in the EU normative acts. IPRs are still chiefly protected by national rather than EU laws.

Laws regulating separate IPRs:

Patents: [Law of patents](#), [Law on industrial property institutions and procedures](#), regulations of the Cabinet of Ministers No.224 “[Patents and regulations of patents application](#)”, regulations of the Cabinet of Ministers No.732 “[Service price list of industrial property appellation council](#)”, regulations of the Cabinet of Ministers No.719 “[Order in which the registration or post-registration procedures, submission of documents should be implemented to Patent Office](#)”, Standard of World Intellectual Property Organization ST.25 “[Reflection of list of sequences of nucleotide and amino acids in patent applications](#)”. Available: Web page of Latvian Patent Office <https://www.lrpv.gov.lv/lv/izgudrojumi/normativie-akti> or www.likumi.lv

Copyrights: **Law of copyrights** (available: www.likumi.lv) un **Agreement by World Intellectual Property Organisation (WIPO) on copyrights**. International agreements, for example: Berne Convention, accepted on 09/09/1886, available: <https://likumi.lv/ta/en/lv/starptautiskie-likumi/id/5->

WIPO (World Intellectual Property Organisation) Agreement on copyrights, accepted at a diplomatic conference on 20/12/1996 in Geneva, available: <https://likumi.lv/doc.php?id=1334>; Normative acts of European Union - directives https://europa.eu/european-union/eu-law/legal-acts_en.

Trade marks: Law “On trade marks and indications of geographical origin”, [Law on industrial property institutions and procedures](#), Regulations of the Cabinet of Ministers No.228 “[Regulations of form examples of procedure for trade mark registration](#)”, Regulations of the Cabinet of Ministers No.732 “[Service price list of industrial property appellation council](#)”, Regulations of the Cabinet of

Ministers No.719 “[Order in which the registration or post-registration procedures, submission of documents should be implemented to Patent Office](#)”. Available: Web page of Latvian Patent office <https://www.lrpv.gov.lv/lv/izgudrojumi/normativie-akti> or www.likumi.lv

Registered design examples: [Law on design examples](#), [Law on industrial property institutions and procedures](#), Regulations of the Cabinet of Ministers No.764 “[Regulations of form examples of procedure for design example registration](#)”, Regulations of the Cabinet of Ministers No.732 “[Service price list of industrial property appellation council](#)”, Regulations of the Cabinet of Ministers No.719 “[Order in which the registration or post-registration procedures, submission of documents should be implemented to Patent Office](#)”

One of violations of copyrights is plagiarism. The meaning of the word plagiarism is defined by Roman rights and is translated from Latin as *plagio* - to steal and *plagium litterarium* - a theft of literary property.

Fraud (fraudulent fake of a trademark. / **Counterfeiting** (unauthorised imitation of a branded good).

Piracy is illegal activity with works of copyrights, which is fixation, publication, reproduction and distribution of works in any way without the allowance to investigate, publication or usage of works and not paying compensation.

Plagiarism is an intentional full or partial approbation of other works or ideas, giving it as your own or not indicating a real author. Plagiarism may be also a work with insignificant changes of content or form (e.g. change of personal names in novel) or a work put in another context. Plagiarism should not be mixed with free application of ideas, archetypes or methods of creation of the original work. If a protected work is plagiarized, that is a violation of copyrights.

Depending on the law in the EU country in question and the source of counterfeit goods, the authorities to turn to are these: customs, market surveillance (trading standards), the police or the patent and trade mark offices.



Practical tasks.

Analysis of situations.

Make a comparative analysis of 10 top brands of Baltic countries:

1. Which brands are in the list of topical TOP 10. What are the differences in LV, LT and EE environment. What causes these differences?
2. What kind of trademarks are included in TOP 10 (spheres, size of enterprise, representatives)?
3. Which trademarks are the most popular: wordily, combined, etc.? Please, think why is the trade mark so famous, is it influenced by visual aspects?

Examples of sources:

1. Interactive tool for brand analysis <https://www.zimolutops.lv/ietekmigakie-zimoli/iesaiste/zimoli/>
2. Powerful brands <https://www.forbes.com/powerful-brands/list/#tab:rank>
3. Best Global Brands 2016 Rankings <http://interbrand.com/best-brands/best-global-brands/2016/ranking/>

Homework for the group

Find 5 popular/known designs of brands (design examples) and to describe their application. Please, think why the trade mark is so famous - is it influenced by visual aspects?

Discussion: Trademarks that became the product's title



VS copying device



In 1947 Xerox Corporation purchased a patent for a manufacturing copier that was invented by Chester Carlson. It was decided to name the device as Xerox that includes also the title of the copying process itself or Greek word xerocopy. Devices manufactured by Xerox Company were significantly better than others and that was the cause of liquidating them from the market. Because of the dominating position of the enterprise at the market, devices were named similarly to the brand.



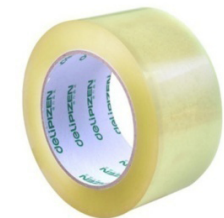
VS



In 1960 in Japan the brand *Flo-master* appeared in the market and presented what we all now call markers.



VS



The word scotch came from English Scotch tape that is the trade mark of 3M Corporation. Actually only tapes made by 3M may be named scotch because it is the enterprise's brand.



