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## FROM THE EDITOR

Dear Reader,

This is the first issue for 2013 and we expect to be able to publish the next issue in autumn 2013.

In this issue we have articles covering the fields of economics, economic history, management, history, accounting and language. The authors are both PhD students and established academics.

We hope you enjoy this issue and are looking forward to the next issue in summer-autumn 2013.

Best wishes

**Viesturs Pauls Karnups**  
General Editor

# WOMEN CEOs AND CHAIRPERSONS IN KNOWLEDGE INTENSIVE INDUSTRIES: THE CASE OF BIOTECH AND ICT IN SWEDEN 2000-2010

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## **Abstract**

This article investigates the development of the share of women CEOs and chairpersons in knowledge intensive industries in Sweden from 2000 to 2010. The Swedish national development, covering all limited companies with a CEO, is compared to case studies of the biotech and the ICT industries, with differences in female participation in the highly educated key workforce. The results indicate an increased female representation over time on the national level, but with differences between industries, which can be related to a combination of national political pressure for increased gender equality, and industry specific differences in education level among men and women in the key workforces of the industries.

**Keywords:** female chairpersons, female CEOs, knowledge industries, Sweden, gender equality, management

## **Introduction**

There has been much interest in the so called “glass ceiling” as a social structure limiting advancement of women in top management and numerous studies have attempted to explain this trend (see for example Russo and Hassink, 2012; Smith, Caputi and Crittenden, 2012; Weinberger, 2011; Guyot, 2008; Morrison and Von Glinow, 1990). Not least, the glass ceiling is dramatically visible in the official statistics on the percentage of women in senior management positions in corporations. In all parts of the world, female executives, and especially female Chief Executive Officers (CEOs) are very rare in large corporations. In, for example, the United States, women comprise approximately 40% of all managers, but in the largest corporations women hold less than 0.5% of the management jobs (Smith-Doerr, 2004).

However, women’s representation in leading positions in the Swedish business life has in general been improved during the last 10 years, and not least in the board rooms. An explanation to this new trend is the Swedish government’s recommendation in 2002 that companies above a certain size should reach a distribution where no gender had less than

40% of the board seats (Nilsson, 2009: 291). Despite this rather “soft” regulation, the public debate and the recommendation together appear to have contributed to a sudden increase of the proportion of women on the boards of companies noted on the Swedish stock market OMX, as shown in table 1.

**Table 1** Female members of company boards in per cent. Companies within all industries listed on the Swedish stock market (OMX) 2000-2010

Year	Per cent
2000	4.3
2002	5.8
2004	14.4
2006	17.9
2008	18.5
2010	19.0

Source: Nilsson 2009, p. 293, and SCB 2012.

The share of women on company boards in companies listed on the Swedish stock markets more than quadrupled between 2000 and 2006 after the government recommendation had been stated, but the development has since then proceeded slowly. One interpretation could be that women rapidly achieved some basic representation on corporate boards, but then hit a new, but higher, glass ceiling at around 20 per cent of the seats on the boards. This new ceiling gives women representation and some influence in the board rooms, but far from equal representation and influence as for men. However, these results concern averages for all industries on the national level. As a contrast to this macro development, the biotech industry often illustrates the increase in women’s increasing involvement in knowledge intensive industrial companies (Rosa and Alison, 2006; Moore and Buttner, 1997). There has been some research about women’s involvement in the US biotech industry, but this has not yet been studied in the Swedish context. The Swedish biotech industry is the fourth largest in Europe, and a study could give new knowledge about women’s career opportunities also in an international and comparative perspective. In this case it is of special interest to investigate if the Swedish biotech industry, in comparison to the US industry, also has been a forerunner in breaking traditional gender barriers, e.g. the so called glass ceiling preventing women from reaching leading corporate positions.

The aim of this article is to investigate the effects of national political recommendations on the development of the glass ceiling for women

CEOs in knowledge intensive industries in Sweden from 2000 to 2010. The Swedish national development, covering all limited companies with a CEO, is compared to case studies of the biotech and the ICT research industries, due to differences in female participation in the key workforce.

This article also departs from research that shows that formal competence and education have been important factors in explaining the division of labour on the basis of gender. Sommestad (1992) shows in her study of the Swedish dairy industry from 1860 to 1950 that vocational education was an important driving force as differences in education changed the labour division in dairies, slowly converting the formerly female occupation into a masculine trade. In the year 2007 there were more than 60 per cent women examined within the biotechnology and biotechnical biology orientations of the 15 largest engineering programs in Sweden (*Högskoleverket*, 2008: 52). Thus there was a pool of highly skilled women in the industry's workforce available for advancement to leadership positions. From this point of view, the biotech industry could have either a decreasing participation of women in leading positions over time, as the industry develops towards the traditional mainstream gender structures, or an increasing participation because of the relatively large pool of well educated women from the biotech programs at the universities. Since the biotech industry is characterised as a knowledge-based and network organised industry, a high education level for women within the core business could also facilitate for women to reach leading positions, compared to other industries. This should also be persistent over time.

On the other hand, it is a well-known pattern that traditionally men have been more likely to be the first entrants into a new job arena, if it is perceived to be attractive. This pattern is referred to as "job queuing" (Reskin and Roos, 1990, Sommestad, 1993). When the biotechnology industry emerged, firms employed inter-organisational networks to develop the commercial potential of rapidly expanding knowledge in the life sciences (Bunker and Doerr, 2005). Thus, biotech firms were not in general absorbed into the existing multinational pharmaceutical corporations. Women have historically been excluded from informal sources of power in large bureaucracies (Moore and Buttner, 1997). This is why big corporate structures can slow down the career mobility of women. According to Waxell (2005) the Swedish biotech industry is based on inter-organizational networks, and firms located within industry networks are relatively more innovative and profitable. This could provide women with multiple paths to leading positions and offset the effects of job queuing. Thus, from previous research on women in the life sciences we can expect there to be more women CEOs in the Swedish biotech industry compared

to other knowledge intensive industries, like the ICT-industry, but also that this difference should be persistent over time.

The main research questions are:

1. Will employment in a biotech firm increase the likelihood of a woman obtaining a leading position compared to other knowledge intensive industries, e.g. the ICT-industry?
2. Have men or women been more likely to reach leading positions in biotechnology firms early or late in the industry's growth?
3. How did the glass ceiling change when the national policy recommendation was launched in 2002?
4. Is there evidence of a glass ceiling for female corporate leadership in the biotech industry both over time and compared to other industries?

## **Women CEOs in Knowledge Intensive Industries**

The Swedish private big business sector has historically been dominated by heavy industries (metal, wood, paper) and manufacturing, two sectors which have almost exclusively employed men. Thus it is not a surprise that also big business management, in Sweden as well as in other countries, for a long time had a strong male tradition (Svanström, 2003). However, there are some new patterns emerging since the 1990s. The big business leaders have traditionally had a male dominated higher technical education, but at the end of the 21<sup>st</sup> century, business administration training has been of increasing importance, with an equal proportion of men and women in the university programs. This change might reflect the increased importance of sales, marketing and finance in comparison to technological competences. Thus, the increase in the proportion of service companies, especially financial companies, may have changed the conditions for women in corporate leadership (Göransson, 2007; Svanström, 2003.). But still, despite these changes, there are still relatively few female big business managers. What determines whether the manager is male or female seems rather to be the size of the company and/or the technological content of the production process; small low-tech service businesses have a tendency towards female managers (Andersson-Skog, 2007). However, since both formal policies and social norms in recent years have become more explicit towards achieving a gender balance in society, especially with regard to leadership positions in national politics, also private business has been brought attention to its extremely unbalanced gender patterns. At the same time, it has been argued that the biotech industry has been a forerunner in breaking the traditional gender patterns, based on fundamental changes in the organisation of scientific research within universities and some industrial firms (Rosa and Alison, 2006; Moore and Buttner, 1997; Schilling, 2005).



In terms of number of biotech companies, Sweden is far ahead of the European average. Sweden is second only to Germany, Britain and France, and is in ninth place in the world. In 2004 a clear majority of over 60 per cent of the employees with higher education (university degree) were women (Waxell, 2005). The age distribution was rather broad, but with a particular emphasis on ages between 30 and 39 years (Waxell, 2005). One per cent was older than 65 years and almost as many are younger than 20 years. (Waxell, 2005). The educational level in the biotechnology industry as a whole was relatively high. Half of the employees in 2002 had at least studied three years at the university level and every tenth held a PhD (Waxell, 2005). Biotechnology has been one of the fastest growing industries in Sweden in recent years, with an annual employment growth of around 5 per cent. The Swedish biotech industry is mainly concentrated in urban and university areas, primarily in Stockholm, Gothenburg, Malmö/Lund, Uppsala and Umeå, with slightly different business and research focus.

Mattsson (2007) has investigated the Swedish biotechnological “elite” in 2006. To fit in the elite, individuals must: (i) have held a PhD in a relevant field (pharmacy; medicine; chemistry; biotechnology; biochemistry; toxicology; pharmacology; nutrition; or biology) already at the start of the period, i.e. in 1995; (ii) have been employed by their largest income source in either biotech industry/business or academia; (iii) not have been unemployed for more than two years, or consecutive years; and, (iv) have earned, on average for each year of the period, no less than \$ 33 000 U.S. In total the final population consisted of 1493 individuals, out of which 77% were men. The average income for the population was relatively high for men, about 41% higher in 2002 than for the highest paid individuals in Sweden’s ten most common professions; for women this number is + 18% (Mattsson, 2007). Female members of the Swedish biotech elite earned 83% of what their male counterparts earned per year in 2002. This would lead us to believe that we should find the same patterns in the biotech industry as we can see in the business life at large, e.g. wage discrimination, job queuing and horizontal segregation of male and female work assignments.

One of the key factors in the historical processes particular to biotechnology clusters across the globe has been close relationship between industry and university education and research. Since the 1990s, the Swedish biotech industry has been characterised by a combination of small and medium sized firms and two large pharmaceutical corporations; AstraZeneca and Pharmacia. A region of special interest in the development of the Swedish biotech industry is the municipality of Uppsala, situated north of Stockholm, with one of the largest per capita cluster of biotech firms in Europe (Hallencrutz et.al. 2009). The Uppsala biotech cluster can trace its origin back to a number of researchers and research

findings at Uppsala University during the 1920s and 1930s, as well as a significant related decision made by Pharmacia in the 1950s to relocate its core business from Stockholm to Uppsala. Thus, within the Uppsala biotech cluster, Pharmacia has been the industrial engine (Waluszewski 2004; Frankelius, 1999). Moreover considerable local, national, and even international business networks were initiated through relationships stemming from Pharmacia's various activities (Waluszewski, 2004). Even though the history of Pharmacia is marked by a series of mergers, acquisitions, and spin-offs (for an overview see Waxell, 2005; Frankelius, 1999), certain changes have particularly impacted the company's subsequent developments, locally as well as nationally. For a long period of the company's history, Pharmacia was organised as an integrated company with its different business areas (e.g., pharmaceuticals, biotechnology and diagnostics) using shared facilities and sales companies. However, starting in the mid-1990s, the company sold or reorganised several of its larger operations with the consequence that a number of independent business units were created. These organisational changes resulted in a number of new companies with different profiles in the Uppsala biotech cluster: Pfizer (Pharmacia's former pharmaceutical operations), Amersham Biosciences, Pharmacia Diagnostics, Fresenius Kabi, and Biacore. Other companies with connections to Pharmacia include Active Biotech, a company based in Lund, and Biovitrum, a Stockholm-based company with some research activities located in Uppsala. Hallencreutz et.al. (2009) estimated that there are some 140 life science related firms in the Uppsala cluster. On the other hand Waluszewski (2004), states that the number of "real companies" in Uppsala (i.e., companies with at least one product on the market or a prototype close to market introduction) is limited to 25. Moreover, approximately 8% of the total Uppsala workforce is directly involved in biotech related activities through working in industry, academia, or government organisations, which is the highest biotech density level of all Swedish municipalities. Against this historical background of local industrial development, Mattsson (2007) also concludes that there are a relatively small number of moves between the different Swedish biotech clusters. This contradicts the idea that of knowledge workers as being more mobile than other groups. In this case only a very small fraction of the population ever makes a non-local move. Even the largest link, Stockholm-Uppsala, represents less than 1% of the involved population each year (Mattsson, 2007: 119). This mobility pattern tells us that the workforce in the Swedish biotech industry is rather firmly localised and rarely moves to a workplace in a different city. This gives on the other hand a possibility to discuss differences in women's career opportunities on the regional level, focusing Uppsala as a case study, with explanations based on the region's specific historical circumstances.

## Data and method

There are two fundamental issues concerning the collection of data and the selection of method in this study. The first one concerns the identification of the relevant companies within the Swedish biotech industry in 2000 and 2010. The second one concerns the identification of relevant men and women in leading positions within these companies. Biotechnology as a business is undergoing continuous and rapid development. The technology is very close to the science frontier and many of the new small, dedicated biotechnology companies are therefore usually university spin-offs. Swedish biotechnology companies can also be spin-offs from either of the two large pharmaceutical companies; AstraZeneca and Pharmacia. The speed at which new enterprises appear, are bought, merge, change names, etc. makes it difficult to identify new enterprises and complicated to follow the development of the old ones. Therefore many different sources were used to identify the biotech companies in this study.

