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CONTENTS

FROM THE EDITOR

Dear Reader,

This is the second issue for 2013 and we expect to be able to publish the next issue in spring-summer 2014.

In this issue we have articles covering the fields of economics, economic history, management, history, information technology and folklore. The authors are both PhD students and established academics from Latvia and elsewhere in Europe.

We hope you enjoy this issue and are looking forward to the next issue in 2014.

Best wishes

Viesturs Pauls Karnups
General Editor

FROM FELLOW-TRAVELLERS TO PRACTICING COMMUNISTS[1]

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Dr. hist.

Abstract

In the interwar period, many of the West's writers and left-wing intellectuals expressed at one stage their support for the Soviet regime. Karl Radek, one of the leading Communist ideologues of the time and head of the International Information Bureau of the All-Union Communist (Bolshevik) Party's Central Committee, wrote in 1932, that a noteworthy proportion of the world intelligentsia had turned towards the Soviet Union. He stated that this had been also demonstrated by the crossing over to the side of the proletariat by Romain Rolland and André Gide, and the reorientation of the greatest talents of American literature towards the USSR and Communism. According to Radek, the intelligentsia needed to begin to understand the tasks awaiting them in their own homelands.

Without doubt, Radek was exaggerating, but it must be stated that admiration towards Soviet Union by Western fellow-travellers had not yet peaked. The high point of admiration arrived in the mid-1930s, before the Molotov-Ribbentrop pact.

Amongst the admirers of the Soviet regime were also western artists, actors, scientists, etc., but it was the support of writers in particular that was most important, since their influence over their own societies was strongest. But these intellectuals, known as fellow-travellers, were never faced with the decision to continue "travelling" with the Soviet regime even when this regime was in the process of destroying its own society.

In June 1940 when the Soviet Union occupied the Baltic States, local writers were faced with precisely this situation. In those circles, collaboration with Soviet regime was not uncommon. The Soviet puppet governments formed in Estonia, Latvia and Lithuania in June 1940 have justifiably been called "literary-type governments". In Estonia, those who collaborated with Soviet regime in 1940 are not known as fellow-travellers, but as the June Communists.

This article examines the formation of the political attitudes of three of the Estonian writer-puppet-government's ministers. The formation of their views is observed in the context of Western fellow-travellers. When, and for what reasons, were these 3 members of the puppet government alienated from the Republic of Estonia and started admiring the Soviet Union? Were these the same reasons as for the

[1] This work was supported by the Estonian Ministry of Education and Research Directed Topic No. SF0130018s11.

fellow-travellers from the West? Would the fellow-travellers from the West have gone as far in their collaboration with the Soviet regime?

Keywords: Estonia, interwar period, occupation, Soviet regime, fellow-travellers, Estonian writers

Introduction

In 1932, a book entitled "Through the Eyes of Foreigners" was published in Moscow. This contained over a hundred statements of support for the Russian Communist revolution from over a hundred writers around the world. Karl Radek, one of the leading Communist ideologues of the time and head of the International Information Bureau of the All-Union Communist (Bolshevik) Party's Central Committee, said in the book's foreword that a noteworthy proportion of the world intelligentsia had turned towards the Soviet Union. He stated that this had been also demonstrated by the crossing over to the side of the proletariat by Romain Rolland and André Gide, and the reorientation of the greatest talents of American literature towards the USSR and Communism. According to Radek, the intelligentsia needed to begin to understand the tasks awaiting them in their own homelands.[2]

Karl Radek was, of course, exaggerating. But it is a fact that, particularly in the 1930s, many of the West's intellectual elite, and the most renowned and influential writers of the first half of the 20th century did express support for the Soviet regime. And they, therefore, can also be called fellow-travellers.[3]

Amongst the admirers of the Soviet regime were also western artists, actors, scientists, etc., but it was the support of writers in particular that was most important, since their influence over their own societies was strongest.

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[2] Karl Radek. Intelligentsija i Oktjabr – Glazami inostrantsev 1917-1932. Gosudarsvennaja Izdatelstvo Hudozhestvennoi literatury, 1932, XI.

[3] The term "fellow-traveller" was introduced by Leon Trotsky in 1924, initially referring to young Russian writers who were not communists, but whose writings had revolutionary themes and who were supportive of the Russian Revolution. (Leon Trotsky. Literature and Revolution. (The University of Michigan Press, 1968), 57). This concept spread later on to Western intellectuals who did not belong to the Communist Party, but who were critical of Western society and sympathised with the Soviet Union. Fellow-travelling meant supporting Soviet communism, but from a distance, and this not just in a geographical sense, but also in an emotional and intellectual sense. See David Caute. The Fellow-Travellers. A Postscript of the Enlightenment. (London: Weidenfield and Nicolson Limited, 1973), 3-7.

The fellow-traveling writers from Western Europe and North America, however, were never faced with the decision of whether to continue "travelling" with the Soviet regime while the Soviet regime was in the process of destroying their own society.

In June 1940 when the Soviet Union occupied Baltic States, local writers were faced with precisely this situation. There were certainly more than a handful of writers who supported the new regime. As calculated by the author, of the 53 members of the Estonian Writer's Union, approximately 17-22 (varying in level of activity and position held) could be considered to have been willing to serve the Soviet regime in 1940. The Soviet puppet governments formed in Estonia, Latvia and Lithuania in June 1940 have justifiably been called "literary-type governments".[4] These writer-puppet-government ministers were not previously oppressed dissidents, but opinion leaders in the world of literature in their own society. In Estonia these people are not known as "fellow-travellers", which is who they were before Estonia was occupied, but as "June-communists", which is what they became after the occupation: people who willingly came to serve the Soviet authorities in June 1940.

Research into the motives of fellow-travellers has a long history. Before the collapse of the Soviet Union, when the Soviet archives were not yet available, researchers sought primarily for the more general psychological and social mechanisms that could have driven the enthusiasm amongst intellectuals for left-wing dictatorships. Of the more important authors in this field, David Caute and Paul Hollander in particular should be mentioned. Caute considers that Western societies with slogans of "Liberty, Equality and Fraternity" nailed to their mastheads actually failed in carrying out these ideals. By the time that the swastika rose above Germany the evolution-based theory of progress was in ruins, and this resulted in a desperate search for solutions to the problem. Caute concludes: "In its more serious intellectual aspects, the phenomenon of fellow-travelling can best be understood as the postscript of the Enlightenment."[5] Paul Hollander, on the contrary, finds it difficult to reduce the phenomenon of the utopian susceptibility of Western intellectuals to a postscript of Enlightenment. Hollander believes that dedication to equality was the corner stone of the intellectuals' value system, and that this was also reflected in the approval of those societies where the greatest equality had been achieved, or where it was sought. In addition, intellectuals highly appreciated the Soviet regime's sense of purpose, the coherent values and

[4] Ants Oras. Eesti saatuslikud aastad 1939-1944. (Tallinn: Olion, 2002), 52.

[5] David Caute. The Fellow Travellers. Intellectual Friends of Communism. Revised and Updated Version. (New Haven and London: Yale University Press, 1988), 6

the triumph over the past. However, alienation from one's societies was most important. Alienation and admiration for Soviet society were almost completely merged. The peak of admiration for the Soviet system did not take place when its results were the most impressive, but when the West was hit by a severe economic crisis, which helped create a perception of the Soviet Union as an island of stability, economic rationality, and social justice. Alienation from one's society and sympathy for the Soviet Union was also encouraged by the rise of Nazism and Fascism.[6]

However, according to Sheila Fitzpatrick, the Soviet-Western cultural relationship was a two-way road, where different people with different interests and motives participated on both sides.[7] Recognising this fact, as well as the opportunity to also use Soviet sources, has extended the research horizon. Many writers from the younger generation have also analysed the actions of the Soviet regime in influencing intellectuals.[8] However, as Michael David-Fox admits in his recent book, the blindness of Western intellectuals is one of the more durable mysteries of 20th century political and intellectual life.[9]

There is reason to believe that an analysis of the reasons why many Estonian writers became Moscow-minded communists can also be of assistance in explaining these questions. To date, the attraction of communism to intellectuals has not been observed by looking at specific countries, like Estonia, that were occupied already in 1940 by the Soviet Union and where the earlier fellow-travellers were faced with an unambiguous choice of which side to take. Analysis of the Estonian case is also made interesting by the opportunity to use Soviet intelligence documents.[10] In addition, documents by Soviet diplomats, texts written

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[6] Paul Hollander. Political Pilgrims. Travels of Western intellectuals to the Soviet Union, China, and Cuba, 1928-1978. (New York: Oxford University Press, 1981). 12; 28; 77-82; 103-104; 111; 120; 135.

[7] Sheila Fitzpatrick. Foreigners observed: Moscow visitors in the 1930s under the gaze of their Soviet guides. Russian History, 35, 1-2 (2008), 215.

[8] For the more relevant analyses, see Leonid Maximenkov. Ocherki nomenklaturnoi istorii sovetskoi literatury. Zapadnye pilgrimy u stalinskovo prestola I; II. – Voprosy Lieratury (2004, March, April; May, June); Ludmila Stern. Western Intellectuals and the Soviet Union, 1920-40. From Red Square to the Left Bank. (London and New York: Routlege, 2009); Michael David-Fox. Showcasing the Great Experiment. Cultural Diplomacy and Western Visitors to the Soviet Union, 1921-1941. (New York: Oxford University Press, 2012). In addition, many analyses have been written that examine fellow-travellers from one particular country or are restricted to some aspects.

[9] Michael David-Fox. Showcasing the Great Experiment, 2.

[10] Documents from Soviet intelligence's Tallinn resident (1920s and 1930s) are located in the branch of the Estonian State Archives (ERAF) SM f. 138. These were handed over to the Republic of Estonia after the Soviet Security Committee (KGB) was disbanded in

by the writers themselves, their mutual correspondence, as well as VOKS (All-Union Society for Cultural Relations with Foreign Countries) sources, have been used in preparing this article.

The three Estonian writers whose cases have been used to analyse these questions became ministers in the June 1940 puppet government. They were among the more politically aware and active left-wing Estonian literary figures. The factors that influenced their formation may also bring forth additional factors that also influenced the views and behaviour of other left-wing writers. Johannes Vares-Barbarus, a doctor and poet who was born in 1890, became the prime minister in the 1940 Moscow puppet government. His friend, younger by two years, Johannes Semper, poet and writer, editor of "Looming" in 1930-1940, Estonia's most prestigious literary magazine, and chairman of the Estonian PEN-Club, became minister of education. Nigol Andresen, writer, critic and translator, born in 1899, and Estonia's most prolific literary critic of all time, became minister of foreign affairs.

Therefore – when, and for what reasons, did they begin to support the Soviet Union? Were these the same reasons as for the fellow-travellers from the West? Would the fellow-travellers from the West have gone as far in their collaboration with the Soviet regime?

Reactions to Events in Domestic Policy

In 1919 Johannes Semper was voted into Estonia's first parliament as a representative of the most left-wing of the legal parties. In 1920 Semper married the daughter of one of Estonia's wealthiest businessmen and in 1921 they left Estonia and spent six years in Berlin and Paris. On return to Estonia, he graduated from the University of Tartu in 1928 with a Master's degree, his thesis being "The Structure of André Gide's Style." Semper worked as a lecturer at the University of Tartu and continued with his writings and translations. In 1930 he took over as editor of "Looming", a literary magazine. Nevertheless, he did not feel at home in Estonia. As he wrote to Vares-Barbarus in 1928: "Not one word can be said that's different to that demanded by domestic taste./.../ Just to spite this dictatorship I'd like to pummel the face of the sloth that swirls like a liquid mass around you, pushing you towards things that cringe and slime."[11]

Estonia. In the second half of the 1950s these documents were sent to Estonia for use by the KGB in its operations.

[11] "Ühest varjulisest-varjutatud aastast teise." J. Semperi kirjadest J. Vares-Barbarusele. Koostanud R. Parve. – Johannes Semper elus ja kirjanduses. (Tallinn: Eesti Raamat, 1967), 100-101.

Johannes Vares-Barbarus participated in the Estonian War of Independence as a doctor in the military. He was one of the poets in Estonia who were most critical of society, whereby his way of expressing himself was very forceful, riddled with grotesque images. Vares-Barbarus wrote poetry in his time away from working as a doctor. He lived a quite typical everyday bourgeois existence, enjoying good wine and ice-skating at the beach. Vares-Barbarus considered himself a cosmopolitan.[12] He did not belong to any political party, but was interested in politics and felt oppressed in Estonia, where his poetry had not received the hoped-for recognition. "I'd like a new revolution, a new enthusiasm, to see the globe menstruating – then I too would be revived, I'd draw on a new energy. The current atmosphere is depressing, suffocating – here, and elsewhere.'[13] 'Estonia is cold, damp, sweaty: the clouds are like coarse washing hanging on the line of the sky, the sun looks tired and the wind howls horribly in the autumn!"[14] It was already in 1928, before his first trip to the Soviet Union, that he admitted: "The whole world is full of enemies. /.../ The worse it is, the better it is. As far as I'm concerned I have reached a purely communist standpoint, and I want to stay there /.../. I'm hated, I know that."[15]

Nigol Andresen defined himself politically by initially joining the left-radical party, then leaving it and joining the Estonian Social Democrats in 1926. In the 1920s his political influence came from Karl Kautsky, critic of the Soviet model of communism, and the Austro-Marxists Victor Adler, Otto Bauer and Karl Renner.[16] Austro-Marxism sought a middle road between Social Democracy and Communism. At that time, Andresen also sought the same compromise.

As Andresen noted later, he did not consider himself a politician in the 1920s and the beginning of the 1930s, but rather as a cultural figure.[17] This is undoubtedly also the case for Vares-Barbarus and Semper. In the first half of the 1920s, when they had yet to reach the peak of their literary abilities, the aim of their self-realisation could have been a position in society as active left-wing radical writers similar to Anatole France, Romain Rolland

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[12] "Ühest varjulisest-varjutatud aastast teise." J. Semperi kirjadest J. Vares-Barbarusele. Koostanud R. Parve. – Johannes Semper elus ja kirjanduses. (Tallinn: Eesti Raamat, 1967), 97-98.

[13] Vares-Barbarus to Semper 25.02.1923. Estonian Literature Museum (EKLA): Copies 227, ll. 102-103.

[14] Vares-Barbarus to Semper 18.05.1924. EKLA: Copies 227, l. 139.

[15] Vares-Barbarus to Adson 3.04.1928. EKLA: Copies M 281, l. 229.

[16] Andresen's notes from November 1955. Branch of the Estonian State Archives (ERAF) f. 1, n. 7, s. 314, l. 280.

[17] Nigol Andresen. Mälestused (1931-1940). 8. 10. 1962. ERAF f. 247, n. 51, s. 19a, l. 1.

and Henri Barbusse. Andresen did indeed form a personal connection with Barbusse in 1926.[18] Other Estonian left-wing intellectuals were also strongly influenced throughout this period by the political attitudes of their German, French, English and American writer-fellow-believers.

The critical attitude towards their own society that was felt by these and other left-wing intellectuals already in the 1920s could have been deeper for a number of reasons than that in Western Europe or North America. The general attitude of Estonian society had been actively left-wing, or revolutionary, before independence, as a reaction to the repressive and authoritarian tsarist system. The left-wing tendency of Estonian society at the time was also demonstrated by the lack of the head of state in the 1920 Constitution – the institution of president seemed too "right-wing", with an unpleasant similarity to the authoritarian Russian tsar. As a result of the land reform, previously landless peasants became landowners, and in the 1920s society's views moved towards bourgeois ideology. The left-wing intellectuals, however, kept their original attitudes. "Independence has indeed accelerated intellectual serfdom in Estonia /.../ – therefore independence is beneficial mainly for speculators, marauders, social climbers, careerists, and show-offs."[19], wrote Vares-Barbarus in 1926. The majority of American, British or French left-wing intellectuals certainly did not have a view of their post-war societies similar to that held by Estonian left-wingers after the First world war, and so their disappointment could also not have been as stark.

This critical attitude was amplified even further by Estonia's smallness: modern works just could not achieve widespread public success and recognition merely due to the restricted numbers of Estonian-readers.

In 1929 Andresen, who was a talented organiser, became the chairman of the Estonian Socialist Youth Union. The Socialist Youth Union was associated with the social-democrat Estonian Socialist Workers' Party, but the youth organisation had more radical views than the Social Democrats.[20] Led by Andresen, the young socialist groups acquired a very clear romantic revolutionary identity, and the organisation expanded during the economic crisis to almost two thousand members, a considerable size in the Estonian context.

The critical attitude of left-wing intellectuals deepened at the beginning of the 1930s, mainly due to the economic crisis. The crisis lasted quite a long time in Estonia and the inability of Estonia's political elite to ameliorate the crisis had a negative effect. But in addition there was increasing disillusion

[18] Andresen's CV. 26. 01. 1961. ERAF f. 1, n. 7, s. 314, l. 163.

[19] Vares-Barbarus to Semper 21.03.1926. EKLA: Copies 227, l. 205.

[20] Olaf Kuuli. Sotsialistid ja kommunistid, 58.

about the choices made by Estonian society. When the crisis began, the left-wing intellectuals expected the growing popularity of Marxist ideology, but instead the movement of Estonian War of Independence veterans had begun to enjoy the extensive support of the masses. There was increasing disagreement amongst Social Democrat politicians, while their leaders Karl Ast and August Rei saw closer co-operation with the bourgeois parties as a solution to their problem. This, however, was seen by an increasingly strong left-wing opposition, where the main force was indeed the young socialists, as a weakening of the thrust of the class struggle. When the government devalued the Estonian "kroon" in June 1933, Andresen saw it as a favourable moment to initiate an extensive class war, and sharply criticised the leadership of the Social Democratic party for being unable to guide the "rising anger of the people".[21] In addition, Andresen thought that the state of emergency which was declared on August 11 of same year by the cabinet of Jaan Tõnnison as a result of which the Young Socialist Union was also banned, was provoked by the leaders of the Social Democrats, who had the aim of suppressing both the veterans and the core of their own party's internal opposition.[22] Andresen quickly turned against the leaders of the socialists, his position being that thousands of idealistic young people had been betrayed since they had thought they were moving towards socialism, together with the Social Democrats.

The formalities for the split in the Social Democrats were carried out at the party congress in February 1934. In the parliament, the three left-wing socialists, led by Andresen, formed the Marxist Working People's Association group. After March 12, when Päts and Laidoner carried out a coup d'état, the Marxist Working People's Association was the only faction in the parliament that protested against it.[23] Nevertheless, there is no reason to believe that this protest was inspired by a love of democracy. They would have been well aware that any free elections would have been won by the veterans.

Vares-Barbarus and Semper, who had not permanently associated themselves with any political group, initially considered the coup to be an event for which, as expressed by Vares-Barbarus – "/../ all intellectuals could be congratulated."[24] After a while, however, there was a change of mind: "If dictatorship is chosen then it should be one by the working people, not by the parasitic and speculator class. It would be quite

[21] Minutes of the Estonian Socialist Workers' Party's 8th Congress. 4.02.1934. Estonian State Archives (ERA) f. 87, n. 1, s. 346, l. 19.

[22] Vares-Barbarus Semperile 9.09.1933. EKLA. Koopiad 228, 591.

[23] *Riigikogu V koosseisu V istungjärgu protokollid.* 26.09.1934, 1514-1515.

[24] Vares-Barbarus to Semper 21.03.1934. EKLA: Copies 230, l. 634-635.

interesting, therefore, to now see the current system in Russia, and the trip there would definitely be more refreshing than our last visit."[25] This was a case of a severe disappointment in democracy, which the US and Western European fellow-travellers – except for the Germans – wouldn't have experienced to the same degree.[26]

In 1935, Vares-Barbarus did indeed succeed in visiting the Soviet Union for a second time. His impressions from his first visit in 1928 were recorded in a dignified manner, as compared to his gushy report of the second visit. His article, praising Soviet communism, however, resulted in a storm of criticism in Estonia. Vares-Barbarus reacted emotionally: "It seems that to be an Estonian means hating other peoples; to be a patriot means reviling other countries ... ". "Apparently there are merely pitiful scraps left of our 'people's nation'. Now we have to move to some monarchy somewhere, where the soul won't be shaven or castrated ... It really seems to be the time to think about emigrating."[27] Emigrating was unlikely to be a serious plan, but Estonian left-wing intellectuals definitely detested nationalistic feelings and the ideology of "national unity". The latter message was initially propagated by the Estonian veterans, and later by the authoritarian regime that suppressed the veterans. The Soviet nationalities policy could have seemed to them to be positive alternative to the ideology of "national unity". The significance of this increased markedly in importance due to events in Germany.

Reactions to Political Events Abroad

Perceptions of danger regarding Germans had deep historic roots in Estonia, as well as in Latvia and the emergence of the Nazis amplified this.

Soviet Communism did indeed seem to be the strongest and most consistent opponent to German Nazism. Contacts with Moscow seemed initially to be the most direct not via underground communists but through the Soviet embassy.

However, the Soviet diplomats' documents leave the impression that Moscow preferred to keep its distance. During the crisis, when contacts became quite frequent, it was the Estonian left-wing politicians and intellectuals who were more active.

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[25] Vares-Barbarus to Semper 10.06.1934. EKLA: Copies 228, ll. 643-644.

[26] David Caute notes a feature of the fellow-travellers: they preserved a partial belief in the possibilities of progress in a parliamentary system. (David Caute. The Fellow-Travellers. A Postscript of the Enlightenment, 5).

[27] Vares-Barbarus to Semper 5.12.1935. EKLA: Copies 228, ll. 721-723; 726-727.

The sudden change in attitude for Estonian intellectuals regarding the Soviet Union took place in 1933. Klyavin wrote: "In their personal contacts, the local radical intelligentsia is vocal in distancing themselves from the contemporary German literature that is imbued with Hitlerism. /.../ This is a new situation for us and should be appropriately utilised and reinforced."[28] Support for the Soviet Union was also expressed later on.[29]

However, the number of Soviet-friendly articles published in the West started to shrink due to the trials that began in 1936. Many of the Western fellow-travellers, and even communists, were disturbed by the events.[30] There were, nevertheless, a considerable number of supporters, including Berthold Brecht and Lion Feuchtwanger, who accepted the official Soviet version of the trials, and justified the state terror.[31]

In March 1937, the "most renowned Estonian writers who were associated with 'Looming', the literary magazine, and scholars' organisations in Tartu" (i.e. colleagues of Johannes Semper: author's note) asked Klyavin to help organise an excursion for Estonian writers to Moscow and Leningrad. 25-30 people planned to make the trip through "Intourist" if they received the promised 50% discount.[32]

This request was significant since the Estonian media also had extensive coverage of the trials that were underway in the Soviet Union at that time. Estonia's future June-communists tried to ignore these and also the later trials, even despite the fact that numerous Estonian communist leaders living in Russia were also arrested and executed during the 1937-1938 period in the Soviet Union. As Andresen explained later, this was particularly because any clarification could have damaged the anti-fascist struggle.[33] They therefore felt they had no choice.

Anti-fascism – one of the more powerful arguments influencing the Western fellow-travellers – evaporated suddenly and naturally with the Nazi-Soviet Pact in August 1939. Many intellectuals, especially from France

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[28] Klyavin to Lerner 7.09.1933. Gosudarstvennyi arkhiv Rossiiskoi Federatsii (GARF) f. 5283, op. 5, d. 610, 1. 78.

[29] Klyavin's diary 15-16.10.1936. Arkiv Vnechnei Politiki Rossiiskoi Federatsii (AVPRF) f. 0154, op. 29, p. 42, d. 8, l. 180; Klyavin to Melnikov 19.01.1937. GARF f. 5283, op. 5, d. 630, ll. 10-11; Klyavin to Melnikov 16.02.1937. GARF f. 5283, op. 5, d. 643, l. 55.

[30] Ludmila Stern. Western Intellectuals and the Soviet Union, 32-33.

[31] Paul Hollander. Political Pilgrims, 163-164; Ludmila Stern. Western Intellectuals and the Soviet Union, 32.

[32] Klyavin to Chassovennov 15.03.1937. GARF f. 5283, op. 5, d. 643, l. 87.

[33] Andresen's memoirs 2.02.1965. ERAF f. 247, n. 51, s. 19a, l. 120; Andresen's memoirs 8.02.1960. EKLA f. 311, n. 56, s. 1, l. 3.

and Germany, and also communists, considered Stalin a traitor.[34] But definitely not all of them.

For the future June-communists the Pact meant more than the retreat of the German danger: it also meant hope for societal change in Estonia, with the help of the Soviet Union. After the change of government in Estonia Jüri Uluots, a classmate of Semper and Vares-Barbarus became prime minister. Semper wrote: "Of course, this musical chairs up top satisfies no one /.../ But I still believe there'll be an upheaval and this belief instils optimism in me in these troubled times."[35] Vares-Barbarus responded: "Our Jüri's government is bound to be a brief, transitional /a familiar word/ (reference to the Russian Transitional Government in 1917: author's note) government since there is hardly a real will behind those fine words. /.../ Now we at least again have faith in the future. With best wishes and best hopes!"[36]

VOKS, Comintern, Estonian Communist Party and Soviet Intelligence

As opposed to the Western-European and North American intelligentsia, Estonians and Latvians had held long-term cultural ties with Russia. Estonians in general spoke Russian, which the VOKS representative also noted as a positive factor in achieving his aims. Radio broadcasts from Moscow and Leningrad were also listened to in Estonia. Although the formation of the Bolshevik regime was probably followed more closely in Estonia than in Western Europe and North America, Russian communists could have been sporadically identified with those Russians who had in previous times come from Russian universities, and these Russians had left a positive impression.

The future Estonian June-communists became enthusiastic over the same characteristics that impressed the classical fellow-travellers about the 1930s Soviet Union: striving towards social equality, abolishing backwardness, progress in industrialisation, and dynamism.[37]

The Soviets undoubtedly tried to deepen and shore up this positive attitude. Moscow could have contacts with and influence the Estonian intellectuals in three ways – first via the Estonian Communist Party, which was under the control of the Comintern, second via the embassy staff, who

[34] Ludmila Stern. Western Intellectuals and the Soviet Union, 34-35.

[35] "Ühest varjulisest-varjutatud aastast teise", 112.

[36] Vares-Barbarus to Semper 22.10.1939. EKLA: Copies 228, l. 886.

[37] For example, Johannes Vares-Barbarus. Matkavisandeid ja mõtisklusi. – Looming 8 (1935), 910-911.

were in the service of the People's Commissariat for Foreign Affairs and/or of VOKS, and third using the means of the foreign intelligence service.

