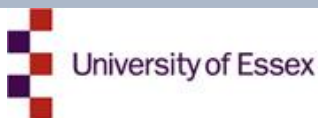


# ENTREPRENEURSHIP AND SUSTAINABILITY ISSUES

1(1)  
2013



RISEBA





**Dear readers,**

Today I introduce a newly published peer reviewed journal of *Entrepreneurship and Sustainability*. As a member of Lithuanian Government, which inevitably is a stakeholder of all heterogeneous international activities, including publishing of this journal, I am glad to state that contemporary approach to sustainability issues by taking into account broad spectrum of real life facets and looking at them through entrepreneurship lenses seems to be an especially fruitful path. Collaboration of such different institutions as universities, international associations and companies fosters increased interdisciplinary, multidisciplinary and through it, deeper international perception of issues of societies' development.

Contemporary world is globalized as never could have been imagined, but controversially it is tiered by nationally focused interests, new forms of entrepreneurial activities replace classic ones. In that phase of development discussions, alternative approaches and opinions obtain special value and have to be encouraged, discussed and developed. Since the journal of *Entrepreneurship and Sustainability* embraces a range of topics very much relevant from a point of view of current topicalities, I believe it itself will be sustainable by becoming a hub of economists, managers, technologists, politicians, practitioners and other interested contributors and readers.

The journal is published in Lithuania, so I wish to it success and further development. Let [Lithuanian Presidency of the Council of the European Union 2013](#) lead to flourishing societies not only in European Countries, but in the entire world.

*Sincerely,*

A handwritten signature in blue ink, appearing to read 'Alminas Mačiulis', written over a light blue grid background.

Dr. Alminas Mačiulis

*Chancellor of the Government  
Of the Republic of Lithuania*



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## ENTREPRENEURSHIP AND SUSTAINABILITY ISSUES

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## ENTREPRENEURSHIP AND SUSTAINABILITY ISSUES

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### ECONOMIC DEVELOPMENT AND ITS INFLUENCE ON STATE CAPITAL STRUCTURE

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**Abstract.** The article deals with the problem of the formation of the state capital and examines the influence of local or foreign capital on the national economy. The extent to which GDP depends on foreign debt, on foreign direct investments and on financial support was determined. GDP, the export/import ratio, inflation and average wage level are attributed to the key factors defining the growth of economy, i. e. depending on the capital structure. The average wage level is employed as the unit for the calculation of labour costs. It can be observed that the nature, intensity, and impact of the foreign capital vary in different business sectors. The conclusion can be drawn that the impact of the foreign capital and its factors depend only on the country-specific features.

**Keywords:** FDI, capital structure, foreign capital, government debt, GDP

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## 1. Introduction

The capital and its classification was examined as early as in the nineteenth century, when the capital was associated with goods and earnings, received for the goods, although there have been other assumptions. Meanwhile, the neoclassical and neo-industrial theories differently interpreted the optimal value of the capital structure for making financial decisions. At that time, various researchers acknowledged that the concept of capital is one of the most controversial and depends on both the classification of assets and the flow of time. In addition, the problems of the examination of the concept of capital arose when the concept of assets began to be used interchangeably with the concept of capital. In the early period, the capital was considered as a whole. Ben-Shabar (1967) noted that unfocused formation of the capital is one of the problems of economic growth. The task of the capital structure is to establish a rational capital structure according to the selected target. In the later period Chase-Dunn (1975), analysed the value and impact of the capital addressing the problem of the capital structure. Other researches such as Cambini, Rondi (2010) emphasize the importance of the capital as a physical property (machinery, vehicles, equipment, and other devices that can be used to improve the production efficiency). Over time, the concept of foreign capital obtained the heterogeneous comprehension. Currently, the perception of capital is twofold, i. e. it is perceived at the macroeconomic and company level. “From the macroeconomic perspective, the capital along with the labour and land constitutes one of the three factors of production. From the company perspective, the capital is defined as the balance capital and the financial capital” (Cibulskienė 2005). The article deals with the *problem* of the formation of the state capital and examines the influence of local or foreign capital



on the national economy. With reference to the scientific literature, the *aim* of the article is to identify the main areas of foreign capital, which have the greatest impact on the national economy, to define the main indicators of the economic development of the country which are mostly influenced by the foreign capital, and to determine their relation to GDP. The *research methods* applied in the paper include the systematic and comparative analysis of the scientific literature as well as the analysis of statistical indicators.

## 2. The state capital structure

The state capital structure is the combination of the national, equity, debt and private capital (Fig.1). The foreign capital is perceived as the investment of funds made by other countries, foreign companies or organizations. The need of the foreign capital and the planned combination depend on the structure and ratio of the national, debt and equity capital. In addition, the national gross domestic product (GDP) and the state debt depend on the structure of the foreign capital in the country as well as on its relation to the public and local private capital. In the case of different types of foreign funds as well as different nature or duration of the investment, the foreign capital takes the form of multiplicity. However, regardless of the form of the foreign capital, its attraction and distribution still aims at promoting entrepreneurship and the economic growth.

<i>Capital distribution according to the forms of ownership in the market</i>							
<i>State capital</i>				<i>Private capital</i>			
<i>Local state capital</i>	<i>Foreign state capital</i>			<i>Private foreign capital</i>		<i>Private local capital</i>	
<i>Tangible non-financial</i>	<i>Debt foreign capital</i>	<i>Investments from foreign countries</i>	<i>Foreign support</i>	<i>Foreign capital companies</i>	<i>Foreign and local capital companies</i>	<i>Local large business</i>	<i>Small and medium business</i>
<i>Local state capital</i>	<i>Foreign state capital</i>					<i>Private local capital</i>	

**Fig.1.** The System of Capital Distribution (according to the forms of ownership in the market).

*Source:* compiled by the authors

The non-borrowed state capital is considered to be “the financial savings of the country, i. e. the portion of the gross national disposable income, which is not spent for consumption or capital formation, is called an external funding opportunity” (Komaromi 2008). When the country experiences more expenditure than income to the budget, its external funding opportunities are negative. This is also known as the need for external financing. The foreign capital reaches the country in various ways. For example: by direct investments, foreign aid or foreign debt, which are difficult to control, especially the latter one, since it mostly covers the gaps in the national budget and is often inexpediently used only to meet the domestic needs rather than to develop business. In addition, the flow of the foreign debt is difficult to control. In the countries with developing economies, the foreign capital has a different structure than in the countries with mature economies. The former countries attract not only foreign direct investors but also receive financial support from the countries with mature economies. The financial support as a component of the foreign capital is often disproportionately distributed to business regardless of the needs of the region and the industries (Rostow 1953; Conlisk, Huddle 1968; Hymer 1976). The foreign grant funds are used in strict control, however, the problems of distribution of funds caused by the corruption entrenched in the developing countries are not taken into consideration. Meanwhile, the flows and trends of the foreign direct investments are difficult to predict because it is foreign companies themselves that select industries for the development of their business.

## 3. The concept of state debt

The foreign state debt is one of the components of the foreign capital, which typically is associated with long-term commitments. The foreign state debt increases when the income exceeds the expenditure. When the state is not capable to cover the domestic debt, it is obliged to borrow from the domestic and foreign markets. The greatest problem lies in the arrival of the state revenue, in its management and in the control of the state debt risk. The main state revenue depends on tax charges. The national budget is formed on the basis of the revenue, however, many countries; especially developing ones, lack sufficient domestic revenue in order to form the non-deficit

budget. The state debt is divided into domestic and foreign state debt (the Law of the Republic of Lithuania on the National Debt 2009). The law defines the state debt as follows: “State debt is the aggregate amount of the obligations assumed, but not discharged yet by the general government entities entitled to borrowing in respect of the repayment to creditors of the funds borrowed under government securities distributed by the government of the Republic of Lithuania (hereinafter referred to as LRV), loan agreements, leasing (finance lease) agreements signed and other debt instruments.” However, referring to individual legal instruments and classifications, the concept of foreign and domestic debt may vary. In the European Union, the domestic and foreign debt is calculated taking into account the currency of obligations, i. e. if the loan was granted in LTL, it is considered as the domestic debt, and if it was granted in foreign currency – as the foreign debt. The state often borrows funds in order to cover the deficit of the national budget and the debt liabilities of social security funds as well as to balance the financial flows of the state and to finance state investments. Borrowing grounded on covering of the existing debts and deficits of the budget is also known as “revolver borrowing.” The state sector’s need to borrow increases the state’s national debt, i. e. the amount of outstanding government debt (Mananse, Roubini 2009). This debt includes government securities held by the non-bank private sector, banking sector and foreign sector. However, the state can borrow only up to a certain limit since at the relevant time the national debt may become unbearable for the state’s economy. This is particularly important in order to maintain the stability of the national currency and the international standing of the state. The limit of the state debt is determined by the ratio of GDP and the state debt. The acceptable ratio of GDP and the state debt is 20-60%. The International Monetary Fund and the World Bank (2001) define the objectives of borrowing management in a similar way: “... to ensure that the financial needs of the government sector are met and the debt liabilities are implemented on time at the lowest possible cost and in accordance with prudent degree of risk.”

In the examination of the structure of the state debt, it should be noted that the domestic foreign debt and foreign debt is not the same. The former is formed in the domestic market when the state is incapable to meet its obligations on the domestic market which consist of the aggregate amount of debt of the government, local authorities, the social security and the related objects with the right to borrow. In turn, the total state debt is divided into direct and indirect. The direct government debt includes liabilities made on behalf of the state; meanwhile the indirect debt consists of liabilities for which the state guarantees were granted (Karazijienė, Sabonienė 2009). The domestic debt is the aggregate amount of the obligations assumed, but not discharged yet by the general government entities entitled to borrowing in respect of the repayment to domestic creditors of the funds borrowed under government securities distributed, loan agreements, leasing (financial lease) agreements signed and other debt instruments. The examination of the problems of the state debt can be carried out by applying various analytical indicators (Wong, Jomo 2005). The share of the state debt, foreign or domestic debt within the gross domestic product (GDP) shows the size of the state debt and indicates if the funds borrowed by the state can continue to be used as a regulator of the state’s economic and social development. To summarize the opinions of a number of researchers, it can be stated that the state’s political and financial stability depends on the state debt. In addition, borrowing is an inevitable and non-reprehensible phenomenon of the economic development; moreover, reasonable borrowing have a positive impact on the economic development of the developing countries. The focused policy and the implementation of economic restructuring measures, strict borrowing restrictions and strong debt limits encourage investors to have more confidence in the country, increase investments, and provide the country with cheaper borrowing abroad (Čiburienė, Povilaitis 2005; Karazijienė, Sabonienė 2008). Certainly, there is always a risk that the state debt will become unbearable for national budgets and aggravate the state’s economic development, especially when the borrowed funds are not used for the intended purposes.

#### **4. The attitude towards the foreign direct investments: the relation between the purposeful selection and the state’s well-being**

It is usual that the well-being of the contemporary society depends on the strategic direction of the national and international business. International companies are capable to properly identify and promote local labour force to effectively work in the country (Krupka 2007; Vosylius *et al.* 2013; Tvaronavičienė *et al.* 2013). In this way, international companies use the local labour force and compete with local business in the sector. In the global market, it is important for competing international companies to adapt to local market and to meet the needs of a local consumer, therefore they establish smaller subsidiary companies. As a result, the subsidiary companies make

better use of the latest technologies and management techniques that ensure rapid development in the local economy. However, the market stability can be disrupted if an international company as a market participant introduces new concepts of control (Geroski 1992). The foreign private capital is also known as foreign investments where private persons or companies, as investors, seek for profits. The foreign investments are divided into foreign securities and the foreign direct investments (hereinafter referred to as FDI), which are classified according to various characteristics (Ginevičius *et al.* 2005). There is no doubt that the foreign direct investments (FDI) influence the economic development of states, in particular of young countries such as Lithuania. The foreign capital is vital for such a state because it encourages the development of the state in one way or another. Namely FDI indicates the state's openness for investments and the state's integration level into the international market, as well as the growth of the state. In the state economic policy, FDI is often implicitly regarded as a positive phenomenon and is purposefully used to achieve economic growth (Šečkutė, Tvaronavičius 2007). However, the scientific literature distinguishes between two types of impact of FDI on the economic growth: positive and negative. A positive attitude is usually based on J. H. Dunning's theory (1977). FDI, "as a factor of economic development, can accelerate the development of the industry because of increasing productivity" (Dunning 1993). Maurer (2011) noted that FDI can contribute to the economic development; however, its impact is rather limited.

In any case, FDI can be viewed as a form of neo-colonialism because of the activities of multinational corporations. However, it is necessary to consider the fact that namely multinational companies determine the level of growth of investments in the country, and especially in those countries which attracted FDI during the process of privatization. In addition, it should be noted that a disproportionate amount of foreign direct investments has been allocated to third-world countries, such as Brazil, Mexico and South Africa, simply for political reasons and in order to avoid taxes. It is also worth mentioning that developed countries are tend to avoid the merging of companies from economically stronger country, for instance, "at the end of late twentieth century, the United States were anxious about the investments of Japanese companies in many branches of the state industry" (Mosley 1986). Tvaronavičienė and Kalašinskaitė (2005) note that, in Lithuania, the individual flows of FDI directed to different industries have a different impact on both the industries receiving FDI and the entire development of the economy. Čegyūtė and Miečinskienė (2009) highlight the negative impact of uneven distribution of FDI flows in Lithuania and argue that it promotes asynchronous economic development. This raises the question how to attract FDI from foreign capital and to purposefully distribute it. For example, Tvaronavičienė *et al.* (2008) state that, in Lithuania, during the privatization of AB "Mažeikių nafta" (JSC), the foreign direct investment stimulated by the state did not give the expected results. Such a situation arose because the government followed only the political reasons, regardless of the unique privatization of AB "Mažeikių nafta" (JSC), i. e. the successful FDI basically meant the discovery of an investor capable to supply oil. Although the FDI theory of positive impact explains that the profit gained in the domestic market depends on the amount of the foreign capital flows, the cost flexibility, accumulated experience and knowledge drain (Čegyūtė, Miečinskienė 2009), the aforementioned case of privatization is in contradiction to this theory since the performance result of AB "Mažeikių nafta" (JSC) is almost exclusively dependent on the degree of utilization of productive capacity rather than on the operational effectiveness. The utilization of productive capacity, in turn, depends on the supply of oil (Tvaronavičienė *et al.* 2008).

Therefore, it can be stated that, in order to attract FDI, or to purposefully use the financial support from other countries, the host country has to acquire the economic skills of country management. In order to achieve this, it is advisable to refer to the practice of the countries with high-economies and to evaluate the future positive or negative effects of the directions of foreign capital expansion. In particular, taking into account the fact that the flows of FDI often depend on the governance structure of the host country (Poukliakova 2008; Tvaronavičienė, Lankauskienė 2011, 2013; Tvaronavičienė, Grybaitė 2012). In addition, FDI, its attraction and management are affected by the external and internal factors of the country. Transnational companies choose the country for more favourable taxes, for incentives to the creation of business, for open country's economy, which is formed by the government's foreign domestic policy. Foreign investors are deterred by the corruption entrenched in the country and the bureaucratic mechanism, which suspends the establishment of the company and postpones the start of business. The researchers Žemgulienė and Zaleskytė (2006) examined the impact of the investment structure on the national economic growth and determined that FDI has different effects in the industrial and service sector.

According to them, the increasing FDI flows into the services sector affect the economic growth rates, and increasing investments in the industry accelerate the growth of economy. Based on the findings (Table 1), it can be said that in order to achieve a positive effect of FDI, the state must take into consideration the development trends of the industrial and service sector (Tvaronavičienė, Lankauskienė 2011). It is likely that once a certain level of FDI is reached, after a certain period of time, the effect or direction of investments may vary in different business sectors (Kalašinskaitė 2009).

**Table 1.** The Most Significant Factors Determining FDI in Developing and Transition Countries

Factor	Significance
<b>Amounts of previous FDI</b>	indicates a potential FDI factor
<b>Growth of GDP</b>	defines the market size
<b>Average rate of remuneration</b>	allows to measure labour costs
<b>Export/import ratio</b>	indicates the country's openness to other countries
<b>Inflation</b>	is considered to be the unit of the state's risk and the consequence of the macroeconomic policy
<b>Local investments</b>	indicates the business climate

*Source:* composed by authors with reference to Ginevičius *et al.* 2005; Žemgulienė, Zaleskytė 2006; Eremina 2009; Kalašinskaitė 2009; Tvaronavičienė, Tvaronavičius 2006; Tvaronavičienė *et al.* 2005

## 5. Definitions of the financial support and the determination of its impact on the development of the state

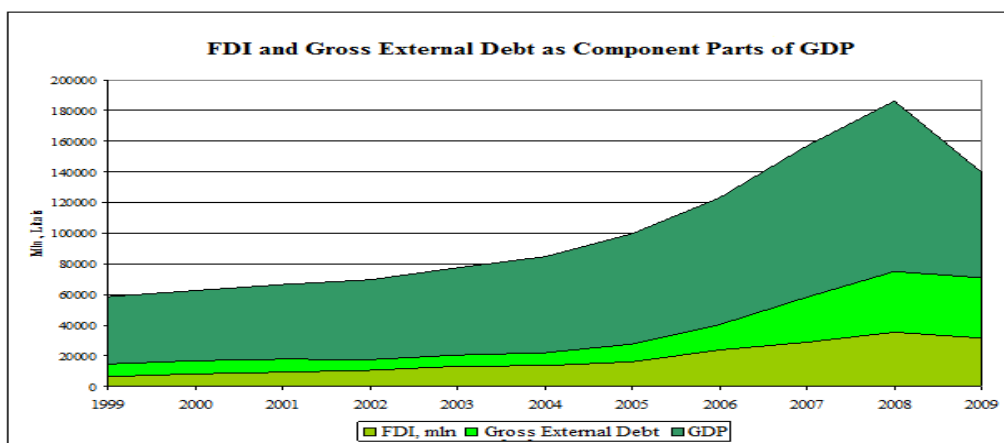
The foreign financial support is granted in the forms of grants, subsidies and loans on favourable conditions. In the early stage of development of the state, when imports exceed exports, the lack of national financial resources or payment problems may arise. This leads to the need for financial support. Taking into account the country's needs and integration into the global society, the state can receive the targeted financial support from the international organizations and foundations. Such financial support has been granted to the third-world and other developing countries since 1960. At that time, it was believed that the financial support can be granted only to the third-world country, i. e. this type of foreign capital has “to move from rich to developing countries” (Conlisk, Hudle 1968; Tvaronavičienė *et al.* 2013). It was agreed that the financial support creates a positive attitude towards the international community, reduces the political tension between the countries, thus promoting the harmonious development of the developing countries. When assessing the beneficiaries, the alternative criteria allowing to determine the recipient country were identified, such as poverty level, national income. Grants, loans on favourable conditions or services from the developed countries or non-governmental organizations were granted to the developing countries. During the integration into the EU, favourable conditions for the foreign capital to enter occurred in Lithuania and other transition countries.

As a result, in Lithuania, FDI became particularly significant in some business sectors, a special priority focus is given to the EU support funds. The significant benefit of the financial support is closely related to the intensity of support in the specific industry or region. Jakaitienė and Klyvienė (2007) argue that EU support indirectly promotes the attraction of FDI into the country. However, it is observed that the benefit of investment varies in different business sectors (Ginevičius *et al.* 2008; Tvaronavičienė *et al.* 2013). The financial and not only financial support is granted for a wide variety of applications, including grants (goods of frequent consumption in order to facilitate the short-term deficit of goods, for example, during famine in Ethiopia), rehabilitation (eg., restoration of buildings after the war), stabilization (in particular, a short-term grant helping to conduct balanced payments until the state itself is able to do so), and “the long-term support, which aims at raising the level of long-term income” (Mosley 1986). However, the financial support does not guarantee a sustainable development of the state (Tamošiūnienė *et al.* 2007). It is likely that many financial support programs will be criticized since the support programs may leave defects in the internal economic development and create political dependence of the countries seeking sustainable development, especially if the countries choose inappropriate development methodologies or disproportionately use the funds according to the residential areas. Razauskas (2008) points out another negative

aspect of financial support for the country, i. e. “the successful use of the support has a negative impact on the inflation control.” The negative effect is particularly strong when the donor country gives financial support with certain limitations. The recipient country may be forced to import goods from the donor country, which are usually supplied at higher prices, but of lower quality than in the international markets. In most cases, such donor countries are interested in resolving their own settlement problems, therefore the granted support is not huge (Cass 2007).

## 6. The interaction of the foreign direct investments and the state external debt with the country's GDP

After the start of the economic crisis in Lithuania, the flows of revenue into the national budget reduced. Due to rising unemployment, social benefits significantly increased. This resulted in a more rapid gross expenditure of the government sector. According to the Bank of Lithuania (2009) the government debt comprised 15,6 percent of GDP in 2008. However, compared to the year 2007, the ratio between the debt and GDP fell by 1,4 percent (Fig. 2). The domestic debt comprised 35,8 percent of gross debt. It grew by 13,6 percent within a year and resulted in the increase of the gross debt as the foreign debt slightly decreased within a year.



**Fig.2.** Gross External Debt and FDI as Component Parts of GDP.

Source: Statistics Lithuania

However, in 2009, the continuing growth of unemployment, the decrease of remuneration and the diminished consumption determined even lower revenue flows into the budget. In this way, the state, lacking their own financial resources, was forced to borrow from the foreign markets. The government foreign debt contained the Eurobonds and the securities of the Lithuanian Government. In comparison with 2008, when the government did not issue any Eurobond, the state external debt had a tendency to decline (Table 2).

**Table 2.** Government Sector External Debt

	2004	2005	2006	2007	2008
<i>Total</i>	7495,9	8010,9	10218,7	11226,6	11161,3
<i>The central government</i>	7466,7	7983,7	10195,3	11199,8	11125,8
<i>The local government</i>	29,2	27,2	23,4	26,8	35,5

Source: Statistics Lithuania 2013

FDI, which has a large impact on the Lithuanian financial system and economic activity, also decreased because of the economic crisis. Within a decade, the foreign capital flows were rapidly growing with the expected future return. FDI flows intensified after Lithuania entered the European Union. The main channels through which the investments reached the region were as follows: FDI (including the establishment and acquisition of credit institutions), portfolio investments (including investments in stocks and bonds).

## Conclusions

To sum up the perception of the state capital and its influence on the development of the country, it should be noted that a controversial impact of the state capital structure on the economic development is observed. It should be noted that the task of the capital structure is to establish a rational capital structure according to the selected target. In case of the foreign capital and the state capital, a part of which is borrowed, the problem arises how to purposefully distribute it. This problem can be solved when the state has adequate management skills.

The impact of foreign capital and its factors depend only on the features of the host country such as market size, political - economic stability and the level of human resources in the country.

The granted financial support creates a positive attitude towards the international community, reduces the political tension between the countries, thus promoting the harmonious development of developing countries. In addition, it increases the capabilities of the state to increase the flows of FDI.

The state foreign debt consists of government securities held by non-bank private sector, banking sector and foreign sector. While these securities are actively bought and held, the national debt may grow. However, the state can borrow only up to a certain limit since the national debt may become unbearable to the state's economy at a certain point in time.

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**ENTREPRENEURSHIP AND SUSTAINABILITY ISSUES**ISSN 2345-0282 (online) <http://jssidoi.org/jesi/aims-and-scope-of-research/>**THE ROLE OF CREATIVITY IN SUSTAINABLE BUSINESS****Mindaugas Laužikas<sup>1</sup>, Rasa Mokšėckienė<sup>2</sup>**<sup>1,2</sup>*International Business School at Vilnius University  
Saulėtekio av. 22, LT-10225 Vilnius, Lithuania**E-mails: <sup>1</sup>mindaugas.lauzikas@gmail.com; <sup>2</sup>rasa.mokseckiene@tvm.vu.lt**Received 22 February 2013; accepted 18 March 2013*

**Abstract.** The present article aims to examine a set of creativity-related concepts, dimensions, patterns, different ways and techniques of generating ideas, developing talents, funding opportunities as well as protecting intellectual property rights, and, in particular, how all these factors affect the economy and sustainable business. To continue, there is the importance of intercultural dialogue analysed while opening co-operation and partnership opportunities in various regions, mobility opportunities among artists as well as developing skills, creativity, innovations, and entrepreneurship. Entrepreneurship emerges as an important factor in a rapidly changing world of business and transforming creative ideas into a value-added. There is a significant number of university studies, creative businesses and/ or entrepreneurship programs tackled via presenting programs at universities, while the symbiosis ‘Business-Arts’ brings new colours to the image of creativity: investments in human resources, trainings, researches, lifelong learning and entrepreneurship open up new opportunities of merging arts and business and concentrating a wide range of artistic and business talents in one area (incubators and/ or clusters of arts) where arts and business complement each other. Thus, the research question: how does the creativity affect a sustainable business performance in Lithuania? A solid Global Entrepreneurship Monitor methodology and data mainly for the year of 2011 (including some newest trends for 2012) were used in order to light up the main problems and trends of enhancing the creativity in Lithuanian companies while creating a higher value-added and competitive advantage.