The categories were made on the basis of descriptions of the companies fields of activity found in the database *Affärsdata*, in literature (research reports, public investigations etc.), and in contacts with companies themselves. The companies were then divided into the following categories: pharmaceuticals & medicine (drug development, diagnostics etc.); agro-biotechnology (genetically modified plants, biological plant protection); environmental biotechnology (soil, waste, and water treatment); biotech tools & supplies (processes, equipment and instruments for biotechnological use); functional food and feed (mainly probiotics) and bio-production (bio-molecular or micro-organism production). The complete list includes a number of companies that have not had any employees in any of the years studied. These companies were excluded from the analysis, since the author has only focused on companies with a hired CEO. To obtain economic and employment data on the companies, the database *Affärsdata* was used ([www.ad.se](http://www.ad.se)). The data is based on the annual records that companies every year are obliged to submit to the Swedish Patent and Registration Office. The information of each company in the database includes profit and loss account, balance sheet, key ratios and number of employees, industrial sector and location. The data in the database before 2000 is not complete, and can therefore be questioned. This is the main reason why the year 2000 has been chosen as the first benchmark year. There is also a delay in the completion of the *Affärsdata* database that causes the records to be incomplete up until 2 years after the annual reports have been filed with the Swedish Patent and Registration Office. That is why the investigation ends in 2010.

With new and dynamic industries like the life science industry, the companies are often difficult to capture and identify by exclusively using

contemporary and generally accepted industry nomenclature such as SNI 2007 (Swedish Standard Industrial Classification), as shown in Table 2. According to SNI 2007, the Swedish business sector is divided into a number of industries or sectors. What makes the biotech industry difficult to capture by this standard is that it does not constitute a separate industry, but companies in the sector are spread over a number of different SNI classifications. Most companies are to be found in “other natural sciences and engineering research and development” (code 72190), “biotechnology research and development” (code 72110) and “manufacture of medicinal Products” (code 21200).

Table 2 Classifications of biotechnological companies according to SNI 2007

SNI code	Production
86901	Activities of medical laboratories etc.
46460	Wholesale of pharmaceutical goods
72110	Research and experimental development on biotechnology
21200	Manufacture of pharmaceutical preparations
26600	Manufacture of irradiation, electro medical and electro therapeutic equipment
21100	Manufacture of basic pharmaceutical products
20140	Manufacture of other organic basic chemicals
32501	Manufacture of medical and dental equipment
72190	Other research and experimental development on natural sciences and engineering (filtered for biotechnological keywords)

Source: Hallencreutz et.al. (2009).

Note: The category SNI 72190 includes companies outside the biotech industry. The author has therefore manually scrutinised the individual companies' description of their production and removed companies that do not qualify as biotechnological companies.

Thus, the use of SNI codes to identify companies does not give a comprehensive picture. However, the most commonly used SNI codes can be used as a complement to identify the sector, particularly using the business descriptions of the companies. The life sciences companies in this report are identified through a variety of sources:

1. The mapping of the biotechnological industrial system in Uppsala performed by Hallencreutz et.al. (2009).
2. VINNOVA's surveys of life science companies in Sweden (Dolk and Sandström, 2005).
3. Biotech Sweden's annual publication of the largest biotechnology companies in Sweden.

4. Commonly used SNI codes for companies within the biotech industry (*Affärsdata, 2012*).
5. Biotech related keywords used in the business descriptions of the company in *Affärsdata 2012*.

Since all research questions refer to changes in the representation of women in leading positions in the biotech industry compared to other industries over a 10-year period, this study relies on all joint stock companies found in the database *Affärsdata*. All data was collected at two time periods, 2000 and 2010. All data regarding women's representation were derived from corporate annual reports. The research questions require the number of women serving on the board of directors for both time periods. The time consuming work with the benchmark year of 2000 makes it necessary to limit the historical comparisons to one case study of Uppsala municipality. In the next step the over-all development of the biotech industry in Sweden as well as in the Uppsala cluster will be described.

### Women CEOs and chairpersons in the Uppsala biotech cluster in 2000 and 2010 in national comparison

Table 3 shows the number of male and female CEOs and chairpersons in companies within the biotech industry in the Uppsala cluster and at the national level in 2010. Even though the industry employs more than 60 per cent women, of whom many are well educated, the CEOs are to a very high degree men.

Table 3 Male and female CEOs and chairpersons in the Uppsala biotech industry compared to the Swedish biotech industry and all Swedish limited companies with a CEO in 2010

	Uppsala's biotech industry	The Swedish biotech industry	All Swedish limited companies with an employed CEO
Male CEO	61 (84.7%)	131 (84.5%)	80674 (84.9%)
Female CEO	11 (15.3%)	24 (15.5%)	14352 (15.1%)
Male chairperson	47 (92.2%)	94 (91.3%)	-
Female chairperson	4 (7.8%)	9 (8.7%)	-

Source: *Affärsdata* (2012), Hallencreutz et.al. (2009)

Around 15 per cent of the CEOs are women and around 8 per cent of the chairpersons are women. This is on the same level as for the national biotech industry and also at the same level as for all limited companies

with a hired CEO in all industries. Thus the same level of the glass ceiling appears regardless of the type of industry.

In 1995 the merger between Pharmacia and Upjohn resulted in a restructuring and relocation of the company's major research operations away from Uppsala. Many perceived this as a major blow to the city and the region since approximately 200 research and managerial positions were relocated from Uppsala to other company locations (Waluszewski, 2004). However, as time has progressed, an alternative view has developed. The exodus of Pharmacia from the area has been described as resulting in a local entrepreneurial boom in biotech with the establishment of numerous new companies (Waxell, 2005). The argument is that Pharmacia's withdrawal released resources and competences and that previously unexploited projects and ideas could now take root. This could have provided increased possibilities for women to start companies and gain managerial positions. If this was the case, then women would have had a stronger representation as managers in 2000 compared to 2010. Table 4 shows that the relation between male and female employees has been stable between 2000 and 2010, with a slightly higher percentage of female employees in 2000.

Table 4 Total number of employees in the Uppsala biotech industry 2000 and 2010

	Men	Women	Total
2000	1904 (59%)	1323 (41%)	3227
2010	3208 (62%)	1931 (38%)	5139

Source: *Affärsdata* (2012).

However, Table 5 shows that the percentage of female CEOs has been stable over time, around 15 per cent. Considering the national development for female representation in the boardrooms in general (see Table 2) this indicates that the biotech industry could have been in the forefront of women representation in 2000, but that other industries have caught up and has the same level of representation in 2010.

Table 5 Male and female CEOs in the Uppsala biotech industry 2000 and 2010

	2000	2010
Male CEO	40 (85.1%)	61 (84.7%)
Female CEO	7 (14.9%)	11 (15.3%)

Source: *Affärsdata* (2012), Hallencreutz et.al. (2009)

Note: A total of 47 companies in 1998, and of 203 companies in 2010.

The result points towards the existence of a glass ceiling that indirectly prevents women from accessing a relatively stronger representation as CEOs and chairpersons in the biotech industry. However, this could still indicate a relatively stronger representation for women in leading positions compared to industries with a lower degree of well educated women in the workforce. Therefore the biotech industry is in table 6 compared to the relatively male dominated Swedish ICT-industry. Contrary to the biotech university programs, the engineering programs have always attracted a clear majority of men.

**Table 6 Percentage of women CEOs and chairpersons and company size in the biotech and ICT industries in Sweden in 2010**

Number of employed persons in company	Percentage of female CEOs	Percentage of female chairpersons	Total number of companies
ICT in Sweden 0-9	7.0	6.9	5151
Biotech in Sweden 0-9	12.8	11.0	541
Biotech in Uppsala 0-9	17.6	16.1	51
ICT in Sweden 10-99	5.1	3.3	740
Biotech in Sweden 10-99	11,6	4.2	198
Biotech in Uppsala 10-99	0.0	0.0	15
ICT in Sweden 100-	6.0	1.5	67
Biotech in Sweden 100-	7.7	6.3	65
Biotech in Uppsala 100-	33.3	0.0	6

Source: Affärsdata (2012)

Note: The ICT companies are collected from SNI 61xxx, "Telecommunications", and SNI 62xxx, "Computer programming, consultancy and related activities".

A comparison between the biotech and ICT-industries shows that there is a higher percentage of female CEOs in biotech, but that this share is higher in small companies with 0 to 9 employees, with one exception; the biotech industry in Uppsala. However, there are only six biotech companies with more than 100 employees in Uppsala, so the statistical generalisation should be very careful. Moreover, the percentage of female chairpersons in the biotech industry is in all cases lower than for the CEOs, but high compared to the ICT-industry. This could indicate that women also have a relatively stronger ownership influence in the biotech industry.

## **Conclusions**

This investigation concludes that the relatively “young” and expansive knowledge based industries studied in this article, with a relatively high share of well educated women in the work force, does not necessarily lead to a larger share of women in top level management in these companies. Although the investigation also shows that employment in a biotech firm does increase the likelihood of a woman obtaining a leading position compared to the ICT-industry, this relative advantage for women seems to have been stronger in 2000 than in 2010. Thus, it is still mainly as employees that women tend to stand out in the biotech industry, especially in comparison with other technology-driven and knowledge-intensive firms like in the ICT-industry, since more than half of the university graduates in the biotechnology industry are women. However, the study also indicates that this pool of highly educated women might have spilled over into a marginally higher proportion of female CEOs and chairpersons, compared to the ICT industry and to the average for all Swedish companies with a hired CEO.

With respect to most aspects of female representation in the roles of CEO and chairperson, there is some progress for women in the last decade on the national level considering all industries. However, within the biotech industry in Uppsala the increase in women representation has stagnated in parallel with the national development. This opposes the results from studies of the US biotech industry that shows a stronger female representation in boardrooms and managerial positions. Instead, this investigation shows the importance of highly educated women as a prerequisite for women to reach leading corporate positions, although not at the same proportion as in the workforce. Furthermore, it does seem that the Swedish national policy promoting a higher level of female representation in the business life only had a onetime effect. Female representation seems to have stagnated since 2006. Finally, the results of this investigation suggests that there are at least two levels of glass ceilings that prevent women’s corporate careers in the biotech industry, and probably also in other industries. The first glass ceiling is a barrier against female representation in the board as either a CEO or as a chairperson. The second glass ceiling is a barrier against even stronger power and influence in the corporate board room, for example as chairperson or CEO or a majority of the board seats. The main result of this study is that the first type of glass ceiling was circumvented between 2000 and 2010, partly because of national policy change, but not the second.



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# LATVIA AS AN ENTREPÔT PRIOR TO WWI: EFFECTS OF TRADE AND INDUSTRIALISATION<sup>1</sup>

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## Abstract

In the second half of the 19th and the beginning of the 20th century Tsarist Russia was undergoing vast economic changes and although there some disputes among economic historians as to the implications of these changes for modern economic growth in Tsarist Russia, the effect of the process of capitalist development in the Latvian provinces is clear. In the late 19th century and early 20th century there was a rapid growth in the role of Latvia's larger ports – Rīga, Liepāja and Ventspils – in the foreign trade of the Tsarist Russian Empire. This growth was due in part to the increased industrialisation of the Russia Empire, including and especially of Rīga, and the connecting of the Latvian ports by the expansion of the railway network to and from Inland Russia. The rapid industrial development of Rīga and to a lesser extent Liepāja stimulated a demand for raw materials and machinery for their own industrial expansion, as well as being entrepôts for the rest of Russia. If one looks at total Russian foreign trade, then in 1913 28.2% of total exports and 20.6% of total imports went through the three Latvian ports. In 1913, of the total value of production of all of Latvia's industry, 63% was realised in Inland Russia, 26% remained in Latvia for local needs and 11% was exported abroad. Similarly, important imports such as industrial and agricultural machinery, chemical fertiliser and consumer goods were channelled through the three Baltic seaports to Inland Russia.

**Keywords:** Latvia; Tsarist Russian Empire; Foreign Trade; Industrialisation; Ports

## Introduction

The term “entrepôt” is usually defined as a place where goods are stored or deposited and from which they are distributed and/or a trading or market centre. Certainly, in the late 19<sup>th</sup> century and early 20<sup>th</sup> century there was a rapid growth in the role of Latvia's larger ports – Rīga, Liepāja and Ventspils – in the foreign trade of the Tsarist Russian Empire. This growth was due in part to the increased industrialisation of the Russia Empire, including and especially of Rīga, and the connecting of the Latvian ports by the expansion of the railway network to and from Inland Russia.