VS



A thermos or Dewar vessel that is for heat isolation of food is the Thermos GmbH trade mark Hermetic GmbH. In many countries the name of the product lost the status of a trade mark.

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16. European Patent office e-learning centre. Business use of patent information.

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10. SOCIALLY RESPONSIBLE BUSINESS

10.1. Introduction and explanation of notion

Social responsible business or it is also called corporate social responsibility.

Corporate social responsibility (CSR) as a notion was re-evaluated in the EU political everyday life simultaneously with the necessity to strengthen the EU competitiveness by forming a smart, sustainable and incorporative economics, responding in such a way to the challenges caused by globalization indexes. Nevertheless, beforehand the corporate social responsibility has not got a wide support among entrepreneurs.

Globally, the notion corporate social responsibility had been created as a word, that means an enterprise with no need of weight and motivation factors. Respectively, the word occurred first and it is more demanding (Responsibility towards what? Towards society or its part? Corrupt government? Owners? Local environment?). Thinking on the investments of CSR, an enterprise connects it with taxes, which are additional and even not obligatory! Such results of general resistance of enterprises complying with challenges of CSR are observable all over the world (e.g., UNDP and other initiatives), therefore it is possible to conclude that the business leaders do not have a very positive concept on this notion in all languages.

We should agree with the recently used thesis that the word came first (and then word's embodiment itself), and therefore let's rename CSR to a corporate social *know-how* or knowledge. Finnish colleagues did the same at *University of Turku Applied Sciences* that was a grand EC project on Responsible Business, when represented it as *Environmental Know-how for Companies* or environmental knowledge for enterprises. Now the project is actively attended by a large amount of enterprises (yes, even including China!). Enterprises are used to invest in knowledge. As the precondition of innovation it may improve the competitiveness of an enterprise in the future. Nowadays nobody contests on investments in knowledge.

Theorists and practitioners of CSR notice the way CSR transforms from just an almost invisible component of an enterprise into the enterprise's risk management (the analogues could be: the one who buys cheaper pays twice, so it is better

to pay more in order to get a better quality product (e.g. investing into studies of the subcontract's staff)), and even further towards social entrepreneurship that is a new way of business thinking, which considers that the unsettling of borders existed in society before, and understanding this new CSR type as an innovation in the sphere of corporate society, dictated by a demand and forming new business directions and ways of development.

For corporate social knowledge it is typical demonstrate and not consume, and each enterprise (and each consultant) demonstrates it on the basis of the real-place-and-time analysis. Such knowledge is characteristic of the age of post-modernism. There are no teachers, there is a demand, and knowledge should be demonstrated. Similarly the notion of innovation works. Nobody in an enterprise is able to predict the way a million dollars innovative development should be produced. It is possible just to suggest methods and directions having helped others to gain the results.

The following question does not work with the main challenges for the CSR development in an enterprise any more: why should I do that? It is rather a comprehension on how to examine the enterprise's activity in a holistic way, how to optimize its processes taking into consideration different influencing factors, to find a way to balance the enterprise's activity. In the moment of culmination CSR calls to look at a whole image in order to make a puzzle nicely composed, and to form a clear picture instead of disseminating small pieces chaotically in frames of the enterprise. Innovation caused by innovation itself is silly, investments into knowledge without knowing how to act further leads to wasted time and money, therefore even the smallest and least important decision in the enterprise forms an important part of the whole image, and it is good for the enterprise to see this image, but even better to be able to form it in the way other participants of global market would like.

Let's clarify the notion of responsibility. It refers to **the category of ethics and rights, that reflects a special social and moral legal attitude of personality towards society (people in total), and is characterized by person's fulfilment of moral duties and observance of law.**

CSR is a concept, with the help of which enterprises voluntarily integrate social and environmental aspects into their activity, as well as into the target society. (Directorate-General of European Commission)

CSR is a good business practice, which demonstrates values and principles of an enterprise, as well as shows that an enterprise has voluntarily included social, environment and human values into their everyday activity and relationships



with workers, clients, partners and local society. (A. Pētersons, L. Pavāre. Corporate social responsibility)

CSR is the acquisition of commercial goals with respect to ethical values, people and environment. (Business for Social Responsibility)

CSR is the method to solve social problems, that directly or indirectly have been caused during the activity of corporation itself. (H. Fitčs)

*If an enterprise is socially responsible, then CSR politics and practice connect all its business activities and the decision making process. Included in CSR aspects may vary from enterprise to enterprise and their spheres, however main aspects are the following: **business ethics, support to society, environment, management, human rights, market and workplace.***

- definition by www.ziedot.lv:

Corporate social responsibility is a good business practice, that demonstrates values and principles of an enterprise, as well as shows that an enterprise has voluntarily included social, environment and human values into their everyday activity and relationships with workers, clients, partners and local society. Social responsibility also includes investments into the development of local society that are reflected also in the corporate philanthropic strategy of an enterprise.

- definition by www.skrivanek.com:

To make it easier, corporate social responsibility is a value system, that is voluntarily chosen and developed by an individual or an enterprise with the purpose to help themselves, other people and environment, as well as to improve their own and other's competences and knowledge.

Practical task for thinking.

How can each of us be socially responsible?

- Going to work by public transport (e.g., one trolley and 40 cars may transport an equal amount of people) or, even better, by bicycle!
- Saving electricity.
- Saving paper by printing on both sides of sheets and by not printing at all if possible.
- Sorting waste and, of course, not polluting nature.