**Keywords:** Creativity, Culture, Arts, Sustainability, Business Development, Entrepreneurship, European Union

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**JEL Classification:** A13, A20, D22, D23, D83, J24, L14, L26, M12, M14, M21, O31

**1. Introduction**

“Creativity”, “Culture”, “Arts”, “Talents” are interrelated terms that are seldom tackled in the context of sustainable business development. Thus, the creativity should be analysed, based on a holistic approach where each element plays an important role, because of its specific knowledge, necessary for developing innovative product, process or service for a constantly changing market (Ashley, Oliver 2010). As it is stated by Gong *et al.* (2009), the principle focus should be on the employees’ creativity, driven by constant learning and developing new skills. Mainemelis (2010) emphasizes the number of new ideas as they should be translated to innovations, while Meyers and Gerstman (2007) advice to scrutinize the concept of creativity by taking into consideration the cases of different creative industries. Scholars agree that the creativity is crucial for self-realization and self-actualization, and Hill (2003) specifies the generation of novel ideas as a principle output of creativity. Based on such logics, innovation is a process of transforming ideas into value. The culture which has been formatting for centuries (arts, music, literature, tradition) has united Europe; the European Union in today's global world is known for its cross-cultural unity and respect for each other, because the globalization has opened a door to intercultural

exchanges, freedom of movement and knowledge of cultures. The peace and mutual understanding in Europe is to ensure a multicultural society, where there is the tolerance, solidarity and other values enhanced. The European Union aims to promote the creativity in a sustainable development of cultural and artistic projects, the awareness of European cultural heritage, multilingualism, youth exchanges, learning, sharing knowledge on European cultures, restoration of a cultural heritage, and the development of information society. For many years the European Union provides a financial and technical support for cultural projects in developing regions as well as pays a lot of attention to human rights. In 1989, there was a free movement of the European audio-visual content within EU borders established, being supported by the adoption of the 'Television without Frontiers' Directive, which has contributed to a cultural diversity. Within the communication of the European Commission (2007), oriented to the ratio of culture and Europe in the global world and mainly based on the Green Paper (European Commission 2010a), the main focus is on such fields as the acquaintance with culture, the use of creativity and increasing a value added.

The European Commission, relying on its past achievements and strengthening current activities in the European agenda identifies the necessity of encouraging a cultural diversity and intercultural dialogue (promoting artists, culture employees' employability and adaptability as well as the mobility of art works in the global economy). The encouragement of culture as a catalyst for the creativity in the implementation of the Lisbon strategy of growth and jobs creation (cultural and creative industries significantly contribute to the growth of GDP and employment in the EU; this is a competitive advantage of the economy (European Commission 2007)) is to promote the creativity in education, cultural employees' skills related to management and strengthening entrepreneurship, sustainable development of social and economic investments, particularly in creating jobs and increasing the attractiveness of cities. The promotion of culture is a vital element of the European Union's international relations (the diffusion of knowledge on the European culture through the dissemination of cultural dialogue and exchange, supporting the access for cultural goods and services from developing countries to European and other markets, providing a technical and financial support, protecting the cultural diversity, cultural integration to the developing countries' educational curricula).

The respect for cultural diversity and the ability to share common values have guaranteed the peace, prosperity, sustainability and solidarity in the EU (European Commission 2010b). After the adoption of the European Agenda for the Culture in 2007, the Member States of the European Union were invited to work together to promote and support a cultural diversity and an intercultural dialogue as an important aspect of the European Union's international relations. The success of the European Cultural Agenda Report (European Commission 2010b) is evaluated by the ability of Member States to achieve the objectives and is based on the Member States' submitted national reports. In order to achieve their goals, the progress was made in many areas: the promotion of cultural diversity and intercultural dialogue, the awareness raising and political discussion on the cultural dialogue-related issues led to the creation of new political arrangements and structures, and the political agreement on the need to improve intercultural competences as well as to facilitate the intercultural dialogue in external relations of the European Union (European Commission 2010b).

The achievement of this goal has led to the greater mobility of representatives of arts and culture, to the prevention and combating study on the illicit trade in cultural values and synergies between the culture and education (knowing better different cultures and a sustainable development of creativity). In order to ensure the solidarity via the support of a linguistic diversity, there were dialogue platforms created for the business and society, such as 'Europeana' (launched in 2008), which is the online library of the European Union, media literacy concepts or the initiation of the label marking the sites that are important in terms of values, history and heritage. The year of 2008 was named the European Year of the Intercultural Dialogue with a special focus on multilingualism. Within the development of cultural and creative sectors, manufactured and sold goods and services are protected by the integrity of a cultural content, i.e. copyright. The growth of digital technologies encourages thinking about the protection of cultural goods and services against the piracy. The cultural diversity is not only the production and trade; it includes consumers' choice, the increase in co-operation and cultural dialogue, and the access to culture. The balance of culture influences development processes that support cultural values, such as minority languages, traditional rituals, art creations, heritage buildings and places of interest. Therefore, the creation of the adequate economic, legal and social environment is needed in order: to ensure the developers' creative potential, to link the

culture and education, and to increase the production and creation potential of cultural services, to promote the private and public investment in the cultural sector, to support small and micro enterprises while encouraging them to use the creativity in practice, to promote the unimpeded cross-border mobility of cultural employees in accordance with the UNESCO Convention on Cultural Diversity (European Parliament 2008). While promoting the culture as an important European dimension in international relations more financial resources are allocated to the culture and regional co-operation of third countries, due to a stronger focus on the European Neighbourhood Policy and the Union for the Mediterranean.

Candidate countries are encouraged to restore their heritage, the political partnership dialogue; the co-operation among Eastern countries is initiated, and the role of the culture in politics is strengthened through encouraging equivalent exchanges among developing countries in the field of culture and promoting the preferential mode. In addition, the bilateral partnership with other developed and growing countries is fostered, the preparatory action 'MEDIA International' is launched, which aims to promote the mobility of the film and audio visualization and co-operation among professionals from European and third countries. While promoting cultural exchanges, co-operation, development policies or external relations the cultural dimension crossing the boundaries of the European Union should be strengthened. The respect for other cultures promotes the solidarity, opens new possibilities of international economic and social relations, mobility exchanges and the access to goods and services of various cultures. In sustainable development of the concept of multicultural society in the European Union, Lithuania and worldwide it is becoming important to prepare a larger number of innovative and creative people, able to understand, adapt and find the mutual relationship between arts and rapidly changing global business world.

## **2. The interaction of arts and business across universities and today's market needs**

In recent years the installation of creative industries, creative businesses and entrepreneurship programs at universities worldwide takes on the growing momentum. This trend is because of changes in the today's globalized world that encourage to create a better future, i.e. a sustainable business is impossible without the creativity, because creativity is not just paintings or other arts, creativity is the generation of new ideas, talents, skills, underlying new achievements, technologies and etc. Thus, university programs distinguished by the originality and creativity are determined by national policies, local traditions, and etc. While reviewing universities worldwide (where the undergraduate and/or graduate programs related to the encouragement of creativity, creative industries management and administration, entrepreneurship and etc. are developed) there were universities of various regions reviewed: Asia, North and South America, Europe and Pacific Ocean countries. The choice of university was based on the fact that these universities were oriented to programs of arts and/ or business, mainly focusing on the creativity and entrepreneurship. For example, the Kingston University in Great Britain, London, develops creative industries and creative economy postgraduate studies (out of 24 programs 16 are related to the creative economy) that are associated with the variety of creative industries, such as "Advertising and Creative Economy", "Design and Creative Economy", "Journalism and Creative Economy" and other programs oriented to creative industries and creative economy.

Entrepreneurship is developed within cultural management and cultural and creative sectors' activities, scientific researches, new business approaches as well as financial models and management of creative economics: such discipline is taught at the Institute for Creative and Cultural Entrepreneurship of the Goldsmiths College at the University of London. This program introduces creative and cultural entrepreneurship activities, the integration of entrepreneurship in the context of creative activities and the development of new business.

According to the Institute's point of view, entrepreneurship is the value creation, which may be social, aesthetic or financial, thus, there could be three master programmes in 2010/2011 featured:

1. "Creative and Cultural Entrepreneurship": this program helps to get entrepreneurial skills and teaches how creative and cultural knowledge and/ or practice can be commercialised. There are historical and theoretical knowledge and understanding of creative and cultural industries as well as the development of the creative economy emphasized.

2. “Arts and Cultural Policy Administration”: this program offers the chance to learn how to combine the applied arts, culture, politics and art administration areas.
3. “Social Entrepreneurship”: social entrepreneurship started being taught in 2011, a unique environment to study and explore the field of creative and cultural entrepreneurship and other areas related to entrepreneurship, such as the cultural urban restoration, new models of theatre or music production or new ways of thinking in the design and accessibility.

The School of Management at the University of St. Andrews in Scotland develops “Masters in Creativity Management” Program, which prepares specialists understanding creative processes, possessing necessary qualities, business planning, financial management knowledge and willing to use them in practice. The culture and creativity-based Master program “Culture, Creativity and Entrepreneurship” at the University of Leeds, Faculty of Performance, Visual Arts and Communications, is oriented to the preparation of professionals in the fields of culture and creativity. The Aalto University in Helsinki carries out postgraduate studies “Creative Sustainability” and “Creative Business Management”. These master programs seek to build a sustainable future where skills of making creative decisions are developed for a sustainable living, urban development, environmental protection planning, and production services; therefore, multi-disciplinary specialists able to work with experts from different areas are prepared. The program aims to promote the sustainability through the creative design and innovations.

The Faculty of Arts at the Chinese University of Hong Kong held the Master program “Cultural Management”: students began studying in 2001, and this was the only program of such specification in the country. By studying “Cultural Management” students are prepared for the collision with the rapidly changing environment of creative industries within the global culture. Within the program students are educated not only in management sciences, but also in the co-operation of culture with the ethics, in the field of creators’ rights, social and political sciences. Future specialists are eliminators of the gap between the cultural and social integrity, activists and protectors of their rights and etc. The Hong Kong Institute (called The Hong Kong Institute of Education) hold the bachelor's program which starts 2011/2012 “Creative Art and Culture.” The first undergraduate program “Creative Arts and Culture” is prepared at the Hong Kong Institute of Education for the year of 2011/2012, offering arts management and cultural studies.

The program aims to prepare professionals with such knowledge as communication, management or finance. The College of Economics and Business at the Australian National University in the co-operation with the College of Arts and Social Sciences, prepared a double bachelor degree program “Bachelor of Music and Trade.” The University of Melbourne prepared a Master program “Cultural Management”, which is oriented to managers of a variety of creative industries, such as dance, theatre, music and arts. The program focuses on management and creative production, emphasizing the co-operation in developing the knowledge in areas of law, management and policy. Another Australian University, the University of Canberra, offers a variety of undergraduate programs with a dual diploma, such as “Arts and Marketing”, “Arts and Law”, “Arts and Public Relations”. Having a look at a positive experience of European universities, the Copenhagen Business School in Denmark offers a new undergraduate program “Business, Language and Culture”. Thus, the knowledge of culture is an excellent choice of languages (French, German, Spanish) and an international experience during the final year of studies (students are studying at universities of countries whose language they are studying) as well as the reunion of business, language and culture make a perfect fit of living and working in a modern society. To continue, the Master program “Arts Administration” is developed at the Florida State University in North America.

Thus, universities in many countries have already introduced both undergraduate and postgraduate programs in raising the number of modern, creative members of the society when other universities are just starting implementing such programs. Especially it is noticeable that programs at different higher education institutions and universities are oriented to double and joint diplomas enclosing such fields as creative business management and creative leadership. However, it could be stated that the creativity and entrepreneurship education are the most notable at European universities, followed by Asian and North American universities. Meanwhile, such countries as Afghanistan, India, and New Zealand do not have programs related to the creative public. It is also possible to conclude that implementation of such kind of programs in the higher education system is associated with the world's on-going creative international trade in goods and services, where it is clearly visible a regional economic

growth. Lithuanian universities currently only start launching analogous postgraduate studies in drawing up the creative economy; for instance, a very similar program could be found at the Kaunas Faculty of Humanities at the Vilnius University, where within the “Cultural Management” program specialists developing cultural activities, entertainment business, artistic and cultural events, projects and working with the media are prepared. The Vilnius Academy of Fine Arts held the Master program “Cultural Policy and Cultural Management”, and the Vilnius Gediminas Technical University held the Bachelor program “Creative Industries”, which gives knowledge of corporate and business development in the context of the creative economy. International Business School at Vilnius University offers the opportunity to study in “Creative Business” graduate program. These are only few examples of global universities’ attempts to link arts with business via the education system. According to Eurostat (2007), during the period of 2004-2005 the largest percentage of students studying arts was in Malta (10.9%), and the lowest in Poland (only 1.0%), while the data on students, whose education is related to arts, by gender shows that the largest percentage of female students was in Latvia 73,3%; the largest percentage of male students involved in cultural studies among 27 European Union countries was in the field of architecture (64.1%), compared to 61.5% of female students studying arts. According to co-authors of the Feasibility Study of Lithuania (2008), Lithuanian study programs, related to cultural and creative industries, do not reflect the true situation, since the Department of Statistics provides the data on the basis of the classification of education in Lithuania, where cultural and creative industries are not singled out; for these reasons authors base their results on the data of two high schools, the Academy of Music and Theatre and Vilnius Academy of Fine Arts that prepare programs exclusively liaised with creative and cultural industries, mainly relying on the Lithuania’s education classification.

Thus, co-authors present such institutions in Lithuania that prepare creative and cultural industry professionals: Universities (Vilnius Gediminas Technical University, Lithuanian Academy of Music and Theatre, Vilnius Academy of Fine Arts, Vilnius Pedagogical University, Kaunas University of Technology, University of Klaipeda, Šiauliai University), colleges (Vilnius College, Kaunas College, Marijampolė College, Vilnius College of Technologies and Design). The creative and cultural industries-related study programs are famous by training customizable artistic skills; the Lithuanian Academy of Music and Theatre and the Vilnius Academy of Fine Arts organize the first (undergraduate), second (graduate) and third (doctoral) degree programs for professionals of arts such as the Graphics, Photography, Design, Architecture, Performance Art, Musicology, Acting Art, Music Management, and etc. Though these Lithuanian universities and colleges develop similar creative industries and cultural programs, co-authors note that they do not often develop the ability to apply the acquired professional knowledge and skills in the field of creative industries; entrepreneurship is poorly educated, while the content of those programs is not always adequate to creative industries’ needs and lacks the co-operation with creative industries’ enterprises and technological equipment as well as artistic skills training tools and instruments (including teaching material for lectures) (Antanavičiūtė *et al.* 2008).

The study also draws attention to the fact that these problems are also complemented by a small number of specialists, the lack of technical literature and researchers’ motivation and/ or maintenance problems. Thus, it should be kept in mind that the creativity and innovations, entrepreneurship and teamwork, co-operation and competition in creative industries are very important, because management and creativity in creative and cultural industries are closely related (Antanavičiūtė *et al.* 2008). In many literature sources, the creativity is related to talent management, which according to Cappelli (2008), should be analysed from a human capital perspective. Farndale *et al.* (2010), add a business strategy and corporate culture as important factors in talent management, and some authors elucidate the role of national contexts (Luthans *et al.* 2006; Vance and Vaiman 2008; Vaiman *et al.* 2012; Mellahi and Collings 2010; Tymon *et al.* 2010; Scullion and Collings 2010; Collings *et al.* 2011). The talent development is a part of the talent management process, which incorporates planning, selection and implementation of development strategies in order to meet the market needs and organizational targets (Garavan *et al.* 2012). As it is recognized by experts of the Quality Assessment Centre, foreign partners, cultural, arts and educational institutions employing graduates, the level of preparation of arts specialists at Lithuanian universities is relatively high (Antanavičiūtė *et al.* 2008).

However, business representatives state that graduates have only a theoretical knowledge and suggest to involve the best cases of creative and cultural industries combining the creativity with entrepreneurship, as well as to implement the compulsory practice in creative and cultural industries’ companies. Although study programs are

constantly updated, and only highly skilled or recognize artists teach, creative and cultural industries' and other economic sectors' needs indicate that these updates are not sufficient, because the program does not provide entrepreneurial trainings, the legal knowledge and understanding of needs of the market; there is still a weak co-operation between universities and the business community. Young students' needs and requirements are also significantly higher than the higher education organizations can provide; classrooms, equipment and technologies are outdated or depreciated (for example, musical instruments; the lack of modern working equipment, for example in music), while the study programs that are not in line with the cultural and economic development needs of the country are not updated. There is also the lack of international co-operation witnessed, making it difficult to remain competitive in terms of studies, it is difficult to invite highly qualified scientists, which hampers the studies' quality, resulting in many young and talented artists leaving to work and study in other countries. Trying to catch up the EU economies, Lithuania's education system should adapt to economic changes and requirements. Co-authors believe that the larger competition from diverse and demanding markets, the uncertainty, and technologies the creative business faces the more important are management abilities (Antanavičiūtė *et al.* 2008). It is emphasized that the number of lifelong learning people is modest in Lithuania, while resources and motivation are insufficient. However, co-authors note that in recent years the teaching staffs is aging and the professional knowledge is becoming unsuitable for requirements of the today's professional qualification (Antanavičiūtė *et al.* 2008). The available equipment no longer meets modern requirements, making it difficult to carry out the research meeting the business requirements and, at the same time, participating in international research projects. As the reasons for the transition to other activities or the brain drain issue very low salaries of teaching and research staff as well as a fragile prestige of teachers and researchers in the country are highlighted. According to co-authors, it is important to develop a necessary infrastructure, having a greater emphasis on the coordination of investments, to improve the intellectual property protection, to promote investments as well as to develop the co-operation between sciences and business.

The feasibility study proposes to set up the centre of coordinating a scientific potential (creating innovative products), to use the knowledge of scientists and creative ideas of artists in order to get real benefits for a sustainable product development, to provide information services (decision-making, counselling, etc.), to ensure access to databases of a scientific information, to promote creative industries' activities to the general public and etc. Meanwhile, while monitoring trends in the choice of study area, it is noted that among applicants to Lithuanian universities and high schools in 2010 social sciences were the most popular with such specialties as Economics, Law, and Political Sciences. The entrants do not know what will the market needs be in the future and choose those professions the knowledge of which can be applied in various sectors today. During the accession year of 2010, among students studying for free (i.e., the state-funded places) the highest accession scores were in the applied textile, arts, fashion design, clothing, decorative plastics and others. Thus, it is noted that in many countries around the world programs, related to the creative economy and creative industries, are receiving the increasing momentum, which is not random, but is based on the rapidly evolving world of the international trade in creative industries' goods and services. All this leads to the enhancement of knowledge and innovations as well as to the contribution of high technology-intensity activities to the GDP.

### **3. The wider Europe for future generations**

The global financial crisis has changed the economic situation and the emergence of new threats to social cohesion becomes possible. According to Jose Manuel Barroso, Europe needs to get back on track, and it must stay on track (European Commission 2010c). This is the target of the European Strategy 2020 (European Commission 2010c). Witnessing many changes worldwide, especially within the economic and social progress, hit by the financial crisis, it became difficult to invest or spend; a lot of investment plans and ideas fail, it became difficult to borrow and ensure the economic growth. Even before the crisis the European Union in many areas lagged behind other countries in terms of investments in innovations, researches, technological development and employment. It is aggravated by the Europe's aging society, resulting in the decreasing number of employees. There is also the increasing competition from other developed and developing countries such as India and China visible; these countries have invested a significant part in the research and technology in order to raise the competitiveness of their industry. The crisis has also revealed that European Union countries are closely interrelated, particularly countries belonging to the Euro Zone, as there is the indirect effect seen (the reform in one country affects other

countries' economic performance), which shows the importance to simultaneously execute strategic steps in order to overcome the crisis and reach positive results. Thus, Europe faces a difficult choice in addressing challenges of the economic recovery: "Sustainable recovery", "Sluggish recovery" (the continuation of a slow reform, which is resulting in a low growth rate) "Lost decade" (experiencing a relative decline) (European Commission 2010c: 8).

In spite of all these difficulties, Europe was able to prove the world being able to create the world's largest single market and single currency, to prevent the further economic collapse as well as be proud of talented people, their creativity, thriving agriculture, the largest trading bloc and foreign direct investments, values, democracy and solidarity, cultural diversity, respect for the gender equality. To ensure a high quality of life for future generations the European Union has to take care of the future and take on responsibilities and commitments to improve the situation. Therefore, in 2010 the European Commission prepared the Strategy for Smart, Sustainable and Inclusive Growth (2020), where the European Union seeks a high level of employment, productivity and social cohesion (European Commission 2010c). For these reasons the selected objectives must be completed by 2020:

1. The employment of the population within the age group 20-64 should increase from 69% to at least 75%, better integrating immigrants into the labour market;
2. 3% of the EU GDP should be invested in the research and development, facilitating the private sector;
3. There should be "20/20/20" climate and energy targets implemented, reducing the greenhouse effect by 20%, to increase the use of renewable resources by 20%, to improve the efficiency in energy use by 20% (including the reduced gas emissions by 30%);
4. The share of early school leavers should not exceed 10%, and at least 40% of the younger generation should acquire higher education;
5. The number of Europeans living below the national poverty level should be reduced by 25%.

All these objectives are closely interrelated; a better education leads to employment opportunities and, therefore, reduces the poverty; there are new technologies introduced, researches carried out and the creative society developed. The European 2020 strategy has three key priorities of the European Union (smart growth, sustainable growth, inclusive growth); the Commission proposes to make these priorities as national objectives and guidelines. To implement these priorities at the national, European and international level, the Commission presents seven initiatives (European Commission 2010c):

1. Smart growth - strengthening the knowledge and innovations, improving the education system, lifelong learning (only one among three people of the age 25-34 has the university education in Europe; European Commission, 2010), research promotion (the European R&D expenditure is less than 2%), aims to turn ideas into innovative products and/ or services, resulting in promoting creativity.

- 1.1. "Innovation Union" is related to the establishment of the research area to promote business innovations, the support for innovations, enhancement of the co-operation between the education and business.

- 1.2. "Youth on the Move" is oriented to the modernization of a higher education and enhancing the mobility programs of researchers and universities, promoting entrepreneurship, youth employment, investment in education, integration into the labour market.

- 1.3. "Digital Agenda for Europe" is to more rapidly develop a high-speed Internet and to ensure households' and businesses' access to the common digital market.

2. Sustainable growth is a more economical use of resources, leadership in the clean technology, increasing renewable energy use.

- 2.1. "Resource-efficient Europe" is to support the resource-efficient technology.

- 2.2. "Industrial Policy for the Globalization Era" is to compete globally, to support the business, in particular micro, small and medium-sized companies.

3. Inclusive growth is to guarantee employment for people, to renew the labour market, to take care of the social security, investments in human skills (lifelong learning opportunities are perceived and used by more educated people) to fight the poverty (people whose salary is not enough to overcome the poverty threshold).

- 3.1. "New Skills and Jobs Agenda" is to give people the opportunity to improve skills all their life, to increase the labour supply and its mobility.

- 3.2. "European Anti-Poverty Plan" is to provide conditions for everyone to take advantage of new jobs offered to the poor and socially excluded residents to live in the dignity and participate in community activities.

In order to ensure the welfare of future generations, one of the key aspects of the creative society is the mobility, which opens up great opportunities, not only the knowledge and skills, but also the promotion of the cultural

diversity. “The creativity is born at a local level, but its effects can be spread throughout the world” (European Commission 2010: 12). For this reason the promotion of artists’ and creators’ mobility could allow the access from the local to global levels, increasing the visibility and attractiveness.