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The economy of the Russian Empire in the early twentieth century was a complicated hybrid of traditional peasant agriculture and modern industry. The empire's rapidly growing population (129.1 million in 1897 to 178.3 million by 1914)<sup>2</sup> was overwhelmingly rural. Small islands of modern industrial capitalism, brought into being by state policy, coexisted with the primitive rural economy. Spurts of rapid industrialisation in the 1890s and in the years before World War I created high rates of economic growth and increased national wealth in some parts of the Russian Empire. Industrialisation accelerated in the 1890s, pushed forward by extensive state intervention under the guidance of Finance Minister Sergei Witte, particularly in the expansion of railways. He used subsidies and direct investment to stimulate expansion of heavy industry, imposed high taxes and tariffs, and put Russia on the gold standard in order to win large-scale foreign investment. Although the process was slowed by the 1900-1903 economic crises, the Japanese-Russian War and the 1905 revolution, it soon picked up again and was very strong from 1908 to the outbreak of the war. The rate of growth in terms of Net National Product grew from 1.8% per annum in the period 1883-1887 to 3.3% in the period 1909-1913.<sup>3</sup>

Prior to WWI Latvia had been an integral part of the Tsarist Russian Empire for nearly 200 years. The territory of Latvia was divided between the Livland (*Vidzeme*) and Kurland (*Kurzeme*) provinces and the western part of Vitebsk province (*Latgale*). The Livland province also included the southern half of Estonia. From the end of the 19<sup>th</sup> century, industrialisation in the territory of Latvia, apart from the turbulences mentioned above, was also characterised by rapid growth. The main areas of industrial growth were the city of Rīga in Livland province, the cities of Liepāja (*Libau*) and Jelgava (*Mitau*) in Kurland province and the city of Daugavpils (*Dvinsk*) in Vitebsk province. Rīga and Liepāja, together with Ventspils (*Windau*) in Kurland province were also the main ports for the territory of Latvia.

## Industrialisation in Latvia

Industrialisation in the three Latvian provinces - Livland, Kurland and Western Vitebsk – began in the first half of the 19<sup>th</sup> century, particularly in Rīga. The first factory in Rīga was a sugar refinery built in 1784, and by 1840 there were 46 factories with 1945 workers in Rīga, 8 factories in Daugavpils with 200 workers and 1 factory in Liepāja with 25 workers.<sup>4</sup> In general, however, manufactures based upon craftsmen was the dominant

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<sup>2</sup> Spulber (2003), p. 6

<sup>3</sup> Gregory & Stuart (1990), p. 37

<sup>4</sup> Skujenieks (1927), p. 620

form of industry in the first half of the 19th century. In the larger cities craft guilds still had a greater role in industry than factories. For this reason the first factories in Rīga were established outside the then city limits. Other limitations on the expansion of industry at this time were the lack of capital and free labour.

Although the serfs had been emancipated in Livland in 1819 and Kurland in 1817, this emancipation had little effect on the course of industrialisation.<sup>5</sup> Even the general emancipation of serfs in 1861 “saw no great upheaval in the process of industrialisation, which continued slow until 1887.”<sup>6</sup>

The significant development in the course of industrialisation in Latvia was the connection of Rīga and other Latvian cities to the Russian market by railroads. In 1860 Daugavpils was connected with the main St. Petersburg-Warsaw railway line and by 1901 the main seaports of Rīga, Ventspils and Liepāja were connected by railway line to St. Petersburg, Moscow and other parts of the Russian Empire.<sup>7</sup> The main task of the railways was to ensure the flow of goods between the inner regions of Russia and the Latvian seaports.

The geographical position of the Latvian Baltic Sea ports was an important factor in the industrialisation of Latvia, especially Rīga. Rīga imported initially most of its iron and coal from abroad, chiefly from Great Britain.<sup>8</sup> The number of factories in Rīga increased from 90 to 141 in the period 1864-1874 and the number of workers from 5772 to 11 798, whilst the value of production from 5 390 600 roubles to 16 295 700 roubles.<sup>9</sup>

Industrial development in Rīga accelerated during the 1880s and 1890s. By 1910, despite the economic crises, war and revolution mentioned above, the number of factories and workers had increased dramatically (see Table 1).<sup>10</sup>

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<sup>5</sup> The serfs were free, but the land belonged to the gentry, this freedom was called with justified irony „the freedom of the bird” (*Vogelfreiheit*).” – Spekke (1951), p. 290

<sup>6</sup> Portal (1965), p.810

<sup>7</sup> Skujenieks (1927), p. 711

<sup>8</sup> The Latvian Economist (1920), p. 75

<sup>9</sup> The Latvian Economist (1920), p. 74

<sup>10</sup> For a detailed study of Latvian workers in this period see Bērziņš (1997)

Table 1 Number of Factories and Workers in Rīga in 1910

Main Industries	No. of Factories	% of total Factories	No. of Workers	% of total Workers
Textiles	31	7.8	10105	15.1
Paper	47	11.9	3906	5.8
Wood	55	14.0	8647	12.9
Metals and Machinery	82	20.8	19494	29.1
Construction materials	44	11.2	6453	9.6
Animal Products	24	6.1	1200	1.8
Food	63	16.0	5127	7.7
Chemicals	28	7.1	9742	14.5
Other	20	5.1	2345	3.5
Total	394	100	67019	100

Source: Skujenieks (1927), p. 632

As can be seen from Table 1, heavy industry was the dominant form of industry in Rīga, followed by food processing, wood processing, paper products and construction materials. In terms of the number of workers employed however, although heavy industry also dominated, it was followed by textiles, chemicals and wood processing.

In respect of the other main centres of industrial growth, in 1910, Liepāja had 61 factories with 8216 workers, Jelgava with 84 factories and 7009 workers and Daugavpils with 43 factories and 4752 workers.<sup>11</sup> The largest number of workers in Liepāja was in the metals and machinery, and chemical industries; in Daugavpils also they were in the metals and machinery, and chemical industries, but in Jelgava – construction materials, textiles and food processing.<sup>12</sup>

The expansion of industry in Latvia was facilitated as noted previously by the actions of the Imperial government, notably the Finance Minister Sergei Witte. The basis of Witte's policies was the strengthening of protective tariffs to safeguard Russia's young industries against the destructive competition of stronger European economies and the encouragement of foreign investment. The high protective tariffs<sup>13</sup> forced foreign companies, which wished to enter the huge Russian market, to

<sup>11</sup> Skujenieks (1927), p. 632

<sup>12</sup> Skujenieks (1927), p. 632

<sup>13</sup> In accordance with the 1891 Tariff Law imported goods were taxed at the rate of from 33% to 100% of their value.

move from exporting to Russia to investing in companies or establishing new companies in Russia. Latvia and especially Rīga were attractive for such investment because of its geographical location, the higher levels of production and financial organisation than in many parts of Russia, the more qualified workforce (high levels of literacy<sup>14</sup>), the fact that some industrial development had already taken place and the access to inland Russia via the railway network.

By the end of the 19<sup>th</sup> and beginning of the 20<sup>th</sup> century, Rīga was not only the third largest industrial centre in the Tsarist Empire,<sup>15</sup> but also had a greater rate of industrial growth than the other two main industrial centres in the Empire as can be seen in Figure 1.

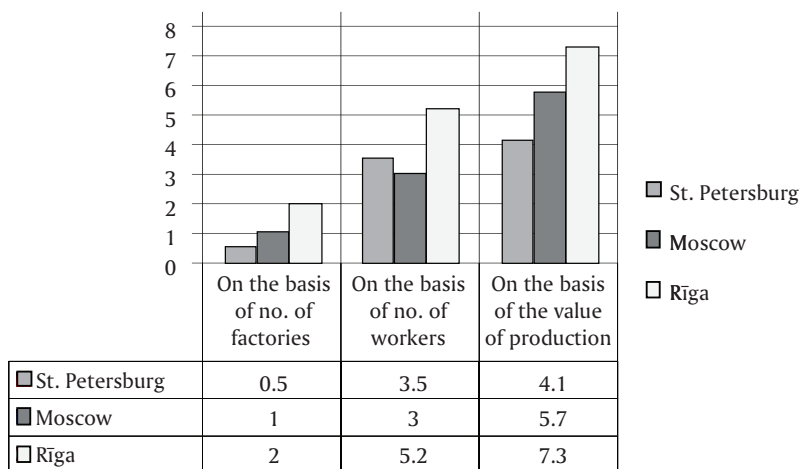


Figure 1 Average Annual Rate of Industrial Growth Main Russian Industrial Centres 1879-1914 (%)

Source: Latvija PSR Zinātņu Akadēmija. Vēstures Institūts (1978), p. 51

Rīga's industry was very concentrated – in 1910, there were 151 factories with 51 to 200 workers, but 77 with over 200 workers.<sup>16</sup> In Latvia as whole, in 1910, 17.7% of all workers worked in factories with

<sup>14</sup> In 1897, the Baltic region – Estland, Livland and Kurland – had literacy rates of 78%, 78% and 71% respectively, compared to 42% for Lithuania and as low as 19% in the Central industrial region – Gatrell (1986), p. 36

<sup>15</sup> Latvijas PSR Zinātņu Akadēmija. Vēstures Institūts (1978), p. 51

<sup>16</sup> Skujenieks (1927), p. 640

501 to 1000 workers and 22.8% worked in factories of 1001 and more workers.<sup>17</sup>

It has been estimated that in 1913, of the total value of production of all of Latvia's industry, 63% was realised in Inland Russia, 26% remained in Latvia for local needs and 11% was exported abroad.<sup>18</sup> Thus, nearly  $\frac{3}{4}$  of what was produced in Latvia was not for local consumption.

## Foreign Trade

One of the most important reasons for the rapid industrialisation of Latvia and particularly of the three main Baltic Sea ports of Rīga, Liepāja and Ventspils was the enormous increase in trade brought about by the policies of Witte and the expansion of the railway network to these ports.

The expansion of the Latvian seaports began in the second half of the 19<sup>th</sup> century after the completion of the *Rīga-Orel* railway link (1000 km) in the 1860s joining Rīga to Central Russia, Northern Ukraine and the Volga Basin, as well there were other lines linking Rīga to Russia: the *Moscow-Rīga* line (925 km) and the *Rīga-Pskov-Rybinsk* line (1020 km) serving the upper part of the Volga basin; and by the turn of the century Liepāja had been linked to Inland Russia and the Ukraine by the *Liepāja-Homel* (875 km) railway link and Ventspils by the *Moscow-Ventspils* railway link (1096 km).<sup>19</sup> The newly opened lines gave an impulse for the development of the cities and seaports. New factories and warehouses were built next to railway lines. Large elevators, refrigerators and access roads were built in the ports.<sup>20</sup>

All three ports became entrepôts for the rest of Russia. The advantages of the Latvian seaports were many including their geographical position in relation to the rest of Europe and the fact that both Ventspils and Liepāja were ice-free ports. Moreover, although Rīga was not completely ice-free during winter, the interruption to navigation was of much shorter duration than in the Gulf of Finland. In addition, transportation to European markets was much cheaper by sea than by rail through to Germany and beyond. The ports were continually being upgraded to increase throughput.

The most important port was Rīga, partly because Rīga itself was an important industrial centre and partly because it had a long history of trading with the rest of Europe.

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<sup>17</sup> Skujenieks (1927), p. 641

<sup>18</sup> Buševics (1930), p. 43

<sup>19</sup> The Latvian Economist (1921), p. 174

<sup>20</sup> For detailed summary of the infrastructure of the Latvian seaports in this period, see Štrauhmanis (2000)



Table 2 Imports and Exports through Rīga 1866-1913

Average per year	Imports	Exports
	Million roubles	Million roubles
1866-1870	14.42	31.03
1871-1875	22.54	37.54
1876-1880	32.61	55.07
1881-1885	27.44	56.69
1886-1890	21.14	53.21
1891-1895	25.95	51.23
1896-1900	53.22	70.15
1901-1905	85.09	110.72
1906-1910	113.95	157.53
1911	147.29	186.82
1912	145.87	224.84
1913	178.64	226.25

Source: Skujenieks (1927), p. 663

As can be seen from Table 2, in the second half of the 19<sup>th</sup> century Rīga's imports increased from 14.42 million roubles to 53.22 million roubles, but exports from 31.03 million roubles to 70.15 million roubles. Rīga's proportion of total Russian foreign trade in this period increased from 9.2% to 11.1%, which made it the third largest port in the Russian Empire.<sup>21</sup> By 1901-1905 Rīga had forged ahead of St. Petersburg (15.2% compared to St. Petersburg's 13.5%) to become the second largest seaport after Odessa.<sup>22</sup>

The main exports passing through Rīga were agricultural products and timber. The most important products exported, which made up 4/5 of the total exports from Rīga in 1913, were flax, grain, butter, timber, eggs, and hides.<sup>23</sup> The amounts exported made up a significant percentage of total Russian exports of the particular product. For example, in the period 1866-1870 41.6% of all flax was exported through Rīga,<sup>24</sup> but by 1906-1910 – 48.5% and in 1913 – 50.5%.<sup>25</sup> In terms of grain exports only a small percentage went through Rīga – in 1913, 9.1% of which 67% was wheat transported by rail from the Ural and Samara regions of Western

<sup>21</sup> Latvijas PSR Zinātņu Akadēmija. Vēstures Institūts (1978), p. 64

<sup>22</sup> LU Latvijas Vēstures institūts (2000), p. 255

<sup>23</sup> Skujenieks (1927), p. 664

<sup>24</sup> Latvijas PSR Zinātņu Akadēmija. Vēstures Institūts (1978), p. 65

<sup>25</sup> Skujenieks (1927), p. 666

Russia and Siberia.<sup>26</sup> Although timber and timber products made up a large percentage of exports from Rīga (18% in 1913)<sup>27</sup>, in terms of percentage of all Russian exports only 11.2% was exported through Rīga.<sup>28</sup> A large part the timber reaching Rīga was rafted down the Daugava River from the provinces of White Russia and Smolensk to sawmills around Rīga. One of the main exports from the port of Liepāja was also timber (in 1913 – 16.6% of all exports through Liepāja.<sup>29</sup> Butter was an important export at the beginning of the 20<sup>th</sup> century – in 1906 some 59.5% of all exported Russian butter was exported through Rīga. Hides were transported to Rīga and Liepāja by rail from Inland Russia and these two ports exported nearly 40% of all Russian exports of hides.<sup>30</sup> The export of eggs through Rīga started to rapidly increase in 1880s and by the end of 19<sup>th</sup> century some 25% of all Russian egg exports were exported through Rīga making it the largest exporter of eggs in the Empire.<sup>31</sup>

Imports through Rīga were primarily dependent upon the economic needs of the Russian Empire as a whole, including especially the needs of the Baltic region. Imports were dominated by four groups of goods – raw materials for industry (coal, metals, rubber, tobacco, cotton, cork, dyes and various chemicals), industrial equipment (machines and instruments), chemical fertilisers and consumer goods (herrings, salt, coffee, tea, cocoa, spices and fruits).

