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Entrepreneurship, Creativity and Diversity

A Cross-Country Analysis of the Determinants of Entrepreneurial Activity

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This paper builds on the previous work of Lee, Florida and Acs (2004) and Richard Florida's (2002) theory of creativity and diversity as engines of new firm formation and regional economic growth. This paper tests at a national level, whether creativity and diversity positively affect entrepreneurial activity using multivariate regression analysis on a cross-sectional sample of 39 countries—mostly from Europe (26) and especially New Europe (8). The Global Entrepreneurship Monitor (GEM) provides data on entrepreneurial activity which includes measurements for both high-growth and international entrepreneurial activity. The Martin Prosperity Institute (MPI) gives input for creativity, based on data from the International Labour Organization (ILO), which is accounted as the proportion of the population engaged in creative occupations. On the one hand, diversity is measured using several dimensions of tolerance as a proxy for diversity via social inclusion, such as tolerance towards racial/ethnic minorities, gay and lesbian minorities and immigrants. While on the other hand, a special indicator of the diversity of human capital is presented as a normalized Shannon's (1948) entropy index of the inflow of international students, based on data from the UNESCO Statistical Institute database. Control variables such as human capital (expressed as educational attainment), technology (calculated as the expenditures on research and development as percentage of GDP), average unemployment, population growth and GDP growth from the World Bank complete the models. Finally, the sample is divided using a dummy variable for developed and non-developed economies based on the World Bank's classification of high income countries listed on the OECD group in order to test whether the positive relationships found by Lee et al. (2004) can be generalized to any or both groups. Three approaches are provided: quadratic fit, two-slopes and a reduced model for advanced countries. For each of them, four models with different variables of entrepreneurial activity are proposed: total, job-generating, innovative and international entrepreneurial activity. Due to the presence of heteroskedasticity together with data constraints, both traditional and robust standard errors are calculated and reported. Although this work presents little evidence of creativity and diversity as predictors of entrepreneurial activity for the whole group of countries analysed, the inflow of international students and especially its diversity consistently appears positive and significant. For non-developed countries, creativity and diversity are unrelated or even negatively associated. In line with Edward Glaeser's (2005) criticisms to Florida's theory, human capital appears remarkably important, especially in the reduced model. The research concludes that creativity and diversity are somehow related with higher levels of entrepreneurship, at least in highly developed countries. However for developing countries public policies aiming to enhance institutions and strengthen human capital are advised and, in particular, policies paying specific attention to the mobility of international students and the attraction of highly skilled migrants in order to ensure higher levels of innovation and regional economic growth.

Keywords: *entrepreneurship, entrepreneurial activity, creativity, diversity, tolerance, social inclusion, international students, migration, human capital, regional economic growth*

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How to categorize the stages of entrepreneurial process?

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Entrepreneurial process of new venture creation is not linear as could be seen from the cyclic character of learning according to Kolb (1984), and in the entrepreneurial process it needs to alternately adapt means and goals (Sarasvathy, 2008) to realize the idea. The presumption for successful venture launch is the process of reaching own business model by entrepreneur which includes (experiential) learning at both the individual (entrepreneur) and organizational levels (Corbett, 2005). In many cases the learning process results with new product(s) and related leveraging business models, and the company could named as "learned global" (Mets, 2008).

The venture creation process in the context of experiential learning is an iterative, nonlinear, feedback-driven, conceptual, and physical process that reflects the venture creation process. The experiential learning process follows the logic of entrepreneurial process as previously described by a number of authors (Davidsson, 2005; Sarasvathy et al, 2005) and includes the following sub-processes/stages/ actions: Idea generation, Opportunity recognition, Opportunity development and Venture launch with different levels of differentiation of stages. Venture launch could also be understood as opportunity exploitation. Propositions and outcomes of the entrepreneurial process and its single sub-processes are somehow mentally and physically embedded in the entrepreneur (or team) and the venture creation environment (prior to the venture launch).

The concept of silo is suggested (Mets et al 2013) here to label the combination of physical and mental shapes corresponding to a single stage. That means embedding propositions, outcomes and other mental and physical means of sub-processes in silos Propositions, Idea development, Concept development and Business development driven/controlled by direct (entrepreneurial) processes of venture creation as well as by the feedback chain. The content of a silo is not static; components/elements of it are in reciprocal interaction as well as in interaction with the main entrepreneurial process. Sometimes, as a result of learning from the process there is a need for a change of initial idea or business concept and model. Up to today the content of silos has been mapped using case study research methodology (ibid). Although the silos of concrete single stages of the entrepreneurial process contain different components, we suppose that these components can be described according to similar patterns – this creates the chance to use questionnaires for mapping the whole process and generalize the patterns of bigger samples. The paper aims to categorize the stages and components of the entrepreneurial (learning) process for better mapping the patterns of the entrepreneurial process.

Theoretical approach includes open innovation and resource-based view on SME growth, business model, knowledge management and entrepreneurial learning framework. Theoretical model and method for mapping the stages of entrepreneurial process for venture launch were created. 2-3 examples – cases of start-ups will be analyzed to check applicability of model and preparation of wider survey. Conclusions are applicable for policy implications and for design of venture creation training process.

Culinary Heritage in Latvian Municipalities and its Role in the Development of Entrepreneurship

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Latvia's municipalities are very different in terms of business development level. Latvia's regions are grouped into clusters based on several indicators of business activity: number of economically active individual merchants and commercial companies per 1000 capita, territorial development index, and proportion of working-age population. In addition to the business indicators, the following tourism indicators were selected: number of recreational establishments, number of bed-places, number of individual rooms, and number of farms and individual merchants dealing with culinary heritage. All these indicators are statistically significant for clustering municipalities. The clustering was performed by employing K-Means clustering and using the data processing programme SPSS. All Latvia's municipalities were divided into four clusters based on the business development level and the level of exploitation of tourism infrastructure and culinary heritage. The analysis results enable conclusions to be made that a strong positive correlation exists between the business environment development level and the level of use of tourism and culinary heritages. Culinary heritage is an important additional possibility for fostering business and economic growth in Latvia's municipalities. The greatest number of enterprises dealing with culinary heritage is observed in the following municipalities: Engure and Talsi (6-7 enterprises), Bauska, Plavinas, and Tukums with 3 enterprises in each, two enterprises are available in 9% and one in 14.5% of the municipalities, whereas not a single enterprise operates in 72% of the municipalities. It points to great possibilities for development. The greatest number of culinary enterprises does business in municipalities with a very developed or developed business level. A linear multifactor regression equation was obtained, which associates the revenues of the basic budget of a municipality with the following statistically significant factors: population density, territorial development index, expenditure on economic activity development, number of economically active entrepreneurs and commercial companies, number of tourism establishments, and number of enterprises dealing with culinary heritage. The analysis of regression equation coefficients point to the positive effects of all the factors included in the equation on the revenues of the basic budget of a municipality.

Keywords: *entrepreneurship, municipalities, clusters, rural tourism, culinary heritage*

Labour Market Challenges for Entrepreneurship Education: Problems and Solutions

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The fast development of information technologies causes considerable changes in the public's life. A new pattern of society emerges, and the values, situation in the labour market, and attitude to individuals and their development and value orientation change. The role and functions of the entrepreneur as well as the knowledge, skills, and attitudes necessary for the formation and management of an enterprise change. Stricter requirements are set for entrepreneurship education. Several reasons determine the *urgency* of it. *First*, quantitative and qualitative changes in the labour market and production pattern. Presently, the basis of an economy is made up of micro- (small) enterprises and various kinds of remote work. It sets much stricter requirements for education – to prepare not only knowledgeable and highly-qualified specialists, but, according to the labour market challenges of the 21st century, the new specialists have to have entrepreneurial competences, so that they are ready to establish their own enterprise in the future, become self-employed individuals, or work remotely. *Second*, changes in the evolution of human capital put in the forefront the development of a competent individual as the most important prerequisite for competitiveness. Therefore, the implementation of entrepreneurship education creates a new vision in forming the content of education, envisaging the inclusion of entrepreneurship education elements (aspects) in it within the context of development of entrepreneurial competences.

The aim of this research is to examine the challenges of the labour market for entrepreneurship education in the contexts of development of entrepreneurial competences among Latvian students and of readiness of graduates to establish their own enterprise in the future.

The research methodology implemented for this research is a mixed quantitative and qualitative approach. The paper analyses and reveals the challenges for entrepreneurship education, based on a forecast for the labour market of Latvia until 2030. To determine whether graduates in Latvian universities are prepared in accord with present-day labour market challenges, as well as to indicate how recent graduates have evaluated their knowledge and skills in the various fields of endeavour at the university, a survey was undertaken in all Latvian universities and an analysis of the results has been prepared. The survey was performed during the period November – December 2011, and 4,909 graduates (from the years 2006 – 2011) representing all Latvian universities were surveyed via the Internet (WAPI). The survey was realised/undertaken and the data processed by the SIA Marketing and Public Opinion Research Centre (SKDS Ltd) within the framework of the project “Universities Investments in the Latvian Economy” (UILE).

The results of the survey of recent university graduates reflect that, in general, while graduates in Latvian universities are mostly well prepared in accord with present-day labour market challenges, nevertheless, it was ascertained within the research that many respondents do not enjoy the possibility of developing entrepreneurial skills during their studies and serious improvements are still necessary in regard to the process of entrepreneurship education.

Keywords: *labour market, qualitative and quantitative changes, entrepreneurship education, entrepreneurial competence, entrepreneurial skills.*

Students' satisfaction with and demand of university offerings in entrepreneurship education in different European regions

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Entrepreneurship education has been shown to contribute to the development of students' entrepreneurial intentions and skills. The theoretical foundation of the current paper is the Theory of Planned Behaviour (Ajzen, 2002). Despite of a plenitude of research in the past on the topic there are a number of issues still not sufficiently studied, e.g. which individual, societal, family and university related factors enhance students' intentions to establish their own firm or be creative and innovative managers or employees or persons in general.