According to Comintern doctrine, the primary enemy in 1928-1934 was the Social Democrats who were subject to more acrimonious attacks than were the fascists. Stalin initially underestimated the latter, and used them as a tool to destroy social democracy.[38] A lively discussion began in autumn 1934 regarding the formula that determined the close kinship between fascism and social democracy.[39] A new more flexible policy, according to which co-operation between anti-fascist forces was encouraged, was finally worded in the summer of 1935.

The activity of the illegal Estonian Communist Party (ECP) in Estonia at the start of the 1930s was almost completely disrupted. The decisive blow was the wave of arrests of communists that started with one of the leading members being captured in 1931. Thus there were around 200 ECP members in 1932 in Estonia, but of these only 20-30 could continue their communist activities in freedom.[40] The influence of the ECP on Estonian politics was minor. Only one ECP member could be considered to be an intellectual, and this was Valter Kaaver who had literary ambitions. The fate of this idealist was tragic, and also emblematic, consisting of impasse in all aspects of life – personal, ideological and political. Kaaver fled to the Soviet Union to avoid arrest in Estonia where he had been exposed as an underground communist, and was immediately arrested there. He was released, but rearrested in 1937. He did not survive this second imprisonment.

Until the political turnabout in the Comintern in 1934-1935, Moscow's ties with Estonian left-wing politicians and intellectuals were much more effective via the diplomats in the embassy. Contacts increased in 1932, when Janis Klyavin started work in the Soviet Embassy in Tallinn with his main task being to increase ties through VOKS with cultural figures, and through discussions, distributing literature, organising cultural evenings, exhibitions, movie showings, public performances, performances by Soviet artists, etc. Klyavin emphasised the aim of "mobilising and mustering the most radical of the intelligentsia."[41]

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[38] Kermit E. McKenzie. Comintern and World Revolution 1928-1943. (London and New York: Columbia University Press, 1964), 284-285.

[39] Kiril Schirinya. Komintern v 1933. godu. (Moskva: Exlibris Press, 2006), 173-174; 176, 179, 505.

[40] Külli Niidassoo. Valdur Ohmann. Eestimaa Kommunistlik Partei. 1930. aastad kuni juuli 1940. Varjusurmast ajalooareenile. – Tuna 3 (2000), 69.

[41] Klyavin to Lerner 14.12.1932. GARF f. 5283, op. 5, d. 609, ll. 65-66.

Nigol Andresen's contacts with the embassy began at the latest in 1932 and immediately became quite frequent. Andresen often stopped by to visit Klyavin or Antipov, the other embassy secretary, he borrowed and ordered books by Marxist and Soviet authors, asked the Soviets their opinions on world politics and discussed in detail Estonian domestic politics.[42]

The names of Semper and Vares-Barbarus do not appear in the embassy documents during these years; they did not live in Tallinn and it is probable that they also did not have anything to say that would have necessitated being reported to Moscow. In May 1934, however, Klyavin wrote to Moscow and specifically listed four names, including Semper, whom it would not be expedient to mention in the VOKS journal "since it could result in his experiencing unpleasantness at the hand of reactionary circles."[43] This means that Semper was amongst those whose ties with VOKS were the strongest.

As far as is known, Andresen did not have contacts through VOKS channels, but his political contacts with the Soviet embassy staff continued and intensified. It seems that he and his colleagues from the Marxist Working People's Association were ready for close contacts with the Moscow communists already in mid-1933, when the Young Socialist Union was banned, or at the latest from February 1934, when they separated formally from the Estonian Social Democrats.

Sometime later this did indeed occur. In October 1934 a member of the ECP Central Committee, Leo Looring, couriered a letter to Nigol Andresen with a proposal to form a united front between the communists and the Marxist Working People's Association. Andresen informed his colleagues from the Marxist Working People's Association and together they approved the united front with the communists. The first meeting took place on 9 July 1935 in Helsinki, where a unified platform was drawn up.[44] A decision was made to describe the Päts government as a particular kind of Estonian fascism. It was noted that the Social Democrats were responsible for the growth of fascism since for an entire year they had welcomed the Päts dictatorship as a defender of democracy.[45] This platform was essentially written by Andresen, and as he later noted in this context – although he did not belong to the ECP, "this did not mean a

[42] Antipov's diary 30.12.1932. AVPRF 0154-26-37-5, 3; Antipov's diary 11.01.1933. AVPRF 0154-26-37-5, 28.

[43] Klyavin to Apletin 7.05.1934. GARF f. 5283, op. 5, d. 611, l. 61.

[44] Andresen's interview 8.10.1962. ERAF f. 247, n. 51, s. 19a, l. 7.

[45] Minutes No 1 from the conference of 9 July 1935 for the representatives of the Estonian Communist Party and the Marxist Working People's Association. ERAF f. 6495, n. 1, s. 337a, ll. 1-2.

policy different from that of the ECP."[46] This is also proven by Andresen's relations with Soviet diplomats. The information that he provided was generally an analysis of Estonian domestic politics and this clearly made it more valuable to Moscow.[47]

Although Vares-Barbarus did not go to the embassy to share information, his views were nevertheless known. Klyavin wrote, in relation to his second trip to the Soviet Union: "The Estonian writer Vares-Barbarus has already departed for Leningrad, and thence to Moscow. He has mentioned knowing Pilnyak and also intends to visit him. Should Vares-Barbarus ask you, please provide him with assistance where possible. In Estonia he is considered to be one of the greatest experts on our literature, and he belongs to the left-wing of our local writers. He will provide good feedback on the USSR."[48]

Barbarus did not disappoint these hopes. But he also expressed his enthusiasm for the Soviet Union in his private correspondence. "It's already my second day of strolling around in this refreshing and manly rhythm of life. I feel the bracing effect of granite, iron, rock and the Neva."[49] Although he criticised the hypocrisy of the Estonian system, and praised the Soviet Union, he nevertheless said that he wouldn't want to live in the USSR.[50] In doing so, he indeed defined himself as a fellow-traveller, not as a communist.[51] He brought back with him cigarettes, caviar, grapes, wine, i.e. goods that he must have known an ordinary Russian would not have been able to buy. "We started feasting already on the day after we arrived /.../"[52]

For Andresen, Estonia staying in the Soviet sphere of influence and the establishment of Soviet military bases in Estonia did not mean only intellectual satisfaction, as for Vares-Barbarus and Semper, but also an organisational decision. In March 1940 the leaders of the Marxist Working People's Association issued a detailed document titled "Clarification by the Marxist Working People's Party to the Estonian Communist Party and

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[46] Andresen's memoirs 2.02.1965. ERAF f. 247, n. 51, s. 19a, l. 119.

[47] Ustinov's diary 6.03.1935. AVPRF f. 0154, op. 28, p. 40, d. 6, ll. 34-36; 16.04.1935. AVPRF f. 0154, op. 28, p. 40, d. 6, l. 69.

[48] Klyavin to the 3rd Western Department of VOKS 2.09.1935. GARF f. 5283, op. 5, d. 623, l. 109.

[49] Vares-Barbarus to Semper 1.09.1935. EKLA: Copies 228, l. 707.

[50] Vares-Barbarus to Semper 5.12.1935. EKLA: Copies 228, ll. 721-723; 726-727.

[51] David Caute notes that a telling example of radicalism through remote control is Lincoln Steffens, a US publicist, who wrote about the Soviet leaders: "I am for them to the last drop, I am a patriot for Russia; the future is there. … But I don't want to live there." (David Caute. The Fellow-Travellers. A Postscript of the Enlightenment, 3.)

[52] Vares-Barbarus to Semper 12.10.1935. EKLA: Copies 228, l. 715.

the Comintern". The document ends with the words: "In the name of the members of the Marxist Working People's Party Association, whose unanimous wish this is, the committee requests the ECP and the Comintern executive committee admit the MWPPA into the ECP in accordance with the Comintern program. We are doing this in the certain knowledge that the members of the Marxist Working People's Association are trustworthy communists, who are in every way worthy of marching under the banners of the Comintern and of Comrade Stalin."[53]

There is no information about any Soviet intelligence source existing in the pre-1940 period among Estonian intellectuals. The information exchange, however, between Klyavin and intelligence officers was probably intensive since they were all located in one building, the Soviet embassy in Tallinn on Pikk Street. It seems that it was an everyday practice that the intelligence officers had the right to read the diplomats' work diaries.[54]

Soviet intelligence activities in Estonia intensified suddenly after the Molotov-Ribbentrop Pact. On 7 September 1939, three Soviet intelligence operatives arrived as diplomats in Estonia at the same time – Vladimir Botchkariov (Lado), Valentin Ryabov (Rene), Arseni Issakov (Rur), with Sergei Buyanov (Tom) arriving somewhat later. The resident operative was Vladimir Botchkariov who posed as a counsellor for the embassy.[55] Contacts were formed between former sources and agents, with Pyotr Izmestiev (Massarion), a TASS correspondent who had arrived in Estonia in April 1939, included amongst the latter.[56] Izmestiev had frequent contacts with Estonian intellectuals. It is probable that Izmestiev acted on orders from Soviet intelligence and it cannot be excluded that in this activity he had been destined to continue the Klyavin-Kirsanov line.

In February 1940, Boris Yartsev-Rybkin, top Soviet intelligence officer who was resident in Finland, visited Estonia, and together with Botchkariov he carried out a number of recruitments, including Boris Sepp, the future justice minister of the puppet government, and the writer Valmar Adams.

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[53] Estonia 1940-1945. Reports of the Estonian International Commission for the Investigation of Crimes Against Humanity. Compiled by Toomas Hiio. (Tallinn: IKUES, 2006), 68-69.

[54] In the joint letter by Lado, Rene, Tom and Ruri on 13.04.1940 the writers complain about the ambassador who refused to allow the intelligence operatives access to the work diary of the embassy's 1st secretary Vlasyuk "whom is visited by many Estonians in the VOKS context." (ERAF SM f. 138, n. 1, s. 57, l. 269.)

[55] Allan Käro. NKVD välisluure residentuuri taastamine 1939. aastal. Bachelor thesis manuscript in the History and Archaeology Institute at the University of Tartu. (Tartu: University of Tartu 2008), 16-21.

[56] Instruction by NKVD GUGB 5th Department to Lado 25.11.1939. ERAF SM f. 138, n. 1, s. 57, ll. 35-36.

The former had worked as a lawyer for the Soviet embassy, and the latter introduced himself to Boris Yartsev-Rybkin when he was in Tartu for the opening of a Soviet book exhibition.[57] Adams had already offered, as of 1933, information to the embassy on Estonian domestic politics.[58] Juhan Nihtig-Narma, the future economics minister in the puppet government was also recruited as a source for Soviet intelligence. The first information about this is from 6 April 1940.[59] Thus, Soviet intelligence had recruited at least two members of the future puppet government.

Soviet intelligence seemed to have had a decisive role in the choice of others as well for the puppet government. Oskar Sepre, an underground Estonian communist and later a top Soviet communist, claimed that Stalin's emissary Andrei Zhdanov, who arrived in Estonia on 19 June 1940, was advised in his formation of the puppet government not by the Soviet ambassador in Estonia Kuzma Nikitin, "who knows nothing", but by Botchkariov and Izmestiev.[60] This is quite probable. Izmestiev and Botchkariov also had frequent contact in 1939-1940 with Andresen.

Andresen, who became foreign minister in the June government, approached Zhdanov at the end of June or the beginning of July in 1940 with a request to help him get a political feel as to when Estonia should join the Soviet Union. Andresen also notes that he and Vares-Barbarus did not disagree on the topic.[61] Since the ECP had always had as its policy goal to bring Estonia into the Soviet Union, the issue for Andresen could not be if, but merely when.

As to when the illusions held by Vares-Barbarus, Semper and Andresen about Moscow's communism were actually shattered, we do not know – understandably they did not say or write about this. But it probably happened relatively quickly, within a few years. The weightiest evidence for this was the suicide in 1946 of Vares-Barbarus, the most sensitive of the group. Johannes Semper and Nigol Andresen continued their work in leading positions in occupied Estonia after the war, until they were accused in 1950 of bourgeois nationalism and cosmopolitanism, expelled from the Communist Party, and dismissed from all their positions. Andresen was sentenced to 25 years imprisonment. Although their persecution stopped after Stalin's death and they were reinstated to the Communist Party, they

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[57] Boris Yartsev-Rybkin from Tallinn 22.02.1940. ERAF SM f. 138S, n. 1, s. 57, ll. 155; 164-166.

[58] Klyavin's diary 15.09.1933. AVPRF f. 0154, op. 26, p. 37, d. 5, l. 166; 7.12.1933. AVPRF f. 0154, op. 26, p. 37, d. 5, l. 256.

[59] Lado's report 6.04.1940. ERAF SM f. 138, n. 1, s. 55A, l. 551.

[60] Oskar Sepre's memoirs. 12.06.1951. ERA f. 241, n. 51, s. 429, l. 4.

[61] Andresen's notes from November 1955. ERAF f. 1, n. 7, s. 314, l. 281.

no longer rose to high positions. They continued in the professional field where they had started their lives, doing what they did best until they died (Semper in 1970; Andresen in 1985) – as "litterateurs".

Conclusion: Soviet Communism as "No Choice"

It is difficult to say whether the critical attitude held by Estonian left-wing intellectuals regarding their society in the 1920s could be considered to be alienation. The situation was undoubtedly different depending on the person, ranging from alienation to a desire to make society more socialist. But the critical attitude of Estonia's future top-Sovietisers towards their society seems to have been more profound than for most of the Western fellow-travellers. For the future June-communists a democratic society and a democratic transition to socialism was no longer an alternative after the War of Independence veterans' movement that they considered their ideological opposite became popular in Estonia. The critical attitude that was further amplified by the economic crisis was a prerequisite for supporting Soviet Communism. The next push towards Moscow was provided by the growth of Nazism in Germany. The role of Nazi Germany in the formation of support for Soviet Communism was very important. The rise of Nazism has also probably been somewhat underestimated in the formation of the views of Western fellow-travellers. The reputation of the Soviet Union amongst Western left-wing intellectuals was the highest at the time when the West seemed to be passive regarding Nazism. It could even be claimed that it was a case of having no choice: the strongest force opposing the Nazis needed to be found and it had *to* be supported unconditionally. But in contrast to many of the Western fellow-travellers, for whom the Molotov-Ribbentrop Pact was an unpleasant shock, for the Estonian June-communists it meant being saved from the German danger, and a hope that the Estonian system would be changed with the assistance of the Soviet Union.

Closer political co-operation with the communists became possible after the Comintern's policy change, which enabled a wider-based anti-fascist joint front. The role of the Comintern and Soviet cultural policy in the formation of the views of the later Estonian top Sovietisers was important in Estonia, but it seems that it was not decisive: it could even be said that the initial support for the Soviet Union rose amongst the left-wing intellectuals despite the activities of the Comintern, which until 1934 inhibited it. Activity by VOKS did successfully ensure support for the Soviet Union, but did not initiate it.

In the Soviet embassy in Tallinn there was close co-operation between the staff of VOKS, the People's Commissariat for Foreign Affairs and Soviet

intelligence. Janis Klyavin and his successor, Stepan Kirsanov, apparently worked for all three institutions simultaneously. It is probable that the fundamental decisions regarding the people, including the intellectuals, invited to join the puppet government were made based on information from Soviet intelligence.

As to the question whether the Western-European fellow-travellers, or some of them, could have in similar circumstances gone as far in their co-operation with Moscow, it is not possible to answer convincingly. For this, the historical, geographical and political conditions were too different. Not denying the claim that left-wing intellectuals by nature supported principles that Soviet Communism represented, or seemed to represent, it must nevertheless be admitted that the attraction of Soviet Communism was created in very specific conditions as a result of definite political factors of influence. Political attitudes can change quickly, as demonstrated by the example of society in Estonia in 1939-1941, when the support of, or at least positive neutrality towards the Soviet Union disappeared quickly, being replaced by intense enmity, and in the case of the June-communists with disappointment. It was no longer possible, however, for the latter to find a positive outlet for this change of attitude.

SOCIAL NETWORK GAMING INDUSTRY – IS IT THE FUTURE OR ALREADY THE PAST OF THE INFORMATION TECHNOLOGY SECTOR?

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Abstract

Nowadays one of the most profitable and rapidly growing sectors of the world economy is Information Technology (IT). It provides huge opportunities, as in comparison with more traditional sectors of the economy. IT based businesses do not need large investments, a wide network of logistics, a great number of employees etc. Thus, businesses developing their core competencies in the sphere of IT are appropriate for small countries without extensive financial capital and labour force.

In this article the authors provide a deeper insight into one of the most successful branches of the Information Technology sector – the Social network gaming industry, presenting an analysis of possible threats and opportunities within it. This is a newly developed area that lacks academic research and reliable internationally comparable data. Thus this article aims at filling this gap and starting discussion and research on the possibilities and future trends in the social gaming industry.

Keywords: social network, social gaming, mobile applications, technologies

Introduction

Social networks themselves became popular only when the Internet started expanding all over the world – at the very end of the 20th century and 21st century. Since it's needed for social network games to have a high functionality based social network, all the preconditions to launch the first game were met only in 2007. Seven years usually aren't much for an industry to develop, but nowadays when the field of technologies is booming, not everything that is topical today, will be significant tomorrow. This article investigates the main success factors for the social gaming industry from both a theoretical and practical point of view, as well as provides forecasts for future development.

Some experts say that social network games will definitely continue to be a major source of revenue for social networks and in-game advertising

will become more and more popular,[1] others say that mobile applications have already beaten social network applications and that the popularity of mobile applications will only continue to explode because of the fact that mobile technologies are becoming more and more available. 33% of downloaded mobile applications in all application stores (Apple App Store, Google Play etc.) are games, while other type applications aren't even as nearly popular (Widgets 8%, Entertainment 7%, Social apps 5% etc.), which is a clear sign that mobile applications is a serious threat for the viability of social network gaming industry.[2]

Social network games nowadays are a one of the forms of social interaction. It is possible to say that there is a symbiosis and win-win situation between games and friendships in social networks – games are responsible for maintaining a communication between friends and the key of success for applications is a friendship between 2 or more individuals on the platform of the social network. Although social network games and mobile game applications became a very attractive field for new businesses, the majority of games do not provide any revenue, becoming just a disastrous investment, which makes it very important to understand the factors that lead to success.

For example, the app Diva Life took only four weeks to gather more than a million users since its launch date.[3] The main opinion leaders in this field are working professionals or technology fans, who are probably the reason why only a few serious studies have been made on this topic. In this article the authors analyse the evolving and fast growing social network gaming industry, emphasising the main factors leading to success and discussing future trends and paths of development.

Social network gaming companies as an example of knowledge and innovation based enterprises

Social network gaming companies are an example of innovation and knowledge based enterprises, which nowadays are one of the main cornerstones of a viable and developing economic situation.

It is believed that there are 3 words that best describe the 21st century and sustainable enterprises:

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[1] Social Networking in China: Market Research Report, 2013, 9

[2] Lepi K. Edudemic (connecting education & technology). What to know about the present and future of mobile apps, 7.07.2013

[3] Wei X., Yang J., Matsumura de Araujo R. Diffusion dynamics of games on online social networks 3 (9), 2010

1) Knowledge – the new driving source of economics, replacing the driving forces of 1950s to 1970s (data) and the 1970s to the 1990s (information). The more we do, the more we learn that intellectual capital, directed in the right way, is the main innovation creating factor. What makes the difference between data, information and knowledge? Data is a fact, information is a fact with a context and knowledge is information with importance and with ways to use it in practice.[4]
2) Innovation – replacing concentration on the product only in 1950s to 1970s and 1970s to 1990s, innovation includes in itself every process starting from creative ideas and finishing with commercialisation of a profitable product and service development.
3) Collaboration – replacing competition and co-operation of the earlier decades and believing that synergy is the key to success.[5] Synergy is a combination of two or more organisations or individuals, which provides greater efficiency and profit than working individually. Meanwhile, the main incentive when thinking about collaboration should not be the maximisation of profit, but the lowering of costs instead.[6]

In the past 10 years communication technologies have developed so strongly, that nowadays it' s about being reachable 24/7 with its pros and cons. Steven L. Goldman, Roger N. Nagel and Kenneth Preiss[7] believe that, taking into account the availability of different electronic communication structures, enterprises should more and more use virtual organisational structures. Virtual organizational structures intend to merge the competence departments to reach the goals of the enterprise by using virtual means of communication. In this way they believe that enterprises are more effective and they are more successful in creating innovations. If we are comparing with the social network gaming industry then it is absolutely true, because the network form of organisation is the main structure of this kind of enterprises.[8]

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[4] Grant R.M. Toward a knowledge based theory of the firm, Strategic Management Journal, 17, 1996, pp. 109-122

[5] Amidon M.D. The Innovation Superhighway, Butterworth Heinemann, 2003

[6] Chatterjee S. Why is synergy so difficult in mergers of related businesses? Emerald Article Strategy & Leadership, 2007, pp. 47-52

[7] Goldman L., Nagel R.N., Preiss K. Agile Competitors and Virtual Organizations: Strategies for Enriching the Customer, Van Nostrand Reinhold, 1994

[8] Amidon M.D. The Innovation Superhighway, Butterworth Heinemann, 2003

Social networks

The social network gaming industry couldn't exist without an adjusted technological platform in social network websites. What are social network websites? Those are web-based solutions where users from all over the world can make a public or semi-public profile, communicate with other individuals and use other functionalities. Social network websites aren't amazing by the fact that it is possible to communicate with known and unknown people, but because in the network the user can find out about latent links that he or she was not aware of before. These latent ties make a social group and encourage the social network of an individual person to grow even more.[9]

Social network sites are made for different purposes. Some of them aim to gather particular groups of society, for example, artists (deviantART.com), financiers (etoro.com), travellers (etoro.com), but the most popular ones thus far are those who aim to gather people with different ages, interests and residence or so to say – everyone.

According to the privacy policy of social network sites, registered users limit their information visibility to other users. For example, friendster.com and tribe.net users can be viewed by everyone (does not matter if one is a friend of this person or not), meanwhile in professional and business social network site LinkedIn.com the level of privacy depends on, firstly, if one is in the person's friend network and, secondly, if one has paid to view other people profiles. Sites like MySpace.com and Facebook.com let the users decide themselves, how private they want their profiles to be, which makes the site very adjustable and friendly for every user's needs.

The idea of socialising with the help of Internet appeared in 1968, when engineers J.K.R. Licklider and Robert V. Taylor in their paper "The Computer as a Communication Device" asked "What will on-line interactive communities be like? In most fields they will consist of geographically separated members, sometimes grouped in small clusters and sometimes working individually. They will be communities not of common location, but of common interest. In each field, the overall community of interest will be large enough to support a comprehensive system of field-oriented programs and data." [10]

In 1985 Stewart Brand and Larry Brilliant developed the electronic notice board WELL (The Whole Earth Lectronic Link). In 1987, to describe WELL, it was said to be a "Virtual community if a group of people, where

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[9] Haythornthwaite C. Strong, Weak, and Latent Ties and the Impact of New Media, The Information Society, Vol. 18, 2002, pp. 389-401

[10] Licklider J.C.R. and Taylor Robert W. The Computer as a Communication Device, 1968, pp. 16-19

they can meet face to face to share ideas, using computers and virtual notice boards". It was the first time there was used the description "virtual community". Then appeared such network sites as Geocities, Tripod, and TheGlobe.[11] Virtual sites as we know them today started appearing in 1997, when SixDegrees.com was developed. It stopped existing 3 years later and it was said that the world wasn't technically ready for such a site to develop because of the quite limited access of Internet and computers in the world. Those who had Internet and computer access thought the site was too boring and couldn't keep their attention to it. In the period 1997-2000, there were many new platforms developing – AsianAvenue, BlackPlanet, MiGente, CyWorld and others and each of the sites added some unseen functionalities – photo albums, guest book, diaries etc.[12]

The next wave of social network sites started in 2001 with Ryze development. In that time LinkedIn, Friendster and Tribe was launched as well. Ryze never became popular, Tribe became popular in a quite narrow social community, LinkedIn is still the most powerful and widest professional and business social network site and Friendster is told to be "one of the greatest disappointments in Internet history".[13] It being believed that the potential of Friendster, which was launched in 2002, was killed by low management skills, strong restrictions and by ignoring user recommendations.[14] Because of the failure of Friendster, the launch of MySpace was a success – users migrated and developed a huge community. A great part of users were teenagers, who wanted to listen to their favourite band's music, which was integrated in the site. However, the most successful and thus far a phenomenon of the Internet world is Facebook, which was founded in 2004 by a Harvard university student Mark Zuckerberg. In the beginning it was made for Harvard students to be gathered in one place, but Zuckerberg's real intention was to gather students from all over the world, ignoring their ethnicity, hobby or age differences.[15]

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[11] Kērkpatriks D. Facebook efekts, Zvaigzne ABC, 2012, pp. 78-80

[12] Ellison N.B. Social Network Sites: Definition, History, and Scholarship. Journal of Computer-Mediated Communication, 2007, pp. 213-230

[13] Chafkin M. How to Kill a Great Idea! http://www.inc.com/magazine/20070601/features-how-to-kill-a-great-idea.html 01.06.2007. Last viewed at 06.02.2013

[14] Mortensen T. Online Networks in Process Change and Innovation, UMI Microform 2008

[15] Lusted M.A. Mark Zuckerberg. Facebook Creator. ABDO Publishing Company, 2012.

Development of social network games

Social network games are games developed on a social network platform and are available for its registered users.[16] For social network games to exist and to be widely available, there is being used an application programming interface (API), which gives an opportunity for developers all over the world to communicate and create games according to a particular system. An API specifies a pack of actions and functions that accomplish a specific task or allow interacting with a specific software component.[17] In 2005 the greatest social network site Facebook first opened its API platform, which was the beginning of social network gaming boom.