In the second half of the 1870s and in the first half of the 1880s metals (pig iron, iron, steel and lead) was an important part of the import structure.<sup>32</sup> However, in order to strengthen and protect the Russian metallurgical industry, the Russian government applied the maximum import duty (100%) to the import of metals<sup>33</sup> and thus the importation of metals was relatively small in later years (7.9% of total imports through Rīga in 1913)<sup>34</sup> and Rīga relied on metals from Inland Russia. On the other hand, Rīga's industry relied on the importation of coal from overseas – mainly from Great Britain as noted earlier. This was cheaper than coal railed in from Inland Russia. The imported coal was almost exclusively for industries in Latvia as Inland Russia relied on Russian and Polish coal transported by

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<sup>26</sup> Skujenieks (1927), p. 669

<sup>27</sup> Skujenieks (1927), p. 664

<sup>28</sup> LU Latvijas Vēstures institūts (2000), p. 257

<sup>29</sup> Skujenieks (1927), p. 664

<sup>30</sup> Skujenieks (1927), p. 667

<sup>31</sup> Latvijas PSR Zinātņu Akadēmija. Vēstures Institūts (1978), p. 67

<sup>32</sup> Latvijas PSR Zinātņu Akadēmija. Vēstures Institūts (1978), p. 67

<sup>33</sup> Skujenieks (1927), p. 672

<sup>34</sup> Skujenieks (1927), p. 670

rail. Other raw materials such as rubber, tobacco, cotton and cork were important items in Rīga's import structure. Rubber was a particularly important import as it was the raw material for one of Rīga's largest undertakings – the Russian-French joint venture “Provodnik” established in 1888<sup>35</sup>, which manufactured rubber boots, galoshes, linoleum and other rubber products.<sup>36</sup> In terms of production it was the world's fourth largest rubber factory, with 13 500 workers and a total value of production of 55 million roubles, some 95% of which was exported to Inland Russia and overseas.<sup>37</sup>

In terms of industrial equipment the main import was machinery and machine parts, most of which was transported by railway to various parts of the Russian Empire.<sup>38</sup>

Both industrial and agricultural machinery was imported. In 1913, Rīga imported some 32.6 million roubles of machinery, most which came from Great Britain, although some 40 to 50 per cent of the machinery imported into Russia as a whole was from Germany by railways.<sup>39</sup> Some 25% of Russia's total imports of chemical fertilisers came through Rīga making it the most important port in the Empire for the import of this product.<sup>40</sup>

The most important consumer goods imported were herrings. In the Russian herring trade, Liepāja took first place, but all the Latvian ports together imported 2/3 of all the herrings that Russia imported through the Baltic seaports. Altogether in 1913, the Russian Baltic seaports imported 1 220 276 barrels of herrings, of which 845 609 were imported through Rīga, Liepāja and Ventspils, to the value of 12.2 million Russian roubles.<sup>41</sup> Most of the herrings imported through Rīga were sent on by rail to the western regions of Russia. However, most of the other consumer goods imported through Rīga and the other Latvia ports were for local consumption.

The other two Latvian seaports – Liepāja and Ventspils – were primarily export ports (Table 3), although as noted above for some goods they were also leading importers. The growth of Ventspils in particular can be seen in Table 3. From a small port of local importance it grew into an important export port for the whole Empire after its linking by railway to Inland Russia. Of the three ports, in terms of imports in 1913, for Rīga 45.1% of total trade turnover was imports, Liepāja was next with 36%, but for Ventspils only

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<sup>35</sup> French capital 60% – Latvijas PSR Zinātņu Akadēmija. Vēstures Institūts (1978), p. 59

<sup>36</sup> It was one of the first factories in Europe to produce car tyres.

<sup>37</sup> LU Latvijas Vēstures institūts (2000), pp. 444-445

<sup>38</sup> Latvijas PSR Zinātņu Akadēmija. Vēstures Institūts (1978), p. 68

<sup>39</sup> Skujenieks (1927), p. 671

<sup>40</sup> Latvijas PSR Zinātņu Akadēmija. Vēstures Institūts (1978), p. 68

<sup>41</sup> Skujenieks (1927), p. 669-670

20.2% of total trade turnover was imports.<sup>42</sup> Thus, Ventspils was almost exclusively an export port, which can be explained by the comparative lack of industry, whilst Rīga and Liepāja imported large amounts of raw materials for their industries. For example, coal was also an important import for Liepāja (in 1913 – 9.3% of total imports).<sup>43</sup> Nevertheless, a large proportion machinery for Inland Russia was imported through Ventspils. Between 1906 and 1910 the average amount of machinery (in poods)<sup>44</sup> imported through the Baltic seaports for Inland Russia through Ventspils was 40.9% (mostly agricultural machinery) compared to St. Petersburg – 19.1%, Rīga – 17% (mostly industrial machinery), Liepāja – 13.8% (both industrial and agricultural machinery) and Revel (Tallinn) – 9.2%.<sup>45</sup>

In terms of exports, nearly 2/3 of exports in 1913 through Ventspils were butter, which mainly came by rail from Siberia.<sup>46</sup> Other main exports in 1913 from Ventspils included flax (some 12.3% of total Russian flax exports),<sup>47</sup> and oats. In fact, through Ventspils and Liepāja in 1913 some 41.9% of all oats exported from Russia was exported, and it was higher still in 1912 – 52.6%.<sup>48</sup>

Table 3 Imports and Exports through Liepāja and Ventspils 1901-1913

Year	Liepāja		Ventspils	
	Imports	Exports	Imports	Exports
	Million roubles		Million roubles	
1901-1905	17.4	44.9	5.4	16.1
1906	20.1	34.0	6.3	19.2
1907	21.8	31.9	9.0	33.5
1908	26.0	23.6	15.7	32.1
1909	22.1	49.1	26.1	50.7
1910	24.4	52.5	14.1	69.9
1911	31.9	61.4	24.4	82.2
1912	32.2	72.0	28.1	94.6
1913	33.6	48.6	18.8	74.6

Source: Skujenieks (1927), pp. 663, 665

<sup>42</sup> Skujenieks (1927), p. 665

<sup>43</sup> Skujenieks (1927), p. 670

<sup>44</sup> Russian unit of mass equal to approximately 16.38 kilograms.

<sup>45</sup> Skujenieks (1927), p. 671

<sup>46</sup> Skujenieks (1927), p. 667

<sup>47</sup> Skujenieks (1927), p. 666

<sup>48</sup> Skujenieks (1927), p. 669

The importance of the three Latvian seaports to Russian foreign trade through the Baltic seaports is shown by the fact that the value of the total amount of trade (imports + exports) through Russia's Baltic Sea ports in 1913 was 1028 million roubles, of which 585 million roubles – 56.9% went through the three Latvian ports.<sup>49</sup> If one looks at total Russian foreign trade, then in 1913 28.2% of total exports and 20.6% of total imports went through the three Latvian ports.<sup>50</sup>

Foreign trade through the ports was mainly with Great Britain, Germany, Belgium, France, USA, the Netherlands, Sweden and Denmark, the two major trading partners being Great Britain and Germany (Table 4). In 1913, 35.5% of exports (mainly flax, butter, eggs, grain and hides) and 40.7% of imports (mainly coal, machinery, metals, cotton, rubber and other raw materials, as well as consumer goods – herrings, tea, cocoa etc.) were with Great Britain, but 21.4% of exports (mainly timber, butter, eggs, grain and hides) and 30.7% of imports (mainly machinery, coke, metals, tobacco, chemical fertiliser and other raw materials, as well as consumer goods – coffee, wine etc.) were with Germany.<sup>51</sup>

Table 4 Imports and Exports through Latvian Ports by Country – 1913

Country	Exports (million roubles)			Imports (million roubles)		
	Rīga	Ventspils	Liepāja	Rīga	Ventspils	Liepāja
Great Britain	87.17	21.88	14.46	79.73	3.09	13.66
Germany	43.17	24.54	6.74	61.95	2.10	8.64
Belgium	30.92	7.60	1.68	5.20	..	0.78
USA	21.83	0.35	15.17	3.84	6.49	6.73
France	14.15	4.43	3.28	0.08	0.57	0.61
Netherlands	14.89	4.07	3.87	10.43	0.04	1.48
Denmark	5.78	11.01	2.73	11.38	4.43	0.03
Sweden	5.18	0.57	0.49	8.85	2.05	0.03
Others	1.78	0.17	0.23	3.10	0.02	1.03

Source: Skujenieks (1927), p. 674

As can be seen in Table 4, for Rīga the important trading partners in terms of both exports and imports were Great Britain and Germany,

<sup>49</sup> Skujenieks (1927), p. 676

<sup>50</sup> Skujenieks (1927), p. 677

<sup>51</sup> Latvijas PSR Zinātņu Akadēmija. Vēstures Institūts (1978), p. 69 and Skujenieks (1927), p. 673

whilst for exports also Belgium, USA, France and the Netherlands and for imports also the Netherlands and Denmark. For Ventspils the important export trading partners were Great Britain, Germany and Denmark, but for imports – USA, Denmark and Great Britain. For Liepāja the important export trading partners were USA, Great Britain and Germany, but for imports – Great Britain, Germany and USA.

## Conclusion

In the second half of the 19th and the beginning of the 20th century Tsarist Russia was undergoing vast economic changes and although there some disputes among economic historians as to the implications of these changes for modern economic growth in Tsarist Russia,<sup>52</sup> the effect of the process of capitalist development in the Latvian provinces is clear.

The growth of trade and the development of cities in Latvia in the second half of the 19<sup>th</sup> and the beginning of the 20<sup>th</sup> century were stimulated by the construction of railways, which turned the Baltic seaports of Rīga, Ventspils and Liepāja into significant transit ports and industrial centres in the Russian Empire. The rapid industrial development of Rīga and to a lesser extent Liepāja stimulated a demand for raw materials and machinery for their own industrial expansion, as well as being entrepôts for the rest of Russia.

Rīga as the third largest industrial centre in the Russian Empire had annual growth rates in terms of number of factories, number of workers and value of production, which far exceeded those of St. Petersburg and Moscow.

But it was the fact of the three Latvian Baltic seaports as entrepôts for the Tsarist Russian Empire that defined their role in the economic growth of Russia. If one looks at total Russian foreign trade, then in 1913 28.2% of total exports and 20.6% of total imports went through the three Latvian ports. Although a certain amount of the foreign trade passing through the Latvian ports was stimulated by their own industrial growth, their main role was as transit ports for Inland Russia. The products of the vast Russian hinterland was funnelled to the ports by the railway network, which also carried not only the products produced by Rīga and Liepāja, but also the goods imported through them back to the Russian heartland.

In 1913, of the total value of production of all of Latvia's industry, 63% was realised in Inland Russia, 26% remained in Latvia for local needs and 11% was exported abroad. Similarly, important imports such as industrial

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<sup>52</sup> For a discussion and summary of the various views see Allen (2003), pp. 21-46

and agricultural machinery, chemical fertiliser and consumer goods were channelled through the three Baltic seaports to Inland Russia.

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# MICHAEL JOHANN BORCH'S MEETING WITH VOLTAIRE: A PAGE FROM LATVIA'S EUROPEAN CULTURAL HISTORY

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## Abstract

The article is devoted to the unknown letters of Michael Johann Borch (1753-1810), the promoter of the ideas of the Enlightenment of the 18th century, an active member of the Order of Malta, a traveller, collector, writer and politician, and the owner of Varakļāni Manor. These letters are stored in the V. Stefanyk National Academic Library of the Ukrainian Academy of Sciences in Lviv. A special analysis is performed of the letter that reflects the meeting of Borch with Voltaire, the major authority of European intellectuals of the 18th century, and that has been published only in part (the full wording is presented here for the first time). In the letter Borch appears as an outstanding poet, conversation partner, and master of the epistolary genre in French, as well as a patriot of his native Poland and the local native land of Inflanty (now Latgale), who at the same time adheres to social reforms to improve the situation of the peasant, tolerantly accepts different peoples and cultures of Europe, and defends a common European identity. But Borch's inclusion in his letters of poetry composed in Latvian sheds light on his relations with the Latvian language and culture. All this taken together calls for the revision of certain stereotypes in Latvia and abroad regarding the Baltic aristocracy in the 18th century and provides a better understanding of the once distinguished place occupied by Baltic (and Latvian) intellectuals in the circles of educated European society.