The aim of the current study is to identify the role of universities in the context of students' entrepreneurial intentions and activities. The content of university offerings, students' participation, expectations and satisfaction with entrepreneurship resources and entrepreneurial environment of universities in general are analysed, and contrasted with students' entrepreneurial intentions and activity. The study is based on Guesss (Global University Entrepreneurial Spirit Students' Survey) 2012 survey database. The sample consists of 17 European countries that have been grouped for the purpose of analysis by the level of economic development, based on Global Entrepreneurship Monitor (GEM) division (Xavier et al, 2013), into two groups: efficiency-driven and innovation-driven economies. A special attention is paid to the countries of Central and Eastern Europe (particularly Estonia and Hungary) in comparison with the European countries belonging to the innovation-driven economies.

Results indicate that there are differences in terms of student's entrepreneurial intentions and activities depending on the country's level of economic development as there are more potential and active entrepreneurs in efficiency-driven economies than in innovation-driven economies.

The role universities play in enhancing students' entrepreneurial intentions is assessed through the availability and students' participation in a variety of different lectures, resources and networking possibilities, and through students' satisfaction with and demand of these offerings. Analysis shows that satisfaction with entrepreneurship education as well as demand for different university offerings are higher in efficiency-driven than in innovation-driven economies, whereas the biggest difference is in terms of demand. As is the case with efficiency-driven European countries in general, students' satisfaction with university offerings in Estonia and Hungary is slightly higher than the European average and demand for these offerings is notably higher. The detailed analysis of the role of universities, students' assessments and entrepreneurial intentions in Estonia and Hungary in the European context is presented in the article.

On the whole, the study seeks to contribute to our understanding of how to organise/ change entrepreneurship education at universities in order to increase students' interest towards entrepreneurial and enterprising behaviour.

Keywords: *entrepreneurship education, participant demand and satisfaction*

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Factors influencing students' venture creation process

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There is currently a strong global drive towards encouraging a greater proportion of students to consider and pursue venture creation as an alternative graduate career path (Nabi 2006; Leffel and Darling 2009). As a result of this viewpoint, many authors have studied factors influencing students' entrepreneurial career intentions and motivations in both developed and developing countries (e.g. Kolvereid 1996; Carter et al 2003) as well as the role of higher education institutions in the promotion of entrepreneurial initiative among students (e.g. Autio et al. 1997, 2001; Fayolle et al 2006).

Previous studies have shown that a small proportion of students are founding their enterprises before graduation, but that those enterprises were relatively small, primarily micro-enterprises with a modest turn-over (Fueglistaller et al 2009). Although as startup entrepreneurs the students did not assess the market share, growth rate and self-financing of their enterprise to be very high when compared with competitors, they were satisfied with their career choice and with becoming an entrepreneur (ibid.). This experience makes student entrepreneurship a potential and important source of competitiveness, growth and economic development. There is not enough research and analysis currently being done about the processes (i.e. the major steps) carried out by students in the way of turning their entrepreneurial intentions into reality as well as the factors influencing this process.

The purpose of this article is to study students' entrepreneurship in Estonia based on the information of International survey GUESSS (Global University Entrepreneurial Spirit Students' Survey), undertaken in 2011. The comparison of the experience of Estonian students with other European countries (e.g. Hungary, Finland) will be included. The analysis of the article is dedicated to better understand the main features of student entrepreneurs, the steps of starting their enterprise as well as their opinions of different statements connected with this process. The factors for fostering the entrepreneurial activities in universities will also be taken into account. The research questions we will answer in this study are:

- how the venture creation process is organised by students?
- how university supports students' entrepreneurship?

A conceptual framework for describing the process of new venture creation is based on Gartner (1985) that integrated four major perspectives in entrepreneurship: the characteristics of the individual (s) starting the new venture; the organisation they create; the environment surrounding the new venture; and the process by which the new venture is created. In the survey the Likert scale method has been used for the measurement of a respondent's opinions to the different statements connected with their activities in the process of creating a new venture as well as the assessments on the entrepreneurial environment of universities. The methods of linear statistical analysis is utilised with the help of the computation package SPSS 20.0.

The contribution of the paper is to improve our understanding about the factors influencing students' venture creation process and how the environment in universities should be developed for activating students' entrepreneurship.

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What can be learned from entrepreneurs about the shadow economy? Evidence from the Baltic States.

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This study makes a contribution by developing an index that measures the size of a shadow economy as a percentage of GDP. We use the term ‘shadow economy’ to refer to all legal production of goods and services that is deliberately concealed from public authorities. In contrast to other studies that mainly focus on analyzing GDP and other macro data, our estimates of the size of a shadow economy are derived from surveys of entrepreneurs. Our method of measuring the size of the shadow economy draws on a survey of company owners/managers. The questionnaire form contains four major: (i) external influences; (ii) amount of shadow activity; (iii) company and owner characteristics; and (iv) entrepreneurs’ attitudes. Given the sensitive nature of the topic, our method makes use of a number of surveying and data collection techniques shown in previous studies to be effective in eliciting more truthful responses.

Our method requires fewer assumptions than most existing methods of measuring the shadow economy, in particular compared to methods based on macro indicators. Our shadow economy index can be used through time or across sectors and economies and thus is a useful tool for evaluating the effectiveness of policy designed to decrease the size of a shadow economy.

We apply the method described above to Estonia, Latvia and Lithuania. To construct the sampling frame we obtain information on all active firms in each of the three Baltic States from the Orbis database maintained by Bureau Van Dijk. For each country, we form size quintiles (using book value of assets) and take equal sized random samples from each size quintile. The first survey round, conducted between March and April 2011, is used to estimate the size of the shadow economies in the Baltic States in 2009 and 2010. In this survey round a total of 591 phone interviews are conducted in Latvia, 536 in Lithuania and 500 in Estonia. We repeat the survey between April and May 2012 to estimate the size of the shadow economy in 2011, and April 2013 to measure shadow economy in 2012. Both in 2012 and 2013 survey rounds 500 phone interviews with owner/ managers in Latvia, 500 in Lithuania and 500 in Estonia are conducted.

Our results indicate that while all three Baltic States have seen a contraction in the size of their shadow economies (as a percentage of GDP) from 2010 to 2011, the contraction has been most pronounced for Latvia (i.e. data analysis from 2013 survey round is in progress, abstract only includes summary of results from surveys in 2011 and 2012) . The estimates suggest the decrease in the size of the Latvian shadow economy was close to 8%, whereas in Lithuania and Estonia the decreases have been a more modest 1.7% and 0.5%, respectively. In light of the detrimental long-term effects of having a large shadow economy, we view the contractions in the Baltic shadow economies, and in particular the case of Latvia, as a very encouraging sign.

We also find that firms that are dissatisfied with the tax system or the government tend to engage in more shadow activity; satisfied firms engage in less. This result is consistent with previous research on tax evasion, and offers an explanation of why the size of the shadow economy is still significantly larger in Latvia than in Estonia and Lithuania; namely that Latvian firms engage in more shadow activity because they are still more dissatisfied with the tax system and the government. A particularly concerning result that emerges from this year’s study is the

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high level of dissatisfaction in Latvia with the government's tax policy during 2011: currently as much as 70.5% of Latvian entrepreneurs are "unsatisfied" or "very unsatisfied" with tax policy. This is an on-going, and now escalating, concern that policy makers must address in order to not undermine the other policy measures put in place to reduce the size of the shadow economy.

Furthermore, we find that smaller, younger firms engage in proportionally more shadow activity than larger, older firms, consistent with the anecdotal evidence that tax evasion is used by firms to gain a competitive edge, and that having an edge is important in competing in an established market. Firms in the construction and services sectors continue to engage in more shadow activity than firms in other sectors.

In summary, we find the contraction in the Baltic shadow economies in 2011, in particular the case of Latvia, very encouraging. However, there is still significant scope for further improvements and while some improvements may come naturally with further economic recovery, policy makers should continue implementing measures to minimise shadow sector activity. Restoring entrepreneurs' confidence in the tax system is one avenue. In particular, results show that reducing dissatisfaction with the tax system is likely to be one of the ways for Latvia to "close the gap" with Estonia and Lithuania in terms of the size of the shadow economy. Addressing this issue could involve actions such as making tax policy more stable (less frequent changes in procedures and tax rates), making taxes more "fair" from the perspective of businesses and employees, and increasing the transparency with which taxes are spent.

Unproductive entrepreneurship in post-transition Lithuania: the case of “Land use change business”

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Happy families are all alike; every unhappy is unhappy in its own way
“Anna Karenina”. Leo Tolstoy

Although the impact of institutions on entrepreneurship has been a much-studied phenomenon in post-transition economies, still and by large it remained embedded in the assumptions that there is only positive correlation between institutional improvement and entrepreneurship progress. The creation of new formal institutions was important in early-stage transition period, and it was almost accomplished in 2004, when Lithuania and other Central and East European countries joined the European Union. This notwithstanding, there is a ground to consider that further social and economic development of new EU members should proceed in rather different way from that we have observing in old member states. (Stark, Bruzst 2001; Stoica 2004; Gelbuda, Meyer, Delios 2008).

While most of the researches (Smallbone, Welter 2001; Smallbone, Welter 2006; Manolova, Euni, Gyoshev 2008; Earle, Sakova 2000) concentrate on how the legacy of centrally planned economy affected entrepreneurship development during the transition period, little has been said about what happened with entrepreneurship in new EU countries, after the creation of formal institutional framework was almost accomplished. Compare to old EU countries, entrepreneurial behavior in these countries considerably differs in many ways. In spite of almost 20 years of political and economic transformation, there are big groups of entrepreneurs involved in rent seeking, semi-legal and shadow activities (Aidis, Van Praag 2007), or as it is argued by Baumol (Baumol 1990; Griffiths, Kickul, Bacq, and Terjesen 2012), they are unproductive entrepreneurs.

This article aims to explain how, from the perspective of institutional theory, new unproductive entrepreneurial opportunities emerge and they are exploited in post-transition period after Lithuania joined EU in 2004. Based on the case study of “Land use change business”, the article shows how new “upgraded” institutional context influences unproductive entrepreneurial behavior. During the period of real estate “bubble” (2004-2008) the entrepreneurs found opportunities how to change the purpose of land use² by obtaining permissions, sell “new” land for construction purposes, and gain profits. Unproductive entrepreneurial opportunity emerged on the conjunction of two institutional contexts. The first one was soviet legacy – old Law on Land, inherited from 1970 with minor amendments in 1994 and 2004, and the second was free market enforcement institution – the constitutional right to buy and sell land property.