According to J. Paavilainen, for a game to correspond to social network game status, it has to fit into 10 rules 1) Accessibility – has to operate in at least one of social network sites, 2) Interruptibility – the player should be able to play and stop playing the game whenever he or she likes, 3) Continuity – it has to be interesting and playable for a long period of time, it can't be finished in a short period of time, 4) Discovery – the game has to progress, it has to give more and more new functions, 5) Virality – the game has to find it's unique way to become viral and spread itself, 6) arrativity – the developers have to find a way to reach its customers, a way to communicate with them, 7) Expression – developers have to give the player a chance to fulfil themselves, to develop their virtual character, to see their achievements and compete with others, 8) Reciprocity – players should be able to co-operate, share and help each other, 9) Sociability- have to use a wide range of auditory and to connect it with the mechanics of the game, and 10) Competition – have to maintain and promote competition among players to make them return to the game over and over again.[18]

There are different approaches to structuring games, for example, by their character:

1) Simple games – games which can be played alone without anyone else participating. Playing alone doesn't affect the quality of the game.
2) Social games – games which can be played with 2 or more people synchronously or asynchronously. Synchronous games are those who ask from the players to be online at the same time, for example,

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[16] Lampe C., Wohn D.Y., Ellison N., Vitak J., Wash R. The "S" in Social Network Games: Initiating, Maintaining, and Enhancing Relationships, Proceedings of the International Conference on System Sciences, 2011, pp. 3-10

[17] Stoughton N. Update on Standards, USENIX. 2009

[18] Paavilainen J. Design and Evaluation Heuristics for Social Network Games, Proceedings of Mindrek 2010 conference

poker. Asynchronous games are those, who are played by two or more people, but they don't have to be online at the same time. The quality of the game depends on the activities of other players; it increases the sense of competition and co-operation. For example, the social network game Farmville is asynchronous. In this game the player has to build his or her own farm, but to be successful he or she has to co-operate and compete with his or her neighbours.[19]

Social network gaming monetisation

Monetisation of games is one of the most important aspects, when deciding to create the project or not. In the beginning, when the player enters the game, he or she is given a virtual amount of money or other goods. Whenever the player runs out of these goods, he should be able to renew them by an electronic payment. This is only one example of monetisation in the virtual world. First of all, the project manager should think whether the target auditory is ready for electronic payments. Although many countries have a significant population, all of them may not be technically ready. For example, in Tunisia the payment system is not as developed as in European countries. This example should make the project manager think whether it is sensible to design, for example, a national card game for Tunisian market. Project managers should take into account not only the size of the potential market, but also the level of development in the country, political aspects and infrastructure. There is a high risk that the game could pay off only after many years or not pay off at all. Secondly, the game should be smartly adjusted and shouldn't leave the sense that the developers are greedy and are asking money for every single movement, which is a popular mistake for game developers. In this case there is a big threat that people will not stick with the game for too long.

Depending on the social network site, there may be a different supply of options to disburse. For example, in Facebook it is possible to disburse with VISA, MasterCard, American Express payment cards, with Discover and PayPal payment systems and in some countries with mobile phones as well.[20] Meanwhile in the Latvian social network site draugiem.lv it is possible to pay with VISA, MasterCard, through the most popular Latvian internet bank sites or through PayPal or mobile phone.[21]

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[19] Loreto I., Gouaïch A. Social Casual Games Success is not so Casual, University of Montpellier, 2010, pp. 2-11

[20] Facebook Payment Options *http://www.facebook.com/help/338388466239851/*

[21] Draugiem.lv maksājumi *http://developers.facebook.com/docs/payments/*

In the future it is being predicted by Dan Rose, the man responsible for monetisation actions in Facebook, that the virtual money in Facebook will be turned into a real payment system by individuals. Since there is a real identity under every payment, it may make cheating with credit cards less active, but meanwhile there are concerns about the safety of personal data. He says it would be even possible to give a real gift to somebody by not knowing one's address because of the fact that all the data is being saved and kept in the database.[22]

Motivation of the player as a precondition for the game to be successful

For a game to be successful, both the social network game and mobile application has to motivate the player to return to it over and over again. Jon Radoff has made a simple scheme that shows the motivation to participate in the game.

Depending on whether there are many or few people involved in the game, changes the player's motivation. If there are a lot of players at the same time, people are keener on co-operating with each other. If there are only few people involved, players feel the incentive to compete, not to co-operate.[23]

There can also be another point of view. For the player to make him or her want to come back, there have to be three main aspects provided:

1) Communication – synchronous or asynchronous communication, an option to invite a friend to the game, an option to show off and display one's achievements
2) Competition – challenging friends, non-friends, yourself. An option to set high scores.
3) Co-operation – social collaborative actions, for example, giving gifts, exchanging objects etc.[24]

To summarise, for a game to be successful, developers need to go through all the motivational factors and realise whether they are integrated in the game or not. Otherwise, the player can become bored fast and the retention of the game could be very low.

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[22] Kērkpatriks D. Facebook efekts, Zvaigzne ABC, 2012

[23] Radoff J., Game On: Energize Your Business with Social Media Games, Wiley, 2011

[24] Loreto I., Gouaïch A. Social Casual Games Success is not so Casual, University of Montpellier, 2010, pp. 6-11

Measuring the success of social network games

To evaluate the success, dynamics and tendencies of the social network game or application, there have been invented a number of different analytical indicators. Social networks, depending on their policy, try to support their developers by creating a platform that automatically calculates and measures the necessary metrics. Meanwhile, for project managers it is important to be able to read, understand and analyse the results and understand how to improve the numbers. Data analysis is the one thing that substantiates the utility and efficiency of the game, it is utterly necessary to have this data if looking for investments and trying to upgrade the game.

There is an enormous amount of numbers and data that can be analysed. In this article there will be discussed the most important metrics that can be used in everyday decision-making process.

1) Installations – the amount of users since the very beginning of the game minus the ones that have abandoned the game.
2) DAU – Shows the amount of daily average users.
3) MAU – Shows the amount of monthly average users.
4) DAU/MAU – Shows the ability of the game to hold the users to the application. For example, if DAU/MAU is 0.5 or 50%, it means that the average monthly player enters the game 15 days out of 30. There is an opinion within the industry that the critical level of DAU/MAU is about 0.3 or 30% and it should never get less than that.[25]
5) ARPU – is the measure of average revenue per user which is usually defined in a period of 1 day or 1 month.
6) ARPPU – Average revenue per paying user.
7) The percentage of paying users – It is being believed that 5% is an excellent result; it means that 5% of users have paid for something at least once. This metric shows the importance of smart monetisation system.
8) AUT or LTV – Average user lifetime or Lifetime value shows the period of time in which user feels interested in playing the game. Long or short period of time is a quite subjective measurement; the period depends on the type of the game (card game, arcade etc.). If the life cycle of the game is too short, there can be at least two reasons – the game is too easy or the game is too boring. In both cases it is very important to understand the reason and solve

[25] Tehniskais medijs TechChrunch *http://techcrunch.com/2009/10/29/how-to-measure-the-true-stickiness-and-success-of-a-facebook-app/*

the issue; otherwise the large investment in the game can never be paid off.[26]

9) Tunnel analysis – is a way of analysing how the particular player entered the game. It's a way to measure the success of marketing and it shows whether the player started playing because of a successful banner or because of a recommendation of a friend, for example.
10) Stickiness coefficient – it shows how many players visit the game two days in a row, three days in a row, seven days in a row etc. It shows how motivated is the person to come back to the game every day. Some developers use the strategy of providing a daily bonus each day. The daily bonus can be static (the amount of it doesn't change) or it can be variable (the more days in a row the player enters the game, the greater the bonus).
11) Online users – it is very important for synchronous games to provide a relentless turnover of users online daily. A large amount of online users provide the communication and interactivity functions. They both should be analysed – the maximum and minimum of online users in 24 hours. Also, the capacity of the game server should be analysed as well, or, put in another words – what is the maximum capacity of the game so that it doesn't lose quality and doesn't start lagging?

One of the key factors to success is having a great team behind every application. An employee, who analyses, understands and takes measures for the results can be an invaluable asset for the enterprise.

Further the authors will use authentic data of a game in a local social network site to display some of the key metrics as they look in practice.

The first metrics to analyse are DAU and MAU. These indicators show absolute numbers that are important, but less important than the next indicator DAU/MAU. As it is possible to see, the game industry is very dependent on the season. The decrease in summer is about 20% and seasonality leaves a great impression on revenue indicators as well.

[26] Collective of Authors. Kontagent. The TOP 7 metrics of Highly Successful Social Companies. Part 2 of 3. 2012. pp. 3-10

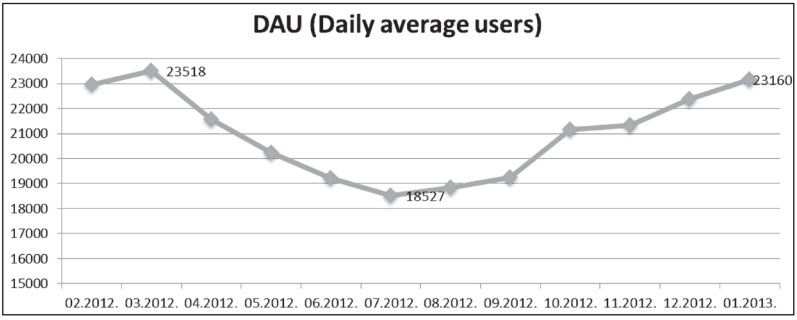

Figure 1 **Example of Social Network Games Metrics: Daily Average Users of One of the Social Network Games in Latvia 2012-2013**

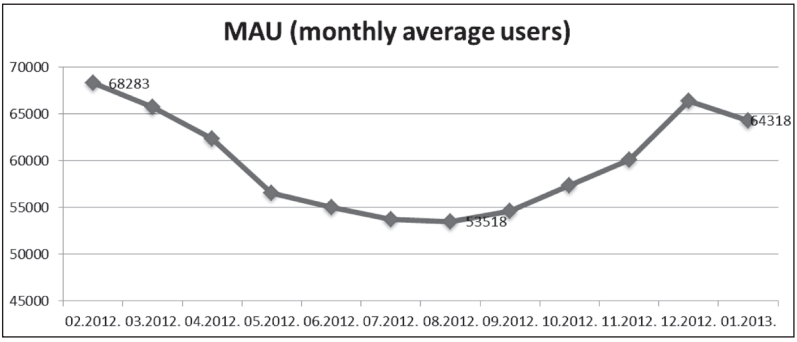

Figure 2 **Example of Social Network Games Metrics: Monthly Average Users of One of the Social Network Games in Latvia 2012-2013**

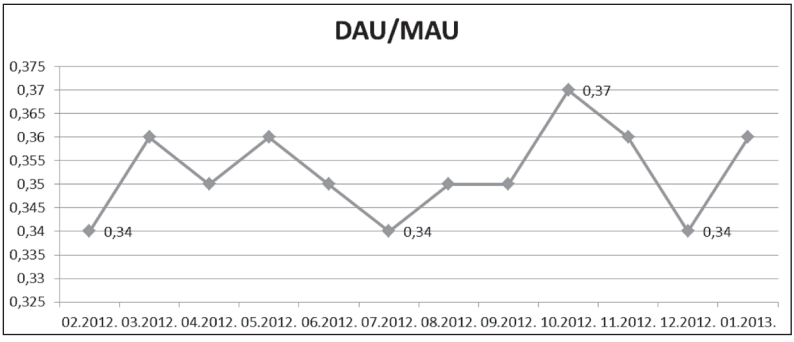

Figure 3 **Example of Social Network Games Metrics: Daily Average Users divided by Monthly Average Users of One of the Social Network Games in Latvia 2012-2013**

This data shows the DAU/MAU relation for a year from 02.2012 to 01.2013. As can be sees, the particular game hasn't yet reached the critical level of 0.3, but the statistics should be enhanced. The lowest point was in February, July and December. Very often the good and the bad indicators can be explained because of the weather conditions outside, Christmas time and so on.

Average revenue per paying user is another very important indicator. It shows how much money does a paying player leave in the game in a period of a month. As it was noted in Fig. 3 above, on 12.2012 there was a noticeable fall of the indicator. This can be explained by the fact that developers introduced game with some new, cheap products to buy in the game. That made the total number of paying users increase, but the average revenue per paying user decreased. The important aspect is not to come to a conclusion according to one indicator only, the true situation can be found by analysing many indicators together.

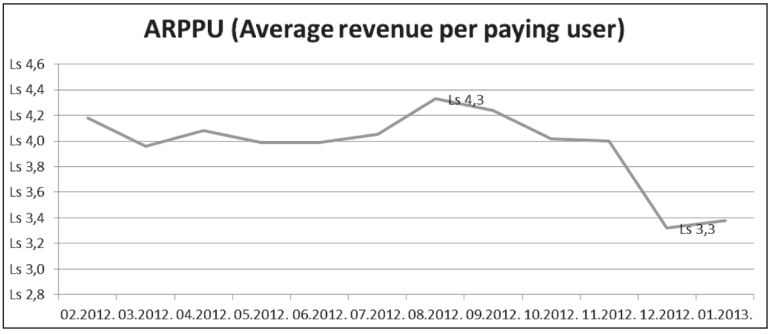

Figure 4 **Example of Social Network Games Metrics: Average Revenue per Paying User of One of the Social Network Games in Latvia 2012-2013**

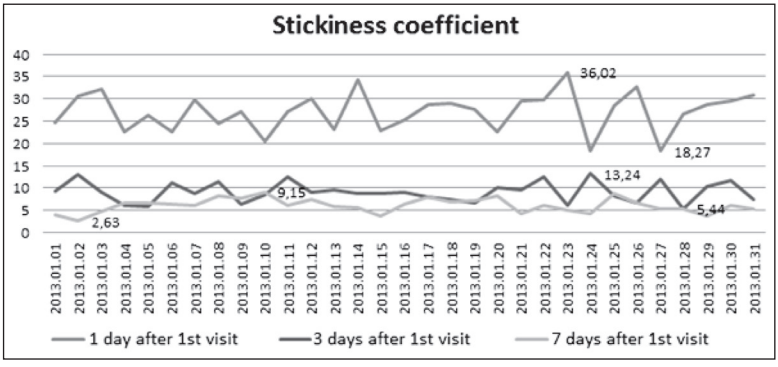

Figure 5 **Example of Social Network Games Metrics: the Stickiness coefficient of One of the Social Network Games in Latvia 2012-2013**

The stickiness coefficient shows that in this particular case the developers of the game have not thought much about making players come back day after day. Usually the "7 days after 1st visit" indicator is high in those games, which have made the variable a daily bonus, so the players are motivated not to skip a day to get the bonus.

Social network gaming as an evolving industry: examples of successful enterprises

This industry, which is a branch of international business, started in 2007. However, it's very important competitor is mobile applications, with the number of users in 2012 increasing to 26% (against 2011) for mobile apps, while the number of social network gamers increased by only 10% (previously it was 31% in 2011 and 27% in 2010). Although the increase in the amount of players is not so high anymore, in absolute numbers the indicators of revenue are still flattering.[27]

Zynga could be considered as the world's pioneer of social network gaming and now it is a strong competitor in mobile applications as well. Its first success story was the game Farmville, which gained enormous popularity in the world and is still popular among the greatest fans of it. Although Zynga is still the queen of social network gaming, there are many competitors that are good enough as well – EA, Playdom, BioWare, Global Mind Games, Wooga, Playish, King, 5 Minutes, Kabam, Crowdstar, RockYou, Booyah, Row Sham Bow, Socia Point, Peak Games and others. However, Zynga gained 86% of Facebook revenue in 2012, so its power is undeniable. The declining number of users has a substantial impact on the revenues of the company. There has been a downward trend in active users since the end of 2012, while the user base in mobile applications has an incremental gain of 242% during the month of June 2013 compared to 211% during February 2013.[28]

Table 1 shows the comparison of the strongest enterprises in the world in Facebook, taking into account the amount of their daily and monthly average users.[29]

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[27] Media of social network sites and mobile applications *http://therealtimereport.com/2012/06/12/mobile-gaming-to-rise-26-social-gaming-up-10-in-2012/*

[28] Zynga Reports Second Quarter 2013 Financial Results

[29] Statistics platform of Internet sites *http://www.appdata.com/leaderboard/developers*

Table 1 **Leading social network gaming enterprises in Facebook**
(made by the authors)

Enterprise and the number of games in Facebook	Game	Place in the rang according to MAU	Place in the rang according to DAU
Zynga (96)	FarmVille2	2	4
	Coaster Ville	3	26
	Texas HoldEmPoker	5	5
King (13)	Candy Crush Saga	1	1
	Pet Rescue Saga	18	8
	Bubble Witch Saga	22	15
Wooga (8)	Diamond Dash	9	13
	Bubble Island	48	65
	Monster World	62	53
Social Point (21)	Dragon City	17	9
	Social Empires	58	100
	Social Wars	68	95
Electronic Arts (57)	Bejeweled Blitz	25	41
	The Sims Social	87	53
	Pet Society	127	108
Peak Games (25)	Lost Bubble	85	91
	Horoskopu spēle (حرف يـغـام عم كرجب)	107	18
	Lost Jewels	137	148

It is possible to conclude that the games that gain the most popularity are those which are not aimed on a particular market (for example, at a specific gender, nationality etc.). Currently the leading game right now in Facebook is Candy Crush saga, which is amazingly simple and primitive, but the developers have figured out, how to make it interactive and motivating. The power of Zynga lies in their ability to maintain an interesting scenario in the game and to know what the customer wants. Also, a notable fact is that the most powerful and resourceful enterprises have partly shifted their resources to mobile application gaming. It can be certainly said that the social network gaming era hasn't reached its end yet, but the fact is that for the branch to survive it has to converge with the mobile application technologies.

Mobile applications

A mobile application or a mobile app is a software program designed to be run on different mobile devices, for example, smartphones, tablet computers and others. Mobile apps were originally made for general productivity for smartphones, including email, calendar, contacts, stock market and weather information. However, public demand played its role and developers started creating mobile games, GPS apps, ticket purchasing services and other.

The way to access the mobile applications through these mobile devices is app stores. There is no point of discussing if mobile apps are popular, the numbers speak for themselves. There are six main most popular app stores:

1) Apple app store (50 billion downloads since 2008),
2) Google Play (48 billion downloads since 2008),
3) Black Berry app World (3 billion downloads since 2009),
4) Nokia Store (354 million downloads since 2009),
5) Samsung Apps (100 million downloads since 2010),
6) Amazon Appstore (16 million downloads since 2011).

33% of all downloaded apps are games, which makes mobile application games a strong threat to social network games. What makes the situation for social network games even worse is the fact that mobile Adobe Flash player (which often is one of the main components of social network games) does not support mobile technologies and the game cannot be accessed through a tablet or a smartphone.[30]

In 2011, 88.4% of apps were free to download, but it is being predicted that the percentage will rise to 93 until 2016. It is also predicted that the revenue from the sale of apps will rise from 7.3 billion dollars in 2011 to 36.7 billion dollars by 2015.[31]

The market of mobile applications is so powerful, that even Apple is thinking of lowering the cost of their product not to lose their market share. Despite tens of millions of iPhones sold, Apple continues to lose their market share to Google's Android. Also, iPhone has come to a conclusion that they have to adjust more to emerging markets, which could be an enormous part of the revenue in next years.[32]

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[30] Adobe Flash player certified devices *http://www.adobe.com/devnet-apps/flashruntimes/certified-devices.html*

[31] Analysis of processes in the Internet *www.canalys.com/newsroom/11-quarterly-growth-downloads-leading-app-stores*

[32] Cheaper iPhone seeks to retain core values, Financial times, Tuesday, August 27th, 2013, page 15

While the numbers seem to be more than impressive, there is a place for concern if the safety of applications is being analysed. In a study on mobile applications and their level of security, RIIS, an enterprises that specialises in mobile app development, said that some of the top brands, including airlines, retail outlets, entertainment companies, and insurance companies, are developing applications for Android that place users and their personal information at risk.[33] The main protectable factors are the data of the enterprise, data of users, money, privacy, credentials, transactions and processes, algorithms, innovations, reputation and customer experience. There is a long way for mobile application developers to go.[34] However, it doesn't seem to scare the potential customers off and there is always a place for improvement in every sector. Obviously, this is going to be the main issue to be solved to make the numbers boom even more.

Conclusions

The pace of IT industry could be described as the "a blink of an eye" industry. The development of technologies, the amount of information and the competition is growing so fast that there is certainly in the future something even stronger than a mobile application.

To answer the main question "to be or not to be" for social network games, the authors conclude – it is definitely not the beginning of the industry although it has been active for seven years only, but it is definitely not the end. By convergence with mobile platforms, social network gaming enterprises have a great perspective if they follow one precondition – develop very fast or somebody else will overtake the lead.

For both, mobile and social network apps, it is important to remember some basic success rules, for example, to follow the needs and the demand of potential and current customers, to promote an innovative environment in the enterprise to come up with great ideas and to follow and analyse the quantitative part of the games – statistics. Meanwhile, entrepreneurs have to take into account that the main resource of the 21st century and especially in IT industry is the human being. The insufficiency of human resources in this field leads HR professionals to the development of a great working environment and a highly motivating remuneration system.

[33] RIIS Android Mobile App Security Index, 2013

[34] Kesaniemi A. Mobile Application Threat Analysis, The Owasp foundation, 2012

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THE AGRICULTURAL CO-OPERATIVE MOVEMENT IN ESTONIA: A COMPARATIVE STUDY FROM THE 1860s UP TO THE 1930s[1]

Hans Jörgensen
Dr. Phil.

Abstract

This article explores the growth and development of the agricultural co-operative associations in Estonia from the 1960s up to the 1930s in a comparative fashion. The primary focus is on the expansion of dairy co-operative associations. Hence, the comparative approach puts Estonia in the light of the contemporary organisational development, foremost in the Nordic countries and Bulgaria and to some extent also related to the Latvian and Lithuanian development. It is shown here that the co-operative expansion taking place prior to the interwar independence was of major importance for the relative export success that took place in the 1920s, i.e. prior to the trade contraction during the inter-war depression. Several uniting developmental features are elucidated and discussed from the perspective of co-operative organisation and education, as well as the relations between the state and the co-operative associations. The 1930s here represents a period of deviation in relation to the Nordic countries because of the impact from the depression, the rise of authoritarianism and not least the expansion of state control, which preceded the formal Soviet occupation in 1940.

Keywords: Estonia, agriculture, co-operative associations, central organisations, markets, state, peasants, interwar problems.

[1] This text is based on a previous and more extensive book chapter published in Swedish in 2004.
Jörgensen, Hans, "Lantbrukskooperationen i Estland – Framväxt och problembild i Baltikum med utblickar till Norden och Österuropa under mellankrigstiden och idag", [Agricultural Co-operation in Estonia – Growth and Problems in the Baltic States in Relation to the Nordic Countries and Eastern Europe during the Interwar Period and Today] in: Rydén, R., (ed), Jordbrukarnas kooperativa föreningar och intresseorganisationer i ett historiskt perspektiv, [Farmers Agricultural Co-operative Associations and Interest Organisations in Historical Perspective], Skogs och lantbruks-historiska meddelanden nr 32, Kungliga Skogs och Lantbruksakademien [The Royal Swedish Academy of Agriculture and Forestry], 2004 (pp. 87-116).

Introduction

From the second half of the 1800s, socio-economic changes gave rise to new groups of interests and movements in Europe. In this context, the growth of the co-operative movement was linked with the spread of capitalism and increased monetary exchanges, property changes and industrialisation. The first co-operative associations – inspired by the Rochdale pioneers – emanated from voluntary economic collaboration among workers, crofters and peasants, which formed procurement and credit societies.[2] In Sweden this has been explained as the outcome of an interchange in the development when the mercantilist ideas, upheld by state regulations and Guilds, were replaced by individualism and the freeing of economic forces.[3] Co-operative societies were thus created as a means of self-support when competition and the division of labour interrupted the established order. This had effects on the traditional peasant household: both as a subsistence and production unit. With the increased division of labour and the expansion of wage labourers, small-scale producers and peasants choose to join forces and to fight the tendencies of monopolies, trusts and exploitation.[4] In line with this, Dovring (1965) concluded: "Without co-operation, most agricultural producers in Europe were undoubtedly the under-dog in a system where the only perfect competition was among themselves".[5]

According to Petterson (1994), agricultural co-operation became a substitute for the co-work that was lost when the village-based society was dissolved. In spite of organisational differences, a similar feature was the organised co-work. In both cases collective restrictions circumvented the number of alternatives open for individual members, which can explain the foundation of the first credit and insurance societies. However, the areas restricted by the village community, e.g. cultivation of common lands, and the co-operative societies organisation of individual peasant farmer's relation with the market, demanded different organisations.[6]

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[2] The co-operative principles developed by the British Rochdale pioneers 1844-55 are regarded as the fundament for co-operative societies. 1) Democracy; the principle of 'one man one vote' in business. 2) Open membership. 3) Fixed and limited interest on capital. 4) Distribution of surplus in relation to the purchases made by each member. 5) Cash trading. 6) Selling out pure and unadulterated goods. 7) Education. 8) Political and religious neutrality. 9) Disposal of net asset without profits. See Birchall, (1994), pp. 54-64.

[3] Stolpe, (1930), pp. 13-14.

[4] Bonow, (1960), p. 12.

[5] Dovring, (1965), p. 205,

[6] Petterson, (1993), pp. 176-77 & 198.

The important shift was made due to market expansion and agricultural industrialisation. In contrast to the short period of peasant individualism, from the early 1800s when enclosure was carried through, the later part of the 1800s was characterised by increased organised co-operation, which was necessitated by the break-through of agricultural technology. "Collaboration was resumed, when the developmental possibilities of individualism had been emptied and proved being unable to lead to the over-all aim of individual freedom."[7]

In the agrarian dominated CEE (Central and Eastern Europe, to which I here also include the present Baltic States), the agricultural producer's co-operative associations played an important role from the late 1800s through to the interwar period. However, the outcomes from the Russian Revolution in 1917, the rise of Fascism and Nazism in the 1920s and 1930s, and not least the actions taken against the agricultural overproduction in the 1920s and the Great Depression (1929-33), enabled for far-reaching state interventionism. The effects: trade contraction and bilateralism, export controls, protectionism and inward-looking policies, circumvented the actions and freedom of the co-operative movements. Various forms of economic nationalism and authoritarian rule thereby appeared. Speaking with Ivan Berend (2006) this *economic dirigisme*: "… was closely connected to the experiences of the war economy"… "Disappointed countries, which failed to catch up during the laissez-faire era and desperately wanted to change their destiny, naturally looked to the war economic system as a new opportunity to realize their goals".[8]

After a general recovery in production and trade, merged with eased political conditions from the mid-1930s, World War II and the subsequent introduction of Soviet style planned economy finally terminated the freedom of producer's co-operative associations. However, while the co-operative associations in the East were dissolved or swallowed by means of centralised economic planning and forced collectivisation, the Post-War economic and political order in Western Europe – not least the European integration process and recovery programmes – spurred the growth of the agricultural producer's co-operative associations.[9]

After the fall of the Berlin Wall and the dissolution of the Soviet Union (1989-1991) one would thus assume that a return to private and small-scale farming would revitalise the co-operative movement. However, in spite of the lack of agricultural infrastructure, most private farmers or forest owners in the so-called transition economies showed reluctant or

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[7] Pettersson, (1993), p. 179.