**Keywords:** Michael Johann Borch, Voltaire, Enlightenment, European identity, Inflanty.

## Introduction

Despite the fact that Michael Johann Borch<sup>1</sup> (Michael Johann v. d. Borch-Luboschutz, 1753-1810)<sup>2</sup> is almost completely unknown to the broader Latvian public, he is nevertheless one of the most significant figures in our cultural history. He is, however, like a deep, bottomless well in that

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<sup>1</sup> Sources in the Latvian language have stated his name in the incorrect order, namely, Johans Mihaels Borhs.

<sup>2</sup> Michel-Jean, comte de Borch. Borch's name should also be cited in French, because he wrote the letters in French and always signed his name in French.



it is very difficult to familiarise oneself with all of the diverse aspects of his work. Borch was the owner of Varakļāni Estate, wrote a published description of the estate's new park, was a scientist and collector, amassed an exceptional library, interpreted the ideas of the French Enlightenment, was an admirer of Swiss independence, founded the Polish branch of the Order of Malta, was a writer and poet, as well as a European diplomat and traveller, organised expeditions to Sicily and Malta referred to by the famous German author Johann Wolfgang von Goethe in his work "Italian Journey"<sup>3</sup>, and much more. Much of Borch's work – his histories and many original documents – are not located in Latvia; instead, they are still in the V. Stefanyk National Academic Library of the Ukrainian Academy of Sciences in Lviv, where they were placed during World War I. Thanks to the invitation and support of Aija Taimiņa (head librarian at the Academic Library of the University of Latvia) and Venta Kocere (director of the Academic Library of the University of Latvia), I was able to visit the V. Stefanyk Library in the summer of 2011 and conduct research there.

My attention was especially caught by a letter written by Borch in Lyon on 27 January 1775. Like so many other letters written during his travels in Europe, Borch wrote this letter to his father as a sort of report about his activities. But this letter also describes a meeting Borch had with Voltaire himself (François-Marie Arouet Voltaire, 1694-1778), the uncrowned king of Europe's intellectuals who, thanks to his successful polemics and frequent victories over his opponents, had ensured himself the status of an almost indisputable "guardian of the truth" and whose favour was sought by many a European monarch. Portions of Borch's letter describing his meeting with Voltaire were published in 1874 in the compilation of meeting minutes from the Courland Literature and Art Society (Kurländische Gesellschaft für Literatur und Kunst) published in Jelgava.<sup>4</sup> But a large part of the text was left unpublished, for example, the poems written by Borch, including those he dedicated to Voltaire. These poems form an important part of the letter's message, and finding the original letter in Lviv was therefore very important. The original copy of this letter was used for the analysis described in this article.<sup>5</sup>

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<sup>3</sup> J. W. Goethe referred to Borch in 1787, when he was travelling in Sicily.

<sup>4</sup> Sitzungsberichte der Kurländischen Gesellschaft für Literatur und Kunst aus dem Jahre 1873 (1874). Mitau: J.F. Steffenhagen und Sohn, pp. 3-7.

<sup>5</sup> V. Stefanyk Lviv National Academic Library. Borch archive (fund no. 13). 90. Korespondencija Jana i Ludwiki Borchów (głównie listy Michała Borchy z podróży po Europie Zachodniej 1773–1780 oraz jego dziennik z podróży po Szwajcarii 1774). 1773–1780.

## Borch, Voltaire and Poland

Borch's meeting with Voltaire in 1775 took place at Voltaire's residence in the town of Ferney near the Swiss border<sup>6</sup> where he, having been banned from Paris and having left Geneva, lived from 1758 until the last year of his life, 1778, when he triumphantly returned to Paris. But, despite the disfavour of the French king Louis XV and his apparent exile, Voltaire's popularity and social status in Europe and his own France had only grown. It seemed the world revolved around Voltaire. Voltaire lived in a grand manor house in Ferney, where he developed a clock manufacturing industry and spent his time entertaining countless admirers from across Europe.

The man Borch met only bestowed the honour of his gracious reception in Ferney on the top stars of the 18th century, such as the economist Adam Smith, the illustrious Enlightenment-era historian Edward Gibbon, the scandalous heartbreaker Giacomo Cassanova, and the well-known writer James Boswell. In 1775, when Borch arrived in Ferney, Voltaire was nearing the end of a long life and at the very zenith of his celebrity; hardly anything surprised him anymore. It is possible; however, that Borch's visit did leave an impression on the great thinker. In any case, the visit does seem to have been memorable and noteworthy enough. Unfortunately, the only evidence of this meeting is Borch's own letter, which constitutes a rather biased source of information.

Borch wrote that he had been announced to Voltaire as a "foreigner". Voltaire had assumed Borch was going to be an academic from Paris and was therefore surprised to meet a poet. They spoke at length about the history and government of Poland, as well as about literature and poetry. At the end of the conversation Voltaire expressed his surprise at how well Borch spoke French and said he thought Borch spoke French as well as a true Frenchman. Borch was from "Polish Livonia" (Inflanty polskie, modern-day Latgale in Latvia) and therefore naturally presented himself as a Polish man. No matter that Polish Livonia had been ceded to the Russian Empire along with the partition of Poland in 1772; Poland continued to exist and things were far from over...

Later in the conversation Voltaire admitted that he had read various essays by foreign writers translated into French, but he had never seen an opus in the French language written by a Pole ("a Polish muse", "production d'une Muse polonaise; ...").<sup>7</sup> He therefore asked Borch to show him one of his pieces of work, and Borch was then compelled to send him one

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<sup>6</sup> Now called Ferney-Voltaire.

<sup>7</sup> V. Stefanyk Lviv National Academic Library. Borch archive (fund no. 13). 90. Korespondencija Jana i Ludwiki Borchów (głównie listy Michała Borchy z podróży po Europie Zachodniej 1773–1780 oraz jego dziennik z podróży po Szwajcarii 1774). 1773–1780.

of his poems by the following day. Of course, a visit in the 18th century was never just a “quick get-together”, especially considering our modern standards of constant hurry. In this complicated situation, Borch took to completely reworking a poem he had written earlier and which he had apparently originally dedicated to King Stanisław II August Poniatowski of Poland. The “Poem about the Heroic Rescue of King Stanislaw II of Poland” was published only in 1791, but it is possible that in his letter Borch referred to an unpublished version of this poem. With the help of a friend, Borch sent the successfully reworked poem to Voltaire the following day. Borch also asked Voltaire to be informed that the request had been fulfilled and that Borch allowed himself the hope of Voltaire honouring him with a critique of the poem. Borch worried needlessly, because Voltaire’s response exceeded all expectations.

The great thinker appeared with the poem in his hands and expressed his compliments, saying that of all the literary works written by foreign writers only Shuvalov’s ode and Borch’s poem earned recognition for their exceedingly pure use of language and high poetic quality. Shuvalov is no doubt Ivan Ivanovich Shuvalov (Иван Иванович Шувалов, 1727-1797), the patron of the arts and distinguished Russian cultural figure of the Enlightenment era, Russia’s first Minister of Education, who initiated the creation of Russia’s first university and academy of theatre and music. Shuvalov was in close contact with Voltaire, and it was precisely due to Shuvalov’s support that Voltaire wrote “The History of the Russian Empire under Peter I”, 1759, 1763).<sup>8</sup> Coincidentally, Baron Corberon<sup>9</sup>, who was at the time a member of the French diplomatic mission in Russia, wrote that while visiting Shuvalov in 1775 – the very same year of Borch’s visit with Voltaire – Shuvalov had read aloud to him an improvisation by Voltaire.<sup>10</sup>

Returning to the topic of Borch’s letter, it is evident that the rest of the conversation between him and Voltaire consisted of an exchange of various pleasantries, in which both conversation partners engaged in unending courtesies and affirmations of their high regard for each other. Borch said that Voltaire was to thank for his poems having any value at all. Voltaire, on the other hand, stated that nothing was nobler than the chosen theme of Borch’s poem, and so on, and so on. Of course, Borch was not Voltaire’s only guest and the whole conversation took place within a broader social context. Also in attendance was a Prussian officer, the husband of the granddaughter of the famous French dramaturge Pierre

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<sup>8</sup> Сергей Михайлович Соловьев (1994). Сочинения. Moscow: Мысль, p. 465.

<sup>9</sup> Marie Daniel Bourree de Corberon (1748-1810).

<sup>10</sup> Marie Daniel Bourree de Corberon (1901). Un diplomate francais a la cour de Catherine II, 1775-1780. Paris: Plon-Nourrit, p. 101.

Corneil<sup>11</sup> and described as belonging to the “French Protestant” religion (apparently of Huguenot origin). Voltaire gave Borch advice regarding the final version of his poem and decided to publically read a section of the poem that referred to his homeland. The fragment he chose was about the problems, sufferings, and contradictions Poland faced. The fragment expresses a feeling of hopelessness, as in “the terrible slander that inspires vipers; black crosses; sombre callousness; disorder and crimes” and so on.<sup>12</sup> Afterwards, Borch decided to retire to his room, but Voltaire held him back and asked him to dine with him. Borch responded that he would gladly spend more time together with him and subsequently witnessed some interesting conversations. The company was joined by four English gentlemen, including a man named Chesterfield (possibly the very young future British diplomat Philip Stanhope, 5th Earl of Chesterfield, 1755-1815). The conversation turned to England, which seemed to Borch an exciting topic. Here he could also witness the ease with which Voltaire adapted himself to his new conversation partners and assumed an air of seriousness, like a true chameleon (“vrai caméléon”).<sup>13</sup>

As the social evening came to an end, the talented Polish guest from Livonia again picked up his pen and paper and composed a new homage to Voltaire – a letter in poems – to be delivered to the master in bed as he woke the following morning. Poetry such as this is called *épitre* in French, derived from the Latin *epistola* (letter). Voltaire had developed this genre in his own style by writing poetic homages to various European monarchs such as Frederick the Great, Catherine the Great and others. Monarchs (among them Frederick the Great<sup>14</sup>), in turn, imitated this style and wrote a string of *épitres* themselves. Of course, Borch was not the first to write a poetic letter to Voltaire; let us remember, for example, the very skilful composition by Frederick the Great of Prussia in 1750.<sup>15</sup>

The next morning Borch met Voltaire while he was still in bed. The master apologised that Borch had to see him in such a state, but he did not feel well. Voltaire said he had a slight fever following the previous evening.... And yet he thanked the young poet for the new poems dedicated to him. Here, Borch took advantage of the situation and asked

<sup>11</sup> Pierre Corneille (1606-1684), the founder of Classical tragedy in French literature.

<sup>12</sup> V. Stefanyk Lviv National Academic Library. Borch archive (fund no. 13). 90. Korespondencija Jana i Ludwiki Borchów (głównie listy Michała Borcha z podróży po Europie Zachodniej 1773–1780 oraz jego dziennik z podróży po Szwajcarii 1774). 1773–1780.

<sup>13</sup> *Ibid.*

<sup>14</sup> Frédéric II, roi de Prusse (1760). *Poesies diverses ou Oeuvres du philosophe de Sans-Souci*. T. 1. Potsdam.

<sup>15</sup> *Ibid.*, p. 315.

Voltaire to write a letter of recommendation for him, which he needed in Lyon. Truly, the world belongs to the bold!

Borch's poems dedicated to Voltaire are, of course, pure songs of praise that extol the master's name and glory to the very heavens („jusqu'au ciel”).<sup>16</sup> Borch's letter continues with several lines of pleasantries to his father, to whom the letter is addressed. He then reminds his father of his travel notes from his previous trip to Switzerland the year before, in 1774, and then the letter ends.

Borch's letter is significant for many reasons. First of all, it is a testimony of the strong sense of Polish identity in later 18th century Livonia, or Inflanty (modern-day Latgale). Wherever he went in Western Europe, Borch represented the united Polish identity and culture. He was the first to give Voltaire an impression of the „ability of a Polish poet to write in French”. Despite the partition of Poland in 1772, during which Inflanty was ceded to the Russian Empire, the local aristocracy's sense of Polish cultural identity had not changed. The society had completely integrated the old German and Latvian roots of Livonia, which, along with regional patriotism, had over many years formed close ties with the court in Warsaw.

Secondly, Borch's letter shows the great importance of French language and culture for the aristocracy in Inflanty in the 18th century. A large part of European aristocracy aspired to speak and write in French during this period, but Borch's ability and style were quite remarkable. In this sense, his letters speak for themselves.