The findings suggest that turbulent transition period (1989 – 2004) created new “path dependences” and situations when new post-soviet and “old” soviet institutional settings were melted into a unique context. By focusing on these processes, the paper illustrates how, in spite of formal institutional context improvement and many attempts to change entrepreneurial culture, new unproductive entrepreneurial opportunities persist to emerge. Second, unproductive “land use change” entrepreneurs creatively adapted to situation after Lithuania joined EU, and immediately identified “gray” area where two different institutional settings meet together to produce unique entrepreneurial opportunity.

Key words: *unproductive entrepreneurship, new EU member states, path dependency, institutional theory.*

² According to Lithuania Law on Land, land has to be used only for designated purposes: agricultural, forestry, and etc.

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A Normative Analysis about the Measures to Prevent Shadow Economy in Finland

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This paper focuses on the issues of shadow economy in Finland. The objective is to demonstrate and evaluate the size and the measures taken to reduce the size of shadow economy. On the other hand, the purpose is to compare the current status of shadow economy especially with Baltic Countries.

Similarly in Finland as in the most of the developed countries the major drivers towards shadow economy include heavy tax burden and social security contributions together with labour market regulations and rigidity (Schneider, 2007). The paper will be searching answers to the following research questions: What kind of forms of shadow economy exists in Finland and what is the estimated share of different informal activities in the economy? What kind of measures has been taken in order to reduce the size of the shadow economy in Finland? The analysis will mainly concentrate in one part of the shadow economy called also as grey economy. Grey economy is defined as such an activity of an organization where statutory obligations are defaulted in order to avoid payment of statutory taxes, accident or employment insurances, pension insurance premiums or customs duties. Grey economy includes also measures taken to get unjust enrichment through recession of taxes or payments.

Mainly the paper concentrates on the grey economy in business life even one part of the phenomenon is for example the tax evasion of the ordinary people. The study will be normative and descriptive in the sense that it describes the Finnish situation based on the reports of the working groups and authorities produced mainly by the Ministry of Finance and the Ministry of Employment and Economy.

In the Programme of Prime Minister Jyrki Katainen's Government quite a lot attention is paid to shadow economy. Essentially curtailing the shadow economy is one of the measures in growth policy and restructuring of the economy. A specific chapter in the Programme is devoted to "Intensified action to combat the shadow economy". The instruments which have been introduced include the establishment of The Grey Economy Information Unit under the organization of tax authorities. This Unit contributes to tackling the grey economy by producing and distributing information on the grey economy and action against it. The campaign Grey Economy – Black Future is running in order to reduce the externalities caused by grey economy.

The measures and the results of the programme will be identified and reflected with the results from the studies from different contexts. The results will give comparable information for policy makers about the situation of shadow economy in Finland and Baltic countries as well as some estimates about the effectiveness of the measures taken. Entrepreneurs may benefit from the analysis since it increases their consciousness and knowledge about the contents of the programme and the campaign as well as their potential impact on their businesses. For the research community the paper raises new research questions and gives some background and framework for more in depth studies about the phenomenon.

Client's willingness for co-creation of a service on the example of KIBS

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The attention to research of companies classified as knowledge-intensive business services (KIBS) has been increasing over recent years mainly because knowledge has become the main source of innovation for entrepreneurs. Being originally designed as a tool to solve the existing problem of a service buyer, knowledge-intensive service activity (KISA) requires mutual engagement of client and service provider in order to co-create a service that meets the needs and expectations of client.

The problem solving nature of service provided by KIBS causes the situation, where service often occurs in the conditions of information asymmetry between buyer and seller, therefore it might be quite challenging for a seller to provide a service the perceived value of which would satisfy the customer, as well as for buyer it might be complicated to understand fully the value of the service.

Service design is found to be helpful to be applied in KISA creation process, as it allows minimizing information asymmetry that often occurs between KIBS and its clients and as a result helps to create a service that solves the concrete existing problem of a particular customer. Engaging a client into service creation process ensures understanding of the precise needs and provides a starting point for creating customized and focused KISA. However realization of this approach requires clients to be ready for active participation in service creation.

The main research question of this paper is if and how the clients of KIBS are willing to participate in service creation process.

To answer the question authors use in-depth interviews in order to gather data about expectations and willingness of entrepreneurs to participate in co-creation of services provided by KIBS. Analysis provides insights for KIBS in order to organize service delivery process in the optimal way to both meet customer's expectations towards service structure and service outcome.

As the tradition of engaging KIBS in entrepreneurial process might be different within different entrepreneurial cultures, within this study authors focus on data gathered in Baltic region. This way authors ensure applicability of findings in KIBS active in the region.

Keywords: *KIBS, KISA, service design, co-creation, entrepreneurship, innovation*

Consumers attitude to good (or bad) depending on the degree of non privacy

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Many economists believe that competition helps to achieve optimum balance, and maintaining the competition is not only a criterion for economic growth but also a matter of a sound social order. Within the framework of default assumptions a theorem stipulates that in a market of perfect competition a double-effective balance can be achieved in long term: production becomes economically effective – companies produce with minimal average costs; the utilization of resources is socially optimal – the marginal costs of production equal the product price that, in its turn, equals average costs. However, a deeper analysis of socioeconomic reality pushes to revise verities of neo-classical microeconomics and to recognize the failure of a perfect competition market paradigm. Authors believe that one of the factors causing the failure of a perfect competition market is failing to understand and to utilize the unique properties of public goods and public bads that are researched in this article. Undoubtedly, the socioeconomic significance of social goods has not been studied enough, and the possibilities of putting them to use in order to increase the population's welfare are not being fully utilized. In an extended interpretation, economic effect can be gained from goods and commodities that have only one of the qualities characterizing public goods – non-rivalry. Goods having such quality we are going to call non-private goods. Authors consider that consumer's attitude changes depending on the extent of privacy of these goods. The article provides a definition of indicator for consumers of non-private goods, as well as the definition of fundamental value of the non-private goods. An example shows the calculation of fundamental value of public goods produced by Talsi region municipality. Studies of scholastic and scientific literature, method transferring and modifications, studies of municipality documents, inquiries, methods of financial mathematics and mathematical statistics were used in order to carry out the research.

Dynamic concepts for business model generation

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Understanding internal sources of competitive advantage has become a major area of research in strategic management. Strategy is defined as a series of goal-directed plans and actions that align a business's resources, competencies, and capabilities with the opportunities and threats in its environment. Resources are a business's assets, capabilities are the ability to exploit its resources, and competency is a cross-functional integration and coordination of capabilities.

But the problem of not understanding resources, competencies, and capabilities still arises. The main purpose of this research is to develop an understanding concerning the resources, competencies, and capabilities.

Resources on the firm level are an organization's tangible and intangible assets, and the mostly applied theoretical approach is still the resource-based view (RBV) of the firm. But this theory has a key shortcoming, it works well in a static environment, but today's world is extremely dynamic, therefore the concept of dynamic capabilities (DC) arose. Both capabilities (DC) and resource-based view (RBV), uses routines and resources as the units of analysis.

For understanding what is really meant by resources, competencies, capabilities, Modern Estonian Knowledge Transfer Organization for You (MEKTORY) – business model generation competition case studies are analysed. The empirical findings in this study provide a better understanding of what is meant when using terms like resources, competencies, capabilities.

A future study investigating values would be very interesting. Strategic management has become a major topic in the world of business, politics, and academia, in Estonia and throughout the world.

Keywords: *business model generation, capabilities, competencies, resources*

Rural Innovations: Local Food Systems and its Development

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The issues related to innovative local food systems and its wider social, cultural, economic and environmental implications have expanded amongst scholars and policymakers over the last decades. Even though agricultural innovations are present in rural areas, in this paper they have been omitted in favour of non-agricultural innovations – local food systems' development. The hypothesis of the study, upon which this paper is based, is that innovative local (alternative) agrifood or food systems will be a suitable tool for further development of sustainable agrifood sector, as well as rural communities' and rural areas' development. The tasks of study are: to clarify the concept of local food systems; to investigate the food system relationship with further sustainable development of rural communities; to evaluate the development processes of local food systems in Latvia; to seek the consumers' preferences related to locality of food. The principal materials used for the studies are as follows: different sources of literature, research papers and the reports of institutions. The research methods used the study are mainly qualitative: analysis and synthesis, logical and abstract constructive and expert, etc. The results of study reveal that the factors, fundamental to the idea of sustainable agrifood sector's and local food systems' further development, are the following: the concerns of climate change and the greenhouse gas emissions from food chain; transportation of food - 'food miles', problems of the human health, caused by unhealthy, mainly industrial, food; and issues connected with the farmers' and rural community prosperity and well-being. Local or alternative food systems are innovative solutions for rural development, particularly for small farmers' viability and income increasing through business activities' diversification. Although there is no consensus among scholars on the definition of the local food system, nevertheless, there is worldwide acceptance that globalization's negative effects could be solved by re-localization policies and activities, and support of local food systems. Many scholars, *inter alia* European, argue that alternative or local food systems or networks are innovative, important and suitable tools for solving environmental, economical (farmers' and rural inhabitants' income increasing) and social issues, and they facilitate further sustainable development of rural areas and rural communities. Some fruitful initiatives and activities are realised, which support local food system's development in Latvia, e.g., implementation of brand local identity product and development of local food markets and local food baskets. In line with the new CAP, it is necessary to conduct more detailed investigations of local food issues in Latvia, *inter alia* restrictive factors, aimed at clarifying the potentialities of state support. The state research grants should be allocated for implementation of some concrete investigations.

Internationalization Strategies of ‘Born Globals’ Born in Latvia

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This study aims to contribute to entrepreneurship literature by exploring the internationalisation pathways of ‘born globals’- companies that enter international markets very early- that originate from a new EU member state. Empirically chapter draws on the four case studies - firms that has been established by entrepreneurs from Latvia. The companies are: Stenders- manufacturer of natural bath and cosmetics; Munio Candela- handcrafted candle manufacturer; Primekss - industrial flooring manufacturer; and manufacturer of premium jeans wear Trousers London.