- Donating through the portal www.ziedot.lv – an easy process of donation, the size is not important at all. This is a very simple way to help others in difficult times. It is also possible to participate in other donation projects or to develop one's own!

- Using hot water less, as well as saving cold water.
- Planting a tree or even a whole forest.
- Behaving with respect towards each other.
- Remembering that we didn't inherit the Earth but borrowed it from our children.
- And how do you do it?

10.2. Historical page

Timely introduction of production philosophy (*JIT-just-in-time*) changed both the way of thinking and acting of an enterprise. In the eighties an enterprise, having obtained JIT, could get the benefits of competition. Until the nineties it meant just to hang together with others.

In the nineties enterprises were able to get the benefits in competition by applying the process of management, however now the enterprises acquiring this management model try just to catch up to others.

Similarly, it works with all new ideas and is referable to CSR, too. If an enterprise supports the introduction of corporate social responsibility significantly better than others, and informs society about it. Then it, even implementing only this activity, is able to get benefits in competition nowadays, too. The corporate social responsibility unfalteringly will become a new standard, which is to be acquired in order to be able to compete at all, until the next decade.

CSR makes an enterprise review its activity and business processes, and may stimulate new ideas, the improvement of competences, more effective usage of resources, even the decrease of costs (e.g. decrease of energy consumption by recycling). Realization of a CSR programme promotes a more motivated working atmosphere at the enterprise, cutting down the number of absences and illnesses. Support for the local society and ecology in total makes a favourable working environment at the enterprise. CSR increases the identification of the enterprise and makes to think about the long-term goals.



Having analysed the enterprise's activity from the CSR point of view and acting accordingly it is possible to:

- find new products and markets
- increase the effectiveness and quality of work
- improve the reputation and image of the enterprise in society
- attract and retain motivated staff
- make the enterprise attractive for investors

Corporate social responsibility (CSR) has developed as a good business practice and an organized movement since the 1990s and now gets more and more support not only among entrepreneurs but also consumers who choose service provided by the enterprises of high reputation, which comply with the generally recognized ethical principles every day. Competitiveness and productivity of the enterprises is not implementable without involvement into international and global processes, therefore during last 10 years CSR has become a component of the strategies of the enterprises.

CSR is a question mentioned more and more actively in the speeches of Latvian entrepreneurs as well. However, according to the last research on reputation and CSR in Latvia inform that there is a small amount of enterprises, state institutions and representatives of society who comprehend the essence of CSR and support its ways of expression.

Most often opinions expressed by different people and in different situations contain also different ideas. With help of CSR it is possible to comprehend both voluntary initiatives of private structures and the opportunities of the enterprises to improve socially economic circumstances for their workers. The international Organisation of Employers (IOE) explains CSR as voluntary business initiatives that favourably affect social circumstances of society, state economy and environment.

10.3. Legal aspects

CSR programmes submitted beyond the rules of normative acts may be implemented by an enterprise itself, as well as in cooperation with target interested groups, especially with clients, suppliers and consumers.

However, corporate social responsibility refers not only to the labour market or labour rights. It is not a model of classical social dialogue as well, but still it

motivates society and entrepreneurs to lead social responsible entrepreneurship, and to participate in the provision of work and life circumstances both as a worker and as a part of the society.

Compliance of CSR at a global level is affected by the following two factors:

1) demand for an arranged structure of an enterprise and social responsible business environment, for clear principles and good reputation, for becoming a supplier to foreign companies or their partners;

2) necessity to get into global market and to become an equal participant there, offering qualitative and responsible services and products corresponding to the principles of entrepreneurship.

Entrepreneurship is a driving force for the development of society and is the index of its prosperity. Such comprehension of role of business makes the basis for debates at the level of European Union and international level about the voluntary or obligatory implementing of CSR at an enterprise. Indisputably, tendencies of global development made the activities of the contemporary business international network more visible as it directly affects the state economy, social stability and environment sustainability. Taking into consideration this influence, entrepreneurs, similarly presenting the best principles of corporate management (management of an enterprise and financial politics) to their investors and stockholders, demonstrate their attitude towards the society in frames of the CSR programme.

The role of the government is to create and implement laws providing and sustaining a stable and predictable political and social progress. The responsibility of government is to invest in education and social prosperity of its population in order to provide corresponding circumstances for the business development and competitiveness. Enterprises are able to implement support programmes and demonstrate definite social standards in their activity with the purpose to motivate other enterprises to do the same.

Entrepreneurs may use several support points for starting CSR:

Intergovernmental initiatives: Global compact of Organisation of United Nations (UN), which is popularized in Latvia by Latvian Employers' Confederation, motivates enterprises to ratify and inform society about the compliance with human and labour rights, basic principles of environmental protection and anti-corruption; the entrepreneurs are called to comply with the Three-sided declaration of the International Labour Organisation (ILO) on the principles affecting multinational companies and social politics; Guidelines by the



Organisation for Economic Cooperation and Development (OECD) for multinational companies on the compliance with a voluntary principle and standards in business management - employment, industrial relations, human rights, environment, and publicity of information.

Global compact of UN and corporative social responsibility

Global compact is an initiative of organisation of United Nations (UN), which consists of ten principles forcing social responsibility of enterprises that motivates enterprises to comply with human rights and labour circumstances, to protect environment and to turn against corruption. In 1999 in order to create a united comprehension of and attitude towards corporate social responsibility there occurred the need for common activities and global movement, the initiator of which the general secretary of UN Kofi Annan had become and a new general secretary (*Ban Ki-moon*) has successfully continued.