Thirdly, Borch's letter provides important information about the relationship between Voltaire and Poland in the late 18th century. This was a fairly ambiguous relationship, and for this reason Borch's letter is a very interesting source that sheds new light on this issue. **Voltaire was no friend of Poland.** Rather, he was more likely to sympathise with the enlightened absolutism of Prussia and Russia, with Frederick the Great and Catherine the Great, instead of the aristocratic democracy of Poland, which he considered to be simply anarchy.<sup>17</sup> In one sense, he was right in that an elected monarch and liberum veto (the right of any member of the Polish Sejm to halt any legislation he did not approve of) encouraged the permissiveness of the Szlachta and led to chaos in the government. Unfortunately, Voltaire did not live to see Polish king Stanisław II August Poniatowski's (1732-1798) successful attempts at reforming this system, which began in 1791. He

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<sup>16</sup> V. Stefanyk Lviv National Academic Library. Borch archive (fund no. 13). 90. Korespondencja Jana i Ludwiki Borchów (głównie listy Michała Borchy z podróży po Europie Zachodniej 1773–1780 oraz jego dziennik z podróży po Szwajcarii 1774). 1773–1780.

<sup>17</sup> Sophie Barthélémy (2004). *Francja–Polska: un siècle de relations intellectuelles et artistiques entre la France et la Pologne (1750–1850)*. *Semper Polonia: L'art en Pologne, des Lumières au romantisme (1764-1849)*, p. 60.

even went so far as to call it, the idea of partition of Poland, a genius in his letter to Frederick II of Prussia.<sup>18</sup> But at the same time Voltaire regarded that Poland was run by obscurantism and religious fanaticism, which was not true, at least in regard to the Polish intellectuals. Alongside clericalism and a conservative understanding of society (which is not necessarily a bad thing), the vast majority of the Polish aristocracy openly admired the ideals of the Enlightenment, trends towards reforming society, and freedom of religion they saw in France. Voltaire was held in high regard in Poland. This is confirmed, for example, by the fact that “Zadig”, Voltaire’s work of social criticism, was published in the Polish language in 1773.<sup>19</sup> In any case, Borch’s visit improved Voltaire’s image of Poland (of course, if we can believe Borch’s account). It is unfortunate that we do not know about the reception of his visit in Poland. What were the consequences of it? Borch was close to the Polish court and people there listened to him.

In his poem about Poland, even Borch himself describes Poland as a tragic place and, like Voltaire, criticises the government’s misunderstanding of freedom. But Borch nevertheless remained a patriot of Poland. According to Borch, it was exactly this critical section of his poem that Voltaire liked so much and read aloud publicly. We must also recognise that the most ardent patriots of Poland, including King Stanisław II August Poniatowski himself, desired reform of the administrative system. Addressing old Polish problems in the era of Enlightenment (especially beginning with the first partition of the country, but also later, in the Romantic period) was even a fashion of sorts and a unique barometer of true, selfless patriotism. It is logical, then, that Polish thinkers often referred in their discussions to Piotr Skarga (1536-1612), a 16th-17th century Jesuit who had sharply criticised the discord present among Poles during his lifetime.

In reading Borch’s letters, it becomes clear that he was an extremely skilful diplomat with a good sense of intuition and the ability to reach his intended goals in spite of any obstacles that may have been set in his way. He kept pace with the ironic French and Italian adventurers of his time who largely set the tone and style of conduct in Europe in the second half of the 18th century. Borch’s letter to Voltaire proves that he was not only a talented writer (which is obvious when reading, for example, the description of his travels to Sicily and Malta<sup>20</sup>) but also a

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<sup>18</sup> Ibid. Despite the earlier conflict between the two, by 1757 Voltaire and Frederick II had resolved their differences and were regularly exchanging friendly letters with each other.

<sup>19</sup> Ibid.

<sup>20</sup> Michel-Jean, Comte de Borch (1782). *Lettres sur la Sicile et sur l’île de Malthe ... pour servir de supplément au voyage en Sicile et la Malthe de Monsieur Brydonne*. Turin: chez les freres Reycends.

gifted poet, of course, in keeping with the leading canons of 18th century French literature. Based on this and other letters he wrote in French, Borch was a true master of the epistolary genre and strove to imitate the style developed already in the 17th century by Madame de Sevigny (Marie de Rabutin Chantal, Marquise de Sévigné, 1626-1696). But Borch should not be regarded as a cosmopolite without an identity of his own. The patriot of Inflanty also wrote letters in Polish and Latvian and even included poems in the Latvian language in letters to his wife, Eleonore Christine Borch (née Browne, 1766-1844):<sup>21</sup>

Mīļā sirsniņ, dvēselīt  
 Es pie tavām kājām krīt  
 Lūdzam: griez šurp tavu auss,  
 Manu gribēšanu klaus....

(Dear little heart, little soul,  
 I fall to my knees at your feet.  
 Please turn your ear to me  
 And listen to my desires...) and so on, and so on.

It is difficult to determine the origin of this poem. It resembles the popular songs written by “Old Stenders” (Vecais Stenders, Gotthard Friedrich Stender, 1714-1796). But this example also proves that, in contrast to the stereotypical arrogance and “distance from the people” of the Baltic gentry, Borch was not indifferent to the Latvian language and traditions.

Compared to that of Voltaire, Borch’s style is, of course, very pathetic. He described the flowering of his beginner’s muse in poetry as only resulting from the influence of Voltaire’s genius, and so on. But we must understand that such forms of politeness were common and self-evident among 18th century intellectuals. Borch was not only adulating Voltaire. Borch was indeed a European with a capital E, and Voltaire was the soul of Europe at that time. For example, in a letter he wrote to his father from Parma in 1776, Borch clearly listed his basic values by writing that “My King, my Nation, and the whole of Europe will be my judges...” (Mon Roi, ma Nation, l’Europe entière seront mes juges...).<sup>22</sup> A statement and world view such as this might provoke astonishment and incredulity in the modern-day

<sup>21</sup> V. Stefanyk Lviv National Academic Library. Borch archive (fund no. 13). 2. Papiery osobiste Michała i Eleonory Borchów (1782–1811), ich wnuka Michała, oraz materiały związane z działalnością ich syna Karola (1811–1853). 1767–1861. l. 261.

<sup>22</sup> V. Stefanyk Lviv National Academic Library. Borch archive (fund no. 13). 90. Korespondencja Jana i Ludwiki Borchów (głównie listy Michała Borchy z podróży po Europie Zachodniej 1773–1780 oraz jego dziennik z podróży po Szwajcarii 1774, 1773–1780.

European Union due to the fact that patriotism, honour, and a European cultural identity have unfortunately become a thing of the past. In general, many of Borch's statements regarding tolerance, social justice, human rights, and the acceptance of other cultures could be used as slogans above the doors of the European Parliament. It is for these reasons, of course, that we accept European unity – to learn from the experiences of others and to use this knowledge for the betterment of our own nations and prosperity. For example, in a letter he wrote to his father from Lyon in 1776, Borch described various European peoples and expressed his thoughts about what one could learn from each.<sup>23</sup> Voltaire also possessed such openness towards different cultures. He could accept a person of any nationality and religious conviction with open arms, participate in a discussion with him or her, and defend his own opinions in an open dialogue. Despite Voltaire's general negative assessment of Poland, we see in Borch's letter the very unforced and unprejudiced manner in which the master received him after having learned that Borch was Polish. It is precisely this non-stereotypical attitude that is lacking in Europe today, where citizens are still grouped according to "westerners" and "easterners" despite the political origin of this absurd division in the confrontation between the former Communist Bloc and NATO countries (the Iron Curtain), which has absolutely nothing to do with older European history.

Another thing that brought Borch and Voltaire together was the recognition of civil liberties and the criticism of serfdom. Voltaire had been campaigning against serfdom in Europe and France already since 1770 and continued to do so until his death. Serfdom had truly reached its climax in Poland (and Borch's native Inflanty) in the 18th century, and the difficult situation of the peasant was another reason supporters of the Enlightenment criticised Poland. We can only judge Borch's own views on this subject from his letters, for example, his description on 30 August 1774, of his journey to Switzerland, in which he severely criticised serfdom in Latgale. In this letter he was extremely harsh towards members of his own class back home. In comparing the situation with that in Switzerland he wrote, "We are the authors of our own foolishness, the tyrants of this piece of land in our possession. We do not differentiate between the inhabitants of our villages and the animals that plough our fields or live in our forests."<sup>24</sup>

Considering the Latvian national myths, however, we should not accept these sentences as proof of the "eternal slavery of the Latvian nation". First of all, we must remember that life for the 18th century peasant was

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<sup>23</sup> *Ibid.*

<sup>24</sup> *Ibid.*



not easy anywhere in Europe. Second, serfdom was abolished in the Baltic provinces of Courland (Kurzeme) and Livland (Vidzeme) earlier than in many other places in Europe.<sup>25</sup> Even though serfdom was abolished in former Inflanty at the same time as it was abolished in Russia (1861), discussion of reforms and improving the condition of peasants in Inflanty had already begun in the 18th century, as it had in Courland, Livland and Estonia. This was a positive development for the Baltic region in the context of other European countries. As in Livland, improving the condition of peasants in Inflanty was closely linked to French and Swiss influence. George-Frédéric Parrot (1767-1852), a scientist born near the Swiss border in Montbéliard, had been active in promoting the improvement of the social condition of peasants in Livland; likewise, Borch wrote in French about this same subject in Inflanty after having been influenced by the ideas of the Enlightenment during his stay in Switzerland. Let us remember that Garlieb Merkel, the passionate advocate of Latvian peasants whom we may also thank for the falsification of Latvian history and the myth of the long period of “slavery”, also supported and popularised the ideas of the Enlightenment, especially those of Jean Jacques Rousseau (1712-1778) and Guillaume Thomas Raynal (1713-1796).

## Conclusion

In conclusion, as we contemplate the spiritual disorientation of the modern-day population of Latvia, we are forced to regret the forgetting of cultural history. If Poles pride themselves in having adopted Europe’s first constitution in 1791, Latvia could pride itself in its 18th century thinkers, among whom Borch was one of the first to define “European identity”. Borch was an illustrious supporter of the ideas of the Enlightenment and a friend to European spiritual authorities during his lifetime. Despite all the slogans and appeals, Borch’s letters allow us to comprehend the devaluation of modern European (and Western) values. The ridiculous division of “Eastern Europe” from “Western Europe”, which serves as a foundation for the discrimination of many European countries, is a shameful testimony to this ignorance.

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<sup>25</sup> Serfdom in Courland and Livland was abolished earlier than in Saxony, Hannover, certain Austrian provinces, Hungary, Congress Poland, Iceland, Russia, the Balkans, Spain, and Italy.

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# ESSENCE AND IMPORTANCE OF SUSTAINABLE MARKETING IN BUSINESS

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## **Abstract**

This article covers the essence of sustainable development and sustainable marketing, as well as the possibilities of companies to implement sustainable marketing. It discusses the main criteria of sustainability, the concept of sustainable marketing and the main conditions for the implementation thereof. The study promotes the awareness of the notions “sustainable development” and “sustainable marketing” by defining the said notions and suggesting the possible activity of companies in this direction.

**Keywords:** sustainability, sustainable development, sustainable marketing

## **Introduction**

Recently there has been much discussion of social responsibility, ecology, “green” policy, sustainability and sustainable development in the public media, literature, press etc. It has become important for the people not only to satisfy their present core needs, but also to preserve and improve natural resources, do less harm to the environment and their own health and thus enable the next generation to satisfy their needs, preserve the existing resources and consume ecological goods in the same way. Such notions as socially responsible, sustainable, ecological are frequently used as synonyms in a variety of combinations to emphasise how important the environment, investments in development, ecology and sustainable development in general have become for us.

In recent scientific publications and books, the authors also address sustainable development in business, including the field of marketing. However, prior to sustainable action it is necessary to clarify the essence and development directions of the notion. Research reveals controversies among scientists and specialists on the topic, and a discussion of the

essence, concept and activity of sustainable marketing will facilitate its effective usage in business.

## Essence of Sustainable Development

The issue of sustainability has become topical for the society of the 21<sup>st</sup> century as the rapid population growth, technological changes and unprecedented economic growth of the twentieth century all combined to pose a number of challenges for the new century, including the following: *population, poverty, health, urbanisation, peak oil, ecosystem damage, food, water, climate change*.<sup>1</sup> The world's population had recently passed the 6 billion mark and was growing at an annual rate of 1.14% (or about 75 million people).<sup>2</sup> The unprecedented scale of economic growth during the twentieth century might logically be assumed to have had a major impact in terms of reducing poverty. However, with almost 3 billion people living on less than EUR 1.44 per day, and up to 30 000 child deaths daily being directly attributable to poverty, it appears to be a challenge that has endured.<sup>3</sup> Health remains one of the primary determinants of quality of life, and although improvements in health technologies and public health practices raised life expectancies in most countries during the twentieth century, a number of health issues continued to threaten or impair the quality of lives worldwide.<sup>4</sup> Population migration into, and growth within, cities was a key trend during the twentieth century, and by 2000 almost half of the world's population were urban dwellers. There are an increasing number of so-called megacities containing more than 10 million inhabitants, including Tokyo, New York, Mexico City, Buenos Aires, Mumbai, Sao Paulo and Karachi. Based on trends in births and migration, the United Nations predicts that 2 billion people will be living in slums by 2030.<sup>5</sup> The fossil fuels, and particularly oil, that underpinned the economic growth of the twentieth century are known to be finite resources. There is considerable controversy over when existing fossil fuel resources will be depleted to a point "peak oil" output is reached, leading to subsequent reductions in supply and rises in price. Known reserves are likely to expand through new discoveries and technologies to exploit "unconventional" and currently uneconomic resources.