More specifically we attempt to explore whether patterns as identified by previous studies, mostly exploring characteristics of born globals that originate from more advanced market economies, also play key role in the context of four selected case studies, i.e. companies “born in Latvia”. We do that by providing an insight in the internationalisation pathways of each of the selected case companies, mainly focusing on characteristics, international market selection criteria and market entry modes of these firms. Section five, however, summarises the key findings and provides with some conclusions and policy implications. Overall, finding of this study can be relevant both to companies, especially those coming from new EU member states, that are on their way to develop strategy for international expansion as well as policy makers in order to make informed decision on investments to support international orientation of local SMEs. Understanding patterns of “born globals” from countries such as Latvia might potentially also benefit entrepreneurs from more advanced economies, for instance when making decision to enter markets in Central and Eastern Europe.

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Institutional voids as a trigger for the emergence of born global production and innovation networks

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Highlights

- We study how firms from less developed innovation contexts initiate global innovation networks (GINs).
- Less developed innovation contexts suffer from various institutional voids.
- Firms respond to those institutional voids by seeking capabilities abroad
- As a result, they develop GINs from the outset.

Abstract

The article complements the existing work on the evolution of global innovation networks (GINs) from a less developed innovation context by documenting that GINs can also be “born global”, rather than be the outcome of the gradual upgrading of global production networks into GINs. The literature review is divided into two sections. First we discuss what is known about the emergence of GINs, linking our discussion not only to the globalisation of innovation, but also to the literature on “born globals”. Second, we discuss institutional voids, and how that body of literature relates to locational attractiveness. Case study methodology is used. Interviews were conducted during 2010 and 2011 with the top management of the companies, as well as division heads such as Sales and Product Development.

The article, focusing on two GINs (Skype and MXIT) that operate digital services, suggests the importance of institutional theory as a useful lens for understanding firms’ actions. Both companies have emerged from countries with less developed innovation systems, Estonia and South Africa, and have developed GINs in response to the talent, product market and capital market voids of those countries. While the existing literature places a strong emphasis on firm capabilities, our evidence suggests that firms can internationalise their production and innovation also due to a lack of local capabilities.

Keywords: *institutional void; global innovation network; Skype; MXIT; capacities; alliances.*

Impact of innovations and infrastructure development on growth. Estimation of agent-based model approach for the Baltic states

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The recent development of the EU exhibits the challenge of large infrastructure investments needed for infrastructure capital stock in the members joined EU, which facing the importance of constant improvements in productivity to ensure growth. The Structural Funds and the Cohesion Funds form together one of the largest parts of the European Union's budget, which implies to eliminate economic and social disparities among the member states. This paper is aimed to develop a structural framework of infrastructure, innovations and output growth considering economic factors and interactions shaping the responses of various shocks.

The first part of the article argues the applicable theoretical methods for the infrastructure development policy analysis starting from the literature body trying to identify the appropriate approach. In the literature body the role of infrastructure in the innovation processes is undeniable. However, many authors point out that the relationship between infrastructure capital and economic growth has been debatable considering causality occurs between infrastructure and aggregate output. First of all, from the macroeconomic perspective infrastructure provides various effects through a number of channels both for firms and households. Impacts differentiate by its nature both direct and indirect, whereas infrastructure incorporated as one of production factors in the context of growth theories and might consequentially appear as an argument in the utilities functions.

The second part argues a number of prerequisites arisen from its nature of the infrastructure development as a complex system. The analytical framework should provide the conventional methods describing the random behavior of the heterogeneous economic agents, the changing structure of entire markets and the institutions, considering the influence the heteroscedasticity of the global processes beyond and within the EU and provide the mechanism to link intertwined components into a framework. The fundamental problem of the infrastructure development analysis is that the complex system of infrastructure evolve through time emerged from responses on external factors. The agents are continuously adjusting their behavior in the dynamically changing environments through generation of new patterns of behavior and raised complexity of the interactions.

The third part of the article analyzes guidelines of the practical implementation for the framework. The sustained development of the infrastructure involves the interconnected activities of investment, financing and economic influenced by environmental changes. The infrastructure itself does not subsist separately from the environment. The infrastructure assets formed by private capital stock are complex by nature because of a number of categories, which make difficult to assign asset to infrastructure due to there is no clear theory background, which supports the proposition that infrastructure is a separate assets class.

As the conclusion, the innovations play central role in the productivity and they have growth effects but the innovations in the infrastructure communicated rather through different channels. The proposed framework should give insights into the critical issues that need to be addressed to mobilize capital stock an efficient way to satisfy growing demand in the infrastructure development especially by the shrinking role of the government.

Innovation in air cargo sector and the effect on developing entrepreneurship: case studies of Estonia and Poland

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Air cargo sector is a developing and dynamic field, where innovation is present in the sense of technology, process as well as business model advancement. Bringing the changes to life is dependent on many factors such as demand, competitive situation, economic environment and supporting legislation. However, in addition to all these, it is often pointed out, a much-needed prerequisite lies in proactive attitude of participants and in defining clear priorities.

The advancements in a developing sector are expected to have a long-term effect on customer-markets, which does not only end with faster and better quality service. Although traditionally in cargo aviation, the first priority is and remains speed, it is also necessary to have enough well-functioning competition so that air cargo clients would be served with a multitude of options on different balancing points between speed, service quality and cost. In addition to greater value creation through lower cost, shorter time, customised services and service quality, innovation in air cargo sector can also support regional entrepreneurship by increasing the number of exporters and their production output. Furthermore, a long-term effect on modal split can take place, supporting competition on a wider scale between air cargo and road haulage.

Air cargo sector, in practice, is developing the quickest „at the top“, ie around international air freight hubs. In contrast, this study is aimed at mapping out the situation on the example of two regional airport hinterlands in Eastern-Europe: Tallinn and Katowice. Firstly, the study needs to identify how the air cargo service providers in Tallinn and Katowice evaluate the current situation and developments in the industry and what is their satisfaction with developments in the local entrepreneurship, which forms their customer base in export. Secondly, it is important to understand the viewpoint of forwarders, who can be expected to have a wider look on the air cargo industry than the actual service providers (airlines, sales agents, terminals etc) and also understand much better the local air cargo exporters, the local entrepreneurship potential regarding air cargo and their motivation to expand.

The hypothesis of this study is that realistically expect developments and innovation in air cargo sector can affect entrepreneurship in secondary regions, which are lacking the potential to grow into hubs on a wider scale. The study is based on expert interviews with various sector representatives in both mentioned regions as well as a survey aimed at wider array of sector participants.

Enterprises in the high-tech sector shaping their institutional environment and external resource base

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National innovation systems (NIS) of the countries with transformation economies are often accused of underperformance due to existing institutional gaps and shortage of resources. Basing on the empirical evidence of IT enterprises in Belarus we will study how the most active enterprises in the region pressured by international technological competition can impact the external environment in order to fill the institutional gaps and increase the pool of available resources.

First, we will outline the factors that force enterprises to engage into NIS-shaping and produce positive externalities for their competitors in the sector; then study the appropriate characteristics of enterprises that enable and foster them to impact the institutional setting; and finally look into the forms and results of such environment-shaping strategy.

IT sector in Belarus is considered to be the largest IT cluster in the Central and Eastern Europe. Due to limited domestic demand especially from industrial enterprises, it is rather well integrated into the world market, delivering outsourcing services to major IT vendors of the world (like HP, IBM, Microsoft, Oracle, SAP, 1C), but also possessing a developed network of constant smaller foreign partners. Belarusian IT sector has found its niche among the other IT clusters in the world and is famous for its academic background. Under these circumstances, one of largest problems of Belarusian IT companies is the personnel deficit within the NIS, compared to the growing foreign demand. The other problems include the lagging behind legal framework in the country for usage of advanced forms of work and introduction of innovative products and services by the national customers.

Because exactly the qualitative characteristics of the regional staff make the competitive advantage of Belarusian IT companies in the world market, they have no other way than to seek for improvement of the situation with resources. The largest enterprises have started to solve this problem for themselves by regional diversification, but also by establishing the educational centers for re-qualification of the personnel. But this is a direct production of positive externalities for other IT companies that specialize in innovative products with higher value added and can draw away the personnel educated by others by offering them the higher salaries. In spite of this apparent lock-in situation, that might block the further development of IT sector, the enterprises (united and guided by leading institutional forces) have developed a number of additional instruments to further improve the human resource pool, as well as the institutional framework.

The paper will provide the empirical evidence in support of idea of the NIS self-tuning, and will contribute to understanding of the factors and forces behind such processes.

Innovation Management: The core notion for sustainable existence

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Nowadays, there is a growing necessity for efficient tool using in order to fight back the increasing process of uncertainty and competition, spotting and taking advantage of the appearance of potential facilities that could be used as underpinning for further development and achievement of profusion in the future, revealing and orchestrating new revenue streams and other gains, elaborating unique solutions for existing problems, adjusting and improving organizations, industries and even the society itself. The role of innovation is increasing. Previously mentioned necessities drives the authors of the article to concentrate on innovation management issues and to discuss questions in the context of innovation management for a sustainable existence.

The purpose of this study is to identify and reveal the association of innovation management with the acquisition of competitive advantage.

During the elaboration process of the article the qualitative research methods of the economic science were performed. The material and methods of the research comprised content analysis of international level documents, concepts, programs as well as analysis of theoretical literature.

The authors of the article review the core available aspects constrained with the economic impact of innovation management creating sustainable competitive advantage.

The research findings show, appropriately employing the benefits of innovation management, it is possible to overcome the harsh times in economy, to revive organizations and industries, and even to ensure further prosperity for suffered countries. Congruent usage of innovation management is collateral for further success, sustainable growth and competitive advantage, and this is to be realized the sooner the better in order not to obtain experience on one's own mistakes liquidating the consequences afterwards.

Keywords: *Innovation management, competitive advantage, globalization*

“Business Support Programs as a Possibility to be Self-employed”

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Long-term unemployment in Latvia and other countries of Europe has recently increased due to the world's global economic instability. Long-term unemployment is a topical problem in all regions of Latvia that are affected by various economic and social aspects. Therefore, it is substantial to explore and analyse factors, tendencies, and dynamics of economic activities of the unemployed in order to get an idea on options for unemployment risk reduction. Currently, the situation of unemployment in some regions of Latvia has slightly improved and various experts predict that at the beginning of 2013 the level of unemployment will decline to 8.6%, which is close to the average level of unemployment in the developed European countries such as Austria, Germany, Belgium, France and others. However, this forecast is not reliable due to high long-term unemployment rate in Latgale region as well as in other rural regions of Latvia forcing inhabitants to leave the state for searching work elsewhere.