Currently, several hundreds of enterprises of different size and sphere from all over the world have united for the Global compact movement. Joining up for the Global compact movement enterprises undertake to consider the interest of their staff, clients, cooperation partners and society in total, stimulating by this the development of business environment and society in their region and all over the world.

The Global compact is a voluntary movement with no legally binding. The Global compact calls enterprises to develop practices of good management and social responsible activity, as well as to stimulate the highest standards of business practice in their country or globally, forming in such a way the arranged and ethical business environment by learning from each other and promoting the development of the society.

In order to start implementing the ten principles of the Global compact, enterprises are invited to cooperate with the UN agencies, trade unions and non-governmental organisations that deal with the aspects of human rights, labour rights, environment protection and anti-corruption.

10 principles of the UN Global compact movement:

Principles related to human rights:

1. Entrepreneurs should support and respect the internationally proclaimed human rights.

2. Enterprise should not be complicit in human rights abuses.

Principles related to labour rights:

3. Enterprises should uphold the freedom of association, as well as support the rights of workers for collective bargaining.

4. Entrepreneurs are not allowed to use a forced labour.

5. Entrepreneurs are not allowed to use a child labour.

6. Elimination of discrimination in respect of employment at an enterprise.

Principles related to environment:

7. Enterprises should take care of environment.

8. Enterprises should undertake responsibility for environment.

9. Enterprises should encourage the development and usage of environmentally friendly technologies.

Principles against business corruption and bribery:

10. Enterprises should work against corruption in all its forms, including extortion and bribery.

More about the Global compact movement in Latvia here: www.globalcompact.lv.

More about the Global compact movement in the world here: www.globalcompact.org.

The UN Global compact movement in Latvia

Since 2001 the Global compact movement has started to work also in Latvia, and many enterprises have joined it up. In 2005 Latvian Employers' Confederation became the UN initiative's coordinator having attracted such enterprises as AS Aldaris, AS Diena, AS Grindex, SIA Komin, SIA Lattelecom, SIA Lietišķās informācijas dienests, SIA Miesassargu aģentūra, AS Nordea, privātskola Patnis, SIA SiļJa, SIA Zygon Baltic Consulting, SIA Valodu mācību centrs, Biznesa augstskola Turība un SIA Constructus.

PLATFORM OF CORPORATIVE SOCIAL RESPONSIBILITY

CSR platform is the main forum of CSR experts. Its main task is to facilitate the experts' experience exchange and to stimulate the formation of the consolidated CSR position among employers, referring to the CSR memorandum, as well as to provide recommendations to organisations of public sector analysing good



practices of the CSR enterprises. The CSR platform provides the introduction of the CSR politics at the local, regional, national and international level.

Memorandum explains the definition of corporate social responsibility, its principles, describes the main target audience of an enterprise, defines further challenges in the sphere of CSR for Latvian society. For example, to increase the number of enterprises, that inform about their good practice at the national level by using a Sustainability index of an enterprise or by joining up, for example, the UN Global compact movement in order to confirm enterprise's sustainability.

On 10/02/2010, 22 organisations representing public, private and non-governmental sectors signed a Memorandum on the principles of corporate social responsibility.

The Latvian Employers' Confederation

Free Trade Union Confederation of Latvia

The Committee on Economy, Agriculture, Environment and Regional Politics of Saema

The Ministry of Economics

The Ministry of Environment

The Ministry of Regional Development and Local Government

State Labour Inspection

The Latvian Corruption Prevention Bureau's

The Latvian Association of Local and Regional Governments

World Nature Foundation

Society for Transparency Delna

Latvian National Quality Association

Latvian Association of Personnel Management

Latvian Advertising Association

Latvian Public Relations Association

Latvian Association of Press Publishers

Latvian Association of Waste Management Companies

Latvian Association of Power Engineers and Energy Constructors

Latvian Association of Gaming Business

Latvian Rectors' Council

The Professional Cleaning and Facility Management Association of Latvia
Partners in Ideas Fund

CSR principles in Latvia

Observation of normative acts, fulfilment of requirements regulating legal business environment – tax, labour rights, environment protection, human rights and other requirements.

- **Formation of corresponding work places** by investing into the development of production, service and human resources.
- **Offering products and service of good quality** in accordance with client needs.
- **Integrated and mutually coordinated relationships with a target audience.**
- **Effective business management** demonstrating the added economic value and affecting audience and society in a positive way by improvement of national competitiveness.
- **Elaboration of general and individual business ethics** and requirements of society by business practice.
- **Participation in social dialogue at the level of one field, region or state**, which is implemented together with an union of workers, organisation of employers, social partners, and in cooperation with state and municipal institutions.
- **Promotion of development of civil society** by implementing projects in partnership with the target audience.

- **Cutting down on and extermination of corruption risks** by elaborating common standards of business ethics at the level of one field, as well as its practical application.

Sustainable index of an enterprise – it evaluates real enterprise activities and communicational transparency with a different target audience. The principle of the index emphasizes enterprise progress instead of its competition with others. The elaborated index includes the five most significant factors of responsible business: Labour environment, Environment, Society, Market relationships, and Strategy.