The mobility contributes to the development of skills among artists and cultural professionals, the artistic development, wider career opportunities (exchange programs, international exhibitions, and festivals), supporting emerging talents and the diversity of the cultural knowledge. The European Union carries out the international cultural exchange and trade activities in accordance with the UNESCO Convention on Cultural Diversity and Promotion (2005) (European Commission 2010). In accordance with this Convention, the European Union is in line with principles of the equal opportunity, openness and balance, based on the international co-operation, cultural exchanges, solidarity and partnership; thus, demonstrating the openness to other cultures of the world. In 2009, the Council of the European Union provided findings related to the creativity of a younger generation (the encouragement of creativity and innovative skills of children and young people through a cultural expression and access to culture). These findings are to ensure a global competitiveness, to promote a cultural dialogue, to reduce gaps among the member states in terms of developing skills of children and young people in the field of creativity and innovations, entrepreneurship promotion, the knowledge of arts from an early age, collaboration with artists, enhancing the creativity and innovations of children and young people, promotion of the culture in educational organizations and the access to culture for children and young people.

To encourage the creativity of a younger generation, the Council of the European Union (2009) has identified six priorities: to involve children and young people in the promotion of cultural policies, to optimally exploit the potential of the educational sector in order to enhance the creativity through the culture and cultural expressions, promotion and sponsorship of cultural institutions, including children and the youth; talent and creativity encouragement through the culture; executing social inclusion strategies for children and young people; a better access to the culture while encouraging the use of ICT (information and communication technologies) for all children and young people; facilitating the exchange of good practices and developing the evidence-based knowledge in this area. The early stage education and creativity encouragement are crucial for a better performance of entrepreneurs. It could be explained via lowering the uncertainty avoidance in a country (in many cases leading to a smaller fair of failure) and developing skills to acknowledge existing capabilities in the market along with skills and knowledge. Thus, the further sections of the article are to present the Global Entrepreneurship Monitor-based research methodology and examine the role of creativity on entrepreneurship in the context of the symbiosis of arts and business.

#### **4. The research methodology**

Having the main trends of developing the culture worldwide, the role of culture for a sustainable EU social and economic development, and the role of education in bridging the creativity and business well developed in the previous sections, the publication is continued by the examination of the role of creativity in Lithuanian business, based on the data of Global Entrepreneurship Monitor (GEM 2011). In this way, insights and arguments on the role of creativity on entrepreneurship are supported by results of GEM (2011). Lithuanian entrepreneurs and entrepreneurship-related experts are the principle focus within the research. The data of the Lithuanian Entrepreneurship Monitor is collected from two researches, based on the GEM methodology.

The research was conducted in September 2011 by the team of the International Business School at Vilnius University, composed of 5 members. While conducting the research, the International Business School at Vilnius University was tightly cooperating with the public enterprise “Enterprise Lithuania”, which showed a continuous support and assistance. The first research is the quantitative survey, where 2003 Lithuanian adults of the age group from 18 to 64 are interrogated. In general the adult survey is to identify the citizens’ role and characteristics in entrepreneurial activities, while the focus of the article is on the role of the creativity. Therefore, only the data related to the creation process and creativity is taken into consideration in the context of the entrepreneurship. 43 per cent of interviewed respondents had a higher education. Two groups of respondents were specified: respondents who start or help to start a business without revenues received yet (N=255) and respondents who are already owners of their businesses (N=307).



The second research is the qualitative experts' interview, driven by the purpose to identify the experts' perception towards the main factors driving entrepreneurship activities in the country as well as a social image of entrepreneurs. There were 36 experts interviewed from such fields as finances, governmental programs, education and training, R&D, business and physical infrastructure, market openness as well as cultural and social norms in Lithuania. A social image was an additional group of questions, initiated by the Lithuanian team. Although a social image of entrepreneurs derived from three main groups of factors (the citizens' opinions, social norms and support and the perceived opportunities and skills) the present publication is mainly oriented to the aspect of creativity, as it is an important link of arts and business. To achieve the target of the article, which is the identification of the role of creativity in businesses, first of all it was tried to understand the citizens' attitude regarding entrepreneurship, particularities of entrepreneurial activities, entrepreneurs' education as well as the attractiveness of their career. These insights were followed by social support while choosing a businessman career; and the last aspect was related to the perception of their capabilities and skills to start a business. Although the Lithuanian Entrepreneurship Monitor (2011) was related to the specificity of the Lithuanian market, it allows the policy makers and researchers to position Lithuania in terms of Entrepreneurship among other countries, and it could be of an important value for further analysis and conceptual modelling, related to possibilities of linking arts and business via the creativity.

## **5. The role of creativity in business**

The analysis of the role of creativity in business could be started from briefly describing the Lithuania's entrepreneurship profile, while positioning it among other countries. As it is stated in the 2011 GEM report, Lithuania is being globally ranked at the 40th place, based on the Human Development Index and the Global Innovation Index (2011) (in 2012 Lithuania occupies the 38<sup>th</sup> position, according to the Global Innovation Index ranking), and reaches the 27th position regarding the Doing Business Index. The main strengths of the Lithuanian entrepreneurial performance are the total early-stage entrepreneurial activity, as a medium-high job expectation, and the entrepreneurial employee activity (EEA). A relatively low global ranking, according to the perception of happiness – Happy Planet Index (120/151 in 2012), is accompanied by low figures of perceived opportunities and capabilities. These aspects significantly contribute to the creativity in businesses. Lacking behind many countries belonging to the innovations-driven group and some countries from the efficiency-driven group Lithuania possesses citizens with rather positive opinions about entrepreneurs.

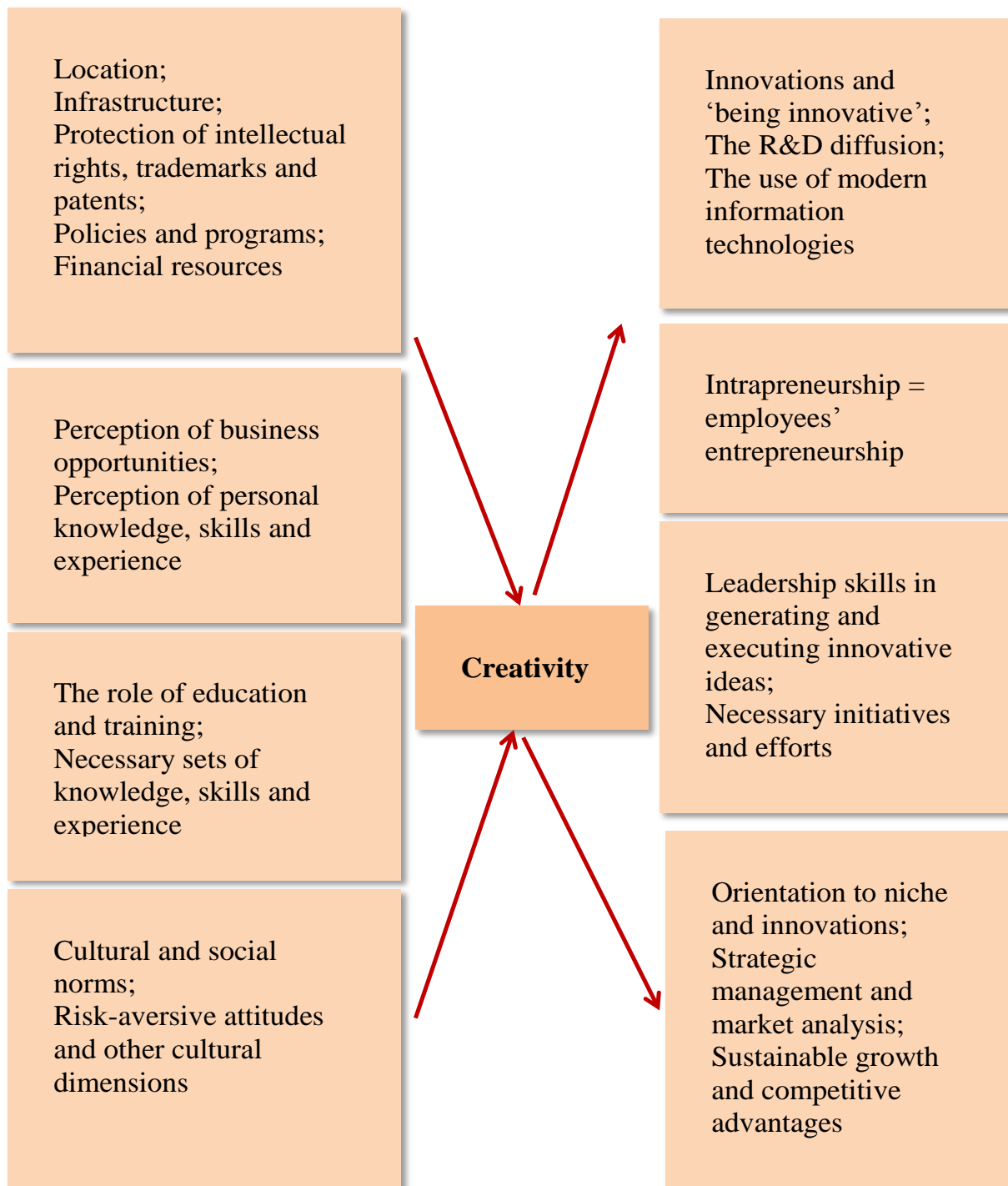
In 2011 more than half of the population believed that businessmen worked harder than representatives of other professions, 47,7 % of respondents considered entrepreneurs as highly educated, while 47,5% admitted that Lithuanian entrepreneurs thought only about their pockets. It should be added that 83,7% of Lithuanian citizens appreciated the entrepreneurs' role in creating new job positions in the market. Overall 45% of the population found out more advantages than disadvantage of being an entrepreneur. Coming back to the previously disused links of arts and business, the creativity is one of the most important linking elements; however, the concept of creativity is not clear and across businesses manifests in various forms and characteristics. One of them is innovations and 'being innovative', as new processes, products and services are always human resources-intensive, while the knowledge diffusion among members of an organization and strategic management of human resources should encourage the creativity. Based on GEM research results (2011), only less than 15% of respondents do not agree that entrepreneurs are innovative (45% agree with the statement). A positive social image of entrepreneurs (one third of the population positively evaluate Lithuanian businessmen) and an energetic power of business people (more than 70% agree that entrepreneurs are energetic) emerge as important drivers of the Lithuanian national innovation system, where the creativity is of significant importance.

The creativity could be also imprisoned by the risk-averse attitudes, as nearly half (49,8%) of respondents afraid to start business because of the necessity to manage risk well. It is interesting to note that in 2012 the entrepreneur's profile switches from the necessity to opportunities-driven business; however, it is accompanied by the decrease in the total early-stage entrepreneurial activities, which indicates appearing good opportunities in the labour market (GEM 2012). Based on annual GEM results (2011), Lithuania was closer to the innovation-driven group of countries than to the efficiency-driven countries regarding figures related to entrepreneurship, which could be

described as the employees' entrepreneurship. This is a partly favourable indicator, as the entrepreneurship is also related to the creative incentives and innovative activities of employees. On the other hand, it indicates that respondents are afraid to be creative and innovative running business alone, without being linked to their current or past employer. While working in organizations (63,1% of respondents) 19,1% respondents were active in creating or executing new activities for their employer. As it is argued by Laužikas and Dailidaitė (2013), it is useful to have a look at leadership skills in generating innovative ideas. The concept of idea and invention is often confused with the notion of innovation. Without naturally emerging leaders and formal process of commercializing innovative ideas it is impossible to generate a value-added. The fact that more than one third of respondents managed the process of generating innovative ideas, more than half of respondents helped to generate those ideas, and 57,4% of respondents were involved in the preparation or execution process shows the sustainability of innovation processes: many respondents cross different stages of the innovation development process, not stopping at the stage of generating innovative ideas (Laužikas and Dailidaitė 2013). Relying on Lithuanian experts' arguments, the role of education and training is crucial in enhancing the citizens' creativity; however the present education system in Lithuania pays insufficient attention to the creativity and creation of new businesses. Based on their opinions, the orientation to entrepreneurship is the most vacant in primary and secondary schools (stated by nearly two thirds of experts). 50% of experts consider the situation in colleges, universities, business trainings better in preparing graduates able to create and develop their own businesses. The professional, vocational and continuous education is evaluated at the highest rank (only one third of experts value it pessimistically). Some important signals, according to more than two thirds of experts, should be sent towards the role of national culture in encouraging risk-taking while developing entrepreneurial activities as well as the creativity and innovativeness (more than half of experts are not satisfied with the national culture in boosting the creativity).

Apart from the cultural support, entrepreneurial activities should be accompanied by a necessary set of knowledge, skills and experience: 86% of GEM experts strengthen that people do not have sufficient experience to commence a new business or to develop a rapidly growing business. Over 70% of respondents state that people are not able to react and organize necessary resources for business. This calls us back to the previously discussed role of education, particularly of study programs that merge the business and arts, with a special emphasis on entrepreneurship and creativity. However, the cultural support, education initiatives are not enough to merge the business and arts. The protection of intellectual rights, trademarks and patents should be guaranteed in order to encourage the creativity and inventors' potential. Based on GEM experts' responses (2011), the intellectual property rights are weakly protected in Lithuania, which emerges as a serious barrier for young creativity-driven businesses. The Perception of the role of innovations among firms and consumers is related to the percentage of answers regarding what part of potential consumers (all, a part, no one) will perceive products and services as innovative: 54,8% of respondents who are involved in the process of business creation do not believe that consumers will consider their products and services as innovative, while 52,8% of respondents feel a severe competition in the market. More than two thirds of respondents, who already own their business, believe that their offered products and services are not innovative. Similar situation is across all the analysed sectors, such as Mining sector/ Agriculture, Technology-intensive sectors, Goods and Services for Consumers, Business Goods and Services. Notwithstanding such demanding data, it is pleasant to know that all the mentioned sectors experience a slightly positive transformation towards the innovations-driven businesses and a better positioning among competitors via a more ingenious market analysis and strategic management techniques.

The present section of the article is terminated by presenting the conceptual model of the role of creativity in sustainable business which could be used for the further research on the combination of business and arts (Figure 1).



**Fig.1.** The role of the creativity in business

*Source:* prepared by authors, based on the Lithuanian GEM (2011) report

First of all there should be a set of factors influencing the enhancement of creativity identified. As it was stated by our experts (GEM Lithuania 2011) some factors are more of exogenous nature; it is unlikely possible to rapidly change a location, infrastructure, protection of intellectual rights, trademarks and patents, governmental policies and programs or the availability of financial resources; however, all of them are of significant importance for the creativity. These factors are accompanied by the perception of business opportunities and personal knowledge, skills and experience that are mainly influenced by the education and training as well as cultural and social norms.

Allocating funds for creativity is wise for many reasons: the thing that the creativity emerges in forms of innovations, R&D or technologies advises managers to tackle all the creativity-related issues as the main priority. It is also necessary to enhance employees' entrepreneurship which is directly related to leadership skills in generating and executing innovative ideas, necessary initiatives and efforts. Having no creative and innovative thinking on board as well as no funds or formal process to enhance the creativity within the organization the orientation to niches and innovations is endangered, while strategic management and market analysis do not focus on a sustainable growth and competitive advantages.

## Conclusions

Within the cultural exchange, development policies or external relations the cultural dimension is crossing the boundaries of the European Union. It promotes the solidarity, opens new possibilities of international economic and social relations, mobility exchanges and the access to goods and services of various cultures. It is becoming a global trend to focus on preparing a larger number of innovative and creative people capable to understand the mutual relationship and synergies between arts and rapidly changing global business world. The implementation of study programs that merge arts and business is associated with the world's on-going creative international trade in goods and services. Though the Lithuanian education system currently does not possess a vast assortment of postgraduate studies in developing the creative economy, there could be some minor exceptions found. The initiatives to encourage the creativity of a younger generation at the EU level (six priorities stated by the Council of the European Union) should be accompanied by evident efforts at a country's and company's level. Taking into consideration that the creativity emerges in forms of ideas, entrepreneurial initiatives, innovations, R&D, technologies, managers should tackle all the creativity-related issues as the main priority. Employees' entrepreneurship is directly related to leadership skills in generating and executing innovative ideas, necessary initiatives and efforts; thus, having no creative and innovative thinking on board as well as no funds or formal process to enhance the creativity it could be difficult to achieve a sustainable growth and competitive advantages of businesses.

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## ENTREPRENEURSHIP AND SUSTAINABILITY ISSUES

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### PHILOSOPHICAL, LEGAL AND GENERAL THEORETICAL ISSUES OF LEGAL LIABILITY

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**Abstract.** Traditionally idea of legal liability is limited with the past actions, so called negative liability. Even variety of ideas and tractates can be seen at the supporters of this approach. In the same time amount of studies of the positive liability is growing within recent decades. Even more – scientists have announced that the liability can be only positive and that the protection of subjective rights and legal interest is performed by means of state enforcement. In this article theory and conception found in scientific literature of the legal liability and that interprets it both positively and negatively is critically analysed as well as objective and psychologically – subjective base of legal liability is being researched and on such basis understanding of legal liability will be established. Specific indications will be separated; the totality and forms of implementation will be fortified.

**Keywords:** social liability, legal liability, negative (retrospective) legal liability, positive (prospective) legal liability, forms of implementation of legal liability, public relations

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## 1. Introduction

The progressive development of society persistently requires a comprehensive approach to solving a number of pressing issues of the present time. Among them the problem of mainstreaming the personal factor based on the expansion and enrichment of the social relations of a human being and society, which, in turn, stipulate enhancing the role of personality, different kind of social formations (societies, personnel' teams), holds a specific place and, consequently, their social liability to the society in all spheres of social life, as well as of the society before them. In this regard, the search of the most effective ways and sufficient means of adequate formation of a responsible approach to the business put into a person's hands, research related to defining the nature and manifestation of social features (including legal) of liability in reality both in the regulatory and structural and functional aspects thereof. The laws governing the market economy urge to provide growing of the regulatory role of law in the vital activities of the society by expanding the discretionary management, providing for maximization for an individual, the subjects obtaining a special legal personality of the options of individual self-regulation of their social activity. The latter becomes an indicator of liability for the selection of such a manner of putting into effect the objective social needs perceived by the personality as own needs. The search for new solutions in view of the actualization of certain phenomena of social reality not only leads to differentiation, but also to the integration of scientific knowledge. These processes quite perfectly are reviewed when applicable to the issue of liability, which lately has become to be of a multi-disciplinary nature out of the problem being mainly of a legal nature. This is explained by the fact that the liability entails an extremely wide range of phenomena and acts in all spheres and areas of human

activities where there is the need for harmonization of social, collective and individual interests, to keep all those involved in the social relationship within a reasonable, compromise and positive behavior. Now representatives of many sciences, who are aware of social disadvantage in all spheres of public relations regulated, among the number, with the help of liability are interested in the issue of liability (Agejeva 1990). Moreover, each of them in the general scientific object of cognition singled out own object of the research (legal, moral, political liability) taking into account the presence of both specific and general indications being common to all types of liability. In this regard, both identification of individual types of liability with its own nature (social liability) and opposition thereof are obviously inadmissible, which sometimes takes place in the legal literature (Sapun 1982). As was fairly marked by Halfina (1974) "... in recent years, there are made attempts to construe the term (liability – A.B.) in terms of its philological value." In law, she wrote later, this term has acquired a well-defined content, distinct from commonly understood. In the opinion of Halfina (1974) the significance and meaning of this concept lies in negative consequences that occur for a person who committed any unlawful act. Hence, according to her it follows that the liability - has nothing to do with understanding of the commonly used special term (Halfina 1974). It is clear that the use of the term "liability" in its ordinary sense is not sufficient. But numerous attempts taken in the science to develop the scientific definition for the liability, give evidence to the ambiguity of the term and multi-dimensional and many-sidedness of the problem of liability. Clear evidence thereto is different "content" and the use of the term "liability" to describe various aspects, the sides of conduct of any subjects and a variety of phenomena, even within the limits of one of the sciences (philosophy, sociology, psychology, law, etc.). One can not fail to note that the research of liability in terms of freedom and necessity, the correlation of the concept of liability and multifaceted interpretation of social freedom, the internal duty, the moral law, discharge of duties to the society is common in philosophy.

## **2. The objective aspect of legal liability**

The emergence of liability as a social phenomenon follows from the need to cover the general rule of repeated acts of production on daily basis, distribution and exchange of products and to take care that an individual would be submitted to the general terms and conditions of production and exchange. Social liability - the essence of the element, the side of social relationship based on social norms relative to enjoyment of the opportunities corroborated therein and the ought (considered both in terms of personal attitude of a subject to the acts of own conduct and in terms of compliance thereof with their social expectations), between the subjects of liability and any supervisory authority. As one of the forms of manifestation of communication and interdependence of the individual and the society (the individual and collective, the collective and society), which arises objectively in the process of human communication, liability in the society is of a bilateral nature: liability of the individual to the society (the collective) and liability of the society (the collective) to the person performing on the one hand retaining, and on the other - the role orienting and stimulating to the social activities being valuable to the public. It is known that the liability cannot be thought without freedom, just as there can not be freedom without liability. Any free, by its nature act of behavior inevitably raises the question of liability. Being a public person a human being exists and cognizes the world in the system of particular relations, where his/her position is fixed by the dialectical unity of freedom and necessity. Freedom (freedom of the will as a particular manifestation thereof in terms of specific social organization) is in the cognition of the laws of nature and society, enabling purposeful use of it in practice, in the ability to make decisions competently.

Freedom is defined and assessed (in terms of its level), through necessity. The need for acting as the tendency of the development of the heart of the matter, represents the compliance with law, objectively stipulated in the chain of cause and effect relationship of the development thereof, being the most material connexity of phenomena. It (the need) conditions or defines not only the activity itself and also the range of opportunities, which is given in a specific situation. Ultimately, the need is determined by free choice of a particular behavior. At the same time, it should be taken into account that freedom - is not a passive impression of reality reflecting the contemplative attitude of the people to any event. On the contrary, freedom gives rise to self-determination of individuals, their cognitive activity arming the subjects of the action with the knowledge of objective necessity, and thereby providing them with the necessary (in terms of their position in the structure of social relations, needs and objectives of activity) the means to use the acquired knowledge in their substantive-realizable activity. In other words, if the theoretical and intellectual level of freedom consists in the possibility of cognizing the world, as well



as its continuation is specified in the freedom of conscious choice, then at a practical level - in activity (provided the appropriate means available) putting into effect this knowledge taking the account of the aims set by the subject, the setting whereof is the result of awareness of the specific needs. Thus, the freedom contains within itself the need in a "shot" form. Value categories of freedom and necessity can be represented as a dialectical unity (the dependence on the one hand and the relative independence - on the other hand, from each other) of these two opposites. Therefore, if it is true that activity of the subject is determined by an objective necessity, it is also true that to a large extent it is determined by his consciousness and will. Conscious goal-setting activities of the people dictated by the cash needs, without abrogating (and not substituting in the mind) the objective regularity of development (the need) may use them in the most effective way within the certain limits, choosing the most optimal ways and means of solving the problems facing them in a particular situation, i.e. to dominate over the need and itself. Only in this event, human activity is free, and is not only of the desired nature. In this regard there appears and gets its methodological basis the problem of enhancing an individual directing and promoting his/her social and helpful behavior, which seems to mediate the recognized necessity, complies with it and in this regard is the factor of accelerating the development of the processes occurring in reality. In any society, the need for an objective necessity is expressed in the form of specific rules of behavior, accumulating the accrued experience of social interaction, taking into account the specific conditions of a normal human life and society. In changing these conditions and, according to them, the rules of conduct, the society is given the opportunity to deliberate modification of the need by creating new necessities, the necessities of any other order. Turning of the need for freedom takes place in a circular motion, breaking up into two stages: first, the transformation of "things in themselves" into the "thing for us," i.e., transformation of the necessary as the objective category into the element of consciousness, or otherwise the subjective category forming a mental image (model) of practice, and thereby determining the content and direction of development and, secondly, the return of the ideal-subjective substance in the objective category, i.e. materialization of the earlier specified model of behavior in particular activities. Nodal points of this process are: the necessity - the need - the interests - realization of the interests - practice - freedom. Freedom - the concept, which the object is determined by many factors of the historical development of a particular society. Just in this context, people talk about the level of attained freedom, implying by it the ability to commit a conscious choice based on the cognition and in accordance with the objective necessity. Assessment of this choice just represents the liability. Thereby, freedom is the condition of liability. The dialectical nature of the relationship between freedom and necessity derives its concretized expression in a relationship of liability. The liability, as an objective attitude of the individual to the society (the collective) as well as of the society (the collective) to the individual, is reflected in the content of his/her consciousness, just as in the content of social consciousness and, therefore, becomes a subjective quality, an element of personal/social (collective, group) consciousness. A person's ability to value the significance and consequences of actions committed by the person, the existence of a liability as an internal incentive to socially useful activity, characterized by the level of activity and initiatives in the implementation of what is possible and appropriate is connected just with the consciousness. In this regard, it is necessary to draw attention to the substance of liability, both in objective and subjective terms, which are as if the continuation of, the development of the same name of its premises (the foundations), moreover, that neither the subject, nor the controlling authority were not adequately able to take into account the actual relation of objective and subjective in their choice (Chermenina 1965). The objective basis (or assumptions) for liability are: first, the inclusion of the subject of liability in a system of social relations, his/her role and place in the system of social relations of the society, not only the determinative orientability, and also the limits and the opportunity for making free and conscious choice of a particular variant of the behavior and its smooth, initiative implementation, mediating expedient communication of public (collective, group) and personal interests, or who prefer the satisfaction of personal interests to the detriment of the public; and secondly, the presence of social norms that fix the original and the basic position of the individual, and his/her particular situational position in the relationship with the collective, society, another social community. Affirming the social nature of a human being (as a product of social relations in the framework whereof it is integrated), however, it is not possible to state that the formation of his/her responsible behavior is to the full extent the result of the impact only on the personality of the world around him. Equally with the determining value of the role of external (objective in relation to a human being) factors of behavior, internal (subjective) factors acting in indissoluble unity with the objective factors play an important role. Speaking of freedom, in the philosophical literature it is distinguished the freedom of conscience, understood as the possibility and the ability of cognizing laws existing in a society (objective necessity), that is "Theoretical mastery" by them in a perfectly subjective form and the freedom of practice, free



will and free choice (Maneshin 1984). The dynamics of the movement from freedom of consciousness to the free will and from it to the freedom of choice characterizes as if the specification (phased development of a subjective basis) of liability to incarnation thereof as a result and, consequently, in the subjective content of liability. As the elements that make up the contents of liability in subjective terms, in our opinion, should also be included: the ability of an individual to assess own actions in accordance with the interests of the society (Panov, Shabalin 1976) and others, his desire for self-fulfillment, self-realization in the objective world (Mislivchenko 1972), the ability of the subject to anticipate the results of own behavior and the willingness to accept (being subject to) assessment. These of traits personality, where the intellectual beginning prevails, are necessarily linked in the subjective content of the liability with components of the mental order, such as motivation, setting, etc. What components of the content of liability should be included in the objective basis of liability? First of all, we should note that in the philosophical literature, the objective aspect of liability is often identified with own assumptions, or is characterized as its structure. Some authors specify the following to be the elements of this structure: the subject of liability, which shows “who is responsible”, the object of liability that characterizes “what he/she is responsible for”, the authority specifying “before whom to be accountable” (Panov, Shabalin 1976; Jakovlev 1975).