[8] Berend, (2006), pp. 95-96.

[9] Milward, (2000), p. 251.

indifferent attitudes to co-operation. In Estonia, proponents for the co-operative principles not only had to face Soviet connotations like *Kolkhoz farming*, but also the general lack of an agricultural transformation policy or strategy.[10]

The aim of this comparative study is to explore the growth and development of the Estonian agricultural co-operative associations in the light of contemporary changes in Northern and Eastern Europe from the late 1860s up to the early 1930s. The case of Estonia is in the centre for attention due to the early expansion of dairy co-operatives in the Russian Baltic provinces. However, for the comparative approach, the contemporary development in Sweden, Denmark, Finland, Latvia, Lithuania and Bulgaria serves the function of elucidating similarities and differences and specific development characteristics. The endeavour is therefore to present the lines of development that enabled for the growth of co-operative associations, especially in agriculture, based on literature, international co-operative information and yearbooks, as well as agricultural periodicals.

Co-operative Associations in Theory and Practice

A general European feature from the mid-1800s was that co-operative ideas were spread and rooted among free-holding peasants. Agricultural co-operative associations are organisational solutions for creating competitiveness and strengthening the interest of its members. They are the extended arm of a group of producers in processing, purchases or sales. Co-operation is therefore, according to Nilsson (1991), based on: 1) economic activity, 2) for the common needs of people, 3) owned and ruled by the people themselves.[11]

Co-operative associations constitute what North (1990) denotes organisations: i.e. political, economic or social bodies, which face a number of restrictions or institutions that provide "the rules of the game".[12] Formal institutions or restrictions (laws upheld by the state), regulate the actions and function of co-operative associations in business life. The informal institutions (like sanctions, taboos or codes of conduct), however, are not formalised and more sluggish since they represent "socially transmitted information" or what we usually call culture."[13]

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[10] Kõll, (1993), pp. 156-57. This lack of both interest and insight is further elucidated by Jörgensen et al., (2010), pp. 33-35.

[11] Nilsson, (1991), pp. 9 & 44.

[12] North, (1990), p. 3.

[13] North, (1990), pp. 3-6, 37.

If institutions provide a structure for human interaction, the co-operative associations emanate in response to the specific institutional environment. In the long term, the co-operative associations can therefore both contribute to institutional change or strengthen the specific institutional environment. However, prior to industrialisation and the breakthrough for liberal and socialist ideas, the legal systems in Europe did not allow the co-operative embryos to participate in economic activities on the same terms as other business enterprises. In Sweden the Guild System for example was in force up to 1846 and the Freedom of Commerce was restricted up to 1864.

The first embryonic forms of economic collaborative organisations in agriculture came with the mutual insurance companies or mortgage societies in the 1840s. These, however, were not co-operative societies in accordance with the Rochdale principles. But with the spread of so-called *Schulze-Delitzsch* and *Raiffeisen Societies* – the first one established in Germany in the late 1850 and more generally spread in the Nordic countries after 1880 – the integration of savings and credit societies on co-operative principles initiated an important development for agricultural producers.[14] The case of the liberation of serfs in Russia in 1861 and the purchase of land from estate owners provides another example of the need for credit arrangements along co-operative lines[15]. Institutional change is thus a long-term process which is dependent on several forces. Until a stable incentive structure is formed, a rapprochement between the *formal* and *informal restrictions* is needed. The driving forces of co-operative growth must therefore be understood from two sides. At first, the gains that peasants saw that could be made by joint efforts in a new socio-economic environment. Secondly, the changes that made the formal institutional framework (the law) susceptible for this change.

In his work on the growth of Danish Co-operative associations, Lind Haase (2000) explored how co-operative networks appeared and how these ideas were spread from credit and wholesale societies to dairy producers in the late 1800s. He denotes this as *social capital* or as "collaboration based on networks", which paved the way for democracy, trust and economic

[14] Herman Schulze-Delitzsch and Friedrich Wilhelm Raiffeisen were two of the German co-operative pioneers working with the establishment of co-operative savings and credit societies from the late 1840s. While the former was more oriented towards the needs of credits among crofters, the latter organised peasants credit societies. The fact that real capital, like cattle or machinery, could be supplied through the collaborative purchases made by Raiffeisen societies was an important step in co-operative development. See Watkins, (1971), pp. 24-27.

[15] Dovring, (1965), pp. 208-212.

gains. Social capital, from which the bulk of the Danish society could profit, was thus built on co-operative principles.[16]

According to Rothstein (2000), "social capital" can be understood as "norms of trust and reciprocity between citizens in a society". This is needed in order to avoid the tragedy of the commons.[17] Rothstein uses "organised social capital" as a term for describing and distinguishing the necessity of having both horizontal as well as vertical trust – on three different levels – within an organisational framework. At first, trust can be built between individuals (leaders and members). Secondly, trust can also be established between leaders of different organisations on various organisational levels. Finally, trust is also built between the leaders of various organisations and the state.[18] A widening conceptualisation of this allows for understanding the principle on reciprocity in co-operative associations. "One man one vote" is a basic precondition for trust in any democratic organisation and trust makes an essential part of the rational for building co-operative associations. Any co-operative association needs to have good internal and external collaboration: both horizontally as well as vertically. From the perspective of the co-operative members the links of trust between various associations or societies: between members and leaders, and trust in the function of the state and the legal system, are necessary prerequisites for building and maintaining collaboration.

If credit and insurance societies were the first, the major achievements were in fact made by co-operative associations operating in the way of consumer societies: by ordering joint purchases and collection. Since the purchase of necessary input goods often were made in absence of competition, the salesmen could – by means of credits – turn the peasant or consumer into a state of dependency. It was thus rational and economically efficient for agricultural producers to form co-operatives and to co-ordinate refinement, marketing and purchase of inputs. This vertical integration was from the turn of the 19th century followed by the establishment of regional and national centralised organisations. Smaller locally based co-operative dairies, butcheries and granaries became linked to a larger movement that could supply relevant information about co-operative issues and convenient education for quality improvements, which was necessary for maintaining competitiveness.

The co-operative model, based on trust, was a means to spread risks on the local level. All members were collectively responsible for upholding quality, which gave incentives to sustain and develop quality measures.

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[16] Lind Haase, (2000), pp. 42-43.

[17] Rothstein, (2000), p. 1.

[18] Rothstein, (2000), pp. 48-49.

In the long-term this meant a higher price paid per unit. When the co-operative associations reached a position where they could control the products from the fields, through the refinement process, and into the stores, they thereby became influential market actors.

In Sweden dairy associations became especially successful in attracting members. Rydén (1998) has argued that local co-operative dairy associations were able to avoid free-riding patterns since the advantages only were available and granted for the members if the common objectives were successfully reached. In addition, co-operation was less dependent on the single member's resources, while it was to some extent dependent upon the encouragement and support of the state.[19]

For the farm population the process of industrialisation thus meant profound changes: increased use and purchase of fertilisers, machinery, seed and the transfer of processing into separate enterprises. But industrialisation also illuminated the fact that information was asymmetric and that the distance between producers and consumers had increased. This forced forward closer collaboration, which became a means for the "weak" to compete with the "strong" and to use the advantages of scale. As a result of technological and economic changes family farms were thus able to benefit from large-scale processing, marketing and procurement of inputs from the late 1800s.[20] However, when the co-operative associations became legally accepted and participated on the same conditions as other actors/firms, their relation to the state had also to be clarified.

Comparative aspects on co-operative growth

Denmark has the longest co-operative experience among the Nordic countries. The first agricultural associations were established by patriotic philanthropists in the 1840s and soon farmers founded agricultural societies and joint dairies, which enabled for them to become familiar with democratic methods. Economic democracy was thus practised before the majority of Danes had become familiar with political democracy.[21] Consumers' associations were not frequent until the 1880s while the forerunners of Danish co-operation: the credit unions, started as early as in the 1830s. They had a mission of building a wider agricultural movement. Schoolmasters not only acted as teachers, but also as advisors and spiritual guides in this regard.[22] The Folk High Schools established in the 1860s

[19] Rydén, (1998), pp. 86-87.

[20] Petterson, (1993), pp. 188-89.

[21] *The Danish Co-operative Movement,* (1950), p. 9.

[22] *The Danish Co-operative Movement,* (1950) 31 & 39-40.

held an additional educational function. According to Jonsson et.al, (1993) the reason for the Danish Co-operative success was social cohesion: "that enabled peasants to build institutions needed to take advantage of the economic opportunities".[23] The Danish organisational and educational endeavours also gained strong support in Estonia from the turn of the century through the formation of co-operative associations among free-holding peasants.

In the Russian Baltic provinces, co-operative expansion was linked with market changes when the transition towards livestock production – on the expense of grain and previous cash crops as flax – was initiated around 1870. The construction of a railway line connecting the Baltic Russian provinces with the urban Russian areas around St. Petersburg and the increased land sales from the estates enhanced this development.[24] New freeholders founded agricultural societies, which had to fight resistance from Tsarist law and it was not until the implementation of the market oriented Stolypin reforms 1905-11 that the real co-operative breakthrough came.[25]

In southern Estonia land sales proceeded more rapidly after the 1860s. This led to the establishment of agricultural societies that promoted technological progress and welfare among the new farmers. At the outbreak of World War I, the work among independent farmers, schoolteachers and rural intellectuals had resulted in the establishment of 135 milk co-operatives, 138 consumer co-operatives and 153 machinery co-operatives.[26] The birth of the Estonian co-operative movement was therefore linked with several external and internal processes. The spread of national awakening among peasants, tenant farmers and landless rural people suited co-operative growth. A prominent Estonian: C.R. Jakobsson was involved in the transformation of Estonian agriculture from the 1860s. Around 1880 a blueprint was also available suggesting the Estonians to increase dairy production and to establish co-operative associations like those in the Nordic countries.[27] The Baltic-Germans, long established as major land-owners and as the economic-political elite, also contributed to co-operative expansion from their contacts with Germany. However, just as important for the Estonians were the Finns and Danes, which in relation

[23] Jonsson, et al., (1993), p. 60.
[24] Kõll, (1994), pp. 29-32.
[25] Raun, (1991), p. 89.
[26] Raun, (1981), pp. 288-89.
[27] Kõll, (1994), pp. 31-32.

to the Baltic-Germans were smallholders and therefore could offer more plausible organisational and technological solutions.[28]

Cultural exchanges between Finnish and Estonian literature societies or song festivals contributed to imagination about the closeness of Finns and Estonians from the 1860s. While the intense Russification policies from the 1890s made it difficult to carry through these exchanges, the peasants were able to easier continue their cause by means of trade and education. Of importance was also the establishment of the agricultural institute in Vana-Kuuste, which in 1913 was the only higher agricultural school in Tsarist Russia. Up to this point farming had either been taught in Estonian elementary schools or in Finland, which was suitable due to the similarities in language and agricultural conditions. Translated articles from Finnish agricultural journals published in Estonian newspapers further enhanced this educational endeavour. Many Estonians thus followed the request of C.R. Jakobsson and other agricultural reformers to study at Finnish agriculture schools.[29] Influential for both the co-operative development and agricultural education was the presence of many Danes, which prior to 1917 had obvious interests in Russia. Danes founded dairies and butcheries and were involved in the development of communications. As a large milk and meat export producer Denmark was dependent on imports of Russian proteins like oil cakes. The re-export to Russia of refined products was however small: almost 90 per cent of Danish export went to Germany and Britain in 1913. But with regards to the export of agricultural machinery and cement based on figures from 1911, Russia was the main market.[30]

By the turn of the 19th century, co-operative societies had developed in various Russian provinces, but due to Tsarist legislation they were often forced to act outside regular business-life. Most successful within the Russian Empire were the Siberian associations, which were helped by market growth and the construction of the railway into the frontier region[31]. The first years after the 1905 revolution contributed to an increase in the numbers of legally registered co-operative associations in Estonia, partly due to concessions to the Tsarist regime implying that

[28] Kõll, (1994), p. 34,

[29] Teistre, (1990), pp. 412-414.

[30] Jensen, (1979), pp. 46-49 & 559. See also *Kooperatören,* no. 14 (1921), pp. 224-225.

[31] During the late 19th century improved transportation and marketing conditions facilitated the growth of Siberian co-operatives. Merges between smaller associations resulted in the foundation of the Union of Siberian Creamery Association, which consisted of more than 1000 dairies in 1916. *Svensk Export*, 623, (1919), p. 49.

co-operative education was using the Russian language.[32] In addition, the Tsarist policies also aimed at restricting the numbers of active associations in various geographical areas, which led to the use of a standard procedure where the new associations adopted statutes from existing associations in order to get approval. Until the Law of 1906, which declared freedom of assembly, any approval thus needed consent from the Tsarist authorities.[33]

As shown in Table 1, there as many co-operative developmental lines to consider as there are countries. Even though Russification postponed co-operative expansion in parts of CEE, a major distinguishable feature in CEE was the relatively early foundation of national central organisations, common for various co-operative groups.[34]

In Finland, the strong Central Organisation: *Sällskapet Pellervo* was founded before the co-operative societies had reached any local spread[35]. In this regard, Sweden and Denmark were different with their bottom-up structure. A similar feature in both Sweden and Finland was however the educational role played by Central organisations. Finland also had a strong consumer-oriented urban movement from the start while co-operation had an obvious rural origin in Denmark, Estonia, Latvia, Lithuania and Bulgaria. However, the Finnish central organisation *Pellervo* went through two major splits in 1916 and 1919. The later split was due to the decision of the Swedish speaking group to leave the organisation, as a result of language policies, while the first split had its roots in social tensions and different views on co-operative activity in general and consumers' co-operation in particular.[36] The Finnish case nevertheless shows that consumers' and producers' co-operative associations developed simultaneously, supported by an influential central organisation from the start. The formation of strong central organisations at an early stage was also a characteristic Estonia, Latvia and Lithuania.

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[32] Stötsberg, (1930), p. 2.

[33] See Eellend, (2007), pp. 101-102.

[34] When the International Co-operative Alliance (ICA) was established in London in 1895 most countries lacked national central organisations. Most delegates represented local societies. Leading co-operators thereafter gradually turned toward the apprehension that the movement would grow and become strengthened if consumers and agricultural producers worked more closely together. Watkins, pp. 44-45 & Kylebäck (1984), p. 9.

[35] Odhe, (1929), p. 47.

[36] One side was foremost represented by the relatively small rural associations: mainly represented by the landed proprietors, and on the other side were urban consumers, landless and crofters. The consumers' organisation *S.O.K.* (the Co-operative Wholesale Society) therefore broke loose from the general co-operative union *YOL* and founded their own central organisation *The Co-operative Union*, K.K. and a year later their own Central Wholesale Society, OTK. See: Kujala, (1975), p. 9.

Table 1: **Development of agricultural co-operative associations and national central organisations in the Nordic countries, the Baltic States and Bulgaria**

Country	Agricultural co-operative societies and year of foundation		No. of co-op dairies		First Agricultural Co-operative Central organisation
	Embryonic forms	Co-operative dairies	Around 1928	Around 1935	Name and year of foundation
Denmark	Credit societies 1850s Procurements 1850s	1882	1 379	1 404	Central Co-operative Committee (Andelsudvalget) 1899
Sweden	Procurements 1860s	1880	682	723	Swedish Farmers National Federation (SLR) 1905
Finland	Agricultural requisites 1870s. Raiffeisen credit societies 1902.	1902	531	514	Pellervo 1899
Estonia	Schulze-Delitzsch credit societies 1866.[a]	1898	331	274	The Estonian Co-operative league (Eesti Ühistegline Liit) E.Ü.L founded in 1919. Preceded by Bureau 1910,
Latvia	Schulze-Delitzsch credit societies 1860s [a]	1909	454	309	Riga Agricultural Central Union 1906
Lithuania	1860s	1904	206 (1927)	192 (1937)	Pienocentras 1923
Bulgaria	Raiffeisen credit societies 1890	-	16 (1930)	-	1894 The Agrarian Bank

a) Founded by Baltic-Germans

Sources: *Agricultural Co-operation in Finland,* (1954), p. 18 & 53. Aizsilnieks (1962), pp. 11-13. *The Danish Co-operative Movement* (1950), p 41. *Konjunktuur,* 51-52, 2/3, (1939), p. 108. *Kooperatören,* 8, (1919) p. 179; 23, (1924), p. 410; 24 (1924), p. 427; 12 (1925), pp. 155-56; 2 (1931), p.27; 18 (1939), p. 444. Audēnaz, (1959), p. 16. Stolpe, (1930), pp. 116-128; Mihailhoff, (1934), pp. 297-98. Pedersen, (1974), p. 174. *Year Book of Agricultural Co-operation* (London, 1932, 1934, 1936 & 1937). *Statistics of Agriculture and Co-operation in Finland* (1939), p 22.

The most comparable variable in Table 1 is the foundation of the first co-operative dairies. The years 1928 and 1935 also give a hint to the reduction of dairies taking place during the Depression. However, in absence of compatible figures concerning the numbers of creameries, it is likely to assume that small locally based creameries were more severely hit by rationalisations than larger dairies.[37]

In Bulgaria there were fewer dairy co-operatives because of topographical limits. Goats and sheep were more suitable for the mountainous areas and less land per head spurred the cultivation of cash-crops like grain, grapes, corn, tobacco and rose-oil. The Bulgarian co-operative development was also delayed by its inclusion in the Ottoman Empire up to 1878 and the struggle for independence which culminated in 1908. Bulgaria's main co-operative breakthrough was thus made in the decades prior to World War II even though the first agricultural credit society was founded in 1890. In spite of relative lateness, the Bulgarian co-operative movement became one of the strongest in Europe. During the rule of Alexander Stamboliski (1920-23) the co-operative associations became more or less a part of the state.[38]

In Bulgaria the agricultural credit societies undertook several functions, e.g. consumers' supply and marketing activities. Close collaboration between individual agricultural co-operative societies and two central organisations developed: *The Union of Agricultural Co-operative Societies* and *the Agricultural Co-operative Bank*. While the first was more of unofficial character, the latter constituted the extended arm of the government in executing agricultural policies and collecting as well as marketing crops.[39] The *Bank* was, however, not a true co-operative body since the government exercised profound influence over its board and affairs.[40]

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[37] In Lithuania there seem to have been more creameries than in the other countries under review due to less developed means for transportation. Further, at an early stage the government also saw the rationality in keeping the numbers of small and inefficient dairies on a low level. *Kooperatören,* 20, (1939), p. 494.

[38] Under Stamboliski's rule, the Bulgarian Agrarian National Union, *BANU,* implemented a land reform and supported far-reaching co-operative undertakings in order to create a peasant state based on co-operative principles. In spite of the assignation of Stamboliski in 1923 and the changes of government, his legacy was still present in the 1930s. Two distinct features were the widespread co-operative network of credit institutions lead by the Agricultural Bank of Bulgaria and the continuous governmental interventions – often by necessity – in co-operative affairs in the 1920s and 30s. Mihailhoff, (1934), pp. 298-303.

[39] *A Century of Co-operation – An Epitome of the Birth and Growth of the National Movements, International Co-operative Day, 1st July*, (1944), p. 11.

[40] During the economic depression when farmers' credits were frozen, the state took over a majority of the farmers debts and transferred these into the hands of the

The Co-operative movement in interwar Estonia

In most parts of CEE land redistribution was a necessary measure after the long subjugation to landlordism. Estonia declared independence in 1918, but this was formally established only in 1920. The political developments during World War I therefore made it necessary to counteract the growth of Bolshevik support and to create social stability.[41] For this purpose the democratic political forces in Estonia accomplished two major things. The peasantry was mobilised "to their cause of statehood and they displaced the Germans from their pre-eminent position of power prior to formal independence was reached."[42] Land reform was however costly and time-consuming. The readiness for this structural change was not fully developed. War damage had also destroyed many refinement facilities in Estonia and Latvia, which were the most industrialised areas in Tsarist Russia. Only 60 out of 135 co-operative dairies in Estonia survived the War, but in the early 1920s most of them were back in refining and marketing.[43] In Latvia the reduction was more severe. However, the exploitation of state owned forests in both Estonia and Latvia could cover for some of the financial disadvantages created by the loss of industry earnings.[44]

A major step for the Estonian co-operative movement prior to independence was taken in 1911 when the League of Estonian Dairies, *P.K. Estonia,* was founded. This Agricultural Central Organisation promoted export of dairy products to Russia and increased dairy farming by supplying consultants, advisors and controllers for the co-operatives dairies.[45] An educational network and information system was built, which started out illegally, but became formalised after 1919 as the Estonian Co-operative League, E.Ü.L. *(Eesti Ühistegline Liit)*. Besides the publishing of a weekly paper, the aim was to co-ordinate various co-operative activities.[46] By January 1935 E.U.L. had 1189 co-operative enterprises as members.[47]

government and thus left the Bank with fairly reasonable possibilities of advancements. In mid 1930s the Agricultural Co-operative Bank was given extended authority by the government to audit all co-operative societies and to affect appointments of officials. See *Year Book of Agricultural Co-operation 1937,* (1937), pp. 111-113.

[41] von Rauch, (1995), pp. 87-88 and Kõll, (1994), pp. 40-43.

[42] Parming, (1975), p. 6.

[43] *Year Book of Agricultural Co-operation 1936* (1936), pp. 437-38.

[44] von Rauch, (1995), p. 105.

[45] *Kooperatören,* 12 (1925), pp. 299-300.

[46] A co-operative school led by the E.U.L. was supported by the government in 1929. However, applicants to the courses had to have at least six months of co-operative practising. Stötsberg, (1930), pp. 18-20.

[47] *Yearbook of Agricultural Co-operation 1936* (1936), p. 434.

Prior to independence, in 1917, E.T.K. (*Eesti Tarvitajateühisuste Keskühisus*) the Estonian Wholesale Society was founded as a common central organisation for consumers' and producers' associations.[48] Even though export was not the main activity of E.T.K., it occasionally acted as an intermediary of cereals, potatoes and flax. In 1928 E.T.K. became a shareowner of *Stockholm Superfosfat Fabriks AB*, together with the Swedish Central Co-operative Association (KF).[49] E.T.K acted as an intermediary between the government and the co-operatives by supporting the transfer from cash crops to milk and meat production and offering loans and advice. Closely connected to E.T.K were the co-operative banks and retail organisations. A central bank: *Eesti Rahva Pank* (the People's Bank) was founded in 1920 in order to enable for various credit unions to expand their business and organise their affairs. In 1930 the total capital deposits within these credit unions allowed loans up to ten times the deposits, however, strictly for the use of production improvements. Throughout the 1920s small and locally based credit unions also attracted increased shares of members.[50]

Up to 1929 there was a steady increase of Estonian co-operative dairies. This was followed by a parallel production expansion, which also expanded the realm of *P.K. Estonia's* export activities. By 1920, dairy farming, flax and bacon had become the chief source of agricultural incomes. *P.K. Estonia* also proved to have political influence through prominent representatives of the farming population that firmly defended their point of view on national economic policy issues.[51]

In relation to export expansion the co-operatives had initiated a fairly successful export from the first years of the 1920s. The transition towards dairy farming, organised in the form of family farms as a result of the land reform, was not only suitable, but also well adapted to the pattern of consumption in many European urban areas. The 1920s was however

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[48] By 1930 it was estimated that the total numbers of E.T.K. members constituted some 240 000 (almost 1/4 of the total population). By 1930 it handled 85 percent of the national demand for fertilizers and concentrated feed and almost 30 percent of gasoline and oil. See *Kooperatören,* 2, (1931), pp. 28-30.

[49] This was as an example of Swedish-Estonian ambitions to create fruitful collaboration. The large reserves of phosphor in Estonia were valuable for fertilizers, for which the demands were increasing. Report from the Swedish Agricultural Attaché in Riga 1928' RA (Riksarkivet Stockholm, Kungliga Lantbruksstyrelsen, Administrativa byrån, 1929), EIV:b 237.

[50] The aim of Eesti Rahvapank was to enable for various credit unions to expand their business and to organise their affairs. In 1930 the total capital deposits within these credit unions allowed loans up to ten times the deposits, however, strictly for the use of production improvements. Stötsberg, (1930), pp. 16-17.

[51] *Agricultural Central Organisation, Estonia*, (1935), pp 3-6.

marked by severe overseas competition and the markets in Berlin and London were sensitive to quality and price changes. Export dairies thus had to improve in quality. Therefore, individual peasants also had to undertake regular controls i.e. of milk-yields, fat, and to submit to the hygienic standards set by authorities. Within this framework trust developed both vertically and horizontally. The organised social capital was expressed by close links between the actors: the peasantry, the government and the co-operative associations. The triangular interdependence established thereby was in fact the basis for inter-war state-hood.

Quality and quantity improvements were spurred by the educational functions of the co-operatives and the control system exercised by the government from which financial supportive functions were given as well. But in order to catch up with more advanced competitors, increased investments also put pressures on both producers and consumers. For Estonia as a whole this implied a high degree of vulnerability.[52] Yet, the butter export did fairly well and received prizes for quality in international exhibitions.[53] While many private and co-operative trade organisations went bankrupt during the first years of the 1920s *P. K. Estonia* was still in business at the time for the outbreak of depression and in fact responsible for more than half of the Estonian butter export volume in 1929.[54] During the following years the role of the state became more prominent, not least in terms of promoting improvements in both quality and quantity when supplying credits to co-operative processing industries.

Table 2 **Co-operative development in Estonia 1900-24**

Type of Co-operative	1900	1910	1920	1924
Banks and credit institutions *	4	67	102	108
Consumer Societies	. .	80	226	285
Dairy Societies	2	15	82	141
Agricultural Production Societies	. .	61	366	576
Potato Production Societies	. .	. .	25	86
Insurance Societies	165	284	325	358
Total:	171	507	1126	1554

* Includes all types and sizes of Co-operative banks.

Source: *The Baltic-Scandinavian Trade Review*, October 22, (1924).

[52] Kõll, (1994), pp. 75-76, quotation, p. 75.

[53] Jörgensen, (1999), pp. 119-121 & 124.

[54] Between 1924 and 1933 *P.K. Estonia* co-ordinated 52 to 64 percent of Estonia's total butter export. However, the decrease in 1934 forced this down to 45.5 percent. *Agricultural Central Organisation, Estonia*, (1935), p. 8.

As Table 2 indicates, co-operative growth in Estonia was from the turn of the century dominated by dairy co-operatives. Agricultural policies were mainly concerning land reform issues. But in spite of this, the industrial recovery seemed to be the most essential. General political considerations up to around 1923-24 did therefore not regard agriculture as a sufficient force. But both Estonia and Latvia had, prior to the independence, experienced profound butter and meat exports to the nearby St. Petersburg area. Based on this success, and mainly independent from foreign supplies, the co-operative dairies became instrumental – even in Lithuania where the commercial organisations were somewhat less developed.