Application: www.ilgtspejasindekss.lv from March 1st each year. Courses for the index participants explaining the methodology of fulfilment of the index:

Recommendations for the public sector. The Memorandum anticipates the elaboration of recommendations for the public sector on how to recognize corporate social responsible enterprises by analysing social possibilities, as well as decreasing the spread of hidden economy.

Promotion of corporate social responsibility

The European Commission encourages enterprises to promote a fair employment in their business in accordance with human rights, especially if a product has been imported from countries, which are not in the EU.

In order to popularize it, the European Commission (Directorate-General for Entrepreneurship and Directorate-General for Employment, Social Affairs and Inclusion) organizes [conferences and seminars on CSR, entrepreneurship and local development](#).

RESOLUTION of European Economic and Social Committee on the theme **“Statement of the Committee to the European Parliament, Council, European Economic and Social Committee and Regional Committee “Renewed EU strategy 2011-2014 for corporate social responsibility”.**

10.4. Stakeholders of CSR

Corporate social responsibility (CSR) relates to all parties interested in the enterprise’s activity both from **inside** and **outside**: all who participate or are influenced by this action. These may be: enterprise stakeholders or owners, workers and their families, clients, business partners, labour unions, state institutions, non-governmental organisations, mass media, or local society. The enterprise is responsible to all of them, therefore defining forms of CSR it is important to understand what each of the interested parties expects.

- **Owners**

Profit is the purpose of any business. Owners expect their investments to be recovered; therefore an enterprise is responsible to its owners for its profitability. This actually defines the existence of an enterprise itself.

- **Workers**

Expectations that human rights will be respected at an enterprise are basic ones. Workers also desire a good labour environment and atmosphere, an opportunity

to have financial prosperity, to be morally and materially appreciated and to grow professionally.

- **Clients**

It is important for clients to buy safe goods and services referring to their needs. They also could expect the goods to be environmentally friendly and energy-efficient.

- **Business partners**

Co-operational partners expect a long-lasting partnership, fair business practice, as well such business conditions, which would allow them to profit.

- **Non-governmental organisations**

Wishes of non-governmental organisations depend on their field of activity. For example, they may expect to decrease non-renewable resources in their activity, to stimulate recycling of products, to adjust their buildings and transport to people with special needs, etc.

- **Society**

From an economic viewpoint society firstly expects an enterprise to pay all taxes to the state and society to gain social guarantees from it, educational and health care, as well as other advantages. The society expects that the business itself is done in the way, which does not spoil people’s life quality. For example, a manufacturing enterprise should take care on the decrease of noise and air quality. Also an enterprise may participate in improvement of environment, support local schools and kindergartens, etc. It is pretty important for the local society whether an enterprise provides work places.

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11. RHETORIC AND NEGOTIATION

11.1. Rhetoric

Rhetoric is the study of elocution as well as the informed usage of elocution in order to achieve an external effect (in speech or articles) (*Latvian Oxford living dictionaries*). The external effect may be represented by the sale of a product!

Types of elocution:

Political speech: propaganda, agitation, political dispute, slogans;

Formal speech: acts, contracts, protocols, programmes, interviews, presentations;

Legal rhetoric: texts of laws, court disputes, juridical consultations, codes;

Pedagogical communication: stories and explanations by teachers;

Academic elocution: lectures, seminars, reports, discussions, conferences;

Military rhetoric: statutes, memoirs, oaths;

Mentally moral elocution: church speeches, missionary texts;

Diplomatic communication: diplomatic speech etiquette, interviews, legal documents;

Dialogues with oneself: preparation to speech, silent reading, memories, reflection;

Everyday communication: unofficial communication, messages;

Rhetoric is an integral science:

linguistics + psychology + communication + advertisement + sociology + conflictology.

In a wider meaning the speech is a certain expression of language both orally and in written. Both the speech itself, which means the process of development of spoken text, and the result of this process are included into the meaning of speech.

Individual work: Summary of opposite viewpoints

Write down two opposite feedbacks about one and the same article. Each feedback should be for 1/2 of a page - it may be similar to an open reader's letter on the chosen by you publication; one feedback should praise the author's article, another should criticize.

Individual work: Argumentation

Write down 5 arguments for and 5 arguments against the theme:

Put them in the power ascending order in one page;

Factors affecting success of speech (approachability of addressee):

- Speaker's appearance
- Communication norms (language)
- Connection with auditorium.
- Speaker's ways of expression and behaviour (nonverbal communication (position, gestures, look)
- Manner of speech, audibility and comprehension.
- Environment: location and arrangement of space.
- Construction of speech (**introduction, discussion, conclusion**), volume of speech, duration and structure.
- Factor of addressee (number, preparation).
- Content of speech logic of text, visualization.
- Location of facts, arguments, ideas.

In formal communication it is important to form a purposeful summary, to present a certain information in order to make a listener to detect and comprehend the information precisely, as well as cause a listener's reaction and emotions.

Discussion. Why does each of factors affect the success of business speeches (presentation of project at a meeting, during business debates with partners)?

How could each of the factors affect the product presentation speech to investors?



Discussion. Rhetoric of advertisement. Successful and not so successful advertisements.

Fundamental principles of creating a successful advertisement from the communication point of view.

Homework: to analyse factors of speeches of the chosen advertisement (TV, printed).