According to others it is required to discern the following in the structure of liability: the subject of liability, his/her social significance of the behavior, the object of liability penalty. At the same time we shall note that it is hardly justified to specify sanctions (as well as to use this term applicable to social liability), in lieu of or in the same conceptual row with the controlling authority (Sapun 1982) as saying about it, we for sure mean not only before whom the subject bears liability and the measure of his liability and the form, the measure of his/her liability (as well as to what extent he/she is responsible), insofar equally with making the control, with the use of appropriate injunction, when necessary, the functional role of the controlling authority lies in this with respect to liability. Moreover, it should be noted that the structure - is the external form of the content. Therefore, it is difficult to agree with the inclusion of liability and supervisory authority into the content. Otherwise, in our opinion, is not consistent with the notion of “content” either in philosophy or in law. It seems more correct to speak of the mechanism, or better - of the system of implementation of the liability. Continuing review of views on the structure of liability, it is impossible not to draw attention to Plahotnij (1972) point of view that represents it being composed of: socially significant behavior of the individual, free will, measures of social pressure applicable to the personality. Multilateral, multi-pronged approach to the issue of the structure of legal liability shows a number of works of scientists being lawyers. In particular, Chernih (1981) writes on a static, dynamic, attribute and functional structures, which are considered by him as a system of interrelated elements. Revealing the contents of a static structure, he singles out liability for responsible decisions made by the subject, for the committed acts and consequences thereof, in the dynamic structure - the establishment, implementation and consequences of exercising liability; in the attributive structure - both positive and negative liability; in the functional structure - ensuring the qualitative behavior of the subject of liability, the impact on him upon culpable, misconduct (we would add – upon the socially beneficial behavior exceeding the regulatory level), the prevention and bringing up (Chernih 1981). Analysis of the content of liability (in the unity of objective and subjective) as structurally complex circuit elements (levels) of its consistent implementation is noteworthy as well. Here the following levels are singled out: cognitive, assuming liability for the correct definition of a progressive and objective necessity, axiological level - responsible for the proper assessment of the existing opportunities for actions in accordance with the need for socio-reasoned selection of the alternative behaviors; instrumental and correction level - responsible for the correct choice of the means, methods of implementation of objective necessity, liability for the volitional activity, for strong and the weak will; practical level - responsible for the results of practical actions that implement the requirements of objective necessity. Prerequisites of social liability and their elements get their specific expression, entering into the operation of the system of putting into effect the liability, which we consider below, paying a special attention to the fact that characterizes it as an objective attitude.

As noted earlier, the laws of social development have a tendency for expression thereof in the form of a certain kind of requirements (social norms), addressed to members of the relevant social organization (the controlling authority), which serves not only as the subject of cognition of processes and phenomena of the objective reality, and also as the subject of organizing their conscious use in order to ensure social progress and all-round self-realization of the intrinsic qualities of individuals, determining the scope of possible and proper behavior (i.e., the subject of rulemaking). The social norm - it is usually obligatory social and valuable and in this regard, significant

behavior established by the relevant organization (agency), or arisen on the basis of recurring relationships between people and aimed at regulating the social relations, expressing the will of the people dependent upon the level of material development of the society and provided by the measures social influence or public coercion (Kulazhnikov, Shepelev 1985). The meaning and the main purpose of social norms is that, on the one hand, to ensure a state of dynamic equilibrium of vital activity of the society (another social community), the conditions for all-round, harmonious development of the members of the society and, on the other - to make an active contribution to the progressive processes, solving actual problems of the development of the society, altering the ratio of the possible and appropriate, thus opening the ways for the emergence and development of new objective laws of social development. In the social norms (legal and illegal) by way of fixing the basic "powerful" lines of interconnections and interdependencies, it is determined position of the subject in his/her relations with the society, collective, another social community (by the controlling authority and the subject of law-making), as well as with other people.

The content of these relations is determined by the requirements dictated by the objective reality as a whole, and a particular situation imposed on the behavior of the subject. In other words, the objective content of liability lies in quantity and quality of work, extent and direction of activity subject required by the situation (Kulazhnikov and Shepelev 1985). Singling out in the system of implementation of liability, above all, the relationship, "the controlling authority - the subject of liability," which has in the initial item of the development the objective (as an appropriate setting), and at the final destination - the subjective (such as awareness by the subject of the standard conduct dictated by objective necessity) nature mediated by the content of social norms, it should be noted that these (social norms) establish not only the nature of their relationship, but also the social conditions (the conditions) and the model of motivational content, which expresses the relationship of social and psychological factors: needs, interest, goals, values, settings of the required behavior. So, through these social and psychological factors the social norm affects the selection of useful and social alternate behavior. Thus, the relationship of "controlling authority - the subject of liability" is the process, within which course there takes place the transfer of objective requirements of social norms in the structure of consciousness with the help of a psychological mechanism.

The relationship of liability for sure exist independently of the fact of awareness by the personality as own personal liability to the controlling authority. As noted by B.S. Jakovlev (1975), different forms of accountability: political, legal and others exist as an objective relationship. But in the case of understanding thereof, the objective relationship of liability continue to exist not only in this capacity, but also as quality of the individual, allowing for the selection of their behavior taking into account the consequences thereof for other members of the relationship. This quality, depending upon the specific rules and the regulated relationships can be both moral and legal. In this context, hardly sufficiently is justified the idea that bringing up of liability in the individual implies its moral liability only, regardless of the specific scope of his/her activities (Jakovlev 1975). Further movement of the relations of liability is aimed at putting into effect their practical act of responsible behavior and represents the process of objectification of the subjective. Applicable to the legal norms the process of transfer of legal requirements that have become the elements of judicial awareness, in the conscious activity of the individual develops, passing the following stages: awareness of the law in the unity of legal knowledge, evaluative attitude to law and readiness for legal activities) - encouraging (in the form of legal motives) - and duly ordered and directed lawful conduct (Oksamitnij 1985). The latter often depends upon whether the person had sufficient means in this situation for putting into effect the requirements of social norms. It is clear that in determining the proper scope of duties and setting what is possible, the controlling authority is obliged to ensure implementation thereof. In this regard, at this stage of the development of relations of liability it is expedient to envisage the possibility of applying injunction that comply with its normal pattern of the behavior, distinctive of the means of controls and used on the basis of information obtained in the course of monitoring the behavior of the subject. Along with the earlier specified means the socially beneficial behavior, controllability and accountability and encouragement (as well as the deprivation or restriction in the use of certain subjective "rights") of the subject of liability have a useful influence on the result, i.e. response of the controlling authority (methods how to ensure the responsible behavior of the objective order), the willingness to undergo evaluation by the supervising authority (the factor of subjective order). Correlating a particular act of behavior with a "model" behavior established by the regulations, the controlling authority gives assessment thereof. In this case the compliance of the real behavior with the desired social norm of behavior characterizes the latter as a socially-useful and therefore responsible, where the liability

is manifested in its active form. Establishment of inconsistency thereof leads to negative liability which ultimately materializes for any adverse consequences for the individual, i.e. punishment. In active (positive, prospective) liability essential personality traits are disclosed the most realistic: the ability to enjoy the freedom of will, activity and initiative to use the opportunities granted for comprehensive development, non-abuse of the subjective rights, knowingly and voluntarily performing the duties imposed on the person. Coordinated interaction of the elements of the objective side of liability, to which we include: rules - controllability or accountability - the action of injunction or security of responsible behavior - exposure to the assessment - social and active behavior - assessment - response of the controlling authority (encouragement or denial of promotion/impairment or depreciation/ in exercising the subjective "rights") encouraging to committing certain behavioral acts by the needs and subjective, where a person defines the principles and forms of own activities, stipulates the specific content of liability. Major scientists who study this problem point out to these two internally interacted sides of liability.

### **3. Legal liability as a subjective - psychological category**

The presence of objective and subjective sides in the content of liability determines the peculiarities of its formation as well. A determining influence on the formation of liability of a personality is exerted by a social reality, which finds its manifestation in corresponding norms. At the same time, in the process of "assimilation" of the content of legal rules by a personality, the code of behaviour contained in the legal rules gets deflected in the system of social and psychological factors of the personality and thereby exert a regulative influence on the personality's activity. As Lukasheva (1973) mentions "the process of implementation of a legal rule is the interaction of its demands and consciousness of an individual." From the point of view of its subjective and psychological content, liability appears as a unique state of individual consciousness (Anisimov 1979), where in a varying degree depending upon the deepness of cognition, breadth of theoretical assimilation of the social code demands, the movement of the entire system of implementation of liability is reflected sequentially. Therefore, the issue on liability in whole and on positive liability in particular is urgent, conditional upon a conscious assumption that the subject of liability is aware of the content of the requirements necessary in a given situation of social norms, since otherwise even at a formal coincidence the conformity of actual behaviour to the criterion one, the freedom of will and the liberty of choice are out of the question, because the subject does not face a dilemma whether to follow the ordinance of such norms or to choose another behaviour options. It stands to reason that the wider the borders of the freedom of will, of liberty of choice are the higher is the level of social activity, as well as the degree of the impersonating such activity positive liability. "If freedom means the liberty of choice, then liability, - writes Smirnov (1973) - is the assessment of choice of a decision, a deed, the assessment of benefit or harm thereof for the society. To be responsible means to forecast the consequences of own actions, to be guided in own deeds by quite definite motives, for which the person is ready to be responsible vis-à-vis the society ..." (Smirnov 1973).

Objective opportunities of a free choice of a particular behaviour option, and as a result, the degree of liability of a personality depends upon his /her social role and place in the system of social relationship of the society, of other social medium. The criteria of fulfilment by a personality of his/her social role and of determination of the level of his /her liability are the expectations set by the society to the personality. They, as a model of behaviour, are fixed in corresponding rules and in reference to a personality have an objective character. In subjective terms a social role of a personality is manifested in its specific dynamic state – self-comprehension, which stems from the accentuation of own spiritual essence, of own "ego" from a definite human community, and characterizing a subjective and psychological attitude of the personality towards the society, effective rules, other people. Self-comprehension fulfils a number of interdependent functions, among which they usually mention self-cognition, self-esteem, self-control, self-regulation of behaviour of a personality (Panov, Shabalin 1976). It is commonly known that any act of volitional behaviour as the source of its movement has a corresponding need and is formed on its base and serves to satisfy such a need. Exactly they determine the motivating meaning of social norms. According to Uznadze (1966) "where there are no needs, any activity is out of the question as well" and, consequently, the same refers to positive liability as well, since the activity serves as the main criterion of its manifestation. Having consciousness and will, which is identified as a thinking activity (the brain's function), as a psychological state (an attribute of a personality), as an ability of a person to make decisions and enforce thereof (Panov, Shabalin 1976), a person gets a possibility to control his needs. The said ability finds its manifestation in

a motive. As an element of the subjective and psychological side of liability such a motive represents a relatively independent factor of movement, which both in the sense – bearing and functional aspects is connected with the satisfaction of needs of a personality. A motive of a particular behaviour is identified as an evaluating “attitude of a person from a perspective of immediate needs towards the situation”, i.e., “on one hand, immediate needs, but on the other hand – attitude towards to the situation of satisfaction thereof” are synthesized in the motive of behaviour (Nurpeisov 1984). Having an immediate waiting for its satisfaction need, a personality evaluates a social norm, which describes the nature of the required behaviour from a perspective of this need. Such evaluation results in the formation of a corresponding attitude towards the norm, inducing either to follow it or resist it, i.e., to evaluate and, according to the evaluation, act on the upside and the downside. In this way happens the formation of the motive as the incentive to definite targets and practical activity on the achievement of such targets (Jakovlev 1975). Under the influence of a motive in consciousness of a personality there forms a model of a future behaviour, which initially is identified by the subject in the most general terms. The developed model is preceded by setting up a target, which prototype is fixed in social norms.

The main moments of the future activity are fixed in the target. The final construction of a model of behaviour is connected with the identification of methods chosen by the subject for the achievement of the target or targets of his/ her activity. By implementing the target setting, where the pre-emptive reflection of a future situation takes place, the person develops a set to a definite behaviour. The content of the set is determined by the personality's targets in a dialectical connection with his/ her needs; again, it determines the readiness of the personality to realize his/ her actions, subject to control, assessment on the part of supervisory authorities. A generic term with reference to legal liability is social liability. Their dialectical interrelation is described as a correlation of general (social liability) and of particular (legal liability), as a correlation of a class and kind. To the extent that the general exists and is manifested through a particular, but at the same time is not completed with the latter, the common attributes and patterns, the forms of implementation intrinsic to social liability inevitably find their manifestation in legal liability and individual types thereof. Addressing the problem in social liability in the course of study of legal liability by virtue of the fact that only such approach implies the formation of methodological preconditions for studying this important social phenomenon.

#### **4. Conceptual approaches to the characteristics of legal liability**

Basically, social liability represents the relationship between a personality and the society, which takes the form of a system of mutually corresponding to each other rights and obligations on the observance of social norms, which fulfilment implicates approval, but behaviour inconsistent with the model rooted in them, as well as non-fulfilment – creation of obligation to endure unfavourable consequences of the behaviour deflected from the pattern established in the rule of law. Traditionally legal liability is used to be considered as liability for the past, as negative liability. “Legal liability - wrote Samoschenko and Fakurshin (1971) - since the time, when it appeared, always used to be a liability for the past, for the committed delinquent behaviour.” Or, for example, Rebane (1987) asserts: a legal liability is by all means retrospective, this is a liability for an offence. Many scientists maintain this point of view even today. From the perspective of understanding of legal liability exclusively as a liability for the actions committed, a considerable interest is represented by a concept of Bratus (1976), who assumed that a liability is a state of compulsion to the performance of an outstanding obligation. However, one must not forget that the processes of development do not leave also the legalistic notions unchanged, which content undergoes definite qualitative changes, their outward signs and properties are being continuously updated, detailed, i.e., despite their obvious stability and conventionality of understanding and interpretation they are being modified. One of the results of evolution of opinions refers to positive legal liability. A category of legal liability, which represents one of the specific forms, which has mediated a social liability, exists in two aspects: negative (retrospective) and positive (prospective), which are conceived as either independent or interrelated sides of a unified whole (Bestugina 1986), or as an independent phenomenon (Bulatov 1985), or as various forms of its implementation (Kudryavtzev 1986). If the first aspect has been studied quite fully, although a longstanding and continuing up to now discussion has not removed all controversial issues, the second aspect has been studied weaker. A negative aspect, which from the point of view of a classical rendering of legal liability, is completed with its content, which is characterized by the unity of three attributes: state coercion, condemnation of an offender and of an offence, unfavourable consequences and, eventually, reduces to the application with regard to the

offender of unfavourable consequences of his/her delinquent behaviour, i.e., negative per se response to the offence committed. To the extent that legal liability (in the negative aspect) is established as a result of a delinquent behaviour, which violates the rights and interests of a third party inflicting to it one or another harm, the application of the establishing norms appears for one of the means of protection and advocacy thereof. You can't fail to notice the diversity of opinions of advocates of negative (retrospective) liability. According to a number of supporters of such understanding of legal liability, a peculiar feature of this remedy that distinguishes it from other compensatory remedies, lies in the application of coercive measures by the agencies of public authorities, thereby distinguishing it from other compensatory remedies that might be applied to offenders directly by the authorized persons. Meanwhile, a voluntary application of these remedies does not change their nature as the public coercive measures, which content and the order of application is prescribed by law. It is not by chance that legal liability as often as not is considered as the public coercive application of any unfavourable consequences to the offender (Bratus 1976). So, for instance, the authors of one juristic encyclopaedia affirm that legal liability is "the state enforcement to the fulfilment of demands of law, legal relationship, where each of the parties must be accountable for its actions vis-à-vis the other party, the state and the society" (Juristic Encyclopaedia 2000). According to others "legal liability proper is the application of sanctions of law enforcement provisions by a relevant government authority, which is manifested in negative consequences for the offender such as deprivation or limitation of personal or material nature" (Juristic Encyclopaedic Dictionary 2002). For a third party "legal liability is a prescribed by legal provisions obligation of a subject of offence to endure unfavourable consequences" (Large Juristic Dictionary 2004).

The idea of positive liability born in the attempts to cross the strict limits of a normative approach to law, including all possible forms of manifestation of social liability, internally is inhomogeneous: it appears identical to a legal duty, or to demands of legality, or to a statutory duty of a positive nature, or a specific quality of the total (generalized) obligation, or to a category of legal awareness (Bobrova, Zrazhevskaya 1985; Chernih 1981; Matuzov 1987; Rifinyus 1983). An interesting and, at first sight, quite paradoxical idea was uttered by scientists, claiming that legal liability has a positive sign, what witnesses controversy of issues raised. The quoted views on positive liability could hardly be acknowledged constructive, since voluntarily or involuntarily they lose the specific content of this social and legal phenomenon. According to some authors, polemics on the positive liability issue seems even scholastic (Dontzov 1987). We presume that legal liability, in general, is a conditioned upon the necessity of attainment of a legally significant result (a target) qualitative characteristics of a legal status and of right – exercising activity of a subject of law (both an individual and a group), which is secured and stimulated (directed by an optimal for the attainment of this result (the target) correlation of subjective rights, statutory duties (powers) and legal prohibitions, which guarantee the necessary selectivity and independence of legal activity of a subject; controlled with respect to legally significant parameters, which express mandatory directions of legal activity with a view to presumptive correction of the said correlation of rights, duties and prohibitions, and judged by the actually attained result in the context of the level, degree of its conformity to the target of a legal regulation, with due account for the subjective and objective opportunities of a subject of law.

For the purposes of the substantiated, pretending somewhat to universality understanding of legal liability, the theoretically possible distinguishing of two aspects thereof is a mere detail: liability in the suggested meaning includes the manifestation of legal activity of subjects of law, which is at all times positive intrinsically, i.e., develops in a positive, regulatory legal relationship. In this regard we share the viewpoint of the authors, who consider a rather entrenched and fairly fundamentally come into research and practice general use concept of the protective legal relationship as untenable (Karpushin, Kurlyandsky 1974) and agree with the viewpoint of the authors of a two-volume book "Legal Framework of Socialism" in that the so-called "protective legal relationship" is differed from the regulatory legal relationship merely by a circumstance that the legal relationship assumes, as a rule, inclusion of additional guarantees of transition of regulatory prescriptions into practice in the course of implementation" (Legal Framework of Socialism... V.2. Functioning and development 1987). Essentially, this circumstance does not change and cannot change the regulatory character of this legal relationship, as of any legal relationship in general, which immediate content refers to the exercise of subjective rights and performance of particular obligations by the subjects of law, even though they are offenders, who subjected to particular measures of legal penalty (punishment) and who are at the time of exercise of right under more or less strict control of the public and legal coercion. A qualitative characteristics of a legal status and the right - exercising activity of such

type of subjects, is, surely, kind of specific, thereby, perhaps, justifying, for research, the usage of the term “negative” liability applicable to this characteristics i.e., to liability of the named subjects. But, we can judge on the latter also as on positive, i.e., legal liability in general, again only in the context of the category of a social and legal activity in the right - exercising sphere, which might be identified as “...a voluntary, conscious activity manifested in the interest to law, respect to law, recognition of a high prestige of activity of legal institutions, connected with searching for more efficient ways of application of their powers and implementation of their civil obligations, civic duty in the legal field” (Socialist Way of Life. Public - Legal Problems 1980). Consequently, underlying the unity of social liability, one should consider the presence of different forms of its implementation. In other words, legal liability is an integral phenomenon, a dialectic unity of liability for actions committed in the past (retrospective liability) and liability for the present and future (positive prospective liability). Initially such understanding of liability was worded in philosophical literature, by mentioning the presence of two abovementioned aspects, which should be considered in unity, in their correlation and interdependence, but reduction thereof to one of them was estimated as inevitable narrowing of the liability notion leading to mistakes (Grossman 1974). On these grounds, whereas the characteristic features intrinsic to the kind find their manifestation in every type, it cannot be denied that also legal liability by nature has two aspects.

The same as social liability it should have both positive and negative aspects. “Only inclusion of both positive and negative aspects into the structure of legal liability, - outlines Chukhvicev (2001) - enables to study it in the general social context and consider as a specific condition of a personality, characterizing, on one part, the person’s awareness of his role in legal relationship, but on the other part as a possibility of social influence on the person through law, for the purpose of protection of fundamental social interests. Such approach enables to point up that legal liability represents a necessary tool for achievement of true freedom by a participant of social relations” (Chukhvicev 2001). Consequently, the logic of the supporters of an exclusively negative aspect of legal liability is vicious from the outset, since it contravenes the requirements of the academic dialectical logic. Understanding of legal liability only in the light of public coercion excludes its objective necessity, as well as law in general, since represents it as violence. The fact that voluntary or involuntary at such approach everyone, save for offenders, is excluded from the scope of legal liability refers to the matter of no little interest as well. At a two-aspect understanding of legal liability it appears as integrated characteristics of a conscious, active attitude of subjects of law towards the entire aggregate of the protected by law interests (social, private, personal) (Luchin 2002). Fairly Strogovich (1979) in a number of dominant traits of legal liability emphasized the exact understanding by a citizen, a civil servant of obligations imposed on them by authority of law, correct attitude towards them, to a person to whom such obligation is owed – society, the state, a third party.