Prior to independence and during the early 1920s, a major problem for the Estonian freeholders and co-operatives was the restricted access to loans and credits. For these reasons some protective measures were applied. In 1919 import licences were introduced for a wide range of products, but after 1921 these were gradually abolished in favour of customs. However, a change was initiated in March 1924 when the new government turned away from the rescuing the Tsarist Russian-built factories and shipyards in favour of credits for long-term agricultural investments. Up to 1927 when a more liberal government entered in office, industry was therefore supported by regulatory means, that is, protection by tariffs.[55] The concern for Estonia's agricultural development was however, expansion and in related areas like machinery. The government proposed that the peasant's interest should become more integrated.[56]

Co-operation, export production and the role of the state

The late 1920s implied setbacks for many achievements made by the Estonian co-operative associations on foreign markets. The Depression and crisis 1929-33 brought about severe reductions in trade by curtailed imports and a drop in export prices. This necessitated energetic state interventions in order to sustain the masses of peasant farmers that were at risk of bankruptcy. But state interventions were not only limited to controlling the prices paid for agricultural products, it also aimed at reducing the costs of production in order to maintain shares on the world market.[57] Most states took actions against overcapacity in production, financial losses and indebtedness, which led to intensified discussions

[55] But due to the lack of raw materials, energy and the hardening relations in trade with the Soviet Union the pre-war industry production volumes could not be reached. Kõll, (1930), pp. 69-70.

[56] *Svensk Export,* 850, (1927), p. 217.

[57] *Monthly Bulletin of Agricultural Economics and Sociology,* 4 (1939), pp.136-37.

concerning the relation between the co-operatives and the state. A system based on free trade was no longer possible to sustain.[58] Thus, in the 1930s the co-operative associations, which had become fairly influential representative bodies for vast numbers of small-scale producers, became subjugated to state export controls.

In relation to the notions of collectivism and individualism, this implied a new kind of interchange. The Depression made it necessary for the government to conclude bilateral trade agreements at a time when the co-operative refinement industries and marketing organisations were in an expansionist stage. For the free-holding Estonian peasants who from the late 1800s had responded to the demand of the protected Russian market and in conjunction with independence and land reform turned to the European urban markets, this meant a profound shift. But neither co-operatives nor single producers were prepared for dealing with shrinking markets. The ordinary means of competition were insufficient in this era of economic nationalism when the government became decisive for any exporter.

Concluding analysis

In the late nineteenth century Estonian freeholders adapted to co-operative ideas and established embryonic societies like those in the Nordic countries. Danes and Finns were influential for the spread of these ideas since they were represented within the Tsarist Empire as agricultural engineers and educators. A clear Danish-Estonian parallel was the transition to dairy farming, which was suitable for small-scale production. The first co-operative associations also practised democracy and prepared the population for exercising these principles before universal suffrage was accomplished. The educational ambitions of the embryonic co-operative associations in the Tsarist Russian Baltic provinces made them part of a national awakening process that involved several groups. The economic and political changes brought forward by independence in 1920 also implied a new economic and social order, which was of significance for sustained state-hood. Furthermore, the altered property relations pointed to the needs for institutional change. In a formal sense, this was reached when the new freeholders were given full property rights in 1925-26, but already the establishment of a co-operative law at an early stage secured

[58] In Germany for instance, the apprehension among agricultural co-operators was that the autonomy of the co-operative associations were threatened since they were forced into alliances with the state. See, *Year Book of Agricultural Co-operation 1932* (1932), p. 15.

co-operative growth. Legal changes in the 1920s were fairly radical and quick in contrast to the changes thirty years prior to independence, which expressed the rapprochement between the informal and formal restrictions. On the one hand, it would have been impossible for any potential Estonian government in the 1920s to neglect the existing land hunger among previous landless and tenant farmers or to restrict the rights to organise and form co-operative associations. On the other hand, governmental actions in the first years of the 1920s were still aimed at industrial recovery and to a much lesser extent agricultural policy decisions concerning non-land reform issues.

Co-operative growth was therefore performed and fortified by a large measure of internal co-operative work, later enhanced by governmental policies. From the mid-1920s the Estonian co-operative associations became influential actors in various matters. In agriculture there were, except for the co-operative dairies, producing societies that worked up and sold the farmers' products, as well as societies for the use of agricultural machinery otherwise prohibitive for the small farmers. Further, there were co-operative slaughterhouses, egg-marketing, potato and peat societies. Societies for the use of agricultural machinery were of great economic significance and enabled technical progress.[59] These were horizontal groups between which there were close links due to overlapping memberships and trust. From 1924 on, when investment credits were available for new refinement facilities, agricultural machinery and quality development, conditions improved among the vast numbers of small-scale peasants. Since the state and the co-operatives had a common goal of promoting export, quality measures were introduced within co-operative, as well as private dairies.

With national independence after 1918, large groups of individual farmers replaced the former landlords and through universal suffrage a national assembly and government was elected. This gave the specific economic-political environment in which the possibilities for both horizontal and vertical trust could be built. However, the Depression brought an end to this triangular relationship between the state, the co-operative associations and individual peasants.

The Baltic and the Bulgarian co-operative movements were typically rural based organisations in which state influence was significant from the start. In Bulgaria, state influence was in fact most profound. For Eastern

[59] Between 1927 and 1935 they increased from 736 to around 1 200 and thereby allowed farmers to utilise modern inventions. Within these societies there were also expert engineers and mechanics offering advice to the individual farmers. See *Year Book of Agricultural Co-operation 1936* (London, 1936), p. 437-39.

Europe in general this can be explained by the time in which co-operative growth was performed. There were legal hindrances prior to World War I and state actions and influence increased during the depression. In this regard the 1920s was a short interlude when the state was temporarily weak and popular movements were strong and fairly united towards a set of goals. But there was a tradition of strong state actions in the former Tsarist Russian Baltic provinces and previous Ottoman Bulgaria. When party politics in the Baltic States and Bulgaria in mid 1930s vanished, due to their premature democratic systems and the increasing support for authoritarian alternatives as a way to cope with the depression, it could be seen as the return of a strong political executive power.

However, during the depression the state became much more influential in Western Europe too. But the difference was political representation. In the Nordic parliaments there were political parties with power to defend the peasants and co-operative interests while the corresponding forces in Estonia, Latvia, Lithuania and Bulgaria became neutralised by authoritarianism and corporative economic policies. With the rise of the post-war planned economic system and forced collectivisation in East-Central Europe and the Soviet Union, co-operation was terminated in the form as we know it from the years of success from the late 1800s up to the 1930s.

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FEATURES OF DOING BUSINESS IN INTERNET SPACE

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Abstract

The virtual market opens up new business opportunities. Information and communication technologies offer access to the virtual market for each Internet user. The number of Internet users, that is, the consumer potential of the virtual market, has grown in geometric progression in recent years. A large proportion of the population of industrialised countries are using the Internet for searching information about goods and services. However, the population of EU Member States are still not as active in the virtual market, as the population of the U.S. or Japan. The EU single market space is intended to become the quintessence of the supranational character of modern European economic integration. The leading role in the implementation of the idea of virtualisation of Europe belongs to small and medium-sized businesses. Particular attention should be paid to the individual virtual business promotion forms and methods.

Keywords: enterprises, Internet, Internet (ICT) user, small business, virtual market

Introduction

The technology "World Wide Web" (WWW) or the Internet allows transactions on the purchase and sale of goods and services in real time, regardless of the geographical position of the buyer and the seller. Efficient, fast growing cheap communication networks have opened new horizons for creative people and above all – for entrepreneurs. In relation to today's conditions of social and economic development there are the following main forms of business operation:

- Innovative. It is carried out by people who, according to J. Schumpeter (Schumpeter, 1982), are able to "blow up" the existing equilibrium of the economic system at the expense of creative thinking and outstanding marketing abilities.
- Inertia. It is based on the approach of I. Kirzner (Kirzner, 1999) to the concept of entrepreneurship; the emphasis should be put on the efforts of the entrepreneur to exploit market imbalances for

their own benefit. The routine component in the activity of the entrepreneur prevails over its creative principle.

- Virtual. It is represented by people who are using information and communication technologies (ICT) pragmatically and aim to profit primarily from the use of intellectual capital. The possibility of the accumulation of information by a large number of potential buyers, along with the operative monitoring of market conditions promotes the involvement of ordinary Internet users into the ranks of virtual entrepreneurs.

Small and medium-sized enterprises (SMEs) play a key role in shaping Europe's economy, accounting for 99% of enterprises, of which 92% are micro-enterprises. (The definition of an SME covers all enterprises with less than 250 employees and equal to or less than either €50 million turnover or €43 million balance sheet total. Micro-enterprises are the smallest category of SME, with less than ten employees and a turnover or balance sheet total equal to or less than €2 million.) They provide more than two thirds of private sector employment and play a key role in economic growth. They have a crucial importance to the European economy as employers and sources of innovation. (European Commission, 2011)

The EU's competitor – the United States, has a similar structure of economics. Thus, in the crisis year 2008, the share of enterprises with 0-99 employees in the total number of United States enterprises amounted to 98.2%, but the share of enterprises with 0-19 employees or micro-enterprises – 78.6%. (U.S. Census Bureau, 2011)

It is interesting to note that in this regard in the United States – the cradle of transnational corporations – the representation of micro-enterprises in the economy in the period 1990-2008 may be considered as dominant. This fact is predetermined not only by the factor that in the United States economy the principles of free enterprise have been firm since the foundation of the country, but also the strong position of ICT in the society.

The aim of this article is to explore and describe the virtual business opportunities and developments in today's economy, with an emphasis on the situation analysis in the EU in comparison with the USA. The object of the study is the small and medium-sized enterprises adaptation in the virtual market space. During the research the following challenges are addressed: review the creation of the virtual form of business based on the theoretical grounds of entrepreneurship development; explore the preconditions of the virtual market using statistical analysis; group entrepreneurs – ICT users, depending on their response to changes in the market conjuncture, and provide a qualitative and quantitative interpretation of the grouping.

Prerequisites for the functioning of the virtual market

ICT provides access to the benefits of e-business for almost all market entities creating the phenomenon of the virtual market space. The scale of the virtual market today is determined by two circumstances or conditions:

- necessary condition, which is the ability of potential buyers of goods and services to use ICT achievements. The degree of development of such skills depends on the level of Internet users computer skills;
- sufficient condition, which implies the desire of entrepreneurs to invest in the ICT development and implementation of business in the virtual market.

Virtualisation of the market has not affected the fundamental aspects of business. Modern entrepreneur can expect to receive income in excess of costs, only in the case if the financial, material, also information and intellectual resources, based on the professional knowledge, skills and experience are considered in combination. But access to ICT, ever-increasing demands of consumers to price and quality compliance of goods or services, huge amounts of information, that is not easy for the human mind – raises challenges for entrepreneurs. As a result, the classic paradigm of market competition mechanism of the real market – "natural selection" of the efficient entrepreneurs – is increasingly "drifting" toward a "network screening" of entrepreneurs – Internet users, professionally forming marketing policy.

The shift in the focus of business activity, which manifests itself in the effort to improve the effectiveness of marketing goods and services sold, is largely due to the changing nature of consumption. Aggressive advertising, promotion methods actively used by entrepreneurs in science-based products, a large-scale propaganda in mass media of the consumer society ideals – these are just some of the tools of specific effect on the consumer. Distribution of ICT facilitated the emergence of an active type *homo consumericus* or *homo consumericus virtualis*, that is, a consumer who is able to purchase goods and services in the virtual market. In addition, it is necessary to divide the entire set of *homo consumericus virtualis* into two parts:

- consumers – searchers, they need the Internet only to search for and select the required information on the quality characteristics and price parameters of goods and services;
- consumers – shoppers who use the Internet both to search for products or services online, and purchase them.

In both cases *homo consumericus virtualis* should be a regular Internet user.

The number of Internet users, that is, the consumer potential of the virtual market, has grown in geometric progression in recent years. For

example, in Japan 79.5% of the population aged 16 to 74 years in 2011 were regular Internet users – Figure 1.

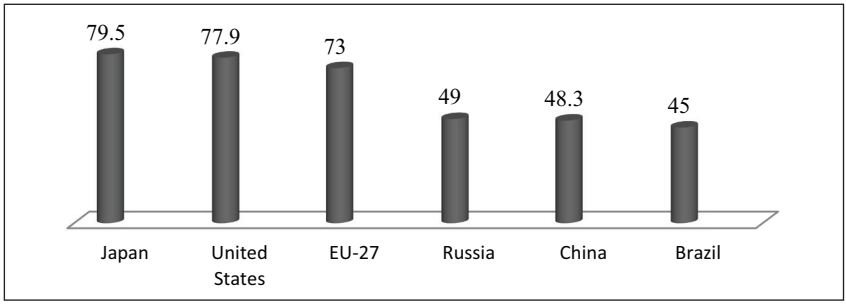

Figure 1 **Individuals using the internet (% of total persons aged 16 to 74)**

Source: According to data of The EU in the World 2013

In the EU, the share of regular Internet users in the year 2011 was 73% – the prevalence of WWW technologies retains significant reserves of growth. True, in the evaluation of this fact it should be noted that in Sweden 94% of the population regularly use the Internet (in the Netherlands – 92%, Denmark and Luxembourg – 91%). Countries – outsiders in the involvement of the population in a virtual wide web are not only EU "newcomer" Romania (44%), but also veterans of the European economic integration – Greece (53%), Italy (57%) and Portugal (58%). (According to the data of Eurostat)

Practically all adults in the United States – 87% in the year 2010 – use the opportunities provided by the Internet, searching for information about goods and services – see Table 1.

Table 1 **Individuals who have used the Internet (% of individuals aged 16 to 74)**

	EU			United States 2010
	2004	2008	2011	
Individuals using the Internet for ordering goods or services	34	50	56	87
Individuals using the Internet for internet banking	16	29	36 (2010)	58
Individuals using the Internet for reading/downloading online newspapers/news magazines	17	25	40	50

Source: According to the data of Eurostat and US statistics

The activity of Americans in the segment of searching for information on the Internet raises questions not only about the degree of involvement of United States inhabitants in the World Wide Web network, but also about the possibilities to influence the individual's decision through the Internet. In this context it is interesting to note, that 37% of U.S. Internet users – individuals are looking for financial information online. It is clear that some individuals – the financial information searchers – do so in order to take decisions on transactions in the foreign exchange market or the stock market – the speculative motive of search and use of financial information works. Thus, it can be assumed that for quite a large number of Americans, financial information is necessary to form a concept about the structure of the portfolio of their own assets – here the security motive works that is based on fear.

It is noteworthy that in 2004, at the time of the most significant enlargement in the lifetime of the EU, only a third (34%) of Europeans used the Internet to search for information about goods and services. But banking operations on the Internet at that time were done only by every sixth (16%) individual, and only 17% of Internet users were interested in the news in the World Wide Web. The data for the year 2008 – the year of the beginning of economic recession in the EU – show a significant change in Europeans' mind to use the Internet. For half of individuals the Internet has become a "compass" in the world of goods and services, while 29% started to build virtual relationships with banks. In subsequent years the speed of the growth of the Internet usage in the EU does not look so impressive. Thus, in the year 2011 the proportion of Europeans looking for information on the Internet about goods and services increased to 56%, and banking operations online in 2010 were done only by 36% of Europeans. There is every reason to believe that the European "burgers" conservatism can be explained not only by their vigilance in relation to ICT, but also by the slow development of the virtual economic space.

In this regard it is important to note that the EU's political elite was forced to admit that there are problems with the use of ICT. Thus, in the EU policy document "EUROPE 2020. A Strategy for Smart, Sustainable and Inclusive Growth" – "A Digital Agenda for Europe" has been put forward as one of the seven principle initiatives which should serve as a catalyst for the realisation of the strategic objectives. In accordance with this initiative it is expected "to speed up the roll-out of high–speed internet and reap the benefits of a digital single market for households and firms". (European Commission, 2010)

An "advanced user" who feels confident in virtual space should be considered the main target of "A Digital Agenda for Europe". An individual's ability to make full use of the opportunities provided by ICT

has enabled him or her not only to improve the professional level, but also to change the field of work in general, e.g., to test himself or herself in entrepreneurship. An Internet user, entering the virtual market place can become both, the buyer and the seller. In the status of the buyer he or she comes into contact with the entrepreneur – the seller of the desired product.

Consequently, any Internet user can act optionally as a seller of goods, thereby acquiring business skills. In the literature this type of virtual contact is attributed as one of e-business forms, known as *"Consumer-to-Consumer (C2C)"*. The participation of a consumer in e-business in the form of *C2C* can be considered as a "testing ground "for further entrepreneurship. True, one has to face a high degree of uncertainty of the operation and the risk of fraud. The most active, probably aggressive *C2C* participants try to fill in the online channels with information to which the recipient mostly has not given consent. This means that there has been abuse of the Internet or spamming. An entrepreneur, who has passed the *C2C* "school", fits well into the paradigm of natural selection as a mechanism of market competition.

EU entrepreneurs as Internet users

The entrepreneur of the XXI century is not so much a business entity as an individual who is forced to adapt creatively to the changes in the market environment. This thesis can be illustrated by a matrix that describes the response of the entrepreneur to the changes in the market conjuncture, depending on the degree of ICT use – see Table 2.

Table 2 **Response matrix of the entrepreneurs – ICT users to the changes in the market conjuncture**

The use of ICT	Active	"Advanced" user (2)	Virtually oriented entrepreneur (4)
	Passive	Ordinary user (1)	Virtually adapted entrepreneur (3)
		Indirect	Direct
		The response to the changes in the market conjuncture	

Source: table created by authors

On the horizontal axis of the 2 × 2 matrix the response to the changes in the market conjuncture is measured as "indirect" or "direct". The vertical axis indicator – the use of ICT – is interpreted as "passive" or "active". Quality characteristics of the entrepreneur using ICT reaction to the changes in the market conjuncture are the following:

1. Ordinary user (mediated (indirect) response to the changes in the market conjuncture using ICT passively). Enters the virtual market space as a typical householder (bills, purchase of goods and services, information research, etc.). Indirectly feels the effect of the changes in the market conjuncture (through the Internet users, with who he or she is in direct contact – family, friends, business partners, etc.).
2. "Advanced" user (mediated response to the changes in the market conjuncture, actively using ICT). Feels confident in the virtual market space, but is not able to coordinate his or her actions as an entrepreneur and as an ICT user. The response to the changes in the market conjuncture is formed mainly on the basis of external factors (media, Internet sites, etc.). Therefore there are delays in decision making. The response to the changes in the market conjuncture is usually delayed.
3. Virtually adapted entrepreneur uses ICT passively, but can react to the changes in the market conjuncture independently). Quite professionally adapted to work in the virtual market space. Monitors the market situation in real time. Possesses quick reaction to the changes in the market conjuncture.
4. Virtually oriented entrepreneur (uses ICT actively to make decisions about the actions of the market). The high degree of adaptation in the virtual market place enables the entrepreneur to form a picture of his or her business in real time. The entrepreneur is able to make decisions quickly in a highly unsteady market conjuncture.

We will try to make a quantitative interpretation of the matrix, which characterises the response of the entrepreneurs to the changes in the market conjuncture depending on the degree of ICT use, using the statistical information about the activities of EU's small and medium enterprises. Eurostat defines the scale of involvement of the EU business in virtual space only for enterprises with 10 employees or more. Therefore, individual entrepreneurs and micro-enterprises stay in a "frontier area", i.e. in the space between the "advanced users" and "virtually adapted entrepreneurs". In other words, micro-enterprises form the hidden potential of the virtual market space. With favourable economic development of European economic integration and increased use of ICT in the EU Member States the owners of micro-enterprises will certainly activate the virtualisation of their business. But for the time being the access to the Internet in 2011 of the EU non-financial sector enterprises, that employ 10 or more persons, amounted to 95% – see Table 3.

Table 3 **EU enterprises Internet use indicators in 2012, by size class (% of non–financial sector enterprises with 10 persons and more employed)**

			EU–27	the Netherlands	Finland	Latvia	Lithuania	Romania
Internet access			95	100	100	91	100	79
Fixed broadband connection to the Internet			90	96	98	86	95	63
Enterprises providing portable devices for mobile connection to the Internet	all enterprises		48	53	78	32	52	22
	including the number of employees, persons	10–49	43	47	74	28	48	20
		50–249	71	75	92	48	67	28
		250 and more	88	87	99	69	85	57

Source: Giannakouris, K. and Smihily, M., 2012

The percentage of EU enterprises that have Internet access and use fixed broadband Internet connections seems to have reached saturation level in 2012 (at 95% and 90% respectively). The share of enterprises that have Internet access was similar in most countries. In 19 out of 27 EU countries, 95% or more of enterprises have Internet access. The highest share by enterprises was in Lithuania, the Netherlands and Finland – 100%, but the lowest share – in Romania – 79%. It can be assumed, that such a WWW technology cautious perception from Romanian entrepreneurs is determined by the conservatism of the population of Romania who have recently "switched" to full-fledged market economy.

In 2012, 48% of enterprises in the EU provided staff with portable devices that allowed a mobile connection to the Internet for business use. Portable devices fall into two main groups: portable computers (e.g. laptops, notebooks and tablets) and other portable devices like smartphones and personal digital assistant (PDA) phones. Around nine out of ten (88%) large enterprises provided their staff with portable devices that allowed a mobile connection to the Internet for business use. The share for small and medium-sized enterprises was 43% and 71% respectively.

Against this background, the achievements of Finland in the development of ICT look impressive, where the small and medium enterprises

- are 100% connected to the Internet;

- 98% use fixed links;
- 78% are mobile in communications.

The scale of involvement of the EU business community in the virtual space affects the activity of entrepreneurs to commit Internet transactions.

In 2012, seven out of ten EU enterprises had a website or a homepage, but fewer than two out of ten (15%) had one that allowed customers to order online, or to make a reservation or a booking electronically. The highest percentage of EU enterprises offering online shopping was for enterprises in the services sector "Accommodation" (70%), followed some way behind by enterprises in the sector 'Information and communication' (24%). (Giannakouris, K. and Smihily, M., 2012)

The EU single market space is intended to be the quintessence of a supranational character of the modern European economic integration. However, this does not mean that the states included in the EU, have lost their national interests by delegating a substantial part of their sovereign rights to "the Brussels bureaucracy." On the contrary, the attempts of EU leaders to impose rules of behaviour in the market, that are beneficial for their corporations, only serve to strengthen the national interests of the countries that form the "*peloton*" of the EU single market space.

Market infrastructure as a condition for successful virtual business (Latvian example)

Internet user, entering virtual market space, becomes both the buyer and the seller. The wish to sell a product or service makes the Internet user into an entrepreneur for a certain period. In the case of a successful sales experience users-sellers are quite capable to try their hand as entrepreneurs in the future. Entrepreneurs-buyers of goods and services for business purposes also use the Internet willingly. The attractiveness of the transaction in a virtual marketplace for entrepreneur can be explained primarily by the fact that both the buyer and the seller choose the business field of application.

However, not all SMEs, according to the Latvian statistics, manage to benefit from the opportunities provided by the WWW technology. Thus, in 2010, only 8.9% of the economically active Latvian enterprises employing more than 10 people sold products and services online (Central Statistical Bureau of Latvia, 2011). And this is despite the fact that in 2011, broadband internet connection in Latvian enterprises with the number of employees 10 and more reached 89.6% (Central Statistical Bureau of Latvia, 2012.1). This disproportion is explained by the fact that, on the one hand, the Latvian entrepreneurs – the potential Internet users have a workforce able to work with WWW technologies. This conclusion is also confirmed by

Eurostat: in 2010, 21.6% of Latvian persons employed with ICT user skills in total employment, with the average EU-27 value of 18.5% (Eurostat, 2011).

For the reference: for their enterprise ICT surveys, Eurostat (Didero *et al.,* 2009) has operationally defined "Capabilities enabling the effective use of common, generic software tools (basic user skills) or advanced, often sector–specific, software tools (advanced user skills). Jobs requiring ICT user skills: ICT is an important tool for the job and is used to produce work output and/or used intensively at work (in day-to-day activities)".

On the other hand, a sufficiently high level of readiness of Latvian entrepreneurs to use the WWW technology confronts the lack of demand for their virtual services. According to the Latvian statistics in 2010, only 8.5% of total population (12.8% of Internet users) used Internet purchases. *For comparison:* 32.4% of Latvian total population (71.6% of Internet users) used Internet Banking (Central Statistical Bureau of Latvia, 2012.2). Latvian residents use Internet Banking facilities actively even though they prefer to make purchases in the real marketplace. Taking into account this fact, it appears that entrepreneurs will be able to overcome the conservatism of Latvian buyers if they come into virtual contact with them in the course of payment to purchase goods or services. This means that a much larger number of online transactions can be expected as a result of building a virtual market infrastructure.

Market infrastructure, as is known, consists of material, technological, organisational, informational and legal economic entities that provide buying and selling of real and virtual goods and services. Market infrastructure institutions may be public, non-governmental and private, and can be divided depending on the market, which they serve. However, regardless of the ownership of the economic entity and maintained market, information component is an integral part of the market infrastructure.

The Latvian example is an argument in favour of the fact that the purchase of computers, software, recruitment of ICT specialists and Internet connection do not guarantee the entrepreneur normal operating conditions in the virtual marketplace. Internet services provided by banks, insurance companies, advertising agencies, etc. – these are just some components of a virtual infrastructure of the market, which will be used even with a computers equipped entrepreneur having a certain monetary capital. In addition, it is not about paying for Internet services, but about the virtual market infrastructure development and maintenance through which businesses get access to the acquisition of such services.

The real goods market infrastructure – is a phenomenon that has existed for centuries and is based on the financial, legal and institutional support from the state. With regard to the virtual market infrastructure the state only creates the "game's rules". The government institutions in countries

such as Latvia do not have the experience and, most importantly, the budget for the development and maintenance of the virtual infrastructure. But just public funding is the main source of WWW technologies distribution in the economy dominated by SMEs. Along with the budget allocations to the development of a virtual infrastructure, consolidation (co-operation) of an entrepreneur's financial resources is very important.

WWW technologies have increased the level of "democracy" of the market infrastructure and contributed to the intensification of competition. The fact is that the Internet provides equal access to information about products and services to all potential participants of the real market. In addition, the virtual market, by definition, is a space where goods and services are bought and sold on the Internet. The range of supply of goods and services for a virtual customer is unlimited. The result is that the entrepreneur – active Internet user is able to successfully compete in the market regardless of the size of the involved resources. The emphasis on the use of WWW technologies in business makes the use of intellectual capital priority for large enterprises and for SMEs.