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<sup>1</sup> Martin D., Schouten J., *Marketing in the Twenty First Century*, USA: Pearson Prentice Hall, 2012., 8-9.pp.

<sup>2</sup> UN (2005a) op.cit.

<sup>3</sup> UNICEF (2000) Progress of Nations Reports, Paris: United Nations Children's Fund.

<sup>4</sup> WHO (2000) World Health Report 2000, Geneva: World Health Organization.

<sup>5</sup> World Recourse Institute (2005) op.cit.

However, the growing demand for oil from large and rapidly industrialising economies such as China and India will also rapidly absorb new supplies.<sup>6</sup> In 2005, the results were published of the United Nations' Millennium Ecosystem Assessment, a four-year research project to assess the health of the natural environment, the impact of human development on natural systems and their ability to support life and provide 'ecosystem services'. These services, including providing food, water, fuel and materials such as wood and fibres for shelter, clothing and other products. Ecosystems also provide benefits by regulating climate and temperature, preventing flooding and diseases and managing water quality and waste.<sup>7</sup> Despite progress in agricultural productivity, at the millennium around 800 million people in developing countries were still chronically undernourished. The expansion of agricultural production during the previous century largely relied on the use of artificial fertilizers based on oil. Increasing oil prices, competition for agricultural land for uses such as biofuels, extreme weather and growing demand from countries such as China and India all combined to push up global food prices.<sup>8</sup> More than 1 billion people in developing countries lack adequate access to water, and 2.6 billion people lack basic sanitation.<sup>9</sup> At the same time, one consequence of the economic growth of the twentieth century and the burning of fossil fuels to provide much of the energy that drove our economies was the release of carbon dioxide (CO<sub>2</sub>) into the atmosphere. There is a clear scientific consensus that the role of CO<sub>2</sub> as a "greenhouse gas" that traps the incoming energy from the sun (combined with other greenhouse gases such as methane released by both natural processes and human activity) is raising average global temperatures in ways that will increasingly disrupt global climate systems resulting in potentially disastrous changes in climate.<sup>10</sup>

All the above factors have contributed to 21<sup>st</sup> century economics and its development. Scientists long ago cautioned us that, if the economic growth continues at the same rate, the limited environmental resources will be depleted within the next 100 years and the population and industrial

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<sup>6</sup> UN (2005a) op.cit.

<sup>7</sup> World Resource Institute (2005) op.cit.

<sup>8</sup> World Resource Institute (2001) Pilot Analysis of Global Ecosystems: Food, Feed and Fiber Section, Washington, DC: World Resource Institute.

<sup>9</sup> United Nations Development Programme (2006) Human Development Report 2006, New York: UN.

<sup>10</sup> IPCC (2008) Climate Change 2007 – Impacts, Adaption and Vulnerability: Working Group II Contribution to the Fourth Assessment Report of the IPCC, Cambridge University Press.

capacity may rapidly fall.<sup>11</sup> In the Report of the UN World Commission on Environment and Development “Our Common Future” of 1987, sustainable development is defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”<sup>12</sup> The authors agree with the idea stressed in the report “Sustainable Analysis of Development Scenarios” by Dimante that equality is needed both among generations and within each generation since the economic growth has not aided the equality between the poor and the rich. Thus, the persistent increase in production output in order to eliminate poverty did not justify itself.<sup>13</sup> Hence it follows that sustainability depends not only on the process where an ecological product is made, but also on contributions to the future by improving the present situation. The authors conclude from literature that similar problems exist in Latvia, with the topical issues and future trends researched by Dž. Dimante, I. Andersone, E. Gaile-Sarkane, D. Aramina, E. Kasalis and others.

The Ministry of Environment Protection and Regional Development, for its part, has developed a strategy of sustainable development “Latvija 2030”, the main purpose of which is to highlight the guidelines of state development and a spatial perspective for the period thru 2030.<sup>14</sup> In the authors’ view, the key criteria and dimensions of sustainable development are economics, environment and society.

Figure 1 is a schematic illustration of the sustainability process among three dimensions of sustainability – economic, social and environmental – to find possibilities of competitive advantage for the state, regions or industries, and businesses.

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<sup>11</sup> The Story of the Club of Rome, (accessed on 20.10.2012.) Available from: <http://www.clubofrome.org/eng/about/4/>

<sup>12</sup> World Commission on Environment and Development Our Common Future. Oxford: Oxford University Press, 1987.

<sup>13</sup> Dimante Dž., Sustainability Analysis of Development Scenarios, Latvijas Universitātes Raksti, 2010.gads, 758.sēj., 364.lpp

<sup>14</sup> Latvijas ilgtspējīgas attīstības stratēģija “Latvija 2030”, (accessed on 20.10.2012.), Available from: [http://www.latvija2030.lv/upload/lias\\_1redakcija\\_pilnv\\_final.pdf](http://www.latvija2030.lv/upload/lias_1redakcija_pilnv_final.pdf)

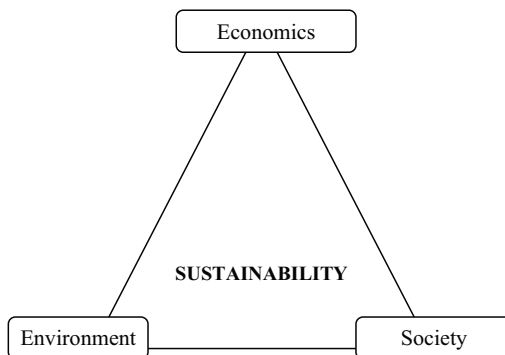


Figure 1 Main criteria of sustainability<sup>15</sup>

It follows that sustainability depends on environment and economics, as well as on human contribution to overall development, and the society, its thinking and action is a key condition for sustainability. Hence the authors disagree with the definition of sustainable development as in the report “Socially Responsible Marketing: Theory and Practice” by I.Andersone, E.Gaile-Sarkane and D.Aramina: “Sustainable development is a way of using resources with a view to meet the needs of people, at the same time preserving the environment so that not only the current, but also further generations were able to meet such needs.”,<sup>16</sup> since an emphasis on the integration of social, environmental and economic development is missing (see Figure 1). The authors suggest the following definition: **Sustainable development** is an integrated and balanced development of public wealth, environment and economics meeting the physiological, social and other needs of people and ensuring the preservation of environment and ecological diversity without jeopardizing the possibilities of meeting the needs of future generations. Sustainability is possible with an interaction of all three dimensions of sustainability shown in Figure 1.

## Essence of Sustainable Marketing

The implementation of sustainability is possible at various levels, for instance, of a state, region, industry or company. From the point of view of a company, the authors would like to stress that all its activity, including

<sup>15</sup> Created by the authors according information of **Martin D., Schouten J.**, *Sustainable Marketing*, USA: Pearson Prentice Hall, 2012., 19.pp.

<sup>16</sup> Andersone I., Gaile-Sarkane E., Aramina D., *Socially responsible marketing: theory and praxis*, Scientific Journal of Riga Technical University, 2010, Volume 20, 1.pp

management, finances, sale and marketing, must be geared towards sustainable development.

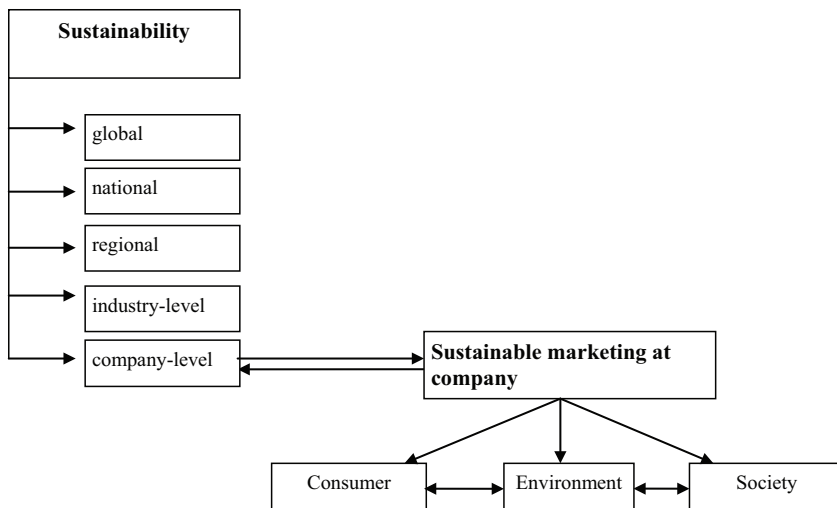


Figure 2 Main conditions for sustainable marketing

Source: created by the authors.

D. Martin and J. Schouten defined sustainable marketing as a: “process of creating, communicating, and delivering value to customers in such a way that both natural and human capital are preserved or enhanced throughout.”<sup>17</sup> Sustainable marketing must deliver a competitive advantage to an organisation through superior performance in meeting the needs of target customers. Sustainable marketing means marketing sustainability as a concept, a set of practices and responsible business activity.

The publication by I.Andersone, E.Gaile-Sarkane and D.Aramina featured a discussion of the understanding of the notions of socially responsible and social marketing and their influence on sustainable development stressing that: “social marketing is an umbrella, a term used to sign the various ways how marketing may stimulate a positive social behaviour and including criticising marketing and green or sustainable marketing.”<sup>18</sup> However, sustainable marketing is not at all equal to green marketing.

<sup>17</sup> Martin D., Schouten J., *Sustainable Marketing*, USA: Pearson Prentice Hall, 2012., 10.pp.

<sup>18</sup> Andersone I., Gaile-Sarkane E., Aramina D., *Socially responsible marketing: theory and praxis*, Scientific Journal of Riga Technical University, 2010, Volume 20, 11.pp

In the authors' view, green marketing and corporate socially responsible marketing are only some of the tools of marketing implementation.

In the referred to publication, the functions of social marketing and socially responsible marketing are linked, emphasising that socially responsible marketing is a company's ethical attitude towards the consumer and the public in general, while social marketing implies the function of recovering, educating and improving the society.<sup>19</sup> The authors believe that the implementation of socially responsible marketing results in a relevant responsibility for one's activity, thus socially responsible marketing cannot be regarded as a concept or special marketing. Business activity as a whole can be either responsible or irresponsible.

The authors see the development of the concept of sustainable marketing as based on the development of social marketing discussed in the book by V.Praude and defined as: "a concept of social marketing envisaging that a company attempts to find out and meet the buyers' needs and wishes, also considering the strategic interests of public development."<sup>20</sup> Supplementing this concept of social marketing with the main criteria of sustainability results in the sustainable marketing concept shown in Figure 3.

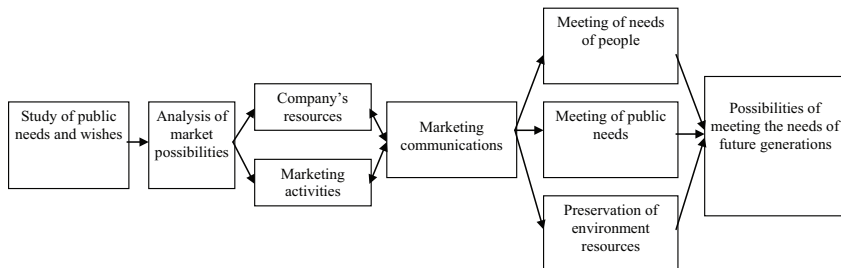


Figure 3 Concept of sustainable marketing

Source: created by the authors.

Figure 3 shows that meeting the current needs of consumers is based on market possibilities, the company's resources, marketing activities, communication with consumers, and also envisaging the preservation of environmental resources and development to meet the needs of future generations.

<sup>19</sup> Andersone I., Gaile-Sarkane E., Aramina D., Socially responsible marketing: theory and praxis, Scientific Journal of Riga Technical University, 2010, Volume 20, 11.pp

<sup>20</sup> Praude, V. *Mārketingas, 1.grāmata, 3. izdevums*. Rīga: Burtene, 2011, 41 pp.



The authors suggest the following definition: **sustainable marketing** is the process of the creation, communication and delivery of consumption values to the consumer with a view to meet their needs and observe the requirements of environment preservation without jeopardising the possibilities of meeting the needs of future generations.

### Implementation of a sustainable marketing complex

In the implementation of a complex of sustainable marketing, the elements of the marketing mix or 4P – Product, Price, Place, Promotion – should be used in the direction towards 3P – People, Planet, Profit (see Figure 4).

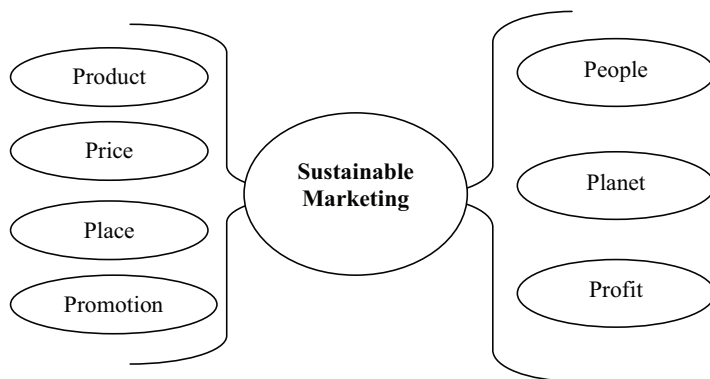


Figure 4 Sustainable marketing concept for a company

Source: created by the authors.