It is not least importantly to understand that legal liability exists not only for violation of law, although in such case it is manifested most brightly and clearly. “Legal liability always acts as liability for proper execution of law. And this is not just potential liability for possible violation thereof, not just a sense and awareness of liability, but real liability, real relations within the limits of law” (Nazarov 1981). Shindyapina (1998) suggests calling the retrospective aspect of liability “legal liability”, but the positive one – “legal liability.” It appears that such suggestions do not bring anything new since from the grammar viewpoint the differences in this case are not principle. So, for instance, Maleyin (1992) asserted that “punishment is the legal liability understood exactly in the retrospective aspect.” Once a legal rule is a model, a pattern, a benchmark of possible or due behaviour, the regulation of legal liability is implemented by establishing in the legal rules the permissions, obligations and prohibitions to perform or not perform certain actions that manifest the standard of evaluation of good or delinquent behaviour. Establishment in legal rules the statutory (legitimate) legal liability is preceded by any behavioural act. As writes Chernih (1998) the statutory liability is the objectively conditioned, established by law and protected by the state necessity (obligation) of conscious and voluntary fulfilment of legal instructions by the participants of legal relationship. It fulfils a constructive and regulatory function, being the pattern (structure, model) of actually responsible and due behaviour. Accordingly, the positive and negative aspects of implementation of legal liability manifest the attitude of the subjects of law towards the statutory liability. The opponents of understanding of legal liability as of an integrated legal formation speak about the merger of two contrary phenomena into one legal notion and to that end about unreasonable duplication of the terminology, which, for example, according to Maleyin (1985) results in that a basically positive legal liability loses concreteness and in fact merges with the notion of law. In this connection it is possible just to mention that the

system of legal rules has distinguished long since and expressly the norms that establish legal liability and collectively form the same-name institution. In the same way a number of academic lawyers analogize, according to whom positive liability does not bring anything new if compared to obligation and therefore refers to an artificial structure (Maleyin 1985; Halfina 1974). According to Leyst (1981) the designation of two different phenomena and relations by one term “liability” generated an idea that positive and negative liability manifests two aspects of one notion. Such idea leads to the attempts to identify the notion in general, where as a result the qualities of positive liability are transferred to legal liability for offence (and vice versa). Thereby, the view of “positive” liability merely as of the other aspect of liability - “negative” is dangerous by unreasonable shift of emphasis” (Leyst 1981). Of course, identification of positive liability and obligation is at least fanciful and disagrees with the nature of those, although interrelated, but holding different legal nature and playing different roles in the mechanism of legal regulation of legal phenomena. So, legal liability corresponds to a certain subjective right to public support, approval, defence and protection of a corresponding faithful and good practice of a person, acting as dual categories and non-existing independently, apart from each other. But positive liability has only a subjective side. In logic the term “notion” is revealed as a thought, which generalizes and distinguishes the items of a class according to the general and collectively specific attributes.

Consequently, any notion is based on certain attributes crucial for its existence per se. The attributes are to be understood as an exponent, a mark, a sign according to which it is possible to recognize, identify something. Therefore, exactly the attributes refer to the base on which not only the object of study, but, perhaps, its difference from others both similar and non-similar objects are constructed. In this connection it is clear why a variety of notions, as well as of definitions of legal liability existed at different times and exists nowadays. A different set of emphasized attributes leads to different results. By underlying the presence of common signs intrinsic to social liability in general, we can mark specific marks of legal liability. Inter alia: (1) legal liability is based on legal rules that confer to it the certainty and general binding; (2) state guarantee; (3) coverage through public coercion or convincing; (4) legal liability, as the necessary consequences, implies approval or disapproval, award or punishment; (5) legal liability is implemented in a form of action prescribed by the law; (6) legal liability basically is single, but implemented in two different forms (Lipinsky 2004).

## **5. Positive liability**

Understanding of positive liability is controversial. Although this issue has been studied for more than forty years, the accord has not been reached yet. A hypothesis of understanding of legal liability as perception of duty was advanced among the first. So, according to Fatkullin (1987) “positive liability is the perception of legal properties of own activities (omission), correlation thereof with effective laws and bylaws, readiness to be responsible for them vis-à-vis the state and society.” As arguments the opponents of this viewpoint for a reason pointed that at such approach the proper legal content is being lost leaving to positive liability just psychological and moral attributes. However, whereas positive liability is bound to a personality and therefore is characterized in the unity of its objective and subjective attributes and properties, it is obvious that such understanding of positive liability caused the studies of one of the sides of this comprehensive legal phenomenon. As often as not the following factors are included with subjective attributes of liability: awareness of legal rules, obligations, development of inner psychic attitude towards them, aspiration to commit certain actions, emotions, motives, targets (Lipinsky 2004). In an effort to overcome one-sidedness of understanding of positive legal liability caused by the obviously excessive psychologization of this legal phenomenon, at a later stage precisely the opposite approach was formed: research of positive legal liability on the part of objective attributes. In this context a viewpoint of Tarkhov (1973), who considered legal liability as a regulated by law obligation to realize own actions, is indicative. “The demand of realization refers to the main attribute and essence of liability, whether the realization would be followed by disapproval and punishment refers a completely different question.” A positive side of this approach lies in the pointing to the obligation. If we talk about the obligation to realize own actions, then positive liability transforms into awareness of duty, i.e., eventually reduces to subjective attributes. But if to have in mind a procedural obligation, then it is not absolute, since a person is not obliged to witness against himself. This circumstance quite fairly caught the eye of Leyst (2002). In efforts to overcome this shortcoming the positive liability started to be considered as a variety of obligation, but not reducing exclusively to it, as an obligation to follow legal regulations, an obligation to act in compliance with legal regulations. Such was a view of the problem under consideration

expressed by Bazylev (1985) who believed that the essence of positive liability lies in the obligation to follow the prescription of legal rules, which must be implemented in the actually good behaviour. "As follows from its content, legal liability is such a tie, within which limits the state, acting on behalf of society, formulates an abstract obligation of all subjects to perform a particular legal obligation, but by itself acts as a subject entitled to demand the performance of this obligation. Particular obligations of the subjects quasi include a rather broad in terms of scope demand of performance of certain legal obligations and observation of bans." Strictly speaking, positive liability cannot reduce to legal obligation only. This is a phenomenon of a broader kind. Obligation and liability are, certainly, interrelated, but by means are identical notions. "The notion of liability is broader than just an obligation, this is a legal relationship comprised of several elements, while any legal relationship has, at least, two subjects, whose right and obligation are corresponded to each other" (Kudryavtzev 1986). Liability represents a more capacious and broader notion, than a legal obligation. As ascertained by Matuzov (1987) "... an obligation is a concrete (standardized) form of manifestation of liability." By considering legal liability as a component, as an element of a legal status of a personality and calling it a status liability, Matuzov (1987) understands it liability for proper and correct performance of obligations imposed on the personality. This is "positive liability, i.e., liability for proper performance of obligations, of moral and legal duty" (Matuzov 1987). Mordovets (1996) by supporting in general the idea of status liability, draws attention to the correlation of positive liability and legal duty.

It stands to reason that the notion of legal duty is broader than legal obligation. "Duty, - is a sort of an objective obligation. But the notion of obligation, unlike duty, has a more concrete character... Positive liability presumes the independent, fair, active performance of obligation, voluntary abidance to statutory requirements, to principles of law. And in this context the active legal liability as if merges with the legal duty" (Mordovets 1996). A number of scientists understand the positive legal liability as a real good behaviour of a subject. For instance, according to Tarbagajev (1994) "...criminal liability may not be identified in statutory requirements as acting in a certain manner. The latter is just a legal precondition thereof, in reality is rooted even deeper – in real necessity of a subject to fulfil his social role ... Criminal liability is the performance of what is required." The essence of positive liability lies neither in the obligation to abide the law, nor in rights and obligations of citizens and of the state, but in responsible behaviour thereof (Chirkov 1996).

A legal rule establishing the model of socially beneficial and approvable behaviour represents to this effect not just the degree of freedom, but of liability as well. Positive liability is provided for by legal provisions. Therefore, while implementing rights and obligations, a subject of a corresponding legal relationship constantly correlates his behaviour with the model anticipated by the legal rule. Liability in general and legal liability in particular is inconceivable without the obligations established by legal rules. Consolidation thereof in legal rules is the statistics and, accordingly, implementation thereof is the dynamics of legal liability. It stands for reason that both legally acceptable and delinquent behaviour without a corresponding exemplary, established in a legal rule model, cannot work out. Eventually, the qualification of behaviour as either legally acceptable or delinquent is the statement of conformity or non-conformity of real behaviour to the pattern established by a legal rule; this is the finding of legal facts: either of legally acceptable behaviour or of offence. The majority of scientists engaged in study of legal liability proceed from the unity of positive and negative, emphasizing the similar-named aspects. But in this way they assert not just the difference, but also the contradiction thereof, thereby subdivide the integrated phenomenon. To this effect the viewpoint of those, who while emphasizing the integrity of legal liability, assert the presence of different forms of implementation, manifestation, at the same time preserving the unity of this phenomenon, appears interesting and more farsighted. For instance, Lipinski (2004) distinguishes two different forms of implementation of legal liability: voluntary and coercive. Nevertheless, the origination of the liability implementation form concept, obviously, should be conferred to Kudryavtzev (1986), who in the published yet in 1986 monograph "Law, Deed, Liability" wrote that "in case of violation of the established rules of behaviour, and, consequently, of demands of the social control another form of liability is implemented – so-called retrospective, negative liability." Kudryavtzev (1986), which found its development in writings of a number of scientists. In particular, Pokhmelkin (1990) asserted that what is "denoted by the terms "positive liability" and "retrospective liability" is nothing, but the voluntary and coercive forms of implementation of the integrated legal liability, which acts as the consolidated in the law measure of due behaviour...the form of criminal liability is the method of its implementation in social relationship through the medium of adequate to its demands behaviour of people." To



the extent that the provisions related to legal liability refer to an element of the statutory regulation mechanism, it is important to particularize the roots, target, principles and functions of this sophisticated legal phenomenon.

## Conclusions

Legal liability is a conditioned upon the necessity of attainment of a legally significant result (a target) qualitative characteristics of a legal status and of the right – exercising activity of a subject of law (both an individual and a group), which is secured and stimulated (directed by an optimal for the attainment of this result (the target) correlation of subjective rights, statutory duties (powers) and legal prohibitions, which guarantee the necessary selectivity and independence of legal activity of a subject; controlled with respect to legally significant parameters, which express mandatory directions of legal activity with a view to presumptive correction of the said correlation of rights, duties and prohibitions, and judged by the actually attained result in the context of the level, degree of its conformity to the target of a legal regulation, with due account for the subjective and objective opportunities of a subject of law. Legal liability develops in regulatory legal relationship.

The concept of protective legal relationship seems inconsistent as it does not bring anything fundamentally new in the general characteristics of implementation of legal liability. Legal liability as an integrated legal phenomenon is implemented in two forms: in negative and positive liability.

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## ENTREPRENEURSHIP AND SUSTAINABILITY ISSUES

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### PUBLIC SECTOR'S SUBSIDIES TO BUSINESSES – SUITABILITY VALUATION OF LABOR MARKET SUPPORT MEASURES

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**Abstract.** This scientific article explores the growing unemployment rate and its regulation through government's subsidies to businesses since it is one of the major economic issues countries currently face. The number of various State-run job creating programs is increasing in Lithuania as in many other countries. This is an important factor to all businesses, since labor costs often comprise a large part of company's expenses. The analysis of the labor costs generally are associated with two aspects – tax burden related to wages is important not only to companies, which try to minimize their expenses, maximize profit and achieve operational effectiveness, but also to public sector, which tries to collect more tax revenues to national budget and different funds. Therefore, the authors of this article identify State-run job creating programs and perform their comparative analysis. The results of the performed analysis show, that plethora of job creating programs exist in Lithuania, the implementation and use conditions of which are provided by different public sector institutions. Therefore, with the help of comparative analysis results, authors present specific recommendations to private sector in respect to effectiveness and impact of public sector's support.

**Keywords:** labor market support, public sector's subsidies to businesses, hiring subsidies, taxation, labour market

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**JEL Classifications:** H25, J33, M51, M52

## 1. Introduction

World-wide economic downturn generated the need in most businesses to decrease their expenses, and labor costs generally become the main target. One of the business areas most affected by deteriorating economic conditions were wages, and business entities behaved in one of two ways - often decreasing wages, but also, as seen from statistical data analysis, dismissing employees. These decisions directly influenced all main macroeconomics issues in the country, such as unemployment, youth emigration, etc. Therefore, active job creating policy measures are seen not only as an important Lisbon strategy implementation measures, but also as one of the most effective control measures of unemployment (Kwiatkowski, Kwiatkowska 2006, Henriquez *et al.* 2002). It should be noted that labor market support measures in the practice of European Union countries are used more and more to battle unemployment. Majority of Eurozone countries encourage entrepreneurship, aid in setting up new businesses, and provide loans with favorable conditions to sustain the existing ones, etc. (Küttim *et al.* 2011). Meanwhile, the main measures of public sector's subsidies to businesses in order to improve labor market indications in Lithuania are: labor market support through job creation subsidies and hiring subsidies, new job skills support, job rotation and self-employment. Nevertheless, suitability and effectiveness of these measures rise heated discussions among representatives of public and private sectors. However, the scientific research in this field is not well developed among Lithuanian scientists, even though discussed by many: Dumčiuvienė, Stravinskas 2012; Okunevičiūtė-

Neverauskienė, Moskvina 2010; Žalimienė 2011; Gražulis, Gruževskis 2009. Therefore, the object of this research is the existing measures of labor market support in Lithuania.

The aim of the research is to evaluate the suitability of labor market support measures initiated by Lithuania's public sector in existing economic conditions.

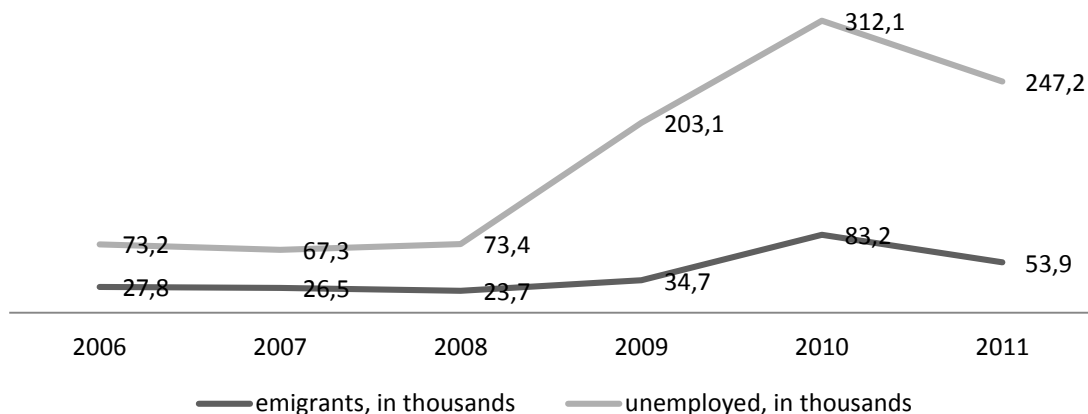
In order to achieve the research aim, the following objectives are raised:

- To analyze the need of labor market support measures;
- To perform a comparative analysis of wage related support measures to businesses by public sector;
- To foresee and evaluate the suitability of labor market support measures.

The article includes analysis and synthesis of empirical research and economic literature, practical study of public sector's subsidies to businesses in respect to implementation and use of labor market support measures in practice.

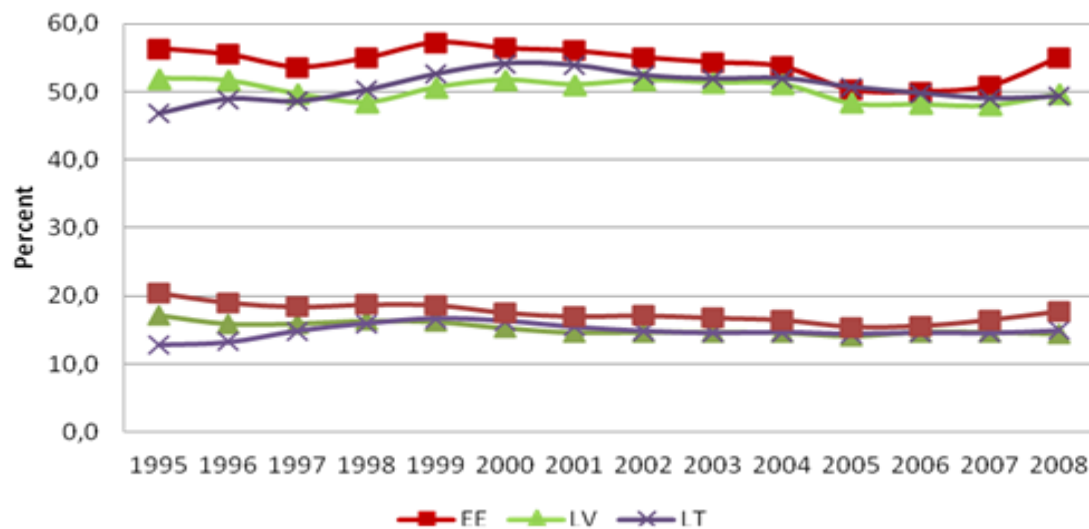
## 2. The need for labor market support measures

Evaluation, suitability and benefits of the new employment support measures became especially relevant in 2009 when a new Law on Employment Support came into force. Another important task is the creation and development of the continuous monitoring system (Jankauskas, Šeputienė 2011). The implementation of these measures is already monitored, nevertheless the search for more refined techniques that can help evaluate the impact and effectiveness of active labor market policies, continues. It needs to be noted, that the effect of labor market support measures is indeed felt in Lithuania, according to Neubäumer (2010) other countries are not exceptions as well. The growing unemployment, emigration, other social factors and their dynamics in Lithuania, show that public sector's subsidies to businesses to support labor market are needed (Figure 1).



**Fig.1.** The dynamics of emigration and unemployment numbers in Lithuania, 2006-2011  
Source: Lithuanian Department of Statistics (2013)

Continuously growing emigration and unemployment have direct effects on population aging in Lithuania, since the working-age population and the number of insured by social security contributions is rapidly decreasing. This also directly determines other problems in the country, such as decrease in the collection of taxes to national budget and other funds (Lapinskienė, Tvaronavičienė 2009). State is forced to shrink pensions to elderly, since the budget of State's Social Insurance Fund is running a continuous deficit and monetary costs of pensions are mounting faster than revenues. Many businesses started to pay wages illegally this way contributing to the shadow economy, which in turn also reduces the collection of social insurance funds (Jakštonytė 2009a). Due to these reasons and their impact, State has taken action by creating and implementing labor market support programs. Nevertheless, the programs did not receive the expected interest from business entities and the majority of companies operating in Lithuania during the analyzed period tried to reduce their costs by decreasing wages or the number of employees. The data from Lithuanian Department of Statistics shows that average monthly earnings have decreased both, in private and public sectors since 2008. The average monthly gross earnings in the country (including individual companies) have decreased from 2151.7 Lt per month in 2008, to 1990 Lt per month in 2011. Taxes from wages generate a large part of State's tax revenues in most developed and developing countries, such as Baltic states (Haufler *et al.* 2009) (Fig.2).



**Fig.2.** Taxes collected from wages in percentage of overall tax revenue (top group) and as a percentage of GDP (bottom group) in Baltic countries

Source: Eurostat (2013)

As seen from Figure 2, taxes collected from wages have a comparatively similar weight in overall national tax revenues in all of the Baltic countries. Furthermore, taxes collected from wages as a percentage of GDP also follow the same trend in all Baltic countries. Conclusively, all Baltic countries, not only Lithuania, should face similar problems and the need for labor market support measures. Therefore, this research is at great importance to all Baltic countries.

### 3. Comparative analysis and suitability valuation of wage related support measures to businesses by public sector

There are plenty of wage related public sector's support measures to private sector. Nevertheless, they mostly apply to businesses, which employ a registered unemployed person or a person who is notified about dismissal (Blažienė, Ruževskis 2010). If the company uses this tax relief for the employee who earns not more than 1600 Lt per month, then 50, 60 or 75 percent (depending on the status of the employed person) of contributions to State's Social Insurance Fund are compensated for 6 months or one year. There are cases when the employer wants to reduce costs by taking advantage of the tax relief and asks the potential employee to register with labor exchange office before employing him. This type of legal cost cutting is almost as costly to the national budget, as tax avoidance through illegal wages (Kitao *et al.* 2011). Nevertheless, it fosters the understanding and development of taxation culture in the country (Giriūnienė 2012). Although it is doubtful that Lithuania will soon be dominated by taxation culture, which currently exist in the Scandinavian countries and all residents and businesses will voluntarily pay taxes without concealing part of them. Therefore, other ways to minimize work-related taxes exist in the country. From a business perspective, the most beneficial seems to employ persons without any previous work experience (Okunevičiūtė-Neverauskienė, Pocius 2011). The company for employing such employees, if their earnings do not exceed 2400 Lt per month, is exempt from paying pension social insurance for these employees for up to one year. Therefore, taxes for the employer for that particular employee are reduced from 30.98% to 7.68%, besides employee does not have to pay 3% of pension social insurance (Brazienė, Mikutavičienė 2013). Nevertheless, despite the financial advantage not all employers willingly employ persons without any work experience, since training, professional development and other expenses need to be taken into account as well. However, from practice we can see that taking up a new, inexperienced employee can benefit the company, since he can be trained into a good specialist at a lower cost (Jacobs *et al.* 1992). The duration and the size of funding of the financed wages, expressed in percentage of an overall wage and taxes on it, are the main criteria in the comparative analysis (Gesine 2010). Therefore, the aim of this analysis is to select the optimal options under both

criteria and provide an overall conclusion about the best ways (with longest and largest funding) for public sector to subsidize businesses to support labor market (Table 1).

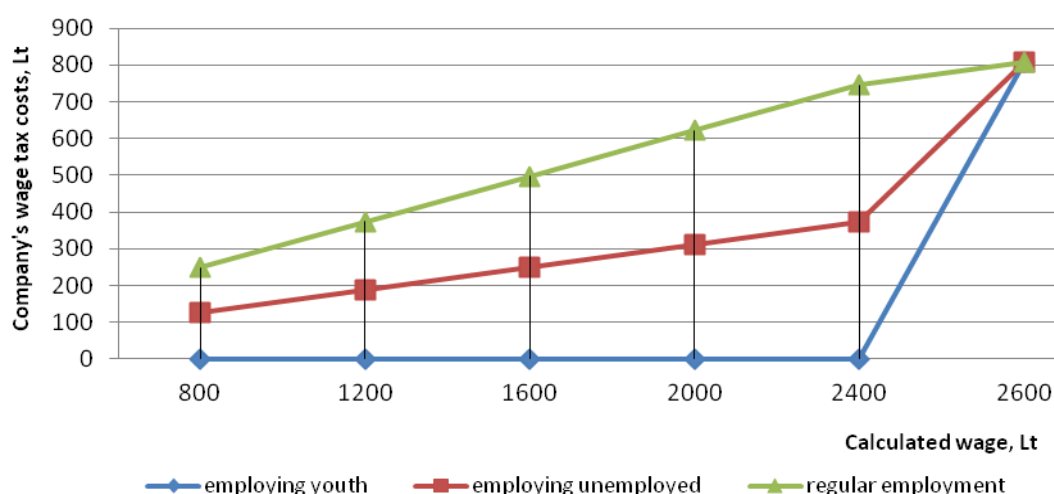
**Table 1.** Comparison of labor market support measures

	<b>Public services</b>	<b>New job skills support</b>	<b>Subsidized hiring</b>	<b>Job rotation</b>
<b>Duration</b>	Up to 6 months	<ul style="list-style-type: none"> <li>Up to 12 months, when employing persons without any previous experience related to their obtained qualification;</li> <li>Up to 5 months, when employing persons from other focus groups.</li> </ul>	Up to 6 months	Up to 12 months
<b>Funding</b>	<ul style="list-style-type: none"> <li>wage earned by employed person for the time actually worked, calculated in accordance with Government's approved minimum hourly wage;</li> <li>compulsory state social insurance contributions by insurer, calculated from earned wage;</li> <li>monetary compensation for unused vacation, including the amount of compulsory state social insurance contributions by insurer</li> </ul>	<ul style="list-style-type: none"> <li>50% from calculated funds, when employing persons without any previous experience related to their obtained qualification, long-term unemployed, who have not worked for 2 or more years before registration with labor exchange, persons after vocational rehabilitation program, who are diagnosed with 45-55% working capacity and are notified about dismissal from work bus are still not at the retirement age;</li> <li>60% of calculated funds, when employing persons after vocational rehabilitation program, who are diagnosed with 30-40% working capacity;</li> <li>75% of calculated funds, when employing persons after vocational rehabilitation program, who are diagnosed with up to 25% working capacity.</li> </ul>	50, 60 or 75 percent from calculated wage	75 – 50, 40 percent from calculated funds, when previously unemployed are employed

*Source:* Mikutavičienė, Brazienė 2013; LR Užimtumo rėmimo įstatymas 2006, 2010; Darbo rinkos paslaugų teikimo sąlygų ir tvarkos aprašas 2009; Aktyvios darbo rinkos politikos priemonių įgyvendinimo sąlygų ir tvarkos aprašas 2009, 2010

Preliminary comparative analysis of public sector's subsidies to businesses shows that hiring subsidies for unlimited time are possible best option. Nevertheless, this is possible only by employing disabled, who have up to 25% working capacity or have a severe disability level and disabled who have 30-40% working capacity or average disability level. To receive subsidies for up to 12 months, company has to employ: persons who were on social welfare before they turned 25; persons starting their work according to acquired qualification of social worker assistant, when their employment creates work opportunities to other unemployed with family obligations; pregnant women, mothers (adoptive mothers) or fathers (adoptive fathers), guardians, caretakers and other persons raising children (adoptive child) up to 8 year old or a disabled child (adoptive child) up to 18 years old (before 2005 July 1 recognized as a disabled child), persons who look after sick or disabled family members, who, according to Ministry of Social Security and Labour, require constant care (Moskvina 2008). Also up to 12 months, when employing persons without any previous work experience related to their obtained qualification or through job rotation program. The largest compensation, up to 75% from the wage and related taxes can be deducted, through new job skill support program, when employing persons after vocational rehabilitation program that are diagnosed with up to 25% working capacity, besides the company can deduct additional 20% for employees' training. Conclusively, we can say that it pays off for businesses to employ disabled who are diagnosed with up to 25% working capacity or severe disability level and disabled who have 30 – 40% working capacity or average disability level (Petrauskas, Bilevičienė 2007). This way companies can receive up to 75% funding of the wage related expenses for 12 months to unlimited time, of course if the company can satisfy the posed conditions by the State. Nevertheless, these conclusions are only theoretical, since statistics shows that during the period January – August 41.9 thousand people participated in active labor policy measures: 5.9 thousand began vocational training programs, 35.2 thousand participated in supported employment programs, 22.4 thousand out of them were

temporarily employed in public services and 8.3 thousand were employed through subsidized hiring. However, full analysis requires not only the identification of labor market support measures, but also their impact analysis which is much more important and significant (Brixiova 2011). Market analysts who research taxes related to wages and business environment note, that large wage related tax burden on businesses not only inhibits the legal economy, but encourages tax evasion and shadow economy (Jakštonytė 2009b). The following authors have discussed wage taxation and its perspectives in Lithuania: Gedvilienė and Šalkauskienė 2009; Jukonienė and Šapalienė 2011; Mackevičius *et al.* 2006, etc. Nevertheless, not enough attention in their publications is given to various programs and other factors, which enable businesses to minimize the wage related tax burden, this way finding a point of balance between employer and employee tax burdens (Gyls 2006). This particular way of evaluating labor market support measures initiated by the public sector, would be the most appropriate way to distinguish their effects, and determine whether they are truly effective and attractive to business entities and to what extent. New subsidies and measures implemented to minimize companies' tax burden related to wages require a thorough analysis of which option would be the most beneficial not only to businesses, but also to employees and the State (Tvaronavičienė 2006). Thus, the lowest tax burden related to wages, in other words the best option for a company is to employ youth without previous work experience (Fig.3).