WWW technologies not only expand scale of the supply of goods and services, but also modify the rationality of entrepreneurs in reducing the risk of psychological barrier. The point is that even those entrepreneurs who cannot invest heavily in the promotion of their products, have few prospects of increasing sales. For the advanced entrepreneur the risks of investing in the development of ICT is often much lower than traditional credit risk and a timely return on investment in business development. Cheap and effective communications network allows entrepreneurs to distribute production across different countries, while maintaining organisation and information contacts, as well as providing direct management of the goods and financial flows.

Conclusions

- The dissemination of ICT promotes entrepreneurship positions in the economy. There develops a new type of consumer – *homo consumericus virtualis*, that is, the consumer who purchases goods and services in the virtual market. Virtualisation of the market relations enables ordinary Internet users to test themselves as entrepreneurs.
- The number of Internet users, i.e., the consumer potential of the virtual market is growing rapidly in recent years. The most tangible result of market relations virtualisation is in the United States, where adults actively use the Internet to find, first of all, information on products and services.

- The EU has recognised the insufficiently high rates of ICT distribution and tried to formulate a solution to the problem in the EU policy document "EUROPE 2020. A Strategy for Smart, Sustainable and Inclusive Growth". Successful implementation of the main provisions of the document makes it possible for Europeans to increase the activity in the virtual market space and go beyond the ordinary Internet user frames.

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VALUES – SOFT ISSUE OR VALUABLE CAPITAL?

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Abstract

The purpose of this article is to discuss different approaches in the values-based culture literature and identify research challenges and inconsistencies regarding the topic. From this, the authors develop applicable recommendations for scientists and managers. The study is based on an intense literature review on values, their definition, their measurement and management. These aspects are linked to each other in a further step. The authors link different perspectives on definition, measurement, analysis, and the management of values to a comprehensive picture. The measurement of values is seen to be a basis for the ability to be clear in communication, to monitor congruencies between beliefs and practices and to integrate personal values and the ethical framework of the company. The target of managing values is to be seen in a successful implementation into the organisation, as well as the P-O-fit (Person-Organisation fit) thought. In conclusion, the authors recommend to measure and to be aware of both, management values and employee values, in order to optimize the P-O fit and make values contribute to strategic goals. The article shows a way forward to a deeper understanding of the phenomenon of organisational values for business managers and scientists. The authors develop a common threat for a coherent picture on the definition, the method of measurement and the approach to management of values, which contributes to applicable recommendations for scientists and managers. Moreover, the article provides a platform for further research and empirical testing.

Keywords: individual values, organisational values, culture, measurement methods, management of values

Introduction

Even some 20 years ago, organisational culture had acquired a status similar to structure, strategy, and control (Hofstede, 1990). Until today, it does play an important role in academic research studies, literature, and business practice. When organisations fail, answers are often linked to

culture (Leidner & Kayworth, 2006). Moreover, culture has been linked to many different organisational aspects such as performance, strategy, job attitudes, innovation or even merger and acquisition outcomes. To inquire into performance is to ask how well an organisation is doing relative to some kind of standard. Steers (1977), Campbell (1977), and Cameron and Whetten (1983) among others assembled a lengthy list of criteria that had been used by one or another analyst. Campbell, for example, listed thirty different criteria, ranging from productivity and profits to growth, turnover, stability, and cohesion (Scott & Davis, 2007). However, it is clear to scientists, as well as managers, that culture does have a powerful influence on people and organisations (Leidner & Kayworth, 2006). Sustained success of companies often has less to do with market forces, resource advantages, or competitive positioning than with company values, personal beliefs, and a clear vision (Cameron & Quinn, 2011). Still, scientists hardly find a consensus about the definition of the term of organisational culture (Hofstede et al., 1990). Cram (2012) states that there is a wide range of frameworks existing that attempt to articulate the elements of organisational culture. Most of these approaches come down to values. However, it remains challenging for researchers to build comparisons with past studies due to varying definitions of culture and value (Cram, 2012). Different researchers believe that outstanding organisational performance results from strongly held shared values and that ultimately, it is organisational values that drive business and reduce counterproductive behaviour (Zhang et al., 2008). Moreover, it is clear to scientists that well-shared organisational values empower people and improve organisational performance in the long run (Zhang et al., 2008).

Taking this as first background information, the purpose of this article is to discuss different approaches in the values-based culture literature and to bring some structure into it by identifying research challenges and different perspectives regarding the topic. It is based on a literature review of 24 papers in different Academic Journals dating back to 1980. Clearly, one limitation of the article is that it does not include empirical research. However, it does provide a platform for further research and empirical testing.

This article is organised as follows. In the first part, the authors show why organisational values are the essential element to company culture. Different concepts are shown here and conclude with the need to get a deeper understanding of the approaches of (organisational) values. This leads to the second and main part of this article where several studies regarding measurement and analysis of values are discussed and compared. In the third part, the authors reflect different concepts of efficient management of values. With this, the article contributes to a deeper

understanding of how to transfer value beliefs into the organisation and turn them into daily practice. The article concludes with an outlook on the topic including additional fields of research.

Organisational values as essential element of company culture

Referring to the elements of organisations described in the congruence framework by Nadler and Tushman (1997), organisational culture and values are part of the informal organisation. The informal organisation refers to the emergent characteristics of the organisation that affect its way of operating. This includes the organisation's culture, norms, and values, social networks inside and outside the organisation, power and politics and the actions of leaders (Scott & Davis, 2007). In 1986, Edgar H. Schein describes culture as a deep phenomenon, merely manifested in a variety of behaviour (Schein, 2010). According to Schein, organisational culture consists of three levels: artefacts, espoused values, and basic underlying assumptions. Artefacts are easy to find and see in an organisation in terms of organisation charts, for example. The level of espoused values can be described as the publicly preached values of a company. But, when it comes to the basic underlying assumptions – the ultimate source of values according to Schein – things become invisible not only for outsiders. This level consists of beliefs, perceptions, thoughts and feelings that a group of people has been successful with for years (Schein, 2010). And, that is why these values are taken for granted and hard to grasp. According to Schein, culture simply is what people live every day: it is the shared assumptions that no one talks about, but that determine all daily behaviour (Schein, 2010). Culture can also be seen as a group phenomenon. It is the pattern of basic assumptions that a group has invented, discovered or developed in learning to cope with its problems. If this way of solving problems continues to work people begin taking it for granted as *the* correct way (Schein, 2010). Schein states, culture is broad, profound and, most of all, the most solid part a company is built on (Schein, 2010). In addition, this model brings to light clearly that the basis for organisational culture is values.

Other authors can reconfirm this point of view. Vargas-Hernández and Noruzi (2009), for example, state that cultures are very powerful, but also, most often, unconscious. The authors describe cultures as underground rivers that run through our lives and relationships, giving us messages that shape our perceptions, attributions, judgments and ideas of self and others (Vargas-Hernández & Noruzi, 2009). Quinn and Rohrbaugh (1983) even describe values to be a primary building block for culture (Khazanchi et al., 2007). Fairfield-Sonn (2001) has another very visual description for

the topic of organisational culture: it is like the open space between each spoke of a wheel. While the spokes can be seen as all the different activities in a company, the open spaces form a firm's culture. Both determine the strength of a wheel (Fairfield-Sonn, 2001). Other authors describe organisational culture as a more or less shared and collective sense of "who we are as an organisation" (Puusa & Tolvanen, 2006). Culture is a very subtle attribute of groups and most of the time people are unaware of their culture as long as they do not encounter a different culture (Leidner & Kayworth, 2006).

Hofstede et al. (1990) describe culture to work like different skins of an onion with values at the core. The authors consider symbols, as the outer skin, to be words, gestures, pictures or objects that carry a certain meaning within a culture. Heroes as the second outer layer are persons who serve as models of behaviour due to some specific, admirable characteristics. Rituals are collective activities, which are socially essential. These three first layers are visible to outsiders and are therefore called practices. Still, their meaning is only clear to insiders. Values, as being the core of culture, are defined as "nonspecific feelings of good and evil, beautiful and ugly, normal and abnormal, rational and irrational feelings". They are invisible, unconscious, and rarely discussable – but they determine behaviour (Hofstede et al., 1990). Furthermore, Hofstede points out that the implementation of values is very much determined through shared practices (Hofstede, 1990).

In their literature review of 82 papers on the construct of culture and its relevance to the field of IT, Leidner and Kayworth (2006) state that the definition of culture comes as a first challenge to scientists who try to work on the topic. The authors explain that the research about national culture and organisational culture has emerged in quite different, separate directions. Still, they both share a focus on defining values that help to distinguish one group from another. National culture, again with Geert Hofstede (1980, 1983) as a popular contributor, works with very clear and only a few value dimensions. Organisational culture on the other hand covers a very wide range of values (Leidner & Kayworth, 2006). Besides, they admit that the focus of different approaches on organisational culture has mostly been on values, which is why they also follow this path (Leidner & Kayworth, 2006).

To sum up these different approaches to organisational culture, one must accept that there is no final consensus about the term (Hofstede et al., 1990). However, what they all do have in common is that they deal with values. Values seem to be the essential element to organisational culture indeed. That is why the following and main part of this article firstly examines different concepts of (organisational) values and subsequently

clarifies how they can be measured and analysed. Since transferring beliefs into practices is the only way of making values contribute to strategic goals, this article also reflects how values can be managed in a next step.

Different approaches to (organisational) values

What makes studying values so attractive is that it holds the possibility to predict people's behaviour (Gibbins & Walker, 1993). In general, scientists have employed values in two different ways: the values as inhering in objects or as being possessed by persons. Whereas viewing values as inhering in objects leads to countless values (because any object – be it a department store or museum – can deploy thousands of values), the second view is usually preferred by social scientists such as Kluckhohn (1952), Williams (1979), Smith (1980), and Rokeach (1968, 1973, 1979) (Rokeach & Regan, 1980). Rokeach (1973) states that a value is an enduring belief and formally defines a value as something that is personally or socially preferable to some other state of existence. Therefore, only humans can possess values and the number of values that humans can possess is limited. These limited end-states of existence that humans strive for can be considered as enduring priority systems, which are a result of socialisation by culture, society, reference groups, or personal needs. This value concept can link societal and individual concepts. With this, one can measure and speak of cultural, institutional or organisational values about as easily as of individual values (Rokeach & Regan, 1980). Others regard values as evaluations of abstract concepts or standards that help people to evaluate people, actions, attitudes, or objects (Maio et al., 1996).

In their research in UK construction, Zhang et al. (2008) state that values are fundamental and enduring aspects of both people and organisations. People use them as criteria to select and justify actions and to evaluate people, events, or even the self (Zhang et al., 2008). The authors also include an overview of different definitions and thoughts about values, which all contribute to a deeper understanding. Parsons (1951), for example, speaks of values as a shared symbolic system. Jacob et al. (1962) consider values to be normative standards by which individuals are influenced. England (1975) states that values are a relatively permanent, perceptual framework, whereas Posner et al. (1987), again, names general standards for behaviour as a definition. With this, it becomes apparent that the question of how to define and understand values is not new at all. Actually, approaches regarding the topic were first published already in the 1950s. However, it is only in the last 20 years that the topic has become more prominent in business management and organisational theories (Zhang et al., 2008). Values inform an underlying belief structure and

reinforce daily practice (Khazanchi et al., 2007). They can be considered as psychological constructs, which are linked to personality, motivation, and behaviour. Besides, they contribute to any sort of evaluation, justification, or selection of action (Lindeman & Verkasalo, 2005). Cultural values can exist at a broad, organisational level. However, similar values can also be found in business, departments, and teams (Cram, 2012). Therefore, they determine not only how people behave in a company, but are also decisive when it comes to projects and their result orientation.

For their review focussing on culture and IT, Leidner and Kayworth (2006) summarised some prominent approaches to organisational values. Their taxonomy of values counts around 24 different values and ranges from adaptability (being described as the capacity for internal change due to external conditions) to task orientation (understood as the concern for efficiency and for getting the job done). As a result, Leidner and Kayworth (2006) clarify that national, organisational, and subunit culture is often interrelated and cannot be looked at separately. Besides, the authors see individual differences within a particular cultural unit as a big research challenge regarding the topic (Leidner & Kayworth, 2006). Clearly, their list of different value dimensions is never complete. It just gives a first insight of what sort of values can be found in literature when it comes to approaching definitions and clarifications of the term.

In 2012, Cram published a research regarding the alignment of organisational values on a project team basis with the team's perception of an IT development process. He used the value taxonomy proposed by Leidner and Kayworth (2006). In his interviews among three case study companies in America, the author checked what value themes seemed to be dominant in a project (Cram, 2012). With this, the study helps to get a deeper understanding of how culture and values can influence project outcomes. The results are clear: Cram proved that if people in a project team are not very consistent in their values, they do have negative perceptions about the development process (Cram, 2012). Consequently, the author puts forth the proposition that project team performance is positively related to the degree of alignment between the project team's organisational values and the values of the development approach (Cram, 2012). Even though a causal relation between values alignment and project performance could not be entirely proved with this study, the results might have tremendous implications on business and management. If this proposition is to be generalised, companies could increase performance in all different kinds of departments and teams by ensuring value alignment between the organisation, teams, and even individuals. However, it comes as a precondition to this that values then need to be measured first. Otherwise, no efficient management can take place.

Different concepts of measuring and analysing values

Regarding methods to analyse organisational values, there are some notable instruments that will find consideration here: The Competing Values Framework, The Rokeach Value Survey, and The Schwartz' Values Survey. Each of them has advantages and, on the other hand, difficulties (Zhang et al., 2008).

One notable approach to diagnose and change predominant values in a business management context is the Competing Values Framework by Cameron and Quinn (2006). The authors distinguish between four major cultural company types depending on how flexible or stable and on how internally or externally focussed a company is. Out of this, four quadrants are developed for the framework: clan culture, hierarchy culture, adhocracy culture, and market culture. For each quadrant they state the predominant value drivers, which can be checked by using a questionnaire called the Organisational Culture Assessment Instrument (OCAI) (Cameron & Quinn, 2011). So for a clan culture (flexible with internal focus) the predominant value drives will be commitment, communication, and development, for example, whereas for a market culture (stable with external focus) market share, goal achievement, and profitability will be more decisive. This instrument has been used for more than one hundred published studies to explore relationships between culture / values and other factors such as leadership success, teamwork, organisational effectiveness, career selection, innovation, or even gender preferences – just to name a few (Cameron & Quinn, 2011). The Competing Values Framework was empirically derived and has proved empirical validity. Moreover, it integrates many of the value dimensions that different authors mention (Cameron & Quinn, 2011).

On the other hand, these sorts of instruments usually generate corporate values by questioning leaders and managers only (Zhang et al., 2008 and Cameron & Quinn, 2011). This can hardly provide a full picture of the whole company. Moreover, other authors state that culture and values can neither be entirely studied solely by questionnaires, nor solely by case studies (Hofstede, 1998). Therefore, a combination of different empirical methods including questionnaires, case studies and even observation is needed. Besides, with an approach to organisational values one would be searching for a group phenomenon (Schein, 2010). But, how can the aspect of individual preferences mentioned by Leidner and Kayworth (2006) be diminished here? Even in culture research, scientists cannot always be sure that respondents' answers have the same distinguished concepts in mind as the researcher has (Hofstede, 1998).

For researching individual or human values, Rokeach (1967) developed the Rokeach Value Survey as a measurement instrument for eighteen human values, which distinguishes between end-states (such as "A comfortable life",

"Freedom", "Equality" or "Self-respect") and modes of behaviour (such as "Cheerful", "Honest", or "Obedient"). According to its inventor, wisdom, for example, would be a terminal value, but education would be not (Gibbins & Walker, 1993). Respondents have to rank each value separately here (Rokeach & Regan, 1980). This instrument has been used in many researches and studies already and validity is clearly proved (Rokeach & Regan, 1980). However, it can be discussed how applicable this way of measurement is for business management research. Johnston (1995) states that the Rokeach Value Survey is widely used and accepted by economists as well (Johnston, 1995). Apparently, the instrument has proved to be quite adequate for measuring individual and group value structures. However, Johnston (1995) explains that there is an underlying structure within the Rokeach Value Survey, which means that some values might be very similar to others, even though the instrument survived several factor analyses (Johnston, 1995). The technique is so popular; because information about people's basic values can be revealed in only a couple of minutes (Gibbins & Walker, 1993). On the other hand, Gibbins and Walker (1993) put the instrument into question, because in their research, they proved that one value can have different meanings and interpretations by different people – they might be even contradictory (Gibbins & Walker, 1993). That is the reason why the authors claim the Rokeach Value Survey is not the perfect instrument to reveal insights about the value system being used by individuals or to reveal differences across individuals (Gibbins & Walker, 1993). Another scientific discussion here is whether rankings or ratings are appropriate for measurement when it comes to values. As introduced, the Rokeach Value Survey uses rankings. But, Maio et al. (1996) state that ratings have a better validity, since rankings might force people to make a differentiation between the importance of values where there actually is none. That is to say that people might find some values equally important, but rankings force them to make a distinction (Maio et al., 1996). In their research, ratings clearly seemed to have a better predictive validity than rankings, which is why the authors recommend using value ratings instead of rankings for academic researchers (Maio et al., 1996).

One instrument using ratings rather than rankings is the Schwartz' Value Survey (1992), which has been empirically used and proved validity in many different countries (Maio et al., 1996). The Schwartz' values theory is based on universal requirements of humans' existence and, from samples of over 60.000 individuals from over 60 nations, derives ten motivational distinct values (Zhang et al., 2008). These range from security, over power to openness to change. Thus, the Schwartz' Value Survey (SVS) checks individual and cultural differences in certain abstract ideals through making respondents rate 57 value items (Lindeman & Verkasalo, 2005). The

instrument assesses how important these values are as guiding principles of one's life. Therefore, it seems similar to the Rokeach Value Survey instrument, but it is said to be more comprehensive for respondents. That is the reason why Zhang et al. (2008) used it in their research, which had the development of organisational core values in alignment with employees' values as primary goal (Zhang et al., 2008). Even though the SVS has proved validity in a lot of research already, a scale with 57 items can be too time-consuming for some studies. Therefore, Lindemann and Verkasalo (2005) developed a short version of the instrument, which asks respondents to rate only the ten basic values directly (Lindeman & Verkasalo, 2005). In four studies, the short version proved to be a practical alternative with good internal consistency and temporal stability. However, the authors admit that with measuring only the ten value dimensions, the results can only give a first insight and broad overview of values. For a deeper understanding the original instrument might be more applicable. Although they obtained good reliability and validity, their short version of the SVS needs additional research in order to analyse its validity in more detail (Lindeman & Verkasalo, 2005).

Using Schwartz' value dimensions as a starting point, Cable and Edwards (2004) describe value orientations within the economic context and with relation to behaviour in the work environment. For their research combining psychological need fulfilment and value congruence they adopted Schwartz' universal values, turned them into work values dimensions, and identified specific items for measurement. Schwartz' universal value of security was translated here into "Being certain of keeping my job" or "Being certain my job will last", for example. For their research, the authors asked over 950 respondents to evaluate the different constructs in four different ways: (1) How much is the right amount for you?, (2) How much is present in your work?, (3) How important is this to you?, and (4) How important is this at your organisation? (Cable & Edwards, 2004) One of the authors' results during this study revealed that employees are not affected if they receive too much of the organisational supplies investigated. Therefore, from a recipient's point of view, over-supply might be the perfect need-supply fit (Cable & Edwards, 2004). As a conclusion, the authors consider this instrument to examine a comprehensive set of work dimensions while permitting a direct competitive test at the same time (Cable & Edwards, 2004).

Of course, a differentiation between personal and organisational values is necessary for business management research. However, for understanding organisational values, which are often referred to as the shared values of all employees, personal values need investigation first. People follow their values in personal life, but these can become quite decisive and

shape their attitudes towards job, colleagues, and their workplace and performance. Since they ultimately motivate and shape one's behaviour, the two dimensions cannot be seen as independent. Still, it remains a challenge to identify organisational values (Zhang et al., 2008). According to Cable and Edwards (2004), individual values define what people think is important and they guide decisions and behaviour. Organisational values, on the other hand, provide norms and thus, determine how resources should be used and how members of an organisation should behave (Cable & Edwards, 2004).

Keely (1983) analyses values and their impact on different organisational and social theories. Referring to Keely, organisations have always been defined as systems for the attainment of goals (Fayol 1949, Hall 1977, Scott, 1981). In consequence, organisational goal attainment continues to be the dominant value in administrative science (Keeley, 1983). Further, to "the importance of management principles that rest on the ability to reinforce positive commitment" (Keeley, 1983) and create a more flexible and "results" oriented organisation, the aspect of voluntariness is discussed. In this sense, shared goals also play a role, claiming, "Organisations would not exist if it were not for some common purposes" (Keeley, 1983). Also the discussion about contract models between coalitions of self-interested participants (Cyert & March, 1963) refers to the aspect of shared goals in saying that the behaviour of large firms is a result of agreements among participants to cooperate for incentives generated by their own action (Keeley, 1983). Contract like agreements describe rules of conduct, which specify rights and duties. As a result, Keely describes organisations as a set of temporary understandings about rules of behaviour (Keeley, 1983).

As this section showed, there clearly is an interrelationship between personal and organisational values. Therefore, the management of both is of importance for the implementation of values. This is the reason why in the next part, this article will address different ideas of values' management in an organisation.

Management of values – Recommendations for an efficient value transfer

Generally, employee attitudes should be most positive when their values are in congruence with their organisation's values (Cable & Edwards, 2004), which is why shared values in a company need to be achieved. Thus, the management of values is of utmost importance. For this, the following section shows different management approaches referring to the direction of implementation – bottom-up by using the employee values as main

source, or top-down putting leaders and senior management in the focus, or combining both.

Unfortunately, many managers and employees are not clearly aware of what values they or their organisation possess. Therefore, the linkage between personal and organisational values needs further research and investigation. That is why, according to Zhang et al. (2008), a first step must be to enable employees to clarify their own personal values. Without this knowledge, no one can judge whether an alignment strived for works out (Zhang et al., 2008). With this concept, the authors adopted a bottom-up approach to develop collective organisational values in order to address employees' personal values (Zhang et al., 2008).

Wieland's approach is based on the management of values. In his definition, value management combines personal beliefs and virtue that provide identity with organisational structures (process, incentives, control mechanism) that function as incentive medium for individual moral behaviour (Wieland, 2004). An implementation of values takes place through communication and ideals in leadership behaviour (Wieland, 2004). Wieland differentiates four different value classes to build his so-called values quadrant: performance values (such as benefit, flexibility, or innovation), communication values (e.g. respect, openness, transparency), cooperation values (loyalty, team spirit, or openness, for example), and moral values (naming terms such as integrity, fairness, or honesty). Values arising from this value quadrant, grant identity to the organisation in terms of giving activity orientation by behaviour preferences, structuring of decisions and giving selection criteria in conflict situations. Furthermore, they are purposeful and give declarations, which are implemented through communication and structure (Wieland, 2004). The operationalization of the value management system integrates action- and decision-directing values into organisational instruments on the level of strategy, organisation, policies and procedures, communication and controlling (Wieland, 2004).

Aadland (2010) made an empirical study about the concept of value and the relevant in-use-practices. The intention was to find value profiles and analyse them against eight analytical categories referring to the open systems approach. To clarify the concept of values he describes values "as a salient expression of intentionality" (espoused values) and actions to be "dependent upon distinctions of value to be apprehended" (Aadland, 2010). As to Aadland, the concept of values is an expression of human intentionality, being enacted in forms of human behaviour. As values are seen to be relatively enduring and stable over time they are regarded as systems of behaviour, being inferred from actions (values in use). The analytical categories for the study of values are: Environment, Structures, Primary activities, Maintenance, Change, and Management (Aadland,

2010). The empirical study showed a focus on value-based management in terms of maintenance and development of personal qualities and in terms of value integration and reflection (Aadland, 2010).

Kleinmann opens the view on the match of individual values of employees and organisational values. He defines values as to be behaviour steering and signalising how someone should behave or not (Kleinmann, 2008). The target is to achieve a Person-Organisation-Fit (P-O-Fit) between the company's Corporate Identity, being operationalized in guidelines, fundamentals and evaluation systems and the personal values. Kleinmann also explains that tables of values in the working context and correlating items for measurement are used to analyse the fit between company values and employee values (P-O-fit) based on questionnaires and psychological screening test (Markus (2006), Schmidt and Hunter (1998), Latham (1989), Janz (1982) in Kleinmann, 2008).

The study of Viinamäki (2009) is also aimed to analyse the operationalization of values in companies with a special view on values-based-leadership (VBL). Further, to the target to obtain more efficient performance (Pruzan, 1998) ethical behaviour is seen to be important to attract and retain staff, but VBL should also assist in making values operational and help to find mechanisms by which values can be integrated into their organisations (McDonald (1999) in Viinamäki, 2009). The concept of values is central to organisations and organised societies. Leaders have an enormous impact on their organisations through direct action as well as creating a climate that sanctions ethically questionable practices (Viinamäki, 2009). VBL allows multilayer profits like longer perspectives and responsibilities further to goal fixation, profound and morally detached developments further to rationalisation, capturing the essence of corporate life, strategy and vision, culture nurtured issues and organisational and personal self-awareness and identity further to detachment that separates head from hear (Viinamäki, 2009). With the emphasis on the operationalization of values, Viinamäki sees one of the most important issues in the establishment of structures, processes and attitudes that reflect corporate values that are experienced by employees as being in harmony with their own personal values (Pruzan, 1998). Here again the P-O-fit thought is brought to issue. Also, expressed values (beliefs) and values employees really act upon (practice) should fit together (Viinamäki, 2009). Potential challenges for implementation are seen in the fields of: Alternating organisational structures and authority, importance of extensive participation, new forms of control and feedback, communication – of values and visions, how to create a good image and adequate perceptions, to integrate values and actions (Viinamäki, 2009).

Discussion of Results & Conclusion

This article started by integrating the ideas about organisational values into the broader concept of organisational culture. Demonstrating different approaches to the topic in question, we can say that all authors in discussion agree that values are part of a company's corporate culture. In addition, Hofstede points out that the implementation of values is very much determined through shared practices (Hofstede, 1990). Furthermore, scientists agree that values contributing to organisational performance need to be clearly communicated and operationalized. This requires an understanding of what values are and how they can be managed.

During the literature review, the authors showed that there are many different approaches to the definition of values. Based on the research work performed by the authors the definition of values is proposed as follows in an organisational context: "Values are a set of shared underlying norms and standards that are personally or socially preferable to some other state of existence and which determine organisational behaviour".