Figure 4 schematically presents the concept of sustainable marketing in business by using the four elements of marketing mix in order to observe the public interest, preserve environmental resources and to do sustainable and successful business. Therefore, in the 21<sup>st</sup> century, companies should adapt their assortment of goods and services to the changeable needs of consumers, overall public attitude and legislation. Companies are frequently able to negotiate with different stakeholders to alter the overall consumption of goods/services rather than merely change their corporate activity.

The characteristics of a sustainable product or service are as follows: designed to satisfy a genuine human need, not harmful to human health, greener through the life cycle, energy efficient, non-polluting, easily

repairable, designed to last, re-usable and recyclable, minimised packaging, manufactured from renewable resources, removal of hazardous materials, manufactured from locally sourced material, to minimise transport costs, provision of sufficient information, not tested on animals, no use of “child labour” in manufacturing (in-house or contract), and no use of “forced labour” in manufacturing (in house or contract)

When working on product packaging, a company may choose among various materials and advanced options. In the literature, glass, cans, plastics, card and paper are identified as some of the best packaging practices for sustainable marketing.

The same time, not only product packaging, but price is a key element of sustainable marketing equation. But how much will greening affect costs? Surveys worldwide have indicated that people will pay more for greener products; however manufacturers should be careful not exclude market interest through premium pricing. When considering setting pricing strategies, companies must ensure that products or services perform as well or even considerably better than less sustainable alternatives on performance, quality, and functionality – it is then that improved sustainability performance will act as a key differentiator. The next factor of a sustainable product is logistic place, which is important for firms to consider following points:

- Recognition – monitor goods so they flow through the reverse logistics process;
- Recovery – collect goods for reprocessing;
- Review – test materials to evaluate whether they meet appropriate reprocessing standards or might be disassembled for parts or disposal
- Renewal – re-manufacturing the product up to its original standards or claim appropriate parts for reuse
- Removal – dispose of materials that cannot be remanufactured and market the remanufactured goods to new or existing customers.
- Re-engineering – evaluate if existing goods can be better designed.<sup>21</sup>

Last factor – promotion, depends on all the methods of product promotion in the market, namely advertising, sales promotion, public relations, personal selling and direct marketing. In order for the process of marketing communications to be efficient, it is crucial to determine the desired target audience, i.e., whom to address the message or, from the market point of view, who the potential buyers will be. In order to succeed, it is important to understand what the company expects from

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<sup>21</sup> Adkins S., Cause – related marketing: who cares wins, Oxford: UK, Butterworth (1999), 24.pp

the potential buyers after communication with them. When selecting the communication channel, an analysis of media efficiency and target audience is recommended. It should be kept in mind that not every channel of information delivery is available to the target audience. The objective of marketing communications is to attract the potential buyers' attention by arousing interest in the product offered. If the communication has been comprehensible and the idea has been perceived, it should arouse a need for the product, and the potential buyer will most probably act and purchase it. After the first time of purchase, the next step must be taken – to achieve via marketing communications that the buyer makes a repeated purchase of the product and becomes a regular consumer or loyal customer. For that purpose, all the afore-mentioned types of marketing communications are used.

## Conclusions:

1. Sustainable development is an integrated and balanced development of public wealth, environment and economics meeting the physiological, social and other needs of people and ensuring the preservation of environment and ecological diversity without jeopardising the possibilities of meeting the needs of future generations.
2. Sustainable marketing is the process of creation, communication and delivery of consumption values to the consumer with a view to meet their needs and observe the requirements of environment preservation without jeopardising the possibilities of meeting the needs of future generations.
3. Sustainable marketing of a company must be beneficial if the elements of marketing mix serving for people, planet and profit are used. The concept of sustainable marketing does not require increased costs in the company's marketing budget, but rather a well-thought approach – the creation, promotion and sale of sustainable products/services (packaging, pricing, delivery, transportation etc.).
4. The implementation of a strategy of sustainable marketing in Latvia requires state support. The state institutions need to not only develop legislation and normative acts, but also grant tax relief to companies with sustainable marketing.

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# REALITY AND PERCEPTIONS OF MULTILINGUALISM IN THE BALTIC STATES

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Dr. Hab. Philol.

## **Abstract**

The article dwells on the issue and term of multilingualism, both as a sociolinguistic reality in the Baltic States, as well as the perception of the term by the main actors of language policies in the Baltic States. Multilingualism, though a core term of EU policies, has multiple meanings and shades, and seems to be perceived and interpreted by the actors depending on their country's experience and linguistic problems and necessities. The article views the linguistic history of the three states, mostly focusing on Latvia. After regaining independence and freedom the Baltic States initiated policies aimed at reversing the asymmetrical bilingualism of the Soviet period. This coincided with aspirations to join the EU and a frequent conflict between what was felt the national needs and the EU policies and their perceptions. The discourse on multilingualism and its understanding has been assessed through analysis of a questionnaire that was delivered to language policy experts in the 3 states. The perception of multilingualism and the EU stance differs because of the contradictions and reflects the huge variety of linguistic situations. The Baltic experience tends to highlight that the imposition of EU standards (unclear as such) on the basis of a synchronic situation in the new member states without taking into account the diachronic aspect can be counterproductive, negatively affecting the consolidation and integration of the population.

**Keywords:** multilingualism, Latvian, Estonian, Lithuanian, Russian, perceptions

## **Introduction**

Multilingualism is one of the core terms within EU language policies, reflected in a host of EU documents, promotion of which is aimed at “strengthening social cohesion, intercultural dialogue and European construction”. “It is a major cross-cutting theme encompassing the social, cultural, economic and therefore educational spheres” (Council 2008). Yet it is a broad and blanket term, interpreted rather freely by the various interested parties. In specific cases the term can be interpreted contradictorily, e.g. in the Baltic States case multilingualism can refer to enhancement of the small indigenous languages within the EU official language system, or support for their direct competitor – Russian, as it is frequently done by the Russian Federation in its portrayal of Russian as a

minority language. Even without such ideological and partisan attitudes one can distinguish several levels (and consequently understandings) of the term within the EU. Multilingualism can be seen:

1. as a sum of policies of promoting individual language learning, involving multilingual individuals;
2. as the official policy of the EU institutions, implemented by translation and interpretation of the official languages of the Union; or
3. as varied and diverse language policies implemented in the member states, the common factor of which are certain international and European agreements, charters, that tend to provide a liberal and pro-minority language policy background.

While there is a relative consensus on the first - that individual multilingualism is good, the reality (school curricula, language learning opportunities, etc.) is varied. Also the second (EU institutions) understanding is relatively simple, though one can reflect on the reality of equality of the official languages and some languages being more equal than others, also the new category of co-official languages (as well as uncertainty about the role of many minority languages and immigrant languages in the EU) shows that the language scene is not as simple as it appears in the official documents.

However, it is the very different language situation in the Member States that make the contents of the term “multilingualism” really obscure, especially when it is linked with the very controversial term of “multiculturalism” with its conceptual and ideological overtones.

The theoretical perspective of the issue is aggravated by this complexity and contextual constraints of the discourse. We proceed from Spolsky's (2004: 5) three components of the language policy - language practices, language beliefs and language use. The discourse on multilingualism mainly focusses on the interface of language beliefs and the other components, but also seems to be affected by the outer element – EU ideas and practices. Policy making and language policy-planning in particular, does not only constitute a ‘contact situation’ arising out of conflict *between* social actors (cf. Nelde 1990). Language policy-planning seems to constitute a discursive event that carries the potential for conflict *within* social actors as they try to make sense of the policies they have to promote and develop. The Baltic States in this respect present an excellent ground for study and specifications and corrections of the standard views (Hogan-Brun 2008).

The three Baltic States (Latvia (at present 2.0 million people), Estonia (1.28 million), Lithuania (3.5 million) seceded from the Soviet Union in 1991, after having declared independence in 1990. In 2004 they joined the European Union and consider themselves to be “back in Europe”. Yet naturally they returned to Europe in a different social and demographic shape than when they were torn away from it as a result of the Soviet

occupation in 1940. To understand the public perceptions which shape the language policies one should briefly view the historical background.

## History

The 20th century brought considerable ethnic changes in the Baltic States. 1939 saw the repatriation of 60 000 Germans. From 1941 to 1949 about 110 000 Latvians (and comparable numbers of Estonians and Lithuanians) were deported to Siberia and the Far North. In 1944 hundreds of thousands of Baltic citizens went into exile to the west. The Baltic States lost a quarter of their population. The post-war linguistic regime was especially harsh with Russian only used in administration; any objection against it could pave the way to Siberia (Riekstiņš 2003: 81). During the Soviet years a large number of Russians, Ukrainians and Belarusians, mainly party officials, military, ex-military, KGB operatives, police officials and their families came to live in Latvia and Estonia (less so to Lithuania). This was not an ordinary migration process managed by the local government, but conducted by Moscow, the occupying power. There was also a huge influx of economic migrants, mainly manual workers for the factories that Moscow was building in the Baltic States.

Table 1 Ethno-demographic change of the Latvian population

Nationality/Year	1935	1989	2006	2012
Latvians	77.0	52.2	59.0	60.5
Russians	8.8	34.0	28.5	26.6
Belarusians	1.4	4.4	3.8	3.3
Ukrainians	1.8	3.4	2.5	2.2
Poles	2.5	2.2	2.4	2.2
Lithuanians	1.2	1.3	1.4	1.2
Jews	4.9	0.6	0.4	0.3
Roma	3.8	0.3	0.4	0.3
Estonians	0.4	0.1	0.1	0.1
Germans	3.3	0.1	0.2	0.1
Others	0.2	1.1	1.1	2.1

Similarly in Estonia, the percentage of Estonians fell from 88.2% in 1934 to 61.5% in 1989 and rose to 69% in 2008. Lithuanian demography as a result of a more independent policy changed less strikingly – both in 1935 and 1989, 80% of its population remained Lithuanian (84% in 2009). What changed was the distribution of minorities: before the war consisting mainly of Jews (7%), Germans and Poles, in 1989 it was Russians and Poles.

As a result of half a century of Soviet occupation Latvia and Estonia experienced a radical change in its ethnic composition, as well as in the use of the native languages which were gradually ousted from administration. Russian in the Baltic republics was the exclusive dominant language in transport, industry, military and other domains. The newcomers were un-integrated linguistically and culturally – they had their own schools, study programmes, books, mentality. Russian speaking immigrants were not encouraged to learn the local languages while use of Russian in practice became mandatory for the local people. Other traditional minorities had no linguistic rights, no schools, or publishing and were subject to forced assimilation. Also the traditional multilingualism characteristic of the Baltic region before the Second World War was gradually extinguished. Diversity turned into uniformity of a Soviet type (Locmele, Veisbergs 2011:296). In the 1980s there was a real danger of Latvians and Estonians becoming a minority in their own lands. Officially bilingualism was considered a norm, but in fact it was asymmetrical societal bilingualism (Veisbergs 2011: 66). In 1989 only 23% of ethnic Russians were proficient in Latvian and only 13.7% of Russians in Estonia knew Estonian. This was a new type of bilingualism – maximum German share of population in Latvia had been 6.5. (Druviete 2010a: 227)

In fact it was a divided society, a two-community state was created where the Latvians and Estonians, though as yet a majority, but in fact a minority in the larger towns, were the segregated natives. Modern research often characterises the Russo-Soviet agenda as “colonial in its character deliberately eroding the Baltic languages and an act of psychic annihilation” (Jirgens 2006: 55). The tensions between the communities were not allowed to surface – any open defence of Latvian was characterised as “bourgeois nationalism” and prosecuted. Knowing only Russian was considered a sign of “internationalism” in the party parlance. The imminent extinction threat of the language made the language issue the main issue of the singing revolution.

With the regaining of independence these processes were stopped and reversed. State-making involved serious language policy elements. The language ideology issue was closely linked with political loyalty and the citizenship issue. Researchers on these issues often talk about ethnic, state and regime identities (Karklins 1994, National 2001). Estonia and Latvia had large minorities of Soviet time immigrants who were largely hostile to the idea of independence. Lithuania had only 6% Russians. This is why Lithuania was the first to leave the Communist party and declare independence – with a homogenous ethnic population it was possible (a parallel can be seen in Slovenia’s bloodlessly leaving Yugoslavia). Lithuania could also afford a liberal approach to granting citizenship and language rights. For Latvia and Estonia full naturalisation of Soviet immigrants might lead to an ideological



clash and political chaos, as, for example, Russian and Latvian media were ideologically divided. The titular nations felt and still feel that they have been victimised by their (formerly dominant) minority, there was and is a fear that the latter lack loyalty and will collaborate with the powerful kin-state (Russia) (Hogan-Brun 2005b: 372). In fact, as Joseph points out, “the term ex-colonial” is particularly justified” for the Russian speaking minority in the Latvian case (Joseph 2006: 11). The two-community state model which would be strengthened by the “zero option” regarding citizenship was not considered as a good choice for the future (Zepa 2003: 85). Instead gradual obtaining of Latvian and Estonian citizenship was proposed, with