**Fig.3.** Tax burden of a company when taking advantage of a public sector's subsidies to businesses through labor market support measures

Source: compiled by the author

As seen from the figure above, the greatest benefit by the company will be attained if it employs youth without previous work experience with wage up to 2400 Lt per month. Nevertheless, once employee's wage reaches above the mentioned amount, the tax burden of employing youth without work experience will equal the tax burden of employing regularly, without any tax reliefs. However, the performed analysis has shown that there is no single best way to promote labor market in the country by decreasing tax burden related to wages for businesses. Nevertheless, due to currently enforced laws and other legal acts regulating taxes, the least amount paid by employers in the form of taxes related to wages is when a young person, without any previous work experience is employed and his wage does not exceed 2400 Lt per month. There are no limits in perfecting tax burden minimization. Therefore, the search for the option, which would decrease company's tax burden and would be beneficial to the employee as well must continue, since the above discussed subsidies are only temporary minimization and promotion measures (Žukauskas 2002). We should also stress, that government's support, various programs and foreseen tax reliefs for businesses, to stimulate labor market have to be assessed not only from employers' perspective, but also from employees' perspective (Figure 4).





**Fig.4.** Employees wage when taking advantage of a public sector's subsidies to businesses through labor market support measures

Source: compiled by the author

When employees wage range from 1200 Lt to 2400 Lt per month, employee's net earnings are greatest when he is employed for the first time. The assumption is made that the company cannot receive two different tax reliefs, for instance to employ an unemployed, who at the same time does not have any working experience and is a new labor market participant. In this case only one of the tax reliefs will apply. If the company selects an option to employ a young person without previous work experience, its expenses would be reduced, but not minimized. As mentioned before, for a business to employ an unemployed person is financially better, since for one year the wage related expenses would be lower than employing a young person without work experience. Therefore, the most attractive option would be to employ an unemployed person. This way the highest benefit would be achieved by a company and employee. At the same time, this should also slow the emigration from the country, which as seen from statistical data analysis, is mostly comprised of youth up to 30 years old. Nevertheless, we should not forget to evaluate suitability of the public sector's subsidies to businesses through labor market support measures in creating benefits to the State. Even though this valuation is very important, we need to note, that it is rather complex, since there are no possibilities to evaluate the real implementation cost and benefit to the State of created and sustained labor market supporting measures. Therefore, their suitability and effectiveness can be evaluated only from business and employee perspectives.

## Conclusions

The first, currently there are quite a few labor market support measures offered to businesses, which usually cover part of wage paid and taxes related to it. Nevertheless, it only temporarily improves the labor market indicators. Businesses feel this relief only temporarily as well, since these measures do not directly batter declining demand, rising prices and high overall tax levels. Therefore, most often at the end of the program employees are dismissed or their wages are reduced.

The second, the proposed labor market funding in Lithuania is oriented towards long-term unemployed, inexperienced or disabled, often low skilled workers. Theoretically it is sound to employ based on job rotation, new job skill support programs, where it is most beneficial to employ disabled, diagnosed with up to 25% working capacity or with a severe disability level and disabled who have 30 – 40% working capacity or average disability level. The company can obtain up to 75% funding of the wage related expenses for 12 months to unlimited time, of course if it can satisfy the posed conditions by the State. Nevertheless, in practice the most effective were public service programs and subsidized hiring, since employers often require fully able and energetic employees. This might be due to physically demanding positions or unsuitable working conditions for disabled people, etc.

The third, according to currently enforced laws and other legal acts regulating taxes the best way for businesses to minimize costs associated to wages and related taxes is to purchase labor force as a service from a business license

holder or to use public sector's subsidies to businesses and employ a young person without previous work, while paying him not more than 2400 Lt per month. Nevertheless, once employee's wage reaches above the mentioned amount, the lowest tax burden can be obtained by employing the unemployed. However, besides these active labor market support measures, business in general should be supported through subsidizing the creation of new businesses.

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**ENTREPRENEURSHIP AND SUSTAINABILITY ISSUES**ISSN 2345-0282 (online) <http://jssidoi.org/jesi/aims-and-scope-of-research/>**SOCIAL ENTERPRISES AS A TOOL OF SOCIAL AND ECONOMIC POLICY. LITHUANIAN CASE****Julija Moskvina***Lithuanian Social Research Centre, Goštauto g. 11, LT-01108 Vilnius, Lithuania**E-mail: Julija.Moskvina@dsti.lt**Received 15 March 2013; accepted 20 June 2013*

**Abstract.** The social enterprise is a quite new phenomenon which derives from the development of the social economy aiming to combine social, economic and political targets. Nowadays the social economy is considered as effective way to create and manage a human capital with the recognition of the importance of personal and community interests. In the most countries of the European Union the social enterprises are significant element of development of the non-governmental sector. The implementation of the principles of social economy in Lithuania is characterized by certain peculiarities. The creation of the modern, “West-type” social enterprises in Lithuania was highly welcomed in regard to the social and economical changes in society, such as social exclusion of vulnerable groups, growing pressure on the social security system, the need to vitalise local communities, etc. In 2004 the Law on Social Enterprises came in force and more than 100 enterprises were established in the country till now. It worth mention that the businesses aimed to employment of disabled people existed also in soviet period; some of them gained the status of social enterprises later. The concept of social enterprises is still under consideration though. The obstacles to involve other vulnerable groups than disabled are strong. The elaboration of the vision, clarification of the aims and targets of social enterprises as the tool of social and economic development require thorough analysis of the past trends, present conditions, and future developments. Paper aims to identify the main differences between mainstream European concept of social enterprise and the Lithuanian situation in social enterprises. The phenomenon of social enterprises presented in the context of the changing social and employment policy in West and East European countries. The situation in Lithuanian social enterprises is described on the basis of extensive information selected from representatives of social enterprises, the experts, and the institutionalised data. The methods of literature analysis, statistical data analysis, qualitative interview, and content analysis were employed during the research. The paper is prepared under the research project “The impact of labour market policies into employment situation during the different economic cycles” (No. Sin-04/2010) that is implemented within the frame of national science program “The social challenges to national security” which is carried out by the Research Council of Lithuania.

**Keywords:** social economy, social enterprises, vulnerable groups

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**JEL Classification:** E24, E60

**1. Introduction**

The search for the ways to reduce the conflicts between business and human, community, and social interest in contemporary economic world materialised in the form of social enterprises. The social businesses became an opportunity for the vulnerable groups and communities to solve the issues of social integration. In this way social enterprises are positioned between the traditional private and public sectors. The emergence of social enterprises as a part of social economy in Western Europe is linked with the extensive processes of social integration of disadvantaged groups. It should be noted that development of social economic units and social enterprises among them in different European countries was quite spontaneous. It was the response to the local socio-economic problems, such as inadequate social services, the high level of social differentiation, and the pressure on social welfare schemes. In order to describe the meaning of social enterprise for social and economic policy it is necessary

to define the socio-economic context within which social enterprises are implementing activities aimed for social integration. The key problems that are challenging European social and economic policies are described in the paper. On the basis of literature analysis the common features of European social enterprise sector are described in the paper. The findings research project “The impact of labour market policies on employment situation during the different economic cycles” carried out by the Institute of Labour and Social Research of Lithuanian Social Research Centre are presented here. The evaluation of the social enterprises operating in Lithuania while integrating vulnerable groups into labour market was implemented during the project. The approach of evaluation of national social enterprises has been derived from the findings of foreign authors about the “hybrid” nature of such enterprises (Defourny, Nyssens 2006). The methodology of the evaluation of the practices of social enterprises reflects the notion about its triple nature (social, economic, and social-political) as well as the research- and practice-based opinion that social enterprises must contribute to the sustainable employment of the vulnerable groups and/or to the prevention of their economical inactivity.

## **2. Challenges for social and employment policies in Europe**

During the past decades the implementation of European social model that aimed to „offer a high level of social protection, by the importance of the social dialogue and by services of general interest covering activities vital for social cohesion, is today based, beyond the diversity of the Member States' social systems, on a common core of values” (European Council 2000) has become a more challenging task. The economic growth in European Union (EU) was modest and the recent downturn has required additional resources to preserve the accustomed scope of social welfare. Promoting the full integration and participation of disadvantaged groups of people is a key element of EU policies. In view of the demographic challenge of an ageing population that the EU is facing, supporting the disadvantaged by helping them contribute to economic growth is in Europe's interest - it is not just a social, but also an economic issue. During the last decades such a key problems remained unsolved in the field of social integration and employment in Europe: poverty and social exclusion, inactivity and growing pressure on the systems of social welfare.

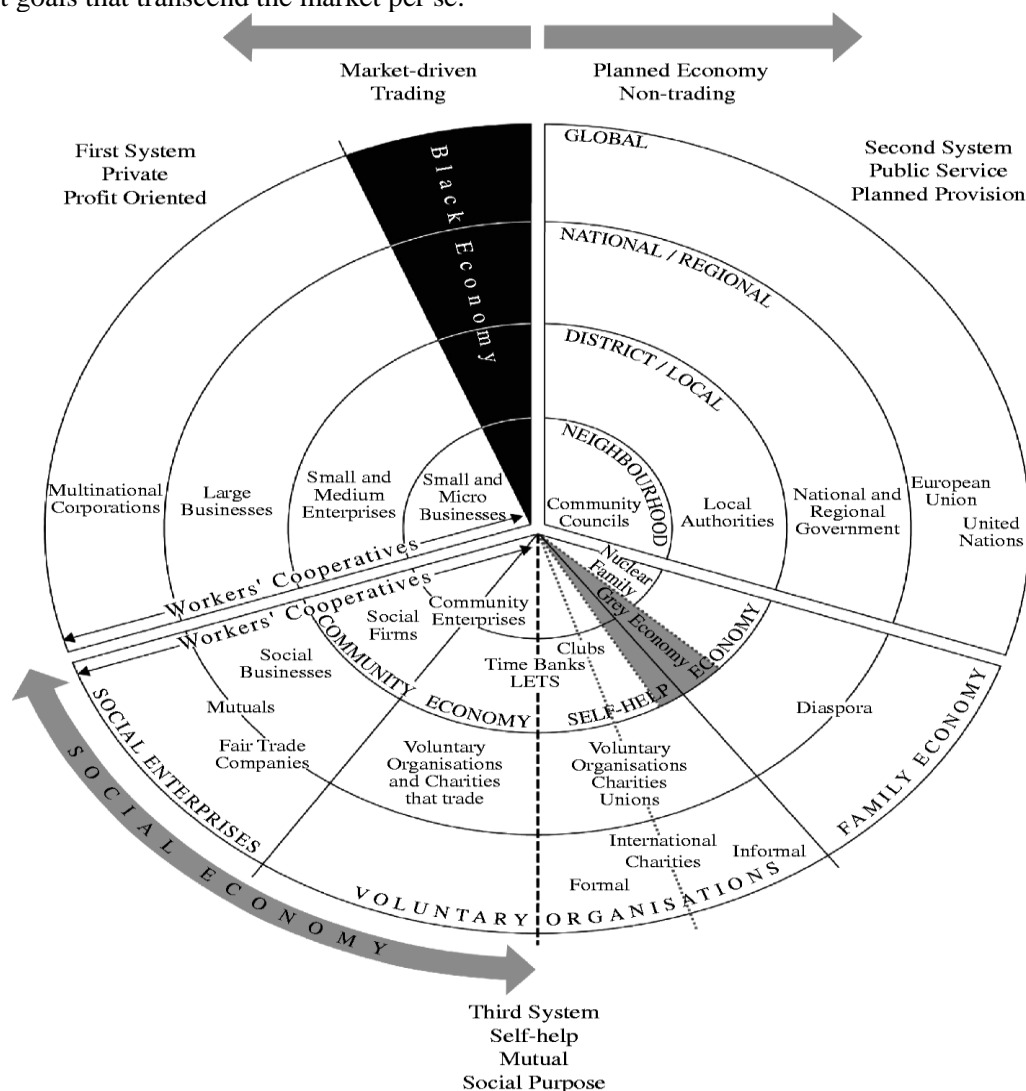
In 2011, 119.6 million people, or 24.2% of the population, in the EU27 were at risk of poverty or social exclusion, compared with 23.4% in 2010 and 23.5% in 2008. As regards the indicator on low work intensity, 10% of the population aged 0-59 in the EU27 lived in households where the adults worked less than 20% of their total work potential during the past year (Eurostat news release 2012). In the EU as a whole, as well as in all individual Member states, social protection is the most important function of government expenditure. In 2010 social protection spending by government in the EU-27 was equivalent to 19.9% of GDP. The next most important functions in terms of government expenditure were health and general public services, amounting to 7.5% and 6.5% respectively of GDP in the EU-27 in 2010 (Freysson 2012). In general, social benefits, subsidies and capital transfers represent the largest category of government expenditure, equivalent to 27.0% of EU-27 GDP in 2010. Within this group of spending, the redistribution of income in the form of social benefits and transfers in cash or in kind was the most important at 21.6% of GDP (Freysson 2012). Taken together, government expenditure on social protection and on health accounted for 54.2% of total government spending of EU-27 in 2010. Social protection accounted alone for 39.4% of the total, or 19.9% of EU-27 GDP. This function includes spending on sickness and disability, old age, family and children, unemployment, housing in the form of benefits in kind, and social exclusion (Freysson 2012). Since 2000 the share of the inactive population in the total population of working age1 has fallen from 31.4% to 28.9% in the EU-27. This corresponds to a reduction of 4.6 million inactive persons. The 2009 result confirms the downward trend in the population outside the labour market in spite of the economic crisis. The effects of the crisis are visible nevertheless: the reduction of the inactivity rate in 2009 is the lowest recorded percentage since 2002, i.e., -0.1 points down on 2008. The crisis has affected people differently depending on their sex and age. While in 2009 the inactivity rate of women aged 25-64 maintained the downward trend seen in previous years, the inactivity rate among men aged 25-64 rose by 0.2 percentage points. Young adults aged 15-24 are affected even more; this is particularly true for males, who saw their inactivity rate increase by 0.9 percentage points between 2008 and 2009. Persons attaining a low educational level are more likely to be inactive. The likelihood of staying out of the labour market is more than 3 times greater for the poorly educated than for highly educated people. (De la Fuente 2010). The other reasons of being inactive are illness or disability, family responsibilities, retirement or the belief that there are no jobs available. The latter is an exceptional reason for inactivity. Labour force participation is indeed much lower for the disabled (Dupre, Karjalainen 2003).

The problem of integration of the different groups of migrants should also be mentioned here. In most Member States the labour market situation for migrants is substantially worse than that of those born in the EU – they tend to have lower employment rates and are often more likely to be unemployed, or are employed in jobs of lower quality or for which they are over-qualified. Recent migrants, in particular women and those from certain regions of origin, face particular difficulties in integrating into the labour market (Employment in Europe 2008). The recent economic crisis has wiped out much of the steady gain in economic growth and the reduction in levels of unemployment witnessed over the last decade – EU GDP fell by 4.2% in 2009, industrial production dropped back to the levels of the late 1990s (Employment in Europe 2011). In the wake of the financial and economic crisis the level of unemployment climbed rapidly in the EU-27, increasing by 6.3 million persons between 2008 and 2010 to reach 23.2 million persons (that is close to 10% of the economically active population) (Employment in Europe 2011). The youth unemployment rate in the EU-27 was more than double the unemployment rate for the whole population throughout the last decade. The long-term unemployment problem should be also mentioned in the context of the economic downturn: 3.8% of the labour force in the EU-27 in 2010 had been unemployed for more than one year; almost half of these, 1.8% of the labour force, had been unemployed for more than two years (Eurostat 2012). Despite moderate signs of economic recovery, European labour markets are still suffering from the negative impact of the economic crisis. The crisis has disproportionately hit those who were already vulnerable and has created new categories of people at risk of poverty. There are also clear signs of increases in the number of people at risk of income poverty, notably child poverty, and social exclusion, with acute health problems and homelessness in the most extreme cases. People with no or limited links to the labour market – such as pensioners or vulnerable people dependent on social benefits, for instance single parents – are also exposed to changes affecting the calculation and eligibility of their source of income (Annual Growth Survey 2011). According to the latest European Commission forecasts (Index of economic...2010), although the EU economy is now recovering at a faster pace than previously envisaged, it will continue to face headwinds from several directions and, despite apparent signs of stabilisation, the labour-market situation will remain weak (Employment in Europe 2011). Access to employment is regarded as the optimal way out of poverty and social exclusion. However, the last decade has seen the persistence of groups who remain outside or on the margins of the labour market, often facing multiple entry barriers (low skills, care responsibilities, age, migrant background, disability and other discriminatory factors, etc.) (Europe 2020 targets 2012). To protect vulnerable members of society the further improving the effectiveness of social protection systems and implementing active inclusion strategies encompassing inclusive labour market measures, adequate income support and access to quality services should be implemented. The persistence of structural unemployment, the limitations of traditional active labour market policy measures, and the need for more innovative measures for social inclusion cause a demand for new integrational solutions combining the social and economic activities and values.

### 3. Social economy

The range of existing socio-economic organization is trying to be described with the term “social economy”. Social economy covers entities operating and social and economic spheres, as well as their activities and interrelations between the aims, norms, values, mission, rights and responsibilities of public and private sectors. The researchers from International Centre of Research and Information on the Public, Social and Cooperative Economy (The Social Economy... 2012b) derive the term “social economy” from the economics literature of 19<sup>th</sup> century: “In 1830 the French liberal economist Charles Dunoyer published a Treatise on social economy that advocated a moral approach to economics. Over the 1820-1860 period, a heterogeneous school of thought that can collectively be termed the social economists developed in France. Most of them were influenced by the analyses of T.R. Malthus and S. de Sismondi, regarding both the existence of ‘market failures’ that can lead to imbalances, and the delimitation of the true subject of economics, which Sismondi considered to be man rather than wealth.” Then during the second half of the 19<sup>th</sup> century the theme of “social economics” was examined in the works of Stuart Mill and Leon Walras. Mill analysed the advantages and drawbacks of workers’ cooperatives in detail, calling for this type of company to be encouraged because of its economic and moral benefits. Like Mill, Walras considered that cooperatives can fulfil an important function in solving social conflict by playing a great “economic role, not by doing away with capital but by making the world less capitalist, and a moral role, no less considerable, which consists in introducing democracy into the workings of the production process” (Monzon 1989; The Social Economy...2012b). At the end of the 19<sup>th</sup> century the principal features of the modern concept of the social

economy took shape, inspired by the values of democratic associationism, mutualism and cooperativism (The Social Economy... 2012b). Major components typically include social economy businesses, community development corporations, social enterprises, and mutual aid associations. Public sector nonprofits are considered part of the social economy. Essentially, “the social economy is made up of the voluntary, non-profit and co-operative sectors that are formally independent of the state. Their market activities are means of achieving social development goals that transcend the market per se.



**Fig.1.** Three Systems of the Economy

Source: Pearce (2003)

Thus defined, the social economy should be logically considered as a third sector” (Browne 1997: 1; Moulaert and Ailenei 2005). Moulaert and Ailenei (2005) come to conclusion that “social economy develops as a permanent stream of inventions of various social mechanisms, mixing market exchange, state intervention, collective civil sector organisation based on social movements driven by solidarity and reciprocity” (Moulaert and Ailenei (2005: 2049). As Pearce (2005) indicates, “we are witnessing a profound change in how we understand our national economies where third sector constitute significant part of the economy. It ranges from - at one end of a long continuum - small, local initiatives such as village halls, local markets, pre-school play-groups run by volunteers but often with some part-time paid work - playing a definite role in local economies, to - at the other end - substantial, highly commercial, competitive and successful businesses. And in between are a vast range of enterprises and organisations - community co-ops, social firms creating supported employment, credit unions, fair trade companies, development trusts, community businesses; as well as voluntary and community organisations

and charities which increasingly earn much of their income from business and fulfil contracts from the public sector” (Pearce 2005) (See Fig.1.). In the context of European Union policies for promotion of entrepreneurship it is recognised that the enterprises and organizations belonging to social economy has the following characteristics: they contribute to a more efficient market competition and encourage solidarity and cohesion. Their primary purpose is not to obtain a return on capital. They are, by nature, part of a stakeholder economy, whose enterprises are created by and for those with common needs, and accountable to those they are meant to serve. They are run generally in accordance with the principle of solidarity and mutuality and managed by the members on the basis of the rule of “one man, one vote.” They are flexible and innovative in meeting social and economic context. They are based on active membership and commitment and very frequently on voluntary participation (European Commission 2012).

Pearce (2005) extends those characteristics even further. According to him the enterprises belonging to social economy sector have an over-riding social purpose – setting out to benefit people and/or the planet; they engage in trade in the open market-place - at least to some degree - but the trading is in order to achieve the social purpose; they apply profits for re-investment and community benefit, not to make individual shareholders wealthy; they hold assets in trust for the benefit of the community and future generations; they are independent of external influence and control, notably by government and by the owners of capital. It’s important to add that in contemporary world the social economy business can’t deny the principles of social responsibility (i.e. Pearce (2005) listed good employment practices, sound environmental practices, and principles of fair trade). In modern Europe social economy enterprises represent 2 million enterprises (i.e. 10% of all European businesses). It covers bodies with a specific legal status (cooperatives, foundations, associations, mutual societies). In the majority social economy entities are micro, small and medium sized enterprises (SMEs) independently of their business form. Social economy employs over 11 million people in the EU, accounting for 6% of total employment. 70% of these are employed in non-profit associations, 26% in cooperatives and 3% in mutuals. Social economy enterprises are present in almost every sector of the economy, such as banking, insurance, agriculture, craft, various commercial services, and health and social services etc. It worse mention that the membership of social economy enterprises is much wider than the number of people employed and estimates ranging as high as 160 million people (The Social Economy... 2007). Terjesen *et al.* (2011) assessed the share of the population involved in social entrepreneurship as 4.1% in Belgium, 7.5% in Finland, 3.1% in France, 3.3% in Italy, 5.4% in Slovenia and 5.7% in the United Kingdom. Approximately one in four businesses founded in Europe would therefore be a social enterprise. This figure rises to one in three in Belgium, Finland and France.