For bringing these norms and standards in a collective understanding they first need to be measured and analysed. The authors showed different measurement concepts, which differed in two perspectives: leader's personality and employee personality. There is a very wide range of concepts, frameworks, definitions and also measurement approaches to organisational culture and values. Three popular instruments for managing culture and measuring values were shown in the section above. However, in the authors of this article's point of view, it remains a very challenging topic. Since conceptualisations vary, researchers, as well as business managers need to be clear about what they want to measure. Even though the Competing Values Framework talks about "values" the instrument does have some limitations, which were also addressed to in this article. The Rokeach Value Survey, on the other hand, opens up a very individual perspective. Only if all members in a group shared the same value rankings according to this instrument one could talk about organisational values. Schwartz' values methodology has been successfully deployed in an organisational context in Zhang et al.'s research (2008). Even though the primary target was not to achieve absolute congruence between all employees' values, this instrument did help to raise people's awareness in terms of values, their diversity, and the interrelationships between personal and organisational values (Zhang et al., 2008). Cable and Edwards (2004) extended the Schwartz' instrument to an organisational context and include concrete issues used for measurement. An approach like this seems very reasonable and most applicable to business management research to the authors.

The categories for measurement and implementation are different. They all include structures and procedures, communication and control-,

feedback- and reward systems. The measurement of values is seen to be a basis for the ability to be clear in communication, to monitor congruencies between beliefs and practices and to integrate personal values and the ethical framework of the company. If values are more or less congruent, this is related to increasing job satisfaction, organisational commitment, and credibility of leadership (Meglino and Ravlin, 1998 in Viinamäki, 2009).

The target of managing values is to be seen in a successful implementation into the organisation, as well as the P-O-fit thought. Different management concepts were highlighted in this article. The most essential difference between the discussed theories is in the direction of implementation. Some authors focus on the top-down leadership responsibility approach whereas others take employee values as a starting point and therefore prefer a bottom-up process. However, all authors agree that the alignment of employee and management values is decisive for performance. That is why the development of shared organisational values is of such importance. In the authors' point of view, organisational values cannot be seen separately from employees' personal values. But, organisational values clearly must be linked to a firm's strategy. Otherwise, the company cannot achieve its performance goals. In consequence, management must define, promote and live the values that contribute to their strategic goals. In addition, there is even a research area becoming increasingly important that examines what values best contribute to performance. Related to different personalities of managers and correlated to group and project profit results Berth (2006) conducted an empirical study. He came to the result that the highest yield of values is based on values like: reciprocation to synergise with others, profitable needs, full involvement, team diversity, trust instead of control (Berth, 2006).

To sum up, only collective in-use values including the employees' personal values will lead to performance. One main contributor to organisational performance is employee commitment. Therefore, it is of utmost importance that leaders are aware and take into account their employees' values orientation. The knowledge of values on the personal basis and the naming of organisational values need to be seen separately, but both are mutually interlinked at the same time. The management of values is the tool to combine both in a fruitful way. Only if leader and employee values are transparent it can be evaluated if a Person-Organisation fit according to Kleinmann (2008) is already apparent or not. In that sense, the authors agree with Viinamäki (2009): On the one hand, a P-O fit reflects harmony between company and personal values, but, on the other hand, it also depends on how beliefs are put into practice in daily life.

In conclusion, the authors recommend to measure and to be aware of both, management values and employee values in order to optimize the

P-O fit and make values contribute to strategic goals. Only through this process, management can recognise discrepancies, which then become accessible to further improvements. With this, a cultural framework can be created that promotes employee competence utilisation, which contributes to performance aspects such as innovation, or customer satisfaction, or other profit indicators.

These consolidated findings are subsumed in the following Figure 1:

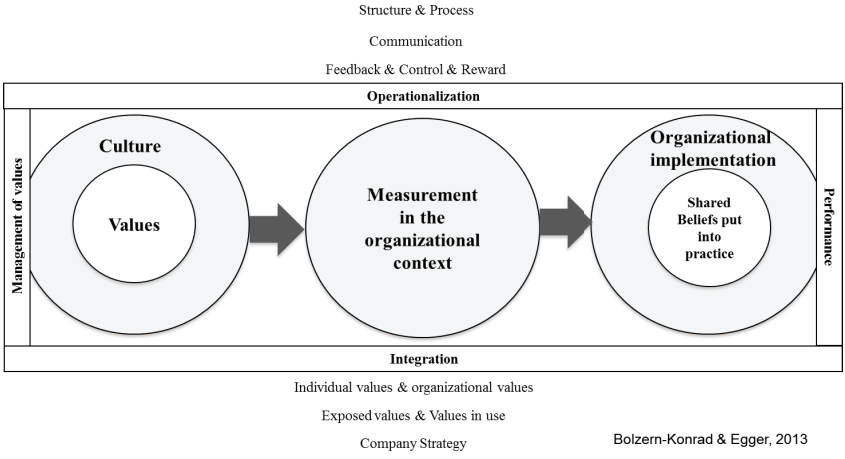

Figure 1: **Conceptual model of value management**

Consequently, the authors recommend the investigation of further research questions such as: "What organisational values contribute to what different performance aspects of organisations?", "Are there different values necessary for different performance aspects?", "Can a general set of values be defined that will help modern organisations to survive global competition?", and "How flexible / long-lastingly determined do values need to be for business success?" or "Are there special circumstances that promote the evolvement of special values?" Especially values such as trust, freedom, and openness to change need further research in order to prove their impact on organisational outcomes. Certainly, these aspects will be further explored and empirically deepened within the authors' specific research areas: "The impact of trust on employee competence utilization (in a TPM [Total Productive Maintenance] setting)" and "The impact of organisational values on product innovation".

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RITES OF CHRISTENINGS AND FUNERALS IN THE LATVIAN TRADITION

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Abstract

In the Latvian tradition one can talk of three main family/household ceremonies – christenings, weddings and grieving or funerals, in which the members of the community are united in rituals. In this article the rites of weddings are not discussed, and the research emphasis is on the beginning and end points of a person's life, which form a binary opposition pair: life – death. In this article Latvian christening and grieving ceremonies are examined in the wider context of initiation rituals, emphasising their specific features and separating out the stages of ritual activities.

The material utilised for the article is from both printed sources (Latvian beliefs, folksongs, incantations, recorded memories of the order of ceremonies, data from historical chronicles, and in some cases from archaeological findings) and oral sources (story tellers recorded by the authors during field expeditions regarding ceremonies).

The main role in christening and funeral ritual activities is allotted not to those persons for whom the rituals meant, but rather to the members of the surrounding community. Deceased persons cannot perform the ritual as they have left the world of the living; the new-born child is unable to perform the ritual, because it is not yet capable of it. The community, in the first and second instance, takes on full responsibility in respect of the execution of the rituals unlike, for example, in weddings, where the newly wed couples are those that mainly perform the rituals. Both in funerals and christenings many and various taboos are observed, which affect nearly every stage of the ritual activities: where each of the participants in the ritual must be located, what they must do and what they must not do.

Chastening and grieving rituals, as with any other initiation ritual, have three stages of activities (pre-liminality, liminality and post-liminality), none of which traditions can be omitted, shortened or artificially extended.

Although in this article, the life ceremonies – funerals and christenings – seem to be distinct from each other (one is associated with the new-born (life) and the other with the deceased (death)), their common features open the possibility to better understand ceremonial rituals, their essence and importance as a whole.

Keywords: Latvia, folklore, traditional ceremonies, christening rituals, funeral rituals, liminality

Introduction

In the Latvian tradition one can talk of three main family/household ceremonies – christenings, weddings and grieving or funerals, in which the members of the community are united in rituals. In this article the rites of weddings are not discussed, and the research emphasis is on the beginning and end points of a person's life, which form a binary opposition pair: life – death.

The material utilised for the article is from both printed sources (Latvian beliefs, folk-songs, incantations, recorded memories of the order of ceremonies, data from historical chronicles, and in some cases from archaeological findings) and oral sources (story tellers recorded by the authors during field expeditions regarding ceremonies in Latvia in 2007-2013).

The main role in the christening and funeral rituals is allotted not to the person who is the subject of the ritual, but rather to the family, relatives or close people. The deceased person cannot perform the ritual because they are no longer part of the world of the living; the new-born child is unable to perform the ritual because it is not yet capable of it. The community, in the first and second instance, takes on full responsibility in respect of the execution of the rituals unlike, for example, in weddings, where the newly wed couples are those that mainly perform the rituals.

As in any rite of passage, the christening and funeral have a set order, which has to be followed without omission – "Like children who have not been baptised, named, or initiated, persons for whom funeral rites are not performed are condemned to a pitiable existence, since they are never able to enter the world of the dead or to become incorporated in the society established there." (Gennep, 1992, 160). In these rituals it is important to observe the sound and colour codes, food code (the grieving and christening feast is very important), the semantics of ritual things, sacrificing and offering to conclude the ritual (offerings to the gods and spirits, ritual feeding of the deceased, also feeding the new-born).

Pre-threshold or pre-liminal stage

The rituals are initiated by watching various signs, especially during the winter solstice or New Year. First of all, dreams seen between the winter solstice and New Year were important, they were believed to be significant (LTT 26165), secondly, all forms of divination of the future took place (LTT 34681), and thirdly, the behaviour of the domestic animals was observed – for example, if the dog howls holding its head down, it means a funeral, if up – a christening (LTT 11360). The behaviour of birds also indicated future events (LTT 883). Also colours had a meaning: from which the future was foretold – if the first butterfly of spring was white, it

means a christening, if patchy – a wedding, if black – prepare for a funeral (LTT 30478).

A pre-liminal situation – pregnancy, expecting a baby or the time of a relative dying, is the time when a ritual of passage is initiated. There are different obstacles to why 'passing the threshold' can be delayed, and then there are ritual activities that speed up the passing. At childbirth, an active role is performed both by the knowledgeable people (midwife) and the mother-to-be: "Spread the husband's trousers or place fire poker or bread-making peel in the middle of the room and make the pregnant woman jump over those, or jump over more than one obstacles [...] Similarly, ask her to lie on her stomach over a wood-chopping block, bench, threshold, or step [..] unravel and unbutton everything she wears." (Uļanovska, 1891-1892, 95-96) Whereas, when a person close to death found it difficult to pass on, he or she was taken out of bed and put on straw strewn on the floor, thus bringing him or her closer to the earth (Uļanovska, 1891-1892, 97; LTT 20755), and, as mentioned previously – tore open the shirt of the dying person (LTT20741), opened the windows and doors in the room, and in special cases even removed the ceiling (LTT 20743; LTT 20744).

In the case of death, the passage was marked by driving a nail into the floor, threshold or wall in the room where the deceased was lying, as well as the closing of the deceased's eyes: "When the person had died, his eyes were closed. This was an old tradition – then the deceased looks as if resting in peace or in deep asleep." (Draviņš, 2000, 418). Until the placing of the body in a coffin, silver coins were placed on their eyes (LTT 20813). Also with the new-born coming into the world care was taken that the child does not lie with half-open or open eyes, which was seen as an unfavourable sign (LTT 250; LTT 2522). These and similar ritual actions were used to draw the border between existence in this world and the otherworld.

The passage at the birth of a child was marked by severing the umbilical cord: "The umbilical cord [...] has to be severed by the midwife. (Uļanovska, 1891-1892, 96) It was important when severing the umbilical cord to hold an axe under a new-born boy, a fulling stock (a wooden beater for fulling cloth) under a girl, or any other specifically feminine or masculine tools, thus indicating the sex of the child (LTT 21377). These ritual activities included the burial of the afterbirth in a quiet, secluded place – under the seating shelf in the sauna, in the stable, under a tree, wrapped in a white cloth, adding a coin or other offering (LTT 22059; LTT 22066). If a nail was driven in after the death of a person, then after the birth of a child a stone was placed on the place of burial of the afterbirth, thus symbolically concluding the transition from one spatial dimension part to another (this world and the otherworld).

Threshold or liminal stage

Both after a birth and after a death an obligatory ritual is purification with water or bathing. In Latvian beliefs both the coming of a new life and passing into the world of the dead are connected with water. Most widely preserved are the beliefs associated with birth. In the folk-songs, the birth of a child is shown as the path of little feet from the river to the human habitat (LD 1155, 3) or fishing the child out of water (LD 1152; LD 1153; LD 1151-1). Water in respect of death appears indirectly, in the term '*nāve*' ('death'). In Baltic, Slavic and Germanic languages a word of cognate root is connected with the denotation of dying, it seems to be connected with the IE root *nāu(s) – boat, ship (Karulis, 1992, I, 620) and reflects the Baltic, Slavic, Germanic and maybe wider custom to release the body of the deceased to the waters by placing it in a special boat or ship (Ivanov, 1987, 9). In such case, the word '*nāve*' from a specific meaning of 'a boat which is used to transfer the body of the deceased to the otherworld' due to taboos comes to denote the very act of dying. In any case, both the beginning of the human life and its end are marked as a space in waters, the original waters of chaos where all is born and lost: "Every ritual repetition of the cosmogony is preceded by a symbolic retrogression to Chaos. In order to be created anew, the old world must be first annihilated." (Eliade, 1965, XIII)

Washing with water and in water is of paramount importance both for birth and death. Bathing in the Latvian tradition was performed either immediately (LTT 2672; Uļanovska, 1891-1892, 98), or – especially for the new-born – after a fixed time. In the ancient nine-day week for the child's first, but also subsequent bathing, the most beneficial time was the evening of Thursday or the Fifth-eve (LTT 2740; LTT 2741). It is possible that this is based on the folk belief that Fifth-eve (or sometimes Thursday or Friday itself) is considered to be the day of *Māra* – the chthonic deity, under whose jurisdiction was the guardianship of humans (LD 6847).

The water for the new-born was brought from a running stream or a river, trying not to spill a drop (LTT 2672), as the belief was that the water contains the luck of the child; moreover a silver coin or a silver brooch was put in the water before bathing the child (LTT 2676; LTT 2678). The water was slightly warmed before the child was washed. For the warming of the water for a boy, oak logs were used, and linden logs for a girl (LTT 2519). Here and in other ritual procedures the ancient totemic concepts were observed (the oak is connected with the masculine, the linden with the feminine beginnings). The spirits and deities of the water (*Māra*, *Laima*) are not mentioned even once, but before the first bathing of a new-born, one had to put some offering in the water. It was believed that the offering will protect the child from various illnesses (LTT 15293; LTT 15297).

Sometimes the water of christening (not the first bathing of the child, but specifically christening) was assigned special properties. Especially if the christening took place at home, the christening water was saved to be later "added to the bath water which the child later used, so that the baby would be protected from all ills, or so that it is diligent at learning letters (LTT 15286). Christening at home was much deprecated by the church, but it was still actively practised in the 17th and 18th centuries (Adamovičs, 1933, 449).

If water from the new-born's bathing could be further used as holy water, then the water from the bathing of the deceased, if saved, was used for killing pests (LTT 3454). This water was also used for curing various illnesses as epilepsy, headache, and the treatment of drinking malaises (LTT 20860; LTT 20859). It was believed that by washing one's face in the water of the dead, one can get rid of fear, including fear of ghosts (LTT 20 857; LTT 20858). Even if the washing of the deceased took place immediately after death, also at the moment of dying a vessel of water was placed nearby "for the soul to wash" (LTT 20758). The washing of the deceased was performed by older women, usually relatives (LTT 20841). It was seen as very dangerous ritual activity and therefore a close watch was made that nobody walked barefoot where the washing took place (LTT 20834). After the washing of the cadaver, which was carried out by placing the body on the ground upon straw or in a special cadaver chair, various apotropaic activities had to be performed in the room: three horse-shoe nails had to be driven into the floor (LTT 20871), and an offering of a small sum of money or a hand-woven ribbon was made to the women who performed the washing (LTT 20872). The vessel used in the washing also had to be purified by throwing a piece of silver coin into it (LTT 20889). The women performing the washing had to put a little offering or a coin in the coffin to avoid evil coming from the deceased (LTT 20894).

The next stage of the funeral was the so called wake (*vāķēšana* in Latvian – the word is a borrowing from Middle Low German '*waken*' – to be awake), but at a christening – visiting the new baby. If the washing was performed separately by people who were specially prepared for the task, then the next stage of the ritual had a wide range of participants. At the wake (in some places sometimes called *'vākas', 'budini*', from an extinct Latvian verb *'budināt'* – ' to be awake, to waken, or Psalm singing in Latgale) was the time for all the neighbours to come together. The wake meant an unslept night (or being awake till midnight in more modern times) spent in reading prayers, singing psalms and other spiritual chants. In earlier times the wake could take more than one night, from the night of the death until the night before the funeral (inclusive):

"I remember in Rucava, this was done every night up to the day of burial. At least 3 – 4 days in a row. Both men and women came to the wake. They sang from the hymnal, said prayers. In recent times they would come together only the night before the funeral." (Anna Roga, Rucava, 2013)

In former times, the wake would include special funeral games, which seem to have been longest preserved in the West of Latvia – Kurzeme region:

"The older ones would start playing cards, the younger ones played games. Even if music and dances were not often allowed at a wake, the wake was still quite a merry evening, because games are no less fun." (DL, 1892, 140)

It could be assumed that the unslept merry nights are characteristic only of the wakes when the deceased has reached old age, for example: "My grandfather before he died had wished that at his wake and funeral the people not only sing, but also do not forget to dance." (Akacis, 1977, 202)

Yet, at least according to the ethnographer and writer Jēkabs Janševskis (1865-1931) there has been no lack of merriment when the deceased was an unmarried young man or woman:

"If an unmarried man or woman died, then the first day it would be the funeral, and the next day – the wedding, and on this day they made merry, like at a wedding; they would play music and dance and enjoy themselves. In former times at such a wedding of the dead they would dance an ancient mystical dance of the dead where most the participants would be women." (Janševskis, 1928, 39)

During the wake, in the presence of the deceased (as the wake took place at the coffin with the dead person) the aim of the ritual was to protect the dead and the living from the harmful influences of ambivalent spirits.

The visiting to see the new baby (Latvian '*raudzības*', from the verb 'apraudzīt, raudzīt' – to visit to see, or '*luņģības*') is a public event, but unlike at the wake, the community splits up in smaller groups (in order to protect the new-born and its mother from possible illness etc.): "The visitors are allowed from the first days for some time. The *luņģības* are carried out without a particular invitation; relatives, neighbours, acquaintances come to visit." (Bičolis, 1937, 242)

The terms 'funeral' and 'christening' reflect the highest point of the ritual threshold – in the first case finalising the separation of the deceased from the world of the living, in the second – confirming the new-born and adopting it to the world of people, separating it from the world of nature and bringing it into the world of culture. In the first case there are three micro-stages: a) preparation of the body for burial and send-off at home; b) the funerary rites at the cemetery (other rites in existence and history

(such as cremation) will not be discussed here, as there is little mention of these in Latvian folklore); c) activities of separation of the two worlds (the cutting the sign of the cross in a pine on the way back, etc.). In the second case: a) the ceremony in the church, which was introduced by the pastors and became part of the ritual in the 19th century; b) the dance with the baby (Latvian '*pādes dīdīšana*') or the pre-Christian part, which was performed after returning from the church; c) the hanging of the cradle as the final act of the christening.

Both in the funeral and the christening many different taboos were observed practically in every stage of the ritual: where each participant of the ritual has to be, what they have to do and what is forbidden. The deceased person has to be taken to the cemetery and buried before the sunset – in other words, along the path of the sun: "The path of the sun is a bridge of sorts, which unites the two main parts of the universe – this world and the otherworld." (Vīķe-Freiberga, 1997, 63)

It was important to have protection against the harm coming from the deceased (or the spirits of the dead), which traditionally was attained through the power of water and fire. Before the body was taken to the cemetery, their bedding and clothes were burned:

"Before the departure for the cemetery some old wives went in the direction where the body will be taken to burn the 'leftovers' (Latvian '*mēšļi*'). These were the bed straw where the deceased had slept, their shirt and trash from the room they had died in. In earlier times, on every road that led to the cemetery there was a large oak or another tree where the leftovers would be burned. The fire was taken from the home. For that purpose they had special wax candles they would light at home and then carry to the place in a lantern or some other vessel." (LTT 2184)

It is also mentioned that sometimes after removing the body, a fire was started in the middle of the room (probably in a special bowl) (LTT 2194).

In general, all the things that had been connected with the dying of a person were removed from the house, if not destroyed, then until the burial was complete.

If the pre-threshold initiation stage usually was concluded with the washing of the deceased, then the threshold stage was concluded with the washing of hands by the mourners before continuing to the funeral feast. Thus, the worlds of the living and the dead were symbolically separated, averting the possible influence of the world of the dead: "The participants of the funeral washed their hands after returning from the cemetery, went to the table, said prayers and began eating and drinking." (LTT 2377)

The final micro-stage of the funeral was associated with the drawing of borders and separation of the world of the living from that of the dead. It was the cutting of a cross in the so called 'trees of crosses' – usually pines

(LTT 2104; LTT 2291) or other roadside or crossroad trees, upon returning from the cemetery (sometimes twice – going to and returning from the cemetery): "This was done so that the dead would not return to trouble the living." (Lancmanis, 1926, 408)

The cutting of crosses in our times can only be observed in Vidzeme region: "Even if the old practitioners of the cutting of crosses see this ritual as part of Christianity, as they do cut a cross which is a Christian symbol, the tradition of the cross trees with its roots in the darkness of time, violent nature and motivation which is alien to Christianity, is definitely a pagan custom." (Eniņš, 2000, 21) In any case, the two worlds were separated by cutting the cross in a tree on the way home from the cemetery: "The aim of the tradition [...] is to perform a social ritual during which the dead person is excluded from the society of the living. The cross marks the border between the worlds of the living and the dead, which the deceased cannot pass over." (Laime, 2009, 131)

Between the 16th and 21st centuries, especially in the Roman Catholic, but also in Lutheran regions, church christenings gradually and purposefully became the centre of the ritual. Still at the end of the 17th century, historical sources show that Latvians avoided church christenings for their children. A pastor in Alūksne, Dāvids Celaks in a 1664 report writes that "Those parents who leave their offspring unbaptised for a longer time, should be punished." (Straubergs, 1936, 122) By the 18th century, however, it seems that a compromise was been reached between Christian and pre-Christian traditions: "The ceremonies of inducting the child in the family and concerned with birth and christening, according to the folklore materials, did not seem to be in contradiction with the Christian faith and thus went unnoticed by the representatives of the church. (Adamovičs, 1933, 481)

Compared to 16th century, at the end of the 20th and into the 21st century, the emphasis has shifted completely. Church christening ritual is the dominant one; the memories of the pre-Christian rituals are vague, and preserved mainly in Kurzeme (Rucava, Nīca, and Bārta). For example, only the elder inhabitants of Rucava know how to describe that part of the christening, which is based upon pre-Christian traditions – the dance with the baby, the hanging of the cradle and the singing of appropriate songs for the occasion.

In former times the symbolic act of giving the baby a name was performed at home before going to the church. Before the baby had not been christened with a name (even if the name was known and quietly thought of), the name was not pronounced out loud. Instead, the baby was called animal names (a probable relic of totemism) or even rude words (wolfie, pissie, even little shit – LTT 2784; LTT 2785; LTT 2834). Probably the aim of this practice was to frighten away evil spirits, as the child is

vulnerable and easily influenced by external forces before it has passed the initiation of christening. Another reason was that a name grants the baby access to the human world. Whilst nameless, the child is part of the world of nature. When the name had been officially given (in bath-house, ritually swishing the child with a birch whisk, or in church at christening), and the child was brought home, a ritual dialogue ensued between the godparents and the home folk during which the new name was pronounced out loud, thus marking the new person's introduction to the cultural space:

"Receiving the baptised baby, the grandmother asked the holder: 'What is its name? What is its name?' The answer was 'Its name is NN, its name is NN!'" (LTT 15329)

It seems that only in the 21st century, the magical side of naming a child has disappeared, along with the belief that the child's name influences its fate. Before naming, the child was considered to be closely connected with the forces of nature and his or her health and even life could be influenced by ambivalent spirits.

Similar to a funeral, when the participants washed their hands after returning from cemetery, in christenings also, after returning from church, "the godparents washed their hands and dabbed some water on the baby's face. The water then was poured out under an apple tree." (Paražas no bērna dzimšanas līdz atšķiršanai no krūts, 1928, 730)

After returning from the church, the more ancient, pre-Christian part of the ritual began – the so called dance with the baby (Latvian '*pādes dīdīšana*'), which was walking in slow dance step, holding and rocking the baby, expressing good wishes for its life.

"Back home I saw a group of singers from Nīca demonstrate the dance with the baby. It was a circle dance in heavy step, according to a folk melody, which all the people present sang together. The mother took no part in it. In the dance, they passed the baby – a doll – from hand to hand. The feet stamped in the heavy dance step, the arms rocked the baby, singing a wishing quatrain, and then immediately the baby was passed on to the next well-wisher, till the circle was complete." (Puže, 1967, 509)

The final stage in the threshold ritual is putting the baby into the cradle, hanging the cradle for the baby: "The view that the baby does not have to be put in a cradle, but in a bed from the very beginning was not popular for a long time. Cradles were popular even up to the 1930s." (Draviņš, 2000, 444)

Post-threshold or post-liminal stage

The final stage of the ritual of passage includes confirming the actions conducted in the previous stages. One of the post-threshold rituals at

christenings is connected with the so-called weaning, but the post-liminal stage of the funeral includes the so-called post-funeral (Latvian '*atbēres*').

The weaning, which usually took place after nine months, or a year, or even later, depending on different circumstances as in LTT 19830; LTT 30175; LTT 30185; LTT 30188, was connected and concluded with the child receiving his or her first footwear. If at weaning the main role was played by the mother, then the first footwear was provided by the godparents. At weaning, the cradle was moved away from the mother's bed, or the child was put in a bed of its own. Then an activity followed, which centred on the window and a room of the house. The window usually is a border (both uniting and delimiting spaces) between the different parts of the room:

"After nursing a girl for the last time, the mother gave her to her mother-in-law or godmother, and went out to stand by the window. The girl was passed from the room to the mother, who carried her around the orchard and all the buildings, and then returned and passed the child back through the window to the grandmother or godmother. Having breast-fed the boy sitting on the edge of the bed, the mother passed him through the window on to his father who would take him around the orchard and all buildings, stopping at the stable where he would put the child on a horse's back and rock him up and down as when riding; then brought the boy back and passed it to the mother through the window. Some would also carry the child three times around the chambers, then the house and then pass it in through the window. [..] When the child was brought back into the room, they placed different things in a circle on the floor – work tools reflecting masculine or feminine tasks, also salt, money, bread, and so on. The child was seated, or if able to walk stood in the circle, and the first thing it would reach for would be used to divine its future." (Paražas no bērna dzimšanas līdz atšķiršanai no krūts, 1928, 730)

It is clear that the window allows the child a wider view of the world, finally the child himself or herself (not others) in reaching for a thing determines, or more precisely, is able to influence his or her future.