This article investigates the relationship between long-term unemployed people and possibilities to be self-employed by analysing theoretical assumptions of various authors and getting opinions of long-term unemployed and self-employed people. The aim of the paper is to identify long-term unemployment problems, to determine solutions how to start the new business and to find financial support.

Keywords: *long-term unemployment, business support programs, financial support.*

The role of science communication in collaboration between scientists and entrepreneurs in Latvia

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As far the innovations and technologies is one of the top priorities for Latvia, the developments in science are playing a significant role as a source for innovations, and at the same time the collaborations between scientists and entrepreneurs are becoming crucial. From one side entrepreneurs haven't enough specific knowledge about scientific research, from other side scientists are using for clarification of their ideas and research results scientific language, which creates barriers for mutual communication and collaboration and results in slowing down innovations, development of technologies and improvement of productivity. The science communication has potential to reduce the communication gap between scientists and entrepreneurs. The aim of this study is to explore the process of science communication between scientists and entrepreneurs in Latvia and to identify its main characteristics.

The main functions of science communication are science popularisation, educating of society about science and technologies, as well as public involvement in discussions about developments in science. Analysis of different science communication models (Felt, 1995, Nielsen, Kjaer & Dahlgard, 2007; Libutti & Valente, 2006; Lima, Neves & Dagnino, 2008), allows to conclude that there are two basic groups of models – one-way and two-way communication. One-way communication model includes such activities as information of society; science popularisation etc. and the dominant communicators are scientists. Two-way communication is characterized by dialog and interaction between stakeholders.

One-way communication has been more popular, but in the same time this model has been also criticized as insufficient, meaning that in modern world information of society and science popularisation isn't enough. There is a need for interaction between scientists and the public. Science communication between scientists and entrepreneurs is current and important topic; as well it is one of the preconditions for the research commercialization practices.

In Latvia there are 6 competence and innovations centres, 8 technology transfer centres as well as number of universities which are expected to perform function of public involvement in science. During the research 13 expert interviews were conducted: 5 with technology transfer centre representatives, 4 with competence centre representatives, 3 with scientists and two with entrepreneurs whose opinions constitute the understanding about the science communication between the parties involved. The objective of these interviews was to provide in-depth exploration about science communication between scientists and entrepreneurs in Latvia.

The results of interview analysis provide quite comprehensive understanding about the process of communication between scientists and entrepreneurs in Latvia. Regarding the evaluation of this process scientists and representatives of technology transfer and competence centres have more positive views than entrepreneurs.

Society in general as well entrepreneurs are missing in-depth understanding about the science, about the role and importance of fundamental research, specific aspects of research process etc., e.g. entrepreneurs are willing to support financing of applied research but not the fundamental research. This can be explained by different experiences – for scientists research is part of their everyday life activities, while business environment have no real connections with scientific research and entrepreneurs do not have time to learn about the importance of fundamental and academic research. This gap can be minimised by providing the public with more comprehensive explanation of the importance of fundamental research.

Improvement of science communication between scientists and entrepreneurs can be provided by knowledge brokers – comprehensively and specifically educated people who have equally good understanding of both – the scientific research and business, and can provide effective communication between both sides, as well as encourage both sides to work together for solutions of different problems. One of the main tasks of knowledge brokers is to promote the mutual exchange of information and this is related with the main perspective of modern science communication which is provided by interactive (two-way) communication model.

Overall analysis of the results identifies the key trends in science communication between scientists and entrepreneurs. Technology transfer programs should be highlighted as an important activity which sets a framework for targeted development of science communication. In order to improve collaboration between science and entrepreneurship it is necessary to promote networking and interaction of scientists and entrepreneurs.

Keywords: *science communication, scientists, entrepreneurs, knowledge brokers*

From student CubeSat to Startup: lessons and recommendations from entrepreneurship research field

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Main research topic is promotion of entrepreneurship among engineering students. Since the development of CubeSat standard by California Polytechnic Institute and Stanford University student CubeSat projects with their low construction and launch costs have become significant part of space education and training in growing number of universities worldwide. While engineering students possess high entrepreneurial potential, the question is how to build on this potential and promote creation of successful startups among student CubeSat project participants.

The objective of this study is to answer two questions:

1. What lessons and recommendations from the entrepreneurship research field can be used to promote and support the creation of *startups* among student CubeSat project participants?
2. Which student CubeSat project aspects are promoting and supporting the creation of *startups* among its participants?

Relevant entrepreneurship research field results for student CubeSat projects have been identified and analysed using the systematic literature review method. Results of this study confirm that the lessons and recommendations from entrepreneurship research field can be used for promotion and support of startup creation among student CubeSat project participants. In addition findings support CubeSat projects as having a positive impact on the participants' motivation and readiness to start a successful business. Study contains a list of positive aspects in student CubeSat projects from a business perspective and provides recommendations gained from the entrepreneurship research field for promotion and support of startup creation among student CubeSat project participants.

The results of this study are aimed for use by CubeSat and similar student engineering project planners, managers and participants. In addition, the findings may provide useful insight for university management and policy makers.

Competitiveness of majority state owned enterprises

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The main task of this research is to determine the competitiveness level and concept of SOEs as a result of overall factor and subfactor analysis.

At first the concept of firm competitiveness framework will be developed as a main precondition for other competitiveness concepts and levels regardless of the ownership structure.

Then the various reasons why SOEs(enterprises with majority state ownership)exist.

Finally it should be clear whether the same competitiveness factors are relevant also for SOEs, in what extent , or why not.

Competitiveness has been widely discussed topic among researchers, managers, and politicians in different levels and from different perspectives. Organizational or firm level competitiveness has been recognized as major contributor on regional or national economic development and growth.

In general, consensus has been made on firm level competitiveness main factors although it is quite complicated to measure since factors depend from industry, size, age and other issues. During the last three decades academics main focus in competitiveness research has been on small and medium size enterprises (SMEs). Another major concept, the productivity (another form of competitiveness) of the state owned significant public assets in large , nation level companies comprising significant wealth and largely influencing the particular industry.

SOE(state owned enterprises) , which are fully or partially owned by governments are major concern from governance and privatization, and social function perspective, but there is a lack of studies of their competitiveness .In theory , assets should deliver the same productivity(under the same market conditions and business environments)regardless the ownership structure. There is growing interest on issues of SOEs performance bases on productivity and competitiveness , because such enterprises still generate significant share of nations' GDP , control large share of states assets, and determine the competitiveness environment in industries.

Research methods

Qualitative method of the series of Case studies based on the internal&external factor guidelines., 3-4 Companies were selected which met the following criteria, majority share were owned by state(directly or indirectly by other SOEs or state owned agencies), staff of more than 500 employees, rank among top 20 companies in Latvia.

Interviews

Interview guidelines were prepared covering the main 10-12 competitiveness factors and open questions, which should support the arguments. Particular experts were chosen from the company top management.

Scientific contribution

Identifying the competitiveness factors relevant/ not relevant for the productivity of this group of enterprises .Possible grounded theory on the specific context defining the SOE competitiveness factors , which might eventually be based on ownership structure, social functions, political agenda etc.

Advantages of utilization of balanced scorecard concept in health care companies

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Health care is an industry that influences all the other industries and all the society groups, and it takes a more important role especially because of the ageing of society. A global trend indicates that there is a change needed in health care systems.

Globally recognized is the balanced scorecard concept that can allow companies to understand their competitive position. Latvian health care companies are not using in evaluation all of the main indicators influencing the company's competitiveness and they do not group them into four perspectives of balanced scorecard for analyzing healthcare companies' management, as well as by evaluating the factors which are significant for patients in choosing the health care company.

The goal of the paper is to develop balanced scorecard concept aiming to increase of competitiveness and value of Latvian health care company.

In order to realize the goal of the research, the data gathering and analyzing are based on qualitative and quantitative research methods, such as theoretical comparison analyses, personal observations, expert method, the statistical data analysis and financial calculations are used.

Jel codes : G320 - Financing Policy; Financial Risk and Risk Management; Capital and Ownership Structure; Value of Firms; Goodwill; I110 - Analysis of Health Care Markets.

Keywords: *Balanced Scorecard, Competitiveness, Health Care Companies, Market Value, Patients` perspective*

Influence of regional macroeconomic indicators on the Material Handling fleet in Supply Chains

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Purpose

Supply Chains efficiency has been achieved using among others also Material Handling (MH) solutions. The study concerns the impact of interrelations between the Supply Chain parameters and economic indicators for international companies and SME in the regions with a sparse population and low business density. The changes in the MH fleet reflects those in the economic development, labour market and environmental issues.

Design/Methodology/Approach

Statistical analysis of economic and the MH procurement data for the Baltic States concerned. Interpretation of the interdependence of the indicators related to the development of the area as a whole and of the country.

Findings

Changes of the main economic indicators force to change MH solutions with time delay due to long life-time cycle. The duration of such a delay is determined by a country's specifics. Large proportion of the use of electrically powered MH trucks in West European countries meets better the increasing environmental requirements.

Research limitations/implications

Correlation between macroeconomic and Material handling indicators is found to be rather qualitative than quantitative, due to many influencing factors and unceasing changes in developing countries.

Practical implications

In the development of MH truck fleet the working productivity, purchase and maintenance aspects should be taken into account. The best practice of other areas and countries is of great value. Implementation of Material handling solutions, based on the long term approach is to provide better financial results. Relatively long life-time and high maintenance costs of the MH main assets leads to the necessity of implementing an integrated approach including innovative solutions in the replacement policy.

Originality/Value

Consideration of the macroeconomic indicators in Supply Chain Management enables more correct evaluation of changes to come and which would raise the precision of business forecasting.

Keywords: *Supply Chain Management, Material Handling, logistics, economic indicators, GDP.*

CROSS BORDER COOPERATION FUND INCREASING IN LATVIA – LITHUANIA BORDERLAND

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Purpose: The main purpose of this research is to analyzed how cross border coopeartion funds are changed from Cross Border Cooperation Programme (LatLit). Methodology of this research is comparison methodology. Since the global economical crisis in 2008 have influenced Latvia's and Lithuania's economy especially GDP which was dramatically increased, the border regions became a problem regions. Borderlines and border regions provide excellent case studies of neighbourhood relations, the genesis and collapse of prejudice and stereotypes (Van Houtum, 2009). Klaipeda – Liepaja administrative border region is created by local authorities. From Lithuania Klaipeda County, from Latvia side Nīcas and Rucavas counties. The institution responsible of cross border cooperation between Latvia and Lithuania is Latvia–Lithuania Cross Border Cooperation Programme (LatLit) (Latvia–Lithuania Cross Border Cooperation programme, 2012). Key questions for this research are: 1) How local Latvian – Lithuanian borderlands are cooperated in transport corridor (example: VIA Baltic) and 2) Is regional development cooperation between borderland.