These companies are often more productive and competitive than one might think. This is due to the very high level of personal commitment on the part of their employees and the better working conditions that they provide.

#### **4. Social enterprises**

Social enterprises in the context of European Union policies are defined as a sub-set of the social economy (social economy operators) (The Social Economy...2012a). The research carried out in Europe revealed the diversity of the forms and activities of social enterprises. Such analytical works (Defourny and Nyssens 2008; Nyssens 2006; Borzaga and Defourny, 2001; Davister *et al.* 2004; Study on Practices...2007) enabled to identify the essential characteristics and operational features of any organization or company belonging to the social economy sector. The social purpose is regarded as the main trait of this kind of social-economic units. The foreign practices in social enterprise sector shows that the companies/organizations with the status of social enterprise can operate under any possible legal form or structure (Study on Practices... 2007; The Social Economy...2007; Terjesen *et al.* 2011). Co-operatives and non-profit organizations are the most popular forms of social enterprises in Europe. The most utilised legal forms are associations, cooperatives and foundations. The practice shows that social enterprises can be created both from zero or retrofitting existing organizations. The spectrum of activity of social enterprises is also wide. Such examples can be presented: work integration, social services, economic development, environmental protection, arts and cultural heritage, social support and human development, health, recycling, agriculture, education, non-formal vocational education and training, tourism, water economy, catering and accommodation services. Social enterprises in Europe usually deal with the problems of long-term unemployment and the issues of (re) integration into the labour market of vulnerable groups of the population. Those enterprises are basically small (up to 50 employees) and they operate at a local level. Most often practices while integrating vulnerable groups acting into the labour market are the provision of support services that focus on the relevant



target groups (people in poverty and/or other disadvantaged groups experiencing difficulties in the labour market). Sheltered employment (the specific service intended mainly for the disabled) can be indicated as second widespread practice of integration into the labour market within social enterprises. Subsidized employment in the open labour market is also one of the most important spheres of social enterprises activities which are a part of a national/regional employment policy. In the European context, there are three main fields in which social enterprises perform their economic activity:

- work integration;
- enterprises whose primary aim is to produce goods and services with social utility or are driven by a collective interest;
- enterprises which foster local economic and social development (e.g., proximity services), through promoting citizen and local government participation in business running (Traveglini *et al.* 2010).

The first type of organizations - the work integration social enterprises (WISE) - is dominant among social enterprises. According to Davister *et al.* (2004) most of social enterprises appeared during the last three decades, though the work integration enterprises exist in Europe more than 50 years and aims to combat unemployment. Defourny and Nyssens (2008) notes that the main aim of social enterprises is to help low-skilled individuals who are affected by the risk of long-term unemployment or permanent dropping out of the labour market to return to employment. WISE are designed to provide such assistance through the productive activities of the organization. Sometimes for this reason social enterprise become associated with job creation initiatives only.

In the field of work integration the social enterprises often provide services for people with disabilities and for other groups of people with difficulties (re)entering labour market. Summing up the experience of European countries it is possible to define following measures for integration into the labour market: rehabilitation (vocational training, retraining and employability, etc.); anti-discriminatory laws; quota system; job subsidies; persuasion; sheltered employment; help and adaptation measures (in the workplace); business strategies for self-employed; social enterprises operate in the national schemes of employment policies and use those measures extensively. However, as was mentioned above, social enterprises also perform other tasks. For example, Defourny and Nyssens (2008) point that social enterprises assumed more responsibilities for social integration activities such as empowerment of vulnerable groups and their inclusion into work environment. It was noted that such participation gives individuals the opportunity to re-evaluate the role of work in their lives and to take responsibility for their own life course. This concept envisages the productive employment of the target groups of social enterprises but also formation of values. For example the strengthening of democratic values in social enterprises can be implemented through participation in the decision-making processes; the “vaccination” of the value of collective benefits can go together with production and distribution of produced goods and services in the local community. Thus, the employment of target groups as such is not the only task for social enterprises. Defourny and Nyssens (2008) indicated that all range of work integration social enterprises (such as community interest cooperative companies in France, social solidarity cooperatives in Portugal, social aim companies in Belgium, social initiative cooperatives in Spain, etc.) raise the provision of social services as the prime target. Alike trends are notable in other countries, for example the social firms and social cooperatives in Finland and Poland while focusing on work integration spread their activities towards social and community services. Hence the criterion of social utility (i.e., environment protection, promotion of cultural heritage and other cultural services, social tourism, research and development, education) becomes prevalent. Peattie and Morley (2008) on the basis of literature analysis (Dees 2001; Bornstein 2004; Vega and Kidwell 2007) distinguished another important feature of social enterprises: “the common perception about social enterprises that strongly rooted in the entrepreneurship tradition, is that they are inherently innovative.” Although the issue of innovative nature requires sound analysis, it can’t be denied that many social initiatives have the roots in the practices of social enterprises or that social enterprises are the appropriate place to test such initiatives.

As it was mentioned before, the big variety of legal and operational forms of social enterprises hampers the elaboration of single definition to describe the idea and existing practices. Nevertheless it is possible to define the key elements of such phenomena as social enterprise. The “Study on Practices and Policies in the Social Enterprise Sector in Europe” (2007) came to conclusion that in nearly all of the countries under investigation when talking about the term ‘social enterprise’ the following characteristics were present:

- fulfils social goals
- has a trading income
- addresses a target population in need

- may operate under various legal forms
- deals with voluntary social work
- has a non-profit orientation or reinvests profits
- may receive public funding (Study on Practices...2007).

The European Research Network (EMES) proposes the research-based solution which today forms the central point of reference. Social enterprises can be defined as “organisations with an explicit aim to benefit the community, initiated by a group of citizens and in which the material interest of capital investors is subject to limits. They place a high value on their independence and on economic risk-taking related to ongoing socio-economic activity.”

Together with definition the certain criteria for social enterprises were elaborated by EMES. It worth mention that those criteria are not strictly required, rather employed to define the ideal type of social enterprise. According to the EMES social enterprise should follow such *economic and social criteria*:

#### *Economic criteria*

1. Continuous activity of the *production* and/or sale of goods and services (rather than predominantly advisory or grant-giving functions).
2. A high level of *autonomy*: social enterprises are created voluntarily by groups of citizens and are managed by them, and not directly or indirectly by public authorities or private companies, even if they may benefit from grants and donations. Their shareholders have the right to participate and to leave the organisation.
3. A significant economic *risk*: the financial viability of social enterprises depends on the efforts of their members, who have the responsibility of ensuring adequate financial resources, unlike most public institutions.
4. Social enterprises' activities require a minimum number of *paid workers*, although, like traditional non-profit organisations, social enterprises may combine financial and non-financial resources, voluntary and paid work.

#### *Social criteria*

5. An explicit aim of *community benefit*: one of the principal aims of social enterprises is to serve the community or a specific group of people. To the same end, they also promote a sense of social responsibility at local level.
6. *Citizen initiative*: social enterprises are the result of collective dynamics involving people belonging to a community or to a group that shares a certain need or aim. They must maintain this dimension in one form or another.
7. Decision making *not based on capital ownership*: this generally means the principle of 'one member, one vote', or at least a voting power not based on capital shares. Although capital owners in social enterprises play an important role, decision-making rights are shared with other shareholders.
8. *Participatory* character, involving those affected by the activity: the users of social enterprises' services are represented and participate in their structures. In many cases one of the objectives is to strengthen democracy at local level through economic activity.
9. *Limited distribution of profit*: social enterprises include organizations that totally prohibit profit distribution as well as organizations such as co-operatives, which may distribute their profit only to a limited degree, thus avoiding profit maximizing behaviour (European Research Network 2013).

It worth mention that the distinctive features of social enterprises described above reflects the ideal model of this phenomena but the reality of social enterprise sector is much wider and still dynamic. Peattie and Morley (2008) contravened that those conventionally agreed characteristics can be used to define the social enterprises in their contemporary forms. They presented the examples of social companies that distribute profit to shareholders. Also such characteristics as small-size and democratic management, high degree of autonomy, a minimum level of paid work and a significant level of economic risk (Defourny and Nyssens 2006; Defourny 2004) are also shared by organisations that plainly are not social enterprises. In this respect Peattie and Morley (2008) represent the vantage point that the only clearly defining (rather than typical or desirable) characteristics of social enterprise can be: 1) the primacy of social aims and 2) that the primary activity involves trading goods and services.

## **5. Development of social enterprises in Lithuania**

Analysis of Lithuanian enterprises was performed during the research project “The impact of labour market policies into employment situation during the different economic cycles” in 2011-2012. The evaluation of social

enterprises while integrating vulnerable groups into labour market was carried out using the methods of document analysis, content analysis, interview of representatives of social enterprises and expert focus group. Research allowed describing major trends of development of social enterprises in Lithuania.

Lithuania as a former Soviet Union Republic has its own traditions of work integration of disabled people through work. As a part of central planned economy cooperatives had a considerable presence in some Soviet countries. The work and vocational training enterprises for disabled people (visually impaired, deaf) that were established in late 1960<sup>th</sup> also operated quite successfully in independent Lithuania. Those firms were among the first that got the status of social enterprises when the Law on Social Enterprises came into force in 2004 (Lithuanian Law on Social Enterprises 2004).

Lithuanian Law on Social Enterprises provides the following definition of social enterprise: Social enterprise is a legal entity of any form (individual enterprise, joint stock company, public institution) that satisfies the following conditions:

- the workers belonging to the target groups constitute no less than 40 percent of total staff and the number of such employees is not less than 4;
- the activities for development of professional and social skills and social integration are implemented;
- the incomes from unfunded activities of social enterprises comprise no more than 20 percent.

In 2004 26 companies got the status of social enterprises. Since 2004 the number of social enterprises extended to 137 in 2012. Total number of economic entities in Lithuania in 2012 was 83624; among them 17677 of small and medium-size entities (without micro-firms). Most of social enterprises are small and medium size private companies. More than half of them belong to the sector of manufacturing.

Comparing the development of Lithuanian social enterprise sector with the West European trends some similarities can be observed and described as a growth of work integration services. The employment of vulnerable groups is a key objective of social enterprises in Lithuania. The analysis of work integration mechanisms at Lithuanian social enterprises showed that in the structure of employment services for the vulnerable groups of population it can be defined as a *permanent subsidized job creation for disabled people*. The transitional employment and economic sustainability of the jobs as prevailed integration mechanisms defined by Davister *et al.* (2004) are much less noticeable in Lithuanian social enterprises.

With regard to the main characteristics of the social economy enterprises (contribution to more effective competition, primary purpose is not to obtain a return on capital, principles of solidarity and mutuality; flexible and social innovations; active membership) the national social enterprises can be defined in this way:

- The evidences from the research do not allow making the conclusion that social enterprises in Lithuania contribute to a more efficient market competition. First, the number of the social enterprises and the fields of their activities do minor changes in the structure of local economy. Second, the form of state support they receive in many cases raise them above competition. Moreover there is a little space for social enterprises to compete with the state and municipal institutions and organizations in the field of social and community services as the share of private and non-governmental providers is minor.
- In general Lithuanian social enterprises reinvest the profit to the needs of enterprise, although part of the enterprises with low productivity doesn't gain profit or gain minor profit so the question of return on capital is not relevant for them.
- With little exceptions there is no mechanism entrenched for accountable of social enterprises to those they are meant to serve. Only social enterprises operating in close collaboration with NGO's representing disabled people do such practice.
- The principles of democratic management are also neglected quite often. This is typical for the social enterprises that didn't join any of three associative organizations for such enterprises.
- Clear orientation to work integration activities and quite narrow range of vocational activities to offer for disadvantaged groups suggest that the total level of innovative ones is low among Lithuanian social enterprises. Though some outstanding examples such as social enterprises providing research activities or tele-marketing can be listed.
- It should be mentioned that only few social enterprises provide social services for the members of local communities, while the proportions of the enterprises seeking for fulfilment of the needs of particular groups of society (i.e. disabled, elderly people, lonely parents, migrant communities, etc.) or to improve the conditions within local community is bigger, though not sufficient yet.

- Another distinctive feature of Lithuanian social enterprises is absence of voluntary work. The main reasons are the lack of traditions and the poor legislative basis for voluntary work, as well as reticence of the social enterprises.

## Conclusions

Social enterprises in our country occupy a specific place among other social and employment policy measures. The complete evaluation of the performance of these enterprises is not possible without deep perception of national social and economic context. The analysis performed during the research prompts an assumption that national social enterprises as an important part of the development of national social policy sets Lithuanian social policy framework closer to liberal model welfare state.

The Lithuanian social enterprise sector in the context of Western Europe acquires slightly different shape and content. The work integration social enterprises are dominant both in Lithuania and in other EU countries. The rule of limited distribution of profit is established in the national Law of Social Enterprises. The employees belonging to target groups usually receive minimum wage. However the participation of the Lithuanian social enterprises in the provision of social and community services is much lower than in Western European countries. It was also defined that social enterprises serve the community or a specific group of people. In the case of Lithuania the key beneficiary group is disabled people, while the other vulnerable groups and the needs of local communities are not in the focus of social enterprises activities yet. The need for the social enterprises in Lithuania is expected to rise. The structure of the national labour market and quite low level of its inclusiveness cause the need for work integration services in the country. The number of social enterprises that produce goods and services with social utility or are driven by a collective interest is also supposed to rise.

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## ENTREPRENEURSHIP AND SUSTAINABILITY ISSUES

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### LITHUANIAN MANUFACTURING TRENDS IN THE CONTEXT OF DEVELOPED AND DEVELOPING COUNTRIES\*

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**Abstract.** The purpose of this paper is to assess the main aspects of the Lithuanian manufacturing industries in the global context. Two approaches are prevailing in the scientific studies analyzing structural changes of economy. The first seeks to identify statistically certain change in economic structure using three-sector hypothesis. The second approach focuses on in-depth structural analysis of the particular sector over time. This study supports the second approach and examines the structural changes in the manufacturing industry of developed and developing countries and draw the Lithuanian picture on the basis of 2000-2009. To this end, two economics tools, namely, the structural changes indicators and Finger-Kreinin dissimilarity index are applied for this purpose. The main findings related to the manufacturing sector's structural tendencies of the Lithuanian economy in the context of developed and developing countries. First of all, the manufacturing industry is looked from the point of view of three economies, such as developed, developing countries and Lithuania's. The author highlights the main trends of manufacturing industry in global context. After further in-depth analysis of the Lithuanian manufacturing structural changes in the context of developed and developing countries has been carried out and new evidence on manufacturing distribution profiles has been provided, concluding remarks have been made. The author provides insights about peculiarities of the Lithuanian manufacturing sector, which could lead to restructuring by the implementation of the appropriate economic means.

**Keywords:** structural changes, manufacturing, absolute structural change rate, intensity coefficient, dissimilarity index

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**JEL classifications:** L16, L6, O14

## 1. Introduction

Theory of structural change have three stages of production, such as primary, secondary and tertiary (Fisher and Clark 1957; Kamaruddin and Masron 2010). Primary production is concerned with the extraction of raw materials through agriculture, fishery and forestry sectors. Low-income countries are dominated by primary sector. Secondary production is concerned through manufacturing and construction. Middle-income countries are often dominated by the secondary sector. Tertiary production is concerned with the provision of services. High-income countries are dominated by the tertiary sector (Kamaruddin and Masron 2010). Gawlikowska-Hueckel and Uminski (2008) in their investigation argued, that the sectoral approach is useful because it allows us:

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- to observe the most general patterns of structural changes that are taking place in country and its regions;
- to trace employment trends and workforce transfers between sectors;
- to identify the phase of development in which country find itself and to make international comparisons and predictions;
- to formulate industrial policy recommendations and to criticise government action in this area;
- to prepare a set of reforms, needed to carry out necessary EU-oriented adjustments in the light of EU industrial policy directives.

Global manufacturing production is shifting gradually from developed countries to developing economies, as companies move to benefit from cheaper labour, lower social costs and large markets in countries like China and India (United Nations Industrial Development Organization 2011). According to the data of United Nations Industrial organization (UNIDO), the share of manufacturing value added in gross domestic product (GDP) declined from 18 % in 1990 to 17 % in 2010 in developed countries and rose from 18 % to 22 % in developing ones. Over a period of 1990-2010, manufacturing value added of global economy grew almost 3 % annually; developed economies reported 1.7 % annual growth rate in manufacturing and it was less than the growth of GDP, which made 2 %. In the same period of time, developing countries recorded the growth of almost 6 % in manufacturing and it was slightly higher rate than the 5 % GDP growth. In 1990, developing countries were producing about 20 % of world GDP and this share had risen to 30 % by 2010 (United Nations Industrial Development Organization 2011). Manufacturing in developing economies is highly concentrated. Five leading economies (China, India, Brazil, Taiwan Province of China and Mexico) recorded 62 % share in developing economy manufacturing value added, up from 53 % in 2000 and 36 % in 1990. China had faster average growth of manufacturing value added than other developing economies over a period of 1990-2010, its share has tripled since 1990 from 13 % to 43 % in manufacturing value added of developing countries (United Nations Industrial Development Organization 2011). During 2000-2008, global manufacturing grew by 3 % annually (in developing countries 7 %). The financial crisis affected developed economies more than developing. Manufacturing value added in developed countries declined by 8 % from 2008 to 2009, while developing countries slowed growth to 3 % in 2009. According to the data of UNIDO, the global crisis affected developing economies in different way depending on their region specific mix of channels such as foreign direct investments, trade, financial flows and others. Europe was the most affected region with manufacturing falling of 7 % (United Nations Industrial Development Organization 2011). This paper aims to draw a picture of the Lithuanian manufacturing sector in the context of developed and developing countries. The author has used UNIDO data related to the manufacturing sector tendencies in the developed and developing countries and the data of the Lithuanian Statistical department and has applied structural changes assessment methods, such as absolute rate, intensity coefficient and Finger-Kreinin dissimilarity index for this purpose. The author has referred to the approach, prevailing in the scientific studies (Matsuyama 2009; Kamaruddin and Masron 2010; Woodall *et al.* 2012; Noland *et al.* 2012; Fafaliou and Polemis 2013) and focusing on in-depth structural analysis of the manufacturing sector over time. The paper is organized into three sections. Section 1 provides an introduction. A brief review of the empirical studies and methodology particularly on the manufacturing sector trends is made in Section 2. Section 3 looks briefly into some economic indicators assessing manufacturing sector's structural changes of the developed and developing countries, and Lithuania. Section 4 concludes summarizing the main trends observed.

## 2. Empirical studies' and methodology review

The overview of the recent scientific works shows that two approaches are prevailing in the researches analyzing economic structure. The first seeks to identify statistically certain change in economic structure using three sector (agricultural, industry and services) hypothesis (Teigeiro and Solis 2007; Albu 2010; Gil' Mundinov 2011; Jiang 2011; Mao and Yao 2012; Dudzevičiūtė 2012, 2013). The second approach focuses on in-depth structural analysis of the particular sector over time (Tanuwidjaja and Thangavelu 2007; Matsuyama 2009; Thomas *et al.* 2009; Kamaruddin and Masron 2010; Rosenzweig and Easton 2010; Rezitis and Kalantzi 2011; Woodall *et al.* 2012; Mermod and Dudzevičiūtė 2011; Steinbuks 2012; Noland *et al.* 2012; Smaliukienė *et al.* 2012; Fafaliou and Polemis 2013). Manufacturing sector has been analyzed from different angles and different results were gotten through regions and countries. Salim (2008) empirically estimated the firm-specific productive capacity realization factors using the stochastic frontier production function and analyses explaining realization rates across firms and over time. Using the Firm level panel data from Bangladesh food manufacturing, the study showed that capacity

realization rates widely vary across firms and over time. The author determined the average rate of realization with 65% implying that most of the firms are producing away from their full production capacity. The results also showed that firm size and outward orientation had positive impact on realization, while market structure, capital intensity and effective rate of assistance had negative effect. The author suggested further reform of the domestic and trade policies to ensure competition and competitiveness of the manufacturing sector and of the country. Kim and Shafi'i (2009), investigating Malaysian manufacturing industries over a period of 2000-2004, decomposed productivity growth into technical progress, technical efficiency change, allocative efficiency and scale efficiency change. Research results show that total productivity was driven mainly by technical progress; however, it was hurt by deteriorating technical efficiency. Authors revealed that scale efficiency and allocative efficiency were also significant factors impacting on total productivity. The skill and quality of workers were identified as the most important determinants of technical efficiency, whereas employee quality, foreign ownership and imports sustained technical progress. Kim *et al.* (2009) analyzed the contributions of patents to total factor productivity in Korean manufacturing industries over a period 1981-1999. The investigation showed that both domestic and foreign-resident patent applications had positive effects on productivity and that foreign-resident patent applications had a larger effect than domestic patents in improving total factor productivity in the Korean manufacturing sector. Kamaruddin and Masron (2010) examined the structural changes and the sources of growth in the manufacturing sector in Malaysia. As the results showed, most of the industries were non-resource based such as textiles, electrical and electronic products. The research revealed that export is increasingly an important factor of change in the industrial growth patterns for the Malaysian economy. The authors have concluded that the structural changes in Malaysian economy mainly caused by the reorientation of industrialization strategies as well as by variations in the composition of domestic demand.

Byun *et al.* (2012) also compared and analyzed the total factor productivity of the manufacturing industries in the metropolitan areas of South Korea, China, and Japan. The manufacturing industries were classified into 10 sectors, and two different time periods (before and after 1997, when the foreign currency crisis began in Korea) were examined. Although the output and total factor productivity in Korea had been increasing since the 1997, the rates of increase in the output and total factor productivity remained behind China. The lower total factor productivity of the companies in Korea compared with those in Japan indicated differences in techniques between these two countries. The researches concluded that the results of the development and competitiveness of the manufacturing industries in Korea, China, and Japan could be useful in establishing promotional strategies and contributing to the economic cooperation among these countries by evaluating their relative competitiveness. Fafaliou and Polemis (2013) in their research assessed the main aspects involved in the competitiveness of manufacturing industries in the Euro zone area (EZ-12), covering the period from 1970 to 2007. The authors concluded that in the long run, a change in labor and capital compensation was not fully passed on to manufacturing growth, while an increase in the market power of the manufacturing sector negatively affected its competitiveness. Steinbuks (2012) investigated interfuel substitution, separately accounting for different types of energy use in the U.K. manufacturing sector. The results indicated that the estimated own-price elasticities for all fuels and the cross-price elasticities for fossil fuels are significantly higher for thermal heating processes. An increase in real fuel prices in 2001 resulted in higher substitution elasticities based on aggregate data, and lower substitution elasticities for the thermal heating process. The research revealed that technological change was the major determinant of the differences in elasticities before and after the energy price increase. The overview of the recent scientific works (Gawlikowska-Hueckel and Uminski 2008; Salim 2008; McCann 2008; Matsuyama 2009; Kumar and Nottestad 2009; Kim and Shafi'i 2009; Park *et al.* 2010; Fedderke and Naumann 2011; Boussemart *et al.* 2011; Sethi *et al.* 2011; Rezitis and Kalantzi 2011; Saunders 2012; Hasanbeigi *et al.* 2012; Fafaliou and Polemis 2013) showed that manufacturing sector's trends and development can be analysed on the basis of a wide range of indicators, such as income-elasticity, productivity growth, employment concentration, share of output in GDP, contribution to total value added, total spending and different methods can be applied, as follows: an empirical analysis; a case study; comparison analysis; decomposition analysis; panel data analysis; multi-level analysis; stochastic frontier analysis; a life cycle analysis; correlation analysis; regression analysis. To sum up, it can be said, that several statistical methods can be used for this purpose, ranging from simple descriptive indicators to geometric models and econometric techniques. In this paper, to better assess the structural changes in manufacturing sector and to study its impact on manufacturing growth, it is useful to measure its structural changes and intensity. The absolute structural changes rate (Memedovic and Iapadre 2010; Dudzevičiūtė 2013), intensity coefficient (Domingo and



Tonella 2000; Cortuk and Singh 2010) and Finger-Kreinin dissimilarity index (D index) (Finger and Kreinin 1979; Memedovic and Iapadre 2010) has been used for this purpose.