Whereas the post-funeral takes place soon after the funeral, reaffirming the space of the living by removing all the possible things and objects (especially the fir-trees and fir branches that were used as decoration of the road to the cemetery, etc.) that are connected with the funeral:

"Sometimes the post-funeral took place the next day after the funeral, when they burn the black funeral ribbons, fir-trees, sometimes the old clothes of the deceased. They also throw some money, some coins in the bonfire. Then later the children recover the coins from the ashes. This is considered the gift of the deceased to those left behind, usually grandchildren. At my husband's post-funeral, I had forgotten one

funeral ribbon. My husband kept appearing in my dreams until I burned the ribbon." (Maija Galiņa, Vidzeme, 2007)

Conclusion

According the theory proposed in the *Rites of Passage* by the French ethnographer and anthropologist Arnold van Gennep, all the stages of passage are present in all the rites of passage, but there are subtle differences. The rituals of separation and delimitation are more present in the funeral ceremony; the rituals of adoption or reintegration are more distinct in the wedding; the rituals of passage are more expressed and actualised during pregnancy, betrothal, or change of age group (puberty) (Van Gennep 1992, 11). The rites of christening are mostly connected with the acceptance and integration of the new life within the family.

This article followed the three stages of transition during the christening and funeral rituals. The new *status quo* of the person crossing over is ritually confirmed, separating (both in the case of the christening and the funeral) the worlds of nature and culture, the living and the dead: "He is expected to behave in accordance with certain customary norms and ethical standards binding on incumbents of social position in a system of such positions." (Turner, 2008, 95)

In both the case of funeral and christening, if the ritual would be analysed according to how it was performed in different parts of Latvia, then it would be evident that some parts (stages) are substituted by other stages, for example, the dance with the baby has not been preserved or has never been part of christenings in Latgale), but the basic structure of the ritual, summed up by the symbolic number three (the past-the present-the future) remains unchanged.

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Teicēji: Maija Galiņa, Vidzeme, 2007; Anna Roga, Kurzeme, 2013

OPEN INNOVATION: CURRENT TRENDS AND FUTURE PERSPECTIVES

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Abstract

During last decade the concept of open innovation has gained wide recognition both in academia and business circles. The aim of this article is to summarise contemporary literature on this topic, identify gaps in research and outline directions for future research. At the present time, the major interest of researchers is concentrated on open innovation derived from outside the company. This is natural, since the inspirational postulate of open innovation claims that not all the smartest people work for your company, but for someone else. Open innovation created within the company and developed outside, was undeservedly neglected and should be addressed in future research. The second substantial gap in the research of open innovation is the bias towards developed countries; correspondingly in future open innovation should be examined in developing countries and countries with economies in transition. This research should take in consideration the cultural peculiarities of each country. The future of open innovation per se is promising and it will be still relevant in the future.

Keywords: Innovation, open innovation, open innovation matrix

Introduction

The term open innovation appeared a decade ago, thank to Henry Chesbrough (2003), who is known as the godfather of open innovation. Traditionally, companies developed innovation in their R&D departments, by own employees; this approach is called closed innovation, since all development was taking place within the borders of the organisation. Open innovation implies, that external partners perform part of the innovation processes. In the core of this phenomenon is the so called Joy's Law: No matter who you are, most of the smartest people work for someone else (Lakhani & Panetta, 2007). It is worthwhile to mention, that Chesbrough didn't invent open innovation, but suggested the name and developed the definition. Examples of open innovation existed long before Chesbrough. Well known is the longitude problem, which was solved through a contest in eighteenth century (Spencer, 2012). The definition of open innovation is: "… the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation,

respectively." (Chesbrough et. al, 2006: p.1). This definition is wide and covers many different processes, which are all called open innovation. This article summarises previous research on open innovation and structures it in a comprehensive and coherent manner.

The discussion about open innovation should start with the works of Eric von Hippel, which developed from his theory of lead user and describes user-centric innovation; open, distributed innovation (von Hippel, 2005) and open collaborative innovation (Baldwin & von Hippel, 2011). These theories were developing simultaneously with open innovation and in some areas overlapping with open innovation. For example, the definition of open collaborative innovation is "An innovation is "open" in our terminology when all the information related to the innovation is a public good – nonrivalrous and nonexcludable." (Baldwin & von Hippel, 2011: p. 1400). From the open innovation point of view, this definition describes a particular case of the wider phenomenon of open innovation.

During development of open innovation Chesbrough determined 5 elements of the latter:

1. Networking. In the Open Innovation literature, networking allows both commercialisation of internal knowledge and use of external knowledge. Though networking is undeniably on of the major benefits of Open Innovation, in Chesbrough work is understood in a narrow sense.
2. Collaboration is a formal type of networking, involving partners, competitors, universities and users. Recently there have been an increased number of collaborative projects with competitors.
3. "Corporate Entrepreneurship" describes alternative ways of marketing ideas, especially through corporate venturing, start-ups and spin-offs.
4. Proactive Intellectual Property Management. According to Chesbrough's theory, this goes beyond the traditional defensive use of intellectual property, which seeks to ensure that researchers have the freedom to work on technology. Here the idea is to buy and sell intellectual property and plays a crucial role in helping these markets to develop, since it provides the means to embody ideas and make them marketable.
5. R&D remains important, as a way of obtaining a competitive advantage in the marketplace, but also as a way of developing a company's absorptive capacity, i.e. its potential to assimilate and use new knowledge. (Vallat, 2009)

Later, in order to develop a more comprehensive understanding of open innovation, Jacqueline Vallat (2009) suggested describing open innovation, based on the following elements, which are derived from

initial Chesbrough five elements. The revised definition of open innovation is based on the following fundamental elements:

1. Extensive networking between all actors involved in the innovation process (including industries, universities and research organisations, public entities, end-users and end-user communities) to enable the creation of a creative commons and the development of positive spill-over effects within the ecosystem. This is wider than Chesbrough's vision, since many forms of collaboration are possible, between more actors, with the focus on total value creation, rather than value capture by the firms.
2. User involvement and user centricity, to associate the user throughout innovation since he or she is both the starting point (technological needs) and the ultimate aim (service convergence) of innovation. This reflects a "service pull" model of innovation, where the role of the user is critical. Innovation thus becomes a co-creative collaborative procedure between the industry or service provider and the user. Related to this is a form of crowdsourcing, to capture valuable ideas produced by communities and essential to make the best use of the societal capital at hand.
3. In order to execute networking and user involvement to full capacity, open functional platforms must be created. They make it possible to capture ideas from wide communities in a costless and effective way. They also allow interaction between users and service providers. These platforms are increasingly becoming central to the way service-providers view service-provision in the future: as a way for the user to orchestrate between the different services he needs and personalise them completely (Vallat, 2009).

Modern developments

At the present time a major part of open innovation research is concentrated on large, international companies, but lately there has started to emerge papers on the role of open innovation in the performance of SMEs (van de Vrande et al., 2009; Lee et al., 2010). An important factor, enhancing distribution of open innovation is the so called enabling technologies, where a major role is played by Web 2.0. Thanks to the new possibilities of Internet, many barriers are blurred, access to information is increased, communication costs decreased, and that together brings SMEs into the global arena, which previously was accessible only to big players, with large resources. This notion is supported by Chesbrough & Prencipe (2008): "Developments in internet technology and social networking technologies will allow companies to interact with numerous sources and

predict an unprecedented level of richness. Companies will be able to draw their customers, suppliers, or other partners in the heart of their product development e.g. through online idea management or community participation in product development" (Chesbrough & Prencipe, 2008).

Research in open innovation was conducted from different industries' perspectives, particularly: ICT industry (West & Gallagher, 2006; Bigliardi, Dormio & Galati, 2012), consumer electronics (Christensen et al., 2005; Park, Amano & Moon, 2012), food (Sarkar and Costa, 2008), financial services (Fasnacht, 2009), biotechnology (Fetterhoff and Voelkel, 2006; Bianchi et al., 2011), and automotive (Ili et al., 2010). Open innovation is more common in industries with shorter product life cycles, which traditionally are high-tech industries, but in low-tech industries open innovation is present as well (Spithoven, Knockaert & Clarysse, 2008). Other studies confirmed that there are minor differences in the adoption rate between industries (e.g., Chesbrough and Crowther, 2006; Lichtenthaler, 2008; Keupp and Gassmann, 2009; Lichtenthaler and Ernst, 2009; Van de Vrande et al., 2009). Practice shows the existence of open innovation in traditionally closed industries, such as gold mining (Ticher, 2007), where secrecy is the industrial norm, although some authors insist that certain industries are not suitable for open innovation, due to a high level of secrecy and security reasons, such as the military or nuclear industries (Gassmann, 2006).

The major part of open innovation research is conducted in developed countries (van der Meer, 2007; Tödtling, Prud'homme van Reine & Dörhöfer, 2011; Inauen & Schenker-Wicki, 2011; Bigliardi, Dormio & Galati, 2012; Howells, Ramlogan & Cheng, 2012; Lee, Hwang & Choi, 2012; Padilla-Meléndez & Garrido-Moreno, 2012). A substantially smaller number of papers tackle countries with a transitional economy (Karo & Kattel, 2011) and developing countries (Chaston & Scott, 2012). In investigating open innovation in developing countries the cultural aspects of each region should be taken in consideration, especially attitude toward intellectual property rights and the ways how local entrepreneurs deal with this challenge.

In the beginning of open innovation era Gassman and Enkel (2004) outlined three core open innovation processes:

1. The outside-in process: Enriching a company's own knowledge base through the integration of suppliers, customers, and external knowledge sourcing can increase a company's innovativeness. In other words – attracting bright geniuses from outside the company to create innovation inside the company.
2. The inside-out process: The external exploitation of ideas in different markets, selling IP and multiplying technology by channelling ideas

to the external environment. The innovation movement from the company to outer world, but not though traditional innovation funnels and new product development procedures (NPD), but through alternative channels, often not connected with a company's core competences.

3. The coupled process: Linking outside-in and inside-out by working in alliances with complementary companies during which give and take are crucial for success. (Gassmann & Enkel, 2004; Dodgson, Gann & Salter, 2006) This type of process didn't gain popularity during further research of open innovation.

Modern research of open innovation is based on the first two core processes, described earlier and is divided into two large groups, which have several names, but are similar in their essence. The names are discovery and exploitation; outside-in and inside-out; inbound and outbound (Van de Vrande et al. 2009). The common factor for different names is the direction of innovation, whether from outside the company in, or from inside the company out.

Discovery processes, outside-in, or inbound open innovation

Discovery processes are the process of innovation search outside the limits of a company; it could be the search for a readymade solution, or experts who are able to solve an existing problem. One form of such process is idea, or solution contests (Terwiesch & Xu, 2008). Inbound open innovation often is associated with collaborative networks, where universities play a significant role. There is a lot of research dedicated to the universities involvement in open innovation (Perkmann & Walsh, 2007; Inauen & Schenker-Wicki, 2011; Howells, Ramlogan & Cheng, 2012; Padilla-Meléndez & Garrido-Moreno, 2012). Part of research on the discovery processes covers the role of communities in open innovation (West & Lakhani, 2008). At the present time research on inbound open innovation represents the largest part of all open innovation research. This can be explained by fact that the initial popularisation of open innovation was conducted under motto that not all the best people are working for your organisation, and open innovation was promoted as a solution for this problem. That is the reason, why the major body of research was conducted in this direction.

Exploitive processes, inside-out, or outbound open innovation

The second group of open innovation research is dedicated to exploitation of existing knowledge outside of company boards

(Lichtenthaler, 2010; Inauen & Schenker-Wicki, 2012). This group is substantially smaller, and there is an explicit gap in research. So far too little attention has been paid on the ways how companies recycle existing knowledge in innovation, not through NPD procedures. Although there is a first attempt to use strategic deployment of external knowledge exploitation (Kutvonen, 2011), substantially more work should be done on this topic, in order to obtain a clear picture of outbound open innovation.

In order to decrease ambiguity in research and description of open innovation, Dahlander & Gann (2010) suggested expanding the core open innovation processes with a monetary component. As a result the open innovation matrix was created (Table 1). This matrix is useful, since different rules are applied to different components of open innovation.

Table 1 **Open innovation matrix**

	Inbound innovation	**Outbound innovation**
Pecuniary	Acquiring	Selling
Non-pecuniary	Sourcing	Revealing

Revealing (non-pecuniary outbound innovation)

This is the type of open innovation is when a company freely shares its resources with other partners, without an instant financial reward. The source of profit has an indirect nature and is manifested as a new type of business model.

The advantages of this method lie in the pace of technological development. Other contributors invest in the technology advancement that accelerate development, and decrease development costs per user. An example is the British steel industry in the 19th century, when inventions weren't protected and freely shared among competitors that resulted in the industries rapid advancement. An opposite situation was with Watt's steam engine, which was protected by patents, and wasn't improved during first 20 years of patent protection. Only later, when technology was freely available did the development of technology take place. In order to retain a profit under this type of open innovation, a company cannot use traditional intellectual property (IP) mechanisms, such as patent protection, trademarks or copyright protection. More suitable for this situation is a non-formal approach to profit, such as time to market, advantage of the leader and lock-in. Considering strategy for open innovation a company should remember that freely revealing information to third parties doesn't guarantee success in innovation. Some companies' decide to reveal part of the information for the good of society, in order to stimulate co-operation

without any legal arrangements (Henkel, 2006). In some cases a lack of strong IP protection can bring the effort of many contributors together and reach a cumulative effect, such as happened in the case of Wikipedia and open source software, when people voluntarily develop new products (West & Gallagher, 2006). A similar situation is well known from standards development literature, when more open standards gained more interest from third parties, since a company initially imposed less proprietary rights. Some companies in an attempt to protect their IP showed strategic myopia, and directed too much of their resources to IP protection, which hindered NPD. Depending on the situation in the industry, a company should take into consideration revealing possibilities and search for a proper combination between revealing and protection of IP.

The major disadvantage of knowledge revealing is the difficulty in profit retaining (Helfat, 2006). Competitors can take advantage of freely available technology, especially if they possess more resources and better production facilities. Large companies have sophisticated decision-making systems, in order to decide which knowledge to protect and which to reveal. For SMEs this is a challenge, since they often lack resources to formalise this process.

Selling (pecuniary outbound innovation)

In this type of open innovation a company commercialises its inventions and technology through selling or licensing technology to a third party.

This approach can increase a company's' revenue on the account of technologies that were so far dormant. Many companies during a prolonged period of time have collected many patents, because of the motivational policy to develop patents. These patents weren't commercialised, because these inventions are not in line with company strategy or core business. By selling or licensing these patents a company can increase returns on its R&D. Chesbrough and Rosenbloom (2002, p. 550) note that . . ."if companies that fund research that generates spill-overs are to develop a better business model to commercialise their spill-over technologies, our traditional notions of technology management must be expanded". Latest research shows that licensing of inventions and technologies has become more popular. Some companies make technology licensing a part of their strategic priorities (Fosfuri, 2006). Although there are some advances in this field, many barriers, which hinder IP trade, still exist. A possible direction to solve this problem would be a common IP exchange, which operates under a common set of rules.

One of the disadvantages of this approach is the so called "disclosure paradox". Inventors reluctantly reveal information about their invention

even in the face of a potential buyer, because they are afraid that the buyer will take advantage of them and will use their invention without paying. On the other hand, buyers refuse to pay for an invention, until they have all the information available regarding this invention, which is normal purchaser behaviour. This situation can lead to a gap in technology development, and is an example when patent protection is working against the common good of society. Another challenge is associated with the trade of IP is the high costs of technology transfer. Gambardella et al. (2007) claim that technology transfer costs could be up to 70% as the result if the potential of the technology market is not revealed to the full extent. Companies also have difficulties in determining the right value for their inventions (Chesbrough and Rosenbloom, 2002); the reasons are in the mental paradigm, which is biased toward technology, and hinders a proper idea of commercialisation. Despite the fact that many companies are ready to license their technology, they don't have an elaborated strategy for invention commercialisation outside their own company (Lichtenthaler & Ernst, 2007). One of the ways how to overcome the "disclosure paradox" could be that the seller should hold formal IPR before negotiations of technology licencing, however, the negative part of this approach is that it increase costs associated with IP transfer.

Sourcing (non-pecuniary inbound innovation)

This type of open innovation is when companies use freely available external knowledge, as a source of internal innovation. Before starting any internal R&D project a company should monitor the external environment in search for existing solutions, thus, in this case, internal R&D become tools to absorb external ideas for internal needs.

According to Rothwell (1994, p. 19) "accessing external know-how has long been acknowledged as a significant factor in successful innovation". This idea was continued by Laursen and Salter (2004, p. 1204), who defined openness as "the number of different sources of external knowledge that each firm draws upon in its innovative activities". They express the notion, that a company would have more sources for innovation, the more open it is, and this notion is supported in the literature on open innovation, with the idea that innovation is leveraging the invention of others.

The disadvantage of this method is based on the limited cognitive ability of human being, in a certain period of time our attention is limited. From this limitation derives inefficiency of the research process per se. According to Katila and Ahuja (2002) external search for innovation is crucial in order to determine borders of contemporary knowledge, but over-research can lead to a decrease in the efficiency of this search. This

notion is supported by the research of British manufacturing companies, which showed that wide and deep search is curvilinear to innovation performance, initial stages delivered positive results, while in latter stages the innovation performance diminishes (Laursen & Salter, 2006). Not all companies will depend solely on external sources of innovation, thus, depending on the industry, in each case there should be determined a barrier where search should stop and own development started.

Acquiring (pecuniary inbound innovation)

In this type of open innovation a company is buying innovation from its partners through licensing, or other procedures, involving monetary reward for external knowledge.

The major advantage of this approach is the stability and predictability of acquiring technology. A company knows exactly for it pays its money for. The challenge associated with this type of open innovation, is the necessary level of expertise required for closing a deal for IP. A company should have control over some elements of its innovation network.

For a company it is difficult to determine which particular innovation should be acquired, since too distant technology from the one company is accustomed to could be hard to incorporate in the company's innovation funnel, but too close a type of knowledge has no significant impact on the level of innovativeness (Sapienza et al., 2004). Thus a company needs to balance the distance of the knowledge domain of the acquiring innovation and its ability to recycle this innovation in a new product.

In the context of open innovation, previous research was dedicated to one, or another type of open innovation, only a few tried to cover the open innovation issue in a holistic manner (Van de Vrande et al., 2009). Depending on the industry and the level of its maturity a company should decide which type of open innovation is more suitable for their business model. In some cases it will be beneficial to combine different types of open innovation in one, like Procter & Gamble with their program Connect + Develop (Dodgson, Gann & Salter, 2006).

Critique of open innovation

The major accusation of open innovation is in the intuitive dichotomy between the new open approach and old or closed approach to R&D. Some author's claim that this dichotomy, in the best case, is exaggerated; in worst case it is wrong (Trott & Hartmann, 2009). This critique is based on the assumption that open and closed innovation has defined borders, while they should be assumed as a range where each company has a bias towards

a more open or closed model of innovation. Another point of critique is the similarity of open innovation and the stage gate model (Cooper & Kleinschmidt, 1986), without feedback mechanisms. This statement is correct to some extent, since both open innovation and the stage gate model have wide definitions, cover the same topics of innovation, and the overlapping of both these theories is a natural phenomenon.

Areas for future research of open innovation

The analysis of previous research has helped to determine these areas for future research. Lichtenthaler (2011) outlined six main directions for future research of open innovation.

1. There is need for a clear understanding of the characteristics of open innovation; in order to reach this understanding the tools and management techniques of open innovation processes should be scrutinised. For example, external search plays an important role in open innovation processes, but these processes are complex by its very nature and require further systematisation. The cultural aspect should also be taken in consideration, since many open innovation activities are conducted on an international level, but the issue of cultural differences in realm of open innovation has been poorly examined.
2. Despite a substantial number of literature on this topic, a synchronised typology of open innovation is essential, in order to determine the archetypes of approach to open innovation. For example, it would be very interesting to examine the relationship between discovery and exploitation processes in cross-licensing deals, or the impact of corporate culture and strategy on open innovation performance. Not always is the type of open innovation determined by the industry although a corporate culture and business model can play a significant role, but in some cases the situation could force a company to open part of its innovation, because of the industry. Thus the impact of industry and corporate culture on the level of open innovation will be fruitful area for research.
3. In the future it is important to determine the open innovation share in the complete innovation landmark. This research should go in the direction of profit dependence on open innovation. This kind of research will add legitimacy to open innovation per se, since financial results are the strongest arguments in persuading one in favour of one or another strategy. Another area of application of this kind of research is that it will help companies to adjust their innovation portfolio in order to maximise financial results from open

innovation. This research will help to determine the risks associated with open innovation. Previous research was concentrated on the benefits of open innovation and its promotion, the risks were mostly neglected. In this area of research there should be examined the potential internal and external factors, in order to decrease the unpredictability level. For example, different industries have different levels of the appropriability regime and innovation markets, which can substantially hinder open innovation (Arora & Gambardella, 2010), and based on this future research important limits of open innovation can be detected.

4. The determinants of open innovation success deserve special attention. There are substantial differences in a company's ability to implement open innovation and understanding why this difference exists (Lichtenthaler, 2008). Future research of open innovation should be conducted on different levels. Research on the personal level, or micro level will help to understand how to micro manage open innovation. The project level will help to understand decision-making processes in open innovation projects. At the firm's level will provide information about organisational capabilities to handle open innovation. This research should be conducted in the context of corporate culture; and the motivational system of the organisation, IP strategy, and all these well-known elements of company performance should be scrutinised in relationship to open innovation and company performance.
5. There is a need to develop further open innovation research in the four domains of innovation, namely technology transfer, user innovation, business model and markets for innovation. Special attention should be dedicated to the technology transfer domain. So far most of research is concentrated on inbound open innovation, while outbound, or knowledge exploitation outside a company has been neglected. There is an explicit deficit on research of desorptive capacity (Lichtenthaler & Lichtenthaler, 2009). User innovation as source of open innovation was explored extensively during the last decade, and future research should investigate the role of other partners along the value chain, for example, suppliers can become an important source of open innovation. Research of the business model and its impact on open innovation is significant; it could be conducted in the context of the relationship between open innovation and new types of products, which deliver radical innovation (Colarelli O'Connor, 2006). Lately research is just beginning of intermediaries' role in the market of technology for open innovation. This research is very important, especially the role

of patents and other types of IP protection for open innovation. Researchers of these four directions should build their ideas on previous research and work with each other, in order to enrich their work and develop new results.

6. There is a need to develop a theoretical base for open innovation research. The first in this direction was made by Lichtenthaler (2011), who proposed a conceptual framework for this kind of research. Open innovation research should be based, not only on the area of innovation management, but also adjacent fields of knowledge. These adjacent fields are earlier, well known theories, such as lead user or innovation diffusion theory. This type of approach will help to develop a holistic set of knowledge for open innovation theory.

Open innovation and radical innovation

A part of open innovation research is dedicated to relationships between open innovation and radical or breakthrough innovation. A company has higher chances to come up with radical innovation, if executing an outbound open innovation approach, while a closed innovation system is more supportive for an incremental type of innovation (Inauen & Schenker-Wicki, 2012). In the case of radical innovation, a company is forced to accept major organisational, social and competitive changes. The level of this change should be elaborated, taking into account the potential of the market in terms of value creation. The risk is to underestimate potential barriers, which could be higher than initially planned. This is the true challenge to find the right balance of openness level and necessary change, taking in to account potential risks. In the era of open innovation on global scale, new open type innovators are necessary (Gemünden, Salomo & Hölzle, 2007).

Future of open innovation

A significant source of innovation in the future will be companies from other industries, since most of successful innovation is based on a recombination of already existing knowledge, technology and concepts. The new techniques, borrowed from other industries will enrich corporate development of new products; will decrease risks and level of uncertainty (Enkel, Gassmann & Chesbrough, 2009).

The issues of IP will take a pivotal part in the future of open innovation. Existing patent protection is made not only to protect IP, but also to stimulate inventors to innovate. This is manifested in the limited in time of the monopolistic right to idea, which in a best-case scenario will ensure

monopolistic type of profits. In 2006, Blackberry was forced to pay 612 500 000 USD to a small company for violating patents for a wireless e-mail service, used by Blackberry. This example will motivate small companies to invest in their IP protection. Another option to harvest accumulated knowledge is IP trade through auctions; first trades already took place in Europe. Tomo, an IP auction company, is operating since 2007 and reached a turnover of more than 70 million euros. When the culture of IP auctions will become common IP trade will increase dramatically. Two European banks, Deutsche Bank and Credit Suisse, offer to invest in IP stocks, they buy inventions mainly from universities and high-tech companies and provide its management under expert guidance. Even IP trade is in an embryonic stage; soon it will develop into a full-scale industry of secondary IP markets. New business models will emerge, together with IP intermediaries, IP insurance companies all of which will be part of this evolution. However, IP protection has its disadvantages, in the case when an IP holder can't reach agreement with a potential buyer, but lack resources to develop their own invention; as a result the invention is standing still for the time of patent protection and society suffers by not getting the benefits from the new invention. To overcome this situation a revealing type of open innovation is suitable, but a company has to be creative, in order to come up with a new business model, which will ensure profits in an alternative way.

The forecast for open innovation is that in the coming decade this term will lose its popularity. Not because open innovation will disappear, but because it will be fully incorporated in the practices of innovation management. Open innovation will no longer be a separate part of innovation; it will become an obvious part of innovation, or common knowledge for innovation managers. With more research on this topic, and deeper understanding of open innovation, it will naturally be absorbed into all areas of innovation science. The time will come, when one will assume open innovation as must be element, like computer or Internet, which became essential elements of our lives. Nowadays open innovation is going through an important phase in the life cycle of any new concept, at this stage we have the opportunity to scrutinise this concept, identify its strengths and weaknesses, and determine the optimal opportunities to integrate this concept into conventional techniques and methods of management, to make it acceptable among academia and practitioners (Huizingh, 2011). At this stage this new concept is an addition to business as usual, since it is no yet creating new businesses, but supporting existing innovation systems. In the next stage of open innovation development it will integrate into traditional business theory and will become business as usual, this is an inevitable destiny of any successful new concept.

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