Methodology: Methodology of this research is comparison methodology. Comparison methodology mean comparison of Latvia and Lithuania borderland by communicative borderland forms (mobility, development project implementation and environment protection). The methodology used: regression analysis, t – test and statistical program PSPP. Data is used from Latvian statistical Bureau and Lithuania National Statistical Bureau. Data is used from Latvian statistical Bureau and Lithuania National Statistical Bureau.

Results: In 2008 January 1st, according to the foreign direct investment (FDI) indicator, Klaipeda County ranked fourth in state (after Vilnius, Telšiai and Kaunas counties). 63 % (LTL 1823,3 million) of the total FDI in Klaipeda county was invested in Klaipeda city, 27 % (LTL 785.0 million) – in Klaipeda district municipality (Department of Statistics to the Government of the Republic of Lithuania, 2011). Kurzeme planning region (hereinafter – KPR) was established by the Law on Regional Development and at the end of 2006 formed as Public equivalent body with development council and administration as an executive body. Kurzeme Planning Region Development Council is decision maker institution consisting from representatives of all 20 Kurzeme municipalities. The total cross – border findings are increased in comparison with 2008. In 2008 were selected 46 cross – border cooperation projects between Klaipeda and Liepaja counties but in 2009 accepted only 27 cross – border cooperation programmes (Department of Statistics to the Government of the Republic of Lithuania, 2011) . The main goal of this research is to investigate changes in cross - border cooperation funds after the global economical crisis.

Practical implications: Research implication in regional planning is part of practical border studies tool involving in social cohesion in Baltic studies case.

Value/originality: Innovative aspect of this research is the location of the cases in the stages model of transboundary governance model.

Keywords: *LatLit, Latvia, Lithuania, regional economy, border studies*

JEL classification: B22

Paper type: Research paper

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Evaluation of the factors influencing the competitiveness of the North-Vidzeme region

Judziks Aigars

Processes of globalization, which is a topical in turn of the century, requires an appropriate level of competitive economy. In this context, significant attention is paid not only to international competition but also to competition at the regional level within the country. Topicality of research is determined by necessity to create tool to manage region's competitiveness. Important role in the assessment of evaluating practical aspects of regional competitiveness have socio-economic development strategy for development of region competitiveness.

Economy theory approve that the region's competitiveness in certain sectors correspond to the following factors: presence or absence of the production as well as utilization efficiency in a defined area. Today, however, it is clear that without innovation the raw materials and natural resources are not enough to create and keep competitive advantage. In the conditions of the global economy, economical subjects compete by attracting – labor natural resources, and investments. Regions, which will be able to create and maintain an environment in their territory that will allow these economic agents to be competitive in the world market and realize their development strategies will get more efficient production processes and highly skilled workforce. A competitive company has a strong impact on the entire region and local industries that enhance added value and benefits for regional economy.

Identifying factors of regional competitiveness influence development of strategy for regional competitiveness, the framework for the formulation of competitiveness institutional background, as well as an incentive to determine the main directions of increasing the region's competitiveness.

The aim of this study is to identify and evaluate the factors influencing the competitiveness of the North-Vidzeme region.

Objectives:

- provide a general characterization of the region;
- identify factors that influence the competitiveness of the region;
- evaluate the factors that influence competitiveness of the region.

Methods used: monographic, statistical analysis, and survey sampling methods.

As the result of the study the criteria for evaluation of region's competitiveness were defined.

RESEARCH & DEVELOPMENT POLICY AND BUSINESS SECTOR PERFORMANCE: ESTONIAN POSITION IN THE EU⁴

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The success of business sector innovation performance is dependent on the base created by the general development conditions (path dependency), efficiency of public innovation policy measures, but also on the scale and intensity of business sector R&D activities. The objective of the government sector is to develop a complete and efficient national innovation system in which the innovation policy supports business sector R&D activities in order to enhance the innovation performance.

Current article analysis the level and dynamics of business sector R&D activities in the EU member states and countries closely associated with them. The assessment of business sector R&D activities relies on the international comparative analysis. The aim is to assess Estonian position among investigated countries based on business sector R&D activities in order to create the base for understanding the long term competitiveness. The following research tasks are tackled: analyse the innovation policy support system shaping business sector R&D activities; analyse the necessity and possibilities to support business sector R&D activities by the government sector; analyse the role of the government sector as the promoter of R&D development in the business sector; assess by using empirical analysis the international position of Estonia in the set of investigated countries based on R&D activities. The data of years 2004, 2006 and 2008 is used.

In order to assure the success of business sector R&D activities, a fully operational innovation policy support system has to be developed. In addition to public sector R&D activities, also the development of education system and the design of necessary legal environment to enhance cooperation networks have to be emphasised. However, it should be accounted that the government sector intervention is only justified when market and/or system failures occur. Finding measures to resolve these failures without creating distortions of competition will be the task of government sector mechanisms supporting business sector R&D activities.

Large discrepancies can be found in both theoretical and empirical approaches of business sector R&D activities. In the current article, previous theoretical studies are systematized and problems in available empirical studies are analysed.

In the empirical part, firstly, the level and structure of public R&D policy is characterized based on 15 variables. The results bring out a controversial picture – based on most of the variables Estonian position is under the average level of investigated country set. Therefore, the public support to business sector R&D activities in Estonia is quite modest.

Secondly, 18 different variables explaining the business sector R&D activities are analysed, which conclude remarkably different assessments on Estonian international position. With component analysis four synthetic complex indicators describing business sector R&D activities are created, their level and dynamics against international background analysed.

⁴ This article is written with the support of the Ministry of Education and research foundation project No SF0180037s08 “The path dependent model of the innovation system: development and implementation in the case of a small country” and European Social Foundation through the Research and Innovation Policy Monitoring Programme.

The results of both theoretical and empirical analysis show that Estonia can remarkably improve its work in developing innovation policy support system for business sector R&D activities and also in designing adequate and efficient support measures in order to enhance its international position.

Key words: *R&D policy, R&D activities, innovation performance, business sector, EU, Estonia*

JEL classification: *O32, O38, O52*

The commuting as factor of regional development in Estonia

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Economic impacts of migration within the European Union have been extensively studied, but mainly from the transnational perspective (i.e. migration between EU member states). Less well-studied is in-state migration. This is especially true for the kind of migration the paper focuses on: commuting, resulting in working place and residency discrepancy. Such migration raises a number of controversial issues for regional development – jobs are increasingly concentrated in larger centers but at the same time many people are still connected with their living places in rural areas and they do not want or can not switch residence. The result is a growing gap between (often rural) residential-municipalities and (often urban) work-providing-municipalities. Commuting is a complicated phenomenon. We have to consider reciprocal commuting flows: outward and inward commuting are functioning at the same time. Important factor of regional development are commuting flows over the county border.

This paper aims to study the direction and intensity of commuting and its fiscal impacts on municipalities (population income and local government budget revenues) in Estonia. Data from the Estonian Tax and Custom Board are used (for the first half of the years 2011-2012), focusing on data on commuters' gross salary and data on the amount and allocation of personal income tax into local governments' budgets. The data from Estonian Tax and Customs Board is unique in the sense that it enables us to assess the level of economic development of comparatively small areas – cities and rural parishes. The data from Estonian Tax and Customs Board enables us to look separately into the income of municipalities inhabitants and the revenues of local governments that are gained:

- from residents working outside the county;
- from residents working in enterprises registered within the county;
- from residents working in the enterprises registered within the same municipality.

The results of the study are providing a comprehensive assessment of the effects of commuting to the differences of regional development.

The paper is structured as follows: a brief introduction (section 1) will be followed by a review of what is known in the literature about the nature and economic and financial impacts of commuting within the context of regional development (section 2). Section 3 introduces the methodology of the empirical analysis and deals with issues of data gathering and of reliability of the data used. In section 4 findings of the empirical analysis of commuting as a source of resource re-distribution between in-state regions are presented. Section 5 discusses the outcomes of the analysis and its implications to the Estonian regional development and section 6 concludes.

Regional factors and small business development directions in Belarus

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Business development is considered as means of decision of many social and economic problems, including regional ones. We tried to analyze the major of small business regional factors development on the basis of the state statistics data, the mechanism of their influence on economic growth processes according to a number of known concepts and theories and to determine the directions of their stimulation for Vitebsk area in the research.

Having established a priori, that industrially advanced territories having higher educational level of the population have a higher level of business activities of the population too, we tried to reveal the other factors. It was determined the dependence of quantity of employers and self-employed persons from number of local college-educated persons for homogeneous, from the point of view of the industrial development territories level.

For this purpose Belarus areas and cities of oblast subordination was grouped by size of the industrial output volume per capita. The potentially possible quantity of employers and self-employed persons for each area and city of oblast subordination is determined within each of groups.

The analysis results allowed to conclusion about the existence of additional factors (except for an industrial development level and an educational level of the population), promoting business activities is the most appreciable shown in Grodno and Minsk areas, a little to a lesser degree in Brest and Vitebsk areas and in capital of republic – the city of Minsk. The level of business activities of the population is lower in Gomel and Mogilev areas, determined by parameters of levels of their industrial development and an educational level of the population that allows to conclusion about existence of the factors constraining business activities of the population in these regions.

Development of sector of small business can become the essential factor of the decision of many regional problems. However except for «critical weight» small enterprises for fuller realization of their potential in regional development other conditions are necessary also: presence of integration communications between subjects of managing of region, structure of set of small enterprises diversified by kinds of activity, the state support of small enterprises in depressive territories and peripheries of regions, creation of conditions for realization of the small enterprises innovative potential (the cooperation with research and educational institutions, the risk capital creation, the specialized infrastructure etc), stimulation of manufacture by small enterprises of production on export, actions in the field of preservation of the environment, the resource-saving technologies and alternative energy sources introduction.

The directions of small business development stimulation for Vitebsk region are determined which can become as a part of its regional development strategy.