The *absolute structural changes rate* shows manufacturing sector's structural change and its impact on manufacturing development. Positive rate value means that structural change accelerates growth; and negative rate reducible development. The absolute structural changes rate is calculated as follows:

$$M = D_i - D_0;$$

$$M_{sum} = \sum_{i=1}^n M_i \quad (1)$$

where:  $M$ - the absolute structural change rate;  $D_i$ – economic activity share, %;  $D_0$ – economic activity share, % in the basic year;  $M_{sum}$ - sum of the absolute structural change rate.

The *intensity coefficient of structural changes* shows the intensity of manufacturing in time  $t_i$ , compare with basic period. As the coefficient value greater, as more intensive structural changes going, and conversely. Its formula is as follows:

$$K = \frac{\sqrt{\sum_{i=2}^n (S_{ti} - S_{t0})^2}}{m} \quad (2)$$

where:  $K$ - the intensity rate of structural changes;  $S_{ti}$ – economic activity share;  $t_i, t_0$ - current and basic time;  $n$ - economic activity quantity;  $m$ - year.

*Finger-Kreinin dissimilarity index* (D index) measures how much a given distribution differs from a chosen benchmark. It is calculated as follows:

$$D = \frac{1}{2} \sum_{i=1}^n |a_i - b_i| \quad (3)$$

where:  $a_i$  and  $b_i$  show the share of sector  $i$  in each of the two distributions.

When a given distribution at a given time is compared to the same distribution in a previous period, the D index can be used as a measure of structural change (Memedovic and Iapadre 2010).

D index ranges between zero, denoting equality and one, showing maximum dissimilarity.

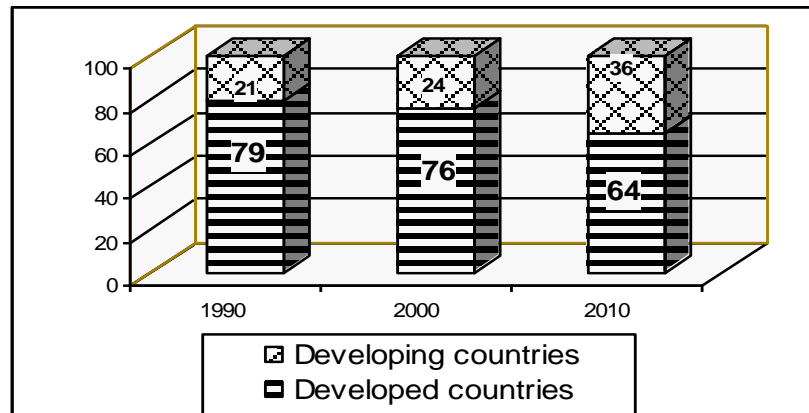
The main advantages of these indicators could be named as follows: they are easy to calculate, they are informative for interpretation of their impact on economic development. However, they give only general information and do not reveal the reasons for structural changes.

### 3. The overview of manufacturing sector development

#### 3.1 Decomposition analysis of manufacturing sector

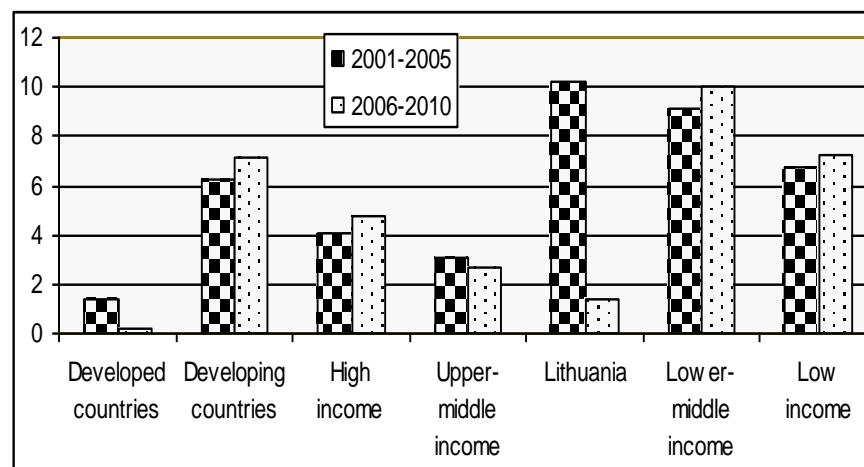
This section aims to overview the manufacturing sector structure of the developed and developing countries and to draw the Lithuanian picture on the basis of comparative analysis covering the date of 2000-2009.

Over a period of 1990-2010, manufacturing value added increased by 40 % in developed countries and has nearly tripled in developing countries since 1990. At the same period of time, the developed countries lost their manufacturing value added share in global economy from 79 % in 1990 to 64 % in 2010, whereas the share of developing countries rose from 21 % to 36 % (Fig.1). Average annual growth rate of manufacturing value added in developing countries was considerably higher than in developed economies. Despite the crisis, manufacturing value added grew an average 6 % a year over 2001–2005, and 7 % in 2006-2010, whereas in developed countries the average growth slowed from 1.4 % to 0.2 % respectively. According to the classification of developing countries by income, four groups of economies were distinguished: high income, upper-middle income, lower-middle income and low income (Fig.2, Appendix).



**Fig.1.** Share of manufacturing value added in global economy, percent

Source: UNIDO (2011) data



**Fig. 2.** Average annual growth, percent

Source: UNIDO (2011) data, Lithuanian Statistics department (2013)

Lithuania as the other two Baltic countries- Latvia and Estonia- belongs to upper- middle income economies. There are variations in manufacturing performance among developing economies. Lower- middle income group demonstrated significant average growth with nearly 10 % annually during a period of 2001-2010. China and India had considerable impact on this growth. Over a period of 2001-2005, the Lithuanian manufacturing had the highest growth with 10 % a year among all observed countries' groups. Due to the global economical and financial crises, the Lithuanian manufacturing value added dropped 15 % in 2008-2009; and this impact on average annual growth rate with 1.4 % over 2006-2010. In developed countries, the leading manufacturing industries in 2000-2009 were machinery and equipment with share of 34% in 2000 and 45.6 % in 2009, transport equipment (9.9% and 9.1%), chemical and chemical products (9.3% and 8.8%); food, beverages and tobacco (9.5% and 8.5%) (Table1).

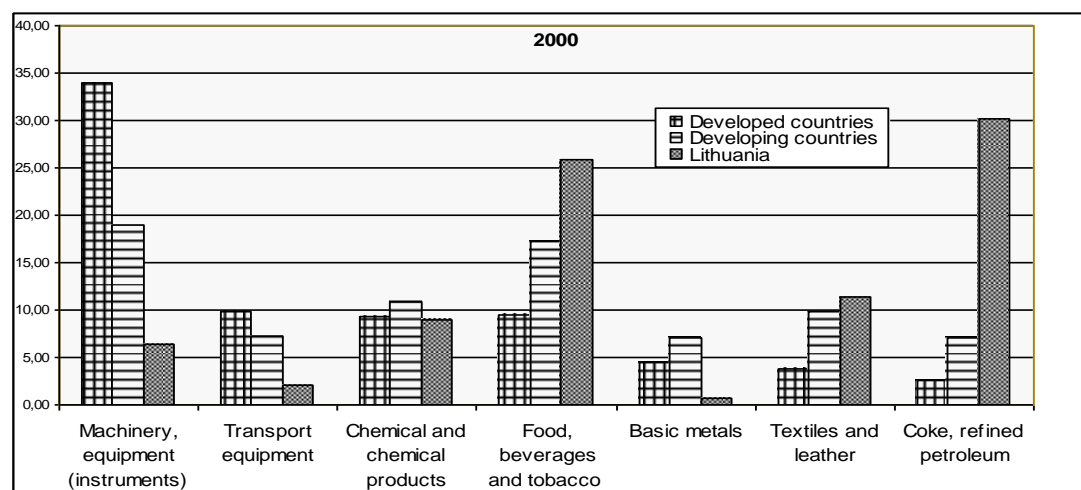
These sub-sectors made nearly 63% of manufacturing value added in 2000 and 72% in 2009. In the same period of time, the dominant manufacturing sub-sectors in developing economies were machinery and equipment (18.9% in 2000 and 24.5 % in 2009), chemical and chemical products (10.9% and 11.0%); food, beverages and tobacco (17.2% and 14.6%); basic metals (7.1% and 10.1%); (textiles and leather (9.9% and 8.4%). They had 64% contribution to total manufacturing value added in 2000 and 67% in 2009. Machinery and equipment growth in developed and developing economies was a result of increase in demand for electronic goods, such as computers, mobile phones and other electronic devices. Developing countries are distinguished from developed of substantial share of textiles and leather products.

**Table 1.** Manufacturing industries contribution to manufacturing total value added, percent

Manufacturing sub-sectors	Developed countries		Developing countries		Lithuania	
	2000	2009	2000	2009	2000	2009
Food, beverages and tobacco	9,5	8,5	17,2	14,6	25,8	22,9
Textiles and leather	3,8	1,8	9,9	8,4	11,3	4,4
Wood and wood products	2,1	1,4	1,6	1,1	4,1	4,4
Paper and print	8,3	6,3	4,6	3,5	2,2	2,1
Chemical and chemical products	9,3	8,8	10,9	11,0	9,0	11,1
Coke, refined petroleum	2,6	2,2	7,0	5,0	30,2	33,9
Rubber and plastics	3,0	2,4	3,6	3,5	1,8	3,2
Non-metallic minerals	3,3	2,5	5,4	4,9	2,5	2,0
Basic metals	4,5	3,6	7,1	10,1	0,7	0,5
Fabricated metal products	6,2	5,0	4,3	3,5	1,5	2,2
Machinery and equipment (instruments)	34,0	45,6	18,9	24,5	6,3	6,2
Transport equipment	9,9	9,1	7,2	7,5	2,1	1,4
Furniture and other	3,5	2,8	2,3	2,4	2,5	5,7
<b>Total manufacturing</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: UNIDO (2011), Lithuanian Statistics department (2013)

In 2000-2009, the dominant manufacturing sub- sectors in Lithuania were coke and refined petroleum with share of 30.2% in 2000 and 33.9% in 2009, food, beverages and tobacco (25.8% and 22.9%), chemical and chemical products (9% and 11.1%). The share of these sub-sectors made 65% of total manufacturing value added in 2000 and 68% in 2009. Textile and leather products were one of the leading sub-sectors in 2000 with contribution of 11.3% to total manufacturing value added, however, in 2009 its share decreased by 4.4%. Figure 3 and Figure 4 show leading manufacturing sub-sectors comparison by countries in 2000 and 2009.

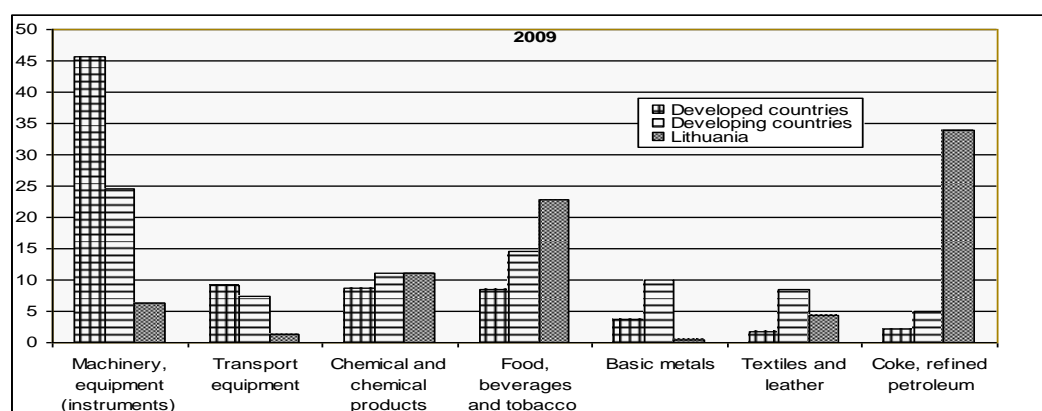


**Fig.3.** Leading manufacturing sub-sectors in 2000, percent

Source: UNIDO (2011), Lithuanian Statistics department (2013)

In 2000, the Lithuanian manufacturing distinguished from developed and developing countries by substantial dominance of coke and refined petroleum, food and beverages industries. Machinery and equipment industry prevailed in developed economies. Food and beverages, machinery and equipment were leading sub-sectors in developing countries. Over a period of 2000-2009, the leading sectors remained the same in the countries observed, despite the changes of their contribution to total manufacturing value added (Figure 4). The coke and refined petroleum remained the leading sector in Lithuania; and it increased the contribution to total manufacturing value added by 3.7 percentage points. In the same period of time, the Lithuanian food and beverages industry's share

decreased by 2.9 percentage points. In 2000-2009, machinery and equipment shares rose in developed countries as well as developing by 11.6 percentage points and 5.6 percentage points respectively.



**Fig.4.** Leading manufacturing sub-sectors in 2009, percent

Source: UNIDO (2011), Lithuanian Statistics department (2013)

The contribution of food and beverages industry's to manufacturing value added decreased by 2.6 percentage points. Structural changes in manufacturing have been summarized in Table 2 by using absolute structural changes rate.

**Table 2.** Absolute structural changes rate in manufacturing industry over 2000-2009, percentage points

Sub-sectors	Developed countries	Developing countries	Lithuania
Machinery, equipment	11,6	5,6	-0,1
Transport equipment	-0,8	0,3	-0,7
Chemical and chemical products	-0,5	0,1	2,1
Food, beverages and tobacco	-1,0	-2,6	-2,9
Basic metals	-0,9	3,0	-0,2
Textiles and leather	-2,0	-1,5	-6,9
Coke, refined petroleum	-0,4	-2,0	3,7
Other	-6,0	-2,9	5,0
<b>Total</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>

Source: author's calculations based on UNIDO (2011) and Lithuanian Statistics department (2013) data

Based on the estimated results of structural changes in manufacturing sector over 2000-2009, it can be concluded, that the manufacturing sector development was negatively impacted by textiles and leather, food, beverages and tobacco in all countries. Absolute structural change rate shows, that machinery and equipment growth positively impacted on manufacturing sector development in developed countries as well as developing ones. Refined petroleum and chemical sub-sectors stimulated and sustained manufacturing development in Lithuania. Next section has evaluated the structural change process in manufacturing sector and its intensity by countries.

### 3.2. The assessment of the manufacturing sector's structural changes

To better assess the structural changes and to study its impact on economic growth, it is useful to measure its intensity. The intensity coefficient and Finger-Kreinin dissimilarity index has been used for this purpose. The results obtained by applying the intensity coefficient and D index to the distribution of manufacturing value-added have been summarized in Table 3, Figure 5 and Figure 6. Having evaluated structural manufacturing

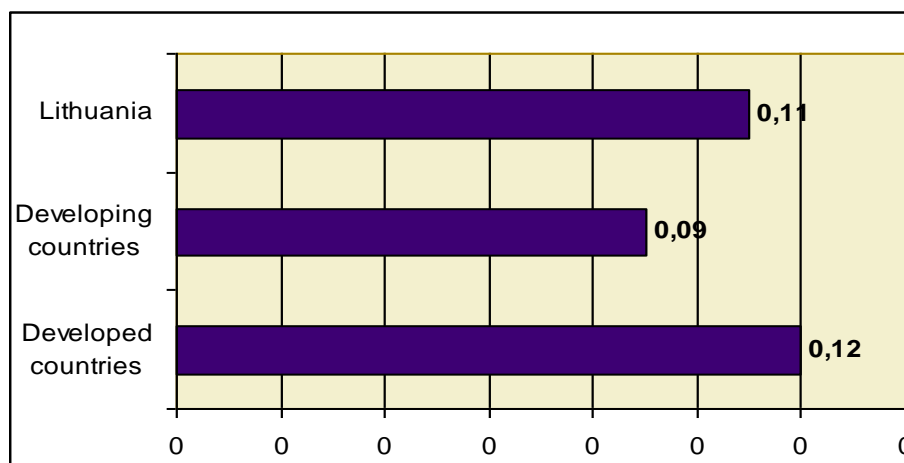
changes in 2000-2009, using intensity coefficient, it can be stated, that the Lithuanian structural changes intensity was very close to the developed countries intensity.

**Table 3.** The intensity coefficient of the structural changes in 2000-2009

Sub-sectors	Developed countries	Developing countries	Lithuania
Machinery, equipment	1,2	0,6	0,0
Transport equipment	0,1	0,0	0,1
Chemical and chemical products	0,1	0,0	0,2
Food, beverages and tobacco	0,1	0,3	0,3
Basic metals	0,1	0,3	0,0
Textiles and leather	0,2	0,2	0,7
Coke, refined petroleum	0,0	0,2	0,4
Other	0,6	0,3	0,5
<b>Total</b>	<b>2,3</b>	<b>1,8</b>	<b>2,2</b>

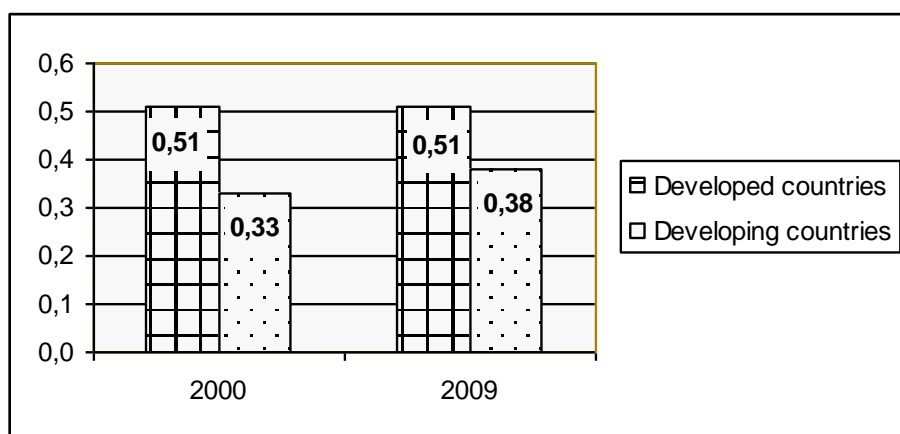
*Source:* author's calculations based on UNIDO (2011) and Lithuanian Statistics department (2013) data

Over 2000-2009, the Lithuanian manufacturing intensity coefficient made 2.2 and it was mostly impacted by the structural changes of textile and leather and coke, refined petroleum sub-sectors. Machinery and equipment affected the intensity of manufacturing structural changes in developed as well as developing countries. The intensity coefficient of these countries made 2.3 and 1.8 respectively. Hereafter, Finger-Kreinin dissimilarity index (D index) has been applied in order to compare manufacturing distribution in 2000 and 2009 of the same country (Fig. 5) and different countries (Figure 6). When a given distribution at a certain time is compared to the same distribution in a previous time, the D index can be used as a measure of structural change.



**Fig.5.** Finger-Kreinin dissimilarity index by countries in 2000-2009

*Source:* author's calculations based on UNIDO (2011) and Lithuanian Statistics department (2013) data



**Fig.6.** Finger-Kreinin dissimilarity index of Lithuania with developed and developing countries  
Source: author's calculations based on UNIDO (2011) and Lithuanian Statistics department (2013) data

Figure 5 shows the results obtained by applying the D index to the distribution of manufacturing value-added in selected countries for 2000-2009 period. As dissimilarity index shows, manufacturing sector distribution was completely similar in developed and developing countries and Lithuania as well in 2000 compared to 2009. It could be characterized by a higher rate of stability. The economies do not tend to show higher indices of structural change, often denoting the volatility of their specialization patterns. The specialization patterns of economies have been already formed. Figure 6 summarizes the dissimilarity index of Lithuania with developed and developing countries. Several observations have been noted from the results. First, developed countries have higher dissimilarity in their manufacturing distribution profiles with Lithuania's; and the degree of dissimilarity has been relatively stable throughout the studied period. Second, manufacturing distribution of developing countries have had lower dissimilarity index with Lithuania than developed ones and the degree of dissimilarity has risen from 0.33 in 2000 to 0.38 in 2009.

## Conclusions

The overview of statistical data has revealed that global manufacturing production is shifting gradually from developed economies to developing countries. Over a period of 1990-2010, manufacturing value added increased by 40 % in developed countries and has nearly tripled in developing countries since 1990. There are variations in manufacturing performance among developing economies. Lower- middle income group demonstrated significant average growth with nearly 10 % annually during a period of 2001-2010. Over a period of 2001-2005, the Lithuanian manufacturing had the highest growth with 10 % a year among all observed countries' groups. Due to the global economical and financial crises, the Lithuanian manufacturing value added dropped 15 % in 2008-2009; and this impact on average annual growth rate with 1.4 % over 2006-2010.

Over 2000-2009, in developed countries, the leading manufacturing industries were machinery and equipment, transport equipment, chemical and chemical products, food, beverages and tobacco. These industries made nearly 63% of manufacturing value added in 2000 and 72% in 2009. In the same period of time, the dominant manufacturing industries in developing economies were machinery and equipment, chemical and chemical products, food, beverages and tobacco; basic metals, textiles and leather. They had 64% contribution to total manufacturing value added in 2000 and 67% in 2009. The dominant manufacturing industries in Lithuania were refined petroleum, food, beverages and tobacco, and chemical products. The share of these sub-sectors made 65% of total manufacturing value added in 2000 and 68% in 2009. Based on the estimated results over 2000-2009 using absolute change rate, it can be concluded, that the manufacturing sector development was negatively impacted by textiles and leather, food, beverages and tobacco in all observed countries. Absolute structural change rate showed that machinery and equipment growth positively impacted on manufacturing sector development in developed countries as well as developing ones. Refined petroleum and chemical sub-sectors sustained manufacturing development in Lithuania.

Intensity coefficient of manufacturing structural changes revealed that the Lithuanian structural changes intensity was very close to the developed countries intensity and made 2.2.; this was 1.8 in developing countries. It showed that the Lithuanian manufacturing distribution was more volatile comparing with average of developing economies. Developed countries have had higher dissimilarity in their manufacturing distribution profiles with Lithuania's; and the degree of dissimilarity has been relatively stable throughout the studied period. Manufacturing distribution of developing countries have had lower dissimilarity index with Lithuania than developed ones and the degree of dissimilarity has risen from 0.33 in 2000 to 0.38 in 2009.

Evidences provided in this paper lead to general conclusion, that Lithuanian manufacturing distribution profile has higher similarity with developing countries than developed economies. The Lithuanian manufacturing structural changes are more intensive than in developing countries, but they are very close to the intensity of the developed economies. That leads to idea that manufacturing structural shifts are typical to all economies and the implementation of the appropriate economic means could impact on further economic development.

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## Appendix

### Classification of the countries by income group

Developed economies	Developing economies			
	High income	Upper middle income	Lower middle income	Low income
Australia	Bahrain	Algeria	Albania	Bangladesh
Austria	Brunei Darussalam	Argentina	Angola	Benin
Belgium	Croatia	Belarus	Armenia	Cambodia
Canada	Cyprus	Bosnia and Herzegovina	Azerbaijan	Congo, Dem. Rep.
Czech Republic	Estonia	Botswana	Bolivia, Plurinational State	Ethiopia
Denmark	Hong Kong SAR China	Brazil	Cameroon	Eritrea
Finland	Israel	Bulgaria	China	Ghana
France	Kuwait	Chile	Congo	Haiti
Germany	Malta	Colombia	Côte d'Ivoire	Kenya
Greece	Oman	Costa Rica	Ecuador	Korea, Dem. People's Rep.
Hungary	Qatar	Cuba	Egypt	Kyrgyzstan
Iceland	Saudi Arabia	Dominican Rep.	El Salvador	Mozambique
Ireland	Singapore	Gabon	Georgia	Myanmar
Italy	Slovenia	Jamaica	Guatemala	Nepal
Japan	Taiwan Province of China	Kazakhstan	Honduras	Senegal
Korea, Rep.	Trinidad and Tobago	Lebanon	India	Tajikistan
Luxembourg	United Arab Emirates	Latvia	Indonesia	Tanzania, United Rep.
Netherlands		Libyan Arab Jamahiriya	Iran, Islamic Rep.	Togo
New Zealand		Lithuania	Jordan	Uzbekistan
Norway		Macedonia, Former Yugoslav Rep.	Moldova	Viet Nam
Portugal		Malaysia	Mongolia	Yemen
Slovakia		Mexico	Morocco	Zambia
Spain		Namibia	Nicaragua	Zimbabwe
Sweden		Panama	Nigeria	
Switzerland		Peru	Pakistan	
United Kingdom		Poland	Paraguay	
United States		Romania	Philippines	
		Russian Federation	Sri Lanka	
		Serbia	Sudan	
		South Africa	Syrian Arab Rep.	
		Turkey	Thailand	
		Uruguay	Tunisia	
		Venezuela	Turkmenistan	
			Ukraine	

Source: UNIDO (Industrial development report 2011)



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