In Ancient Greece a spirit of competition prevailed in all spheres - politics, sport, law, education, music, literature. A special role was taken by orators' competition in elocution, which were attended by Greeks as a fascinating performance.

5 most significant aspects in preparation of speech:

- 1) selection of material;
- 2) arranging the material in accordance with certain principles of composition;
- 3) vocabulary used - the speech should be correct, clear, nice and in concordance with the sense of the theme;
- 4) expression of thoughts - concordance of intonation, mimicry, gestures and movements with the content of speech with purpose to improve the effectiveness of the speech;
- 5) remembrance of thoughts.

These five criteria have been designed already in Roman Times.

Independent work: Business card. To introduce yourself orally and shortly telling about yourself something special: who are You? What do you do? What are your hobbies? What would you like to achieve etc.

11.2. Communication.

Information – thoughts, facts, ideas, viewpoints, etc.

Communication – the transmission of relations, information or ideas from one person or group to another with help of symbols, as well as the information's exchange and **understanding** processes.

Definition of communication

- Exchange of information or thoughts between people; transmission of information; form of interaction, where a language or other signs are used; intercourse; relations; correspondence. (*Valodniecības pamatterminu skaidrojošā vārdnīca*. R., 2007)

- Purposeful exchange of data and main signals between the source and the data receiver using communication channels, during which the received information is understood by both its participants. Personal computers.

The main purpose of the communication process is to achieve the understanding of information. If to speak about communication, 3 conditions should be present:

- There should be at least two people
- There should be information
- There should be way of transmitting the information

Purposes of business communication are: to cause interest, to involve, to inform, to tell (storytelling), to stimulate discussion, to provide opportunities for self-expression, to provide value.

Elements of communication process. **The sender** – formulates (encodes) an idea or **message** – thought the communication **channel** transmits the message to the receiver who decodes the information. The receiver is responsible for his/her formulation of the message and communicates it back to **the sender (feedback)**.

Model of information transmission

Sender (form or select) -> **Idea** (codes and chooses a channel) -> **Message** (transmits) -> **Receiver** (decodes) -> **If the idea is understood -> Feedback to Sender**

Communication is a two direction process that means that the opportunity of receiving information is as important as sending it. For the successful communication a feedback is quite important – it shows whether and how



the message has been understood. **Feedback** is a signal sent by the information receiver back to its sender as the fact of the information receipt. Simultaneously it characterizes the fact of understanding or non-understanding of this information.

Discussion – what is an effective communication?

Effective communication is the process, which message is received and understood directly in the way the sender wanted it to be sent.

Formation of informal communication does not depend from the structure, levels of management, etc.

The most popular types:

- rumour/gossip
- informal communication of managers with society
- events outside work (sport games, picnics, parties)

All types of communication are actually the contacts between people that differ with their actions. The main significance of these contacts refers to comprehension and nonverbal communication.

Comprehension is the direct reflection of information in cognition as the result of communication.

Non-verbal communication is any way of transmitting information and signals without using words.

Theoretically communication methods are divided into:

- Verbal and nonverbal communication;
- Formal and informal.

Communication may be implemented also without words. Human senses – ears, eyes, touch, smell work as the communication code. **Communication** should maximally act on 5 human senses (sight, ear, smell, taste, touch)

Non-verbal communication:

- 80% - intonation and voice tones, posture, look, facial expression, body language etc.
- Intentional body language – gestures with purpose – different interpretation in different countries (gestures are important in international communication – different ideas of different gestures).
- Unintentional postures

- Eye gaze and eye contact (eye look expresses a lot of things – interest, boredom, co-feeling etc.)
- Body language and posture (posture, movements, skill, etc.)
- Touch (handshaking, shoulder hit, hand-lock etc.)
- Space (personal space, distance that should be taken into consideration while communication)
- Voice (the way of telling is important – anger, fuss, irritation, etc.)

Practical work: Describe any everyday object (e.g. a pen, a computer, a bus), using different elements of the nonverbal communication (e.g. angry - happy, with gestures – without gestures, in one or another pose etc.). Summarize your opinions on the theme – which types and forms of the informal communication are more appropriate in formal or business communication?

Ways of strengthening a message:

- **Repetition:** repetition of idea of the verbal message
- **Contradictions:** in contradiction with the message
- **Interaction:** mutual interaction with the verbal message
- **Supplement:** possibility to supplement the verbal message
- **Emphasis:** to emphasize details of the verbal message

The way we speak often is more important than what we speak!

Types of communication:

- **Personal** – one to one.
- **Group** – communication with other people.
- **Mass** – exchange of information between the separated by space individuals using different technical aids (press, radio, TV, internet etc.)
- **International communication** – between countries and regions.
- **Intra-personal:** it is necessary to be able to communicate with oneself before communicating with others.
- **Interpersonal communication:** the process of people's exchanging information, feelings using verbal and nonverbal communication.
- **Public communication** contains the sending of the message to the main audience and the receipt of the message from the audience in a large amount. Public communication includes: mass media, public relations, public speech, etc. A story is the basis for public speech and it should affect all the audience



intellectually and emotionally by not attracting separate individuals but the whole audience through the experience of one individual; the speech should cause resonance with the experience of each individual of the audience.