Regional Development and Entrepreneurial Marketing Interface: An Exploratory Research on Sustainable Competitive Advantage in the Creative Industries

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Objectives:

On the grounds of the strong link between entrepreneurship, innovation and regional development, the study aims to emphasize the mediating role of entrepreneurship and innovation on gaining sustainable competitive advantage for the regional development. The study seeks to contribute to the answer of the question that “how entrepreneurs make competition irrelevant” in the shed of Red Queen Effect and Blue Ocean Strategy.

As an exploratory research the purpose of the study is to improve the understanding on entrepreneurship and innovation occurred in SMEs as the key drivers of economy and the core research units of entrepreneurship. By searching the socially valued art industry cases about irrelevant competition, the study also seeks to bring closer the economic and social dimensions of regional development. Since art is fundamental for developments of the societies and art related enterprises are mostly creates social values as well as economic.

Approach:

Theoretical approach of the study is based on the competition concept by the two opposite metaphors about to survive: Red Queen Effect and Blue Ocean Strategy.

The Red-Queen scenario (Barnett & Hansen, 1996) is described as a key attribute for the continuity of the ‘outpouring of innovations’ (Baumol, 2004) and keeping their relative advantage. On the other hand, Blue Oceans offer sustainable advantages, not only overcome the competition but also make it irrelevant (Kim and Mauborgne, 2005).

Although adaptation and imitation (Levitt, 1986) seems less risky, as stresses by Schindehutte and Morris (2010) it is fatal in the long term, because a few companies will realise they have to run differently. The study denotes this fact with the “Many Struggle with The Red Queen Few Float on The Blue Ocean”. In other words, many companies become follower since they prefer imitation for the continuity of relative advantage (Walker, et. al., 2002) and gaining legitimacy (DiMaggio & Powell, 1983) rather than radical innovation (Schumpeter, 1934).

Method:

Qualitative methods generally have been gaining acceptance in the small business and entrepreneurship researches (Perren & Ram, 2004). The study adopted a qualitative method: multiple case study in order to deeply analyse (Yin, 2003) both entrepreneurship and value innovation processes and the antecedent of gaining competitive advantage.

In order to close the gap between art industry and entrepreneurship research, the cases are preferred from the art industry, since creative industries outshine in new economy (European Competitiveness Report, 2010) and art related enterprises are important both economic and social development of societies and can reveal new insights in these contexts.

Due to the value introduced to the industry and the criteria about “being pioneer” and “playing differently” lead us to choose two critical and rare cases of e-business in visual art industry in Turkey: *lebriz.com* and *tamsanat.net*. Data analysis included individual case study analysis and cross-case comparison.

Results:

The case study results show the link between ‘value innovation’ and the ‘market perception’ of the entrepreneurs. Two key strategies that make the competition irrelevant are determined:

1. Embracing and supporting the rivals instead of competing with them.
2. Enlarging the industry to create more value innovation to more people.

In conclusion the study presents the antecedents of gaining competitive advantage through value innovation and entrepreneurial marketing in terms of “playing a different game” (Schindehutte and Morris, 2010) and the study offers to focus on the entrepreneur as the real source of the differentiation in order to gain competitive advantage.

Value:

The study extends the comprehension in entrepreneurship, innovation and regional development through underlining the mediating role of entrepreneurial marketing in terms of sustainable competitive advantage.

The study is valuable as it researches an outstanding industry-creative industry- and an outstanding region in Europe (Turkey) in terms of entrepreneurship, innovation and competition field. It is believed that ‘sustainable competitive advantage’ and ‘art industry’ focus of the study will be fruitful for both regional development field because of the social dimension as well as economic.

The case study research puts forward some exploratory and valuable findings in the nexus of ‘market perception of entrepreneur’ and ‘entrepreneurial marketing’ in order to gain sustainable competitive advantage through the value innovation. As an exploratory research it is hoped to shed light to the future researches in the regional developmet and entrepreneurial marketing interface.

Keywords: *entrepreneurship, innovation, sustainable competitive advantage, entrepreneurial marketing, red queen effect, blue ocean strategy*

Bridging competition and cohesion in regional development: Experience in building integrated scenarios for attractiveness of Vidzeme region in Latvia

Visvaldis Valtenbergs, Andris Klepers, Inese Ebele, Kristaps Ročāns, Guna Šulce

Economic recession and austerity policies have contributed to turbulence in addition to usual disadvantages faced by remote rural regions in Europe. Scenario building is used to strategize possible development paths in conditions of growing uncertainties. In this article we elaborate on scenario building process for Vidzeme planning region in Latvia in 2011 and extract the most important lessons learned in scenario conceptualization, building and implementation.

The scenarios take into account the global processes and trends, the development indicators characterizing regional development, expert interviews and young people's opinions as well as results of several seminars with the participation of international experts. Among key drivers affecting the future of the region are population dynamics and aging, reduction of public spending, environmental factors, technological development, transport and accessibility, renewable energy potential, rural development models, social and cultural transformations, and governance.

Based on the concept of territorial capital (Camagni, 2006) and neo-endogenous rural area development approach (Ray, 2006), we applied qualitative foresight methodology to construct several feasible futures for attractive places in the region. Based on cohesion and competition based policy interventions, we extrapolated optimal development path. In *Optimal* scenario competition and cohesion are mutually complementary roads of development. The *Competition* scenario is governed by rivalry principles. The striving of individual agents for immediate benefits increases social and territorial differences. In *Cohesion* scenario less developed territories and branches of the region receive more generous support, while the overall development of region is postponed in the name of more stable growth and sustainability. The *Optimal* scenario balances the competition and cohesion approaches striving for higher productivity and specialization of the regional economy. In optimal scenario the region aims at creating co-operation networks for overcoming the external uncertainty.

The scenarios can be used as visioning tool to create and promote the agreement among various groups of the society about the desirable and possible directions of development of particular places. Based on the optimal Vidzeme development scenario we have designed recommendations for the development policy of Vidzeme Planning Region and the municipalities.

The Long-term Development Scenarios for Vidzeme were developed within the Baltic Sea Region programme's project „ Transforming rural regions by launching scenarios, new narratives and attractive urban design” (*Transinform*) . The Project activity : WP3 „ Scenario planning for regional potential and urban design.” Scenario report is available at: http://www.vidzeme.lv/lv/vpr_ilgtermina_attistibas_scenariji/

Keywords: regional development, development scenarios, territorial capital, rural area development, regional attractiveness, society welfare

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Localised learning and knowledge institutions in economic development of peripheral Functional Urban Regions – case studies from Southern Estonia and Northern Latvia

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Nordic experience has proved that higher education institutions (HEIs) may be important drivers pushing forward regional innovation and development in general: regional centres with a university/college are better off in respect of occupational and demographic development. Wider European and also Estonian results show that investment to the R&D does not guarantee innovation and development of the regions. The Baltic states are facing a high population decline in peripheral urban regions. That together with the lack of ties between HEIs and locally based enterprises are putting pressure to the creation of an effective functional urban region.

The aim of the case studies was to analyse the role of non-metropolitan HEIs in the framework of the Regional Innovation System (RIS) as pipelines of global knowledge as well as generators of internal know-how and innovative networks in parallel with other regional knowledge transfer institutions: R&D units, business advisory services and their interaction with local/regional authorities and business organizations.

The case study areas chosen: the Eastern neighbouring regions of Estonia and Latvia, serve as examples of North-European peripheral borderland, where rapid modernization/development traditional agriculture and forestry as well as new expanding manufacturing industry and some service industries like tourism can be been witnessed side by side. The case study areas were: Võru, Otepää, Rāpina and Valga from Estonia and Valka, Alūksne, Valmiera and Smiltene from Latvia.

During the case studies, we found information on the current economic state and structure of the counties. Because of limited human and financial resources in the peripheries, special emphasis was on the observation of collaborative planning & development activities, structural arrangements and reorganization of public sector - wider national policy tools and impact, as well as application of EU-measures and cross border co-operation activities.

One of the most important tasks was to capture the impact of Knowledge Institutions in both local business development and development planning, and on the other hand, the impact of above policies and activities to the development of KIs. In general, although it acknowledged that the presence of HEIs is essential, cooperation between university-industry-municipality is weak.

In Võru, HEI has played an important role within Võru county by providing qualified students for enterprises within the Võru region. The cooperation between municipal authorities, knowledge institutions and local businesses is slightly weak and it does not have huge positive impact on

regional development in this particular area in Valga/Valka. The knowledge production in Otepää municipality mainly comes from abroad with companies of foreign ownership and with outside linkages.

Valmiera region is generally regarded as one of the best performing regions outside of the metropolitan region of Riga. According to Valmiermuiža brewery, local firms enjoy cooperation with other local and regional KIs, organizations and firms, but the cooperation is mostly tourism and marketing related. In Smiltene, the knowledge flows between local vocational schools and HEIs are based on individual personal roles in the education institutions. Entrepreneurs mostly do not rely on workers with high education. Strong influence of local media was found in Alūksne.

The Role of the University in Developing Regional Innovation System and Enhancing Entrepreneurship: the Case of Kuressaare College

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Changes in society like rising importance of knowledge, growing competition between companies and regions, decreasing population in remote regions *etc.* have posed new roles for all actors who are interested in the sustainability of regions. Higher education institutions (HEIs) help entrepreneurs while conducting their traditional roles in teaching and research, but the scope of HEIs could be even wider. It has been claimed that especially local colleges tend to be interested in the so called "third task" and cooperation with local, usually, small firms. The innovation system approach stresses the importance of non-firm actors, incl. HEIs, in forming an innovative environment and supporting entrepreneurship.

The purpose of the current article is to analyse the role of HEI in regional economic development from the perspective of regional innovation system. The case of Kuressaare College is used as an example to understand the role of a rather small local college in a remote region far from the bigger centres. Using a case study approach key persons have been interviewed and document analysis has been conducted.

Kuressaare College (KC) offers applied higher education, development and applied research and is a sub-unit of a traditional technological university. KC is situated in Saare County which is an island and surrounded by the sea. There are 33 thousand inhabitants, population density is 11 inhabitants per square kilometre. The college is 210 km from the capital of Estonia and the home university. There is no 24/7 connection with the main land. The purpose of KC is to be a partner in research and development projects supporting the development of the region, for the enterprises of the region as well as for educational institutions, local governments and regional development agencies. The KC has four curricula which all have been developed according to the needs of local economy.