Barriers of communication

External

- Noises
- Weather
- Environment

Internal

- Physical (time, environment, needs)
- Cultural (ethnic, religion, cultural and social differences)
- Comprehension (differences in comprehension)
- Motivation (lack of motivation)
- Experience (lack of similar experience)
- Emotional (currently existing emotional feelings)
- Linguistic (different language or vocabulary)
- Non-verbal (message without words)
- Context
- Style (differences in the way of expression of the message)

Discussion. Which of the communication barriers did you meet more often?

How did you cope with this challenge?

How to decrease barriers of communication?

- **Source** (examine the theme, information should be useful and precise)
- **Message** (precise, in accordance with the receiver's needs and comprehension)
- **Formulation** (prepare the message taking into consideration uncertain sources, e.g. Cultural differences, incorrect presumptions, missing information)
- **Channel** (choose the right channel for communication – verbal, eye to eye contact, phone call, video conference, message written in a letter, an email, an article, a report)

- **Decoding** (the same as the successful formulation of the message is important, the decoding of the message is significant, too. Therefore it is important to give time to able to read the message attentively or to listen actively)

- **Receiver** (each individual participant of the audience participates in the communication process with their ideas and feelings that affect their comprehension of the message and their reply)

- **Feedback** (the audience provides verbal and nonverbal reaction on the received message. Only this is the fact that defines whether the audience understood / didn't understand the message)

- **Context** (it may include environment or culture that may be corporative culture, national culture, etc.)

The most popular mistakes of the communication process are connected with the fact that the sender pays too much attention to the process of passing the message itself and does not take into consideration how was the message received, whether it was understood, as well as forgets that the communication should be implemented in two directions!

Message – is a component of communication. In formulating the message it is important to consider the essence of the aspect (the message should be short and concise), the message should be topical and structured (from the most important to the less important). In formulating the message it is important to take into consideration peculiarities of target audience, as well as to provide a clear position in order to make the receiver to comprehend and decode information, which should be sufficient, understandable, unambiguous, useful (with practical benefit), credible, timely, accessible.

Table 20. Indicators of successful communication:

Whom?	Audience	Who to speak to? What to speak about (needs)? Different message to different audience (e.g. to a child or student or to a professor)
Who?	Message	What do we want to tell? What is the purpose? In which way to transmit the information?
How?	Style and way	Style, attitude Verbal and nonverbal communication



Development of cooperation is an uninterrupted, systematic process, where the exchange of information and resources is implemented between people, which in future could help each other professionally or personally. Fundamental conditions of a successful cooperation are the common purpose of cooperation and the mutual sharing of experience and information.

11.3. Storytelling in business

The use of stories and storytelling is emerging as a powerful communication tool and becoming integral to how communicators define their content marketing approach. Facts and numbers may identify faithfulness and value of the product or service, but unless this information is packed into an exciting story, it may disappear in a global over wealth.

Modern product is not only the touchable added value but EVERYTHING that happens around it, that happens before and after, the way the one interested deepens his/her experience and know more (untouchable added value). It is important to successfully present this information by telling a story about the product.

Doing extraordinary things! Telling extraordinary stories!



Therefore it is important what we say, how we say, which emotions, experience we exchange.

Stories are a vitally important element for the successful communication. Notwithstanding an enterprise's sphere of activity and size, its clients (and workers) are people and they like stories. Stories make co-feel, thing, and laugh. Stories make brand more human, more understandable and closer. All this helps trust.



Madara Cosmetics is a story about the girls who were keen on everything natural and organic until the day they created a cosmetic manufacturing enterprise that now is sold in more than 25 countries.

Why stories are so significant in business:

1. Stories pay attention to a product. Basis of a story is the development of events that keeps human attention.
2. Stories stay in mind. Stories create “stickiness”. With all the competing information and media channels, communicators are challenged to find ways to connect and be more memorable among their audiences. We may not remember definite numbers and details, but interesting stories stay in our minds.
3. Stories help to form an enterprise's image.
4. Stories connect an enterprise with its target audience.
5. Stories help to spread the message in society because they motivate others to share the story further. Stories are not large fragments of life that we share with each other. That is the reason why stories by users concerning advantages and disadvantages of certain product impress us easily. As a result the publicity and marketing costs are optimized.
6. It is easy to associate stories with oneself that help to create such an important emotional connection.

Stories that make the product and brands topical today are also very essential. Each business needs a story about its reason of existence, what is to be achieved and what does it offer.

Story of United Colors of Benetton

In the beginning of 80s the philosophy about “the world without borders” and “new relations between the world of business and the world itself” was reflected in the social principle of *United Colors of Benetton*, the idea of which is that all colours and people of different races are equal and equally positive. A modern photograph *Oliviero Toscani* started to work with the Benetton advertisement. Once during shooting in a studio in Paris one clerk of *UNESCO*, while observing playing kids, told that *Oliviero* managed to create new united *Benetton* nations. The photograph caught the idea replacing the word “nations” with the word “colours”, and since 1989 “United Colors of *Benetton*” has become the main slogan and actually unofficial title of the enterprise. From the very beginning green colour was the fundamental colour of the *Benetton* shops and is used also in the enterprise's logo.





This story starts with a simple lamp. In 1878 Thomas Edison that at that time had already more than 3000 patents and inventions, founded the Edison Electric Light Company in order to provide people with light in a full comprehension. In 1892 the Edison Electric Light Company was renamed as General Electric. Today they manufacture not only lamps but also reaction engines, oil and gas equipment and solutions in the sphere of transport and health. Here the advertisement video are available (Childlike Imagination: <https://www.youtube.com/watch?v=Co0qkWRqTdM>) that clearly show the GE main idea – when the future, innovations and new technologies start from fantasy and imagination. A girl tells about her mother who works at GE. The purpose of the video is to demonstrate that magic and miracles really exist – and they work with it every day.



Main principles of creating stories:

- the message should be defined to a client
- the essence (main idea, morality) should be clear
- a story that contains the main idea (the essence) should be found

As a result we tell attractively about what we do!

While creating the story it is necessary to think about the following aspects:

- How will an enterprise stimulate negotiations?
- How does an enterprise involve clients?
- How does an enterprise form values for clients?
- How does an enterprise reach clients (by which aids and channels)?
- How do clients find the product?
- Why do clients find the product (also in which situations)?
- Why is it important for clients?
- When do clients look for the product?
- Whether and why do clients return?
- Whether and what do clients tell further?

More information: <https://www.forbes.com/sites/billeehoward/2016/04/04/storytelling-the-new-strategic-imperative-of-business/#1a2e24214d79>

Work in groups:

To think of and create a story about some traditional product, e.g. a pen, a jug, with purpose to motivate its sale (at the highest price possible).

11.4. Presentation techniques of business ideas

Authors of ideas, managers of different levels, who would like to test their idea and be sure about its potential, should be able to present information respectively. Also often for attracting material or non-material support it is necessary to present the product in front of partners or supporters. Therefore it is essential to successfully present the potential product or enterprise. There exist various techniques of successful presentation, but three of them will be investigated in this chapter.

Kawasaki 10-20-30

This presentation technique is appropriate for an in-depth presentation of ideas to investors and allows to provide a detailed insight about the main development aspects of the idea. The author of the technique is Guy Kawasaki from Japan. The presentation technique allows the speaker to structure an information and speak about the topical one to the listener. Number “10” means the number of slides of the presentation, number “20” refers to its time, how long does the author of idea present, and number “30” indicates the minimal size of the used in the presentation symbols. The last makes the presentation more foreseeable, less overdone with text and easier comprehended.

Kawasaki type of presentation should contain 10 slides with the following information:

1. Title – who are you and what do you do
2. Problem – what kind of problem does the client face
3. Solution – definite offer
4. Business model – the way of achieving the goals
5. Uniqueness – what is the advantage if comparing to others
6. Market and marketing – how to reach the target audience
7. Competitors – how powerful are they
8. Team – why will you be able to do it
9. Finances – how much / how long / further plans
10. Current situation – what have you already managed to do



Pecha Kucha. Presentation technique Pecha Kucha historically comes from Japan. Authors of the concept are the developers of an architect bureau “Klein Dytham architecture” that was created in 2003 in Tokyo. In a short period of time it has become known as an evening of short lectures where artists, designers, architects and other representatives of art industry, as well as entrepreneurs, introduce their creative plans or present the results. Nowadays the presentations night is organized regularly all over the world.

The aim of such presentation is to introduce information to the listener in a popularly scientific language, allowing not only get new knowledge, but also to enjoy the performance. In order to avoid unnecessary long explanations and to make the speaker concentrate on the most essential one, the format “20 x 20” has been developed. It means that each presentation contains 20 images, 20 seconds for each, that in total makes 6 minutes and 40 seconds – enough to present oneself and the ideas, and not too long that could bore the audience. The technique is used at public events, for attracting cooperation partners and supporters, for developing presentation skills.

More information: <http://www.pecha-kucha.lv>

Elevator pitch. At the moment when the author of idea creates team or develops partnership, it is useful to acquire “elevator pitch”. The aim of this presentation technique is to make the listener interested in the situation in approximately one minute, therefore using approximately 130 words. The technique may help to make the investors be sure that the business idea is worth to make investments. Themes that may be discussed in 60 seconds:

- Product – what is the product of an enterprise (title should be short, clear, sounding, attractive, able to stay in memory) and general principles of its work
- Advantages of competitiveness – why the product is better than other alternatives
- Market – how large is market, who are the potential buyers and how payable are they
- Competitors – who are direct and indirect competitors of the product of an enterprise
- Business model – how exactly is it planned to get profit with help of the product

More about the theme: Guide to stimulate local economic development for

workers of Latvian municipalities, 2014 (orig. Rokasgrāmata Latvijas pašvaldību darbiniekiem vietējas ekonomikas attīstības sekmēšanai)

Work in groups: make presentation of the previously elaborated business idea in accordance with one of the presentation techniques.

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About the project

The project 'Mentoring for Youth Entrepreneurship Support' (BONUS LT-LV, LLI-147) is aimed at promoting entrepreneurship and developing youth businesses in border regions of Lithuania and Latvia. During its implementation, it is planned to create a network of mentors, organize competitions for young business leaders and innovators, and create a business and entrepreneurship promotion model BONUS LT-LV.

Creativity, courage and openness to innovations are competences that stimulate youth entrepreneurship. However, this is not enough. Therefore, during the project, pupils' teams will develop innovative products from secondary raw materials with a help of experienced mentors. The outcome will be showed in exhibitions in Lithuania and Latvia. The synergy of entrepreneurial competencies, experience of proficient mentors, and creativity of pupils will result in innovative products and contribute to solving youth entrepreneurship problems in border regions of Lithuania and Latvia.

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www.bonusLT-LV.eu

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