The role of the KC is analysed during the process of the creation of the Small Craft Competence Centre (SCCC). The Small Craft building is a growing industry, third most important sector in Saare county; forming nearly 20% of regional industrial output. The development of that sector is hindered by the lack of engineering knowhow, shortage of specialists in e.g. marketing and design, small domestic market, limited number of subcontractors, rare usage of high technology etc.

The results of the study show that a HEI can be an active partner in the regional innovation system and help entrepreneurship despite of its size and the low volume of R&D. A HEI has different possibilities to fulfil the role. Although it must be admitted that the shortage of resources (incl. human resources) has an impact on the volume.

Keywords: *university, higher education institution, competence centre, innovation system*

“Investment attraction for regional economic” abstract

Alise Mactama

Principal topic

The theme of research paper is “Investment attraction for regional economic development”. Within this theme, author analyses foreign direct investment attraction opportunities for Ventspils City.

Multinational companies and foreign direct investment are very important global commerce elements. In few past decades foreign direct investment amounts are higher than export increase. In the same time the importance of foreign direct investment in different countries continues to differ. Development countries concern both that the investment is invested and that it is not invested. Exists fears from exploitation from one side, but wish to reach foreign capital, management skills, and technologies from other side. In industrial countries with help of foreign direct investment is possible to create new workplaces, but in the same time foreigners would want to control economic and influence national safety. However in the latest 2012 World investment report is written that foreign direct investment has economic stimulating effect taking into consideration that it is invested sustainable.

One of the biggest port cities in Latvia is Ventspils, which is located near Baltic Sea and wants to become one of industrial development cities in Latvia. Ventspils City council and Free Port of Ventspils authority is searching the best ways how to attract bigger foreign direct investor interest, which will help to create new workplaces and balance incomes of municipal budget.

The aim of researching is to prepare recommendations for Ventspils City to improve efficiency of foreign direct investment attraction.

To reach the goal the author studied variety of theoretical literature. Attention is made to different foreign direct investment term analysis. Also author gives insight in different foreign direct investment theories which are classified in traditional, modern and radical view. Nevertheless very important are factors which influence foreign direct investment. To describe these factors author uses Dunning’s eclectic paradigm or the OLI-model which explains three main benefits from foreign direct investment: ownership advantages, location advantages and internalization advantages. Finally foreign direct investment is connected also with geographic obstacles; therefore Richard Florid theory of creative class is used to explain what factors – hard or soft –are more affecting foreign direct investment.

Also author introduces with the latest statistics about foreign direct investment flows in world and Latvia and of course investment environment in Ventspils City, which has experienced rapid development from time when Latvia became independent. Paper provides insights into regional planning policy, which reflects both the Latvian government attitude towards regional prosperity and Ventspils City’s efforts to improve the economic situation in the municipality.

Methodology

To investigate investment attraction experience in Ventspils City author uses qualitative research method, within case studies where made. During this research author found out Ventspils City Council and Free Port of Ventspils authority experts opinion about investment attraction opportunities, as well as there were made attracted investment case studies with several industrial companies – Bucher Schoerling Baltic Ltd., Malmar sheet metal Ltd, and EUROLCDs Ltd. – in Ventspils, which started its operations as foreign direct investors.

Paper gives an opportunity to understand foreign investor’s motivation to choose Ventspils City as its investment destination. This paper outlines Ventspils City key benefits which help to attract foreign industrial companies, as well as it explains potential measures to increase

investment.

Results and Implications

The main paper results reflects that Ventspils Cities investment environment has changed – from undeveloped and uncared city with 40 native companies it has become well maintained and the base location for many industrial companies. A priority in these years has changed from port city to industrial development center. The basis of Ventspils City`s investment strategy is every investor attraction, which potentially is interested to invest in the city. Of course more attractive are small and middle entrepreneurs which operate in metalworking, automobile or electronic industry. In future foreign direct investor interest should increase, Free Port of Ventspils authority hopes that they will be connected with complicated technological fields like oil and chemical product processing companies or future energy processing entrepreneurs.

Investors who are interested in Latvia as potential investment place in the same time are interested in cities from Lithuania, Estonia, Bulgaria, Rumania, Czech Republic and Poland. Baltic States in this list are closer to old Europe mentality which is more orientated to western culture. Ventspils Cities biggest competitors are Liepaja, Jelgava, Daugavpils, outside Latvia closer Lithuanian cities Klaipeda, Kauna and Sauli. Also with the capital of Latvia – Riga, Ventspils is competing, but about these two cities interest shows different kind of investors. In Riga investors seek the market, but in Ventspils they produce to export.

The biggest advantages which provide Ventspils City are good welding traditions, appropriate engineering infrastructure, Free port of Ventspils authority industrial plant construction in investor place, wide transport infrastructure, enough labour supply, good native people foreign language skills, which helps to communicate with potential investors. The main negative aspects are Ventspils Cities location, which is far from the capital and the centre of Latvia. Also in Ventspils is not available natural gas, ready industrial plants and the qualification of labour could be higher and wider.

Ventspils City in future will provide opportunities which will be connected with modern and professional high school creation, also authorities of Ventspils will continue to popularise city in international environment as potential investment destination and the support from native government will be stable and secure. The main threads are connected with government policy which is more concentrated to the capital of Latvia; also the fast population decrease is very dangerous. Of course other company failures could be threat which could reduce interest about Ventspils.

To conclude Ventspils city in overall can provide appropriate environment to foreign direct investors. To help to develop the investment environment Ventspils City Council and Free port of Ventspils authority should pay attention how to solve problems which are connected with unavailable free industrial plants, no existing strong non-governmental organisations for industrial companies, also the weak link between industrial companies and native educational institutions, business class hotel unavailability and no regular flight airport existence.

Also very important is to pay attention to investor development not only in the first year of business activities, but also in further activities. For investor it is very important to feel safe and be secure that the industrial politics will not gone change and the obstacles will be beneficial. To help not only to attract investors but also to hold them in long term they should feel the support from native municipality and in any problem situations know that they will not gone be alone in solving them. Ventspils City is started to work in this direction and it has all potential to continue successful communication with foreign direct investors.

Research paper can be used for assessing Ventspils City as possible industrial investment place and also in development planning processes, thereby investing in Ventspils City development. Paper can be useful for everyone who is interested in foreign direct investment effect on regional development.

What factors determine commercial return from business accelerator in Baltics?

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Among different concepts to implement innovation policy with support and involvement of various players (universities, public organizations, non-governmental organizations, venture capital funds, banks etc.) business incubation (BI) as a policy measure to foster new start-up development has been widely used in almost all EU countries, as well in parallel to evolvement of incubation culture countries have experienced different results out of the resources dedicated and methods applied.

Recently majority of the EU public support policies are often in favour of fast growing companies so called "gazelles" although they represent minority of start-ups. As during early start-up stages state funding is indispensable as there is almost nobody else to step in high growth or „gazelle" firms and there is a higher option for innovative companies to scale globally if they've been incubated properly within incubation systems. Not all gazelles are technological innovators, but most of them are innovative, they usually distort traditional sector structures, spur competition and economic change. Still several studies⁵ have outlined that majority of newly established companies in EU have moderate or even low growth objectives and therefore they might be considered as low growth (or „life-style") companies, that usually do not demonstrate high survival rates in parallel with increase of sales and employment.

Evolution of public support to new start-up creation and in particular to the BI in many EU countries has resulted in emergence of shorter-time commercially driven business incubation systems usually but not always integrating pre-incubation, basic or technological and post-incubation support, and more recently known as business acceleration model. Together with entrepreneurial education and entrepreneurial university model the system may play important role in regional development, concentration of knowledge and talents, promotion of new innovative start-ups and creation of new sustainable jobs, thus the policy focus is to increase survival rates of new tenants or graduates, integration with external R&D sources and promotion of sustainable incubation entities.

The business incubation performance in countries like Latvia where business incubation culture is still developing would require good deal flow, strategically and global thinking, increased R&D efforts, appropriate sales, competition analysis, IPR management, technological support etc.

The Paper analyses the concept of business incubation and acceleration on commercial return basis, investigates interaction with pre-incubation and explores the existing routes to shorten time of transformation of new innovative business ideas to vital high growth firms within emerging new incubation concepts. It approaches changing incubation policy, analyses evolution of BI system, models and services of practical entrepreneur behaviour obtaining in early stage of entrepreneurship, examines how many business accelerators in Baltics may operate efficiently depending on available critical mass of new business ideas with high market potential, what role has provision of smart money and identifies impact of BI system to structural reforms in Latvia. Special attitude is paid to new social function of accelerators as concentration and keeping of

⁵ ProInno Europe, John Rigby, Mercedes Bleda, Kathryn Morrison, Jong-Seok Kim

talents in BI location requiring extremely important shift in BI strategies from local to global competition for best new business ideas. The reduction of learning time for nascent entrepreneurs from two to maximum six month by providing top-level mentor support requires also upgrade of policy thinking resulting in creation of open innovation environment and readiness to apply external knowledge and skills.

Keywords: *high growth start-ups, gazelles, business accelerator, smart finance, incubation cycle.*

Small Open Economy and Globalization: Challenges for Regional Development and Innovation

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Latvia is a state with small open economy and to increase its prosperity level to Europe's average need to perform efficient policy of economic development. Latvian major economic indicators are growing during last years and to control the process of integration in European economic space it is necessary to follow statistical data, identify areas, where Latvia is behind European standards, analyze reasons of discrepancy, work out recommendations for situation correction and perform necessary activities.

We have followed several worldwide rankings, e.g. World Bank „Doing Business”, Global Competitiveness Report” and others to identify the place of Latvia in those. Global Competitiveness Report defines factors influencing competitiveness of state and the analysis of correlations of GCI correlation with defined pillars gives the possibility to identify which factors have the strongest influence on country competitiveness.

In different world rankings Latvia mostly has average positions - not very high and very low, but from year to year situation is improving and differences between Latvian and European average indicators values are decreasing. The crucial factor for further economic growth in Latvia is the development of National Innovation Strategy and Regional Economic Development Strategy.

Systemic approach to innovation and its diffusion is based on core assumptions that innovation and innovative business are related with interaction and close cooperation between different involved actors: business structures, universities governmental and public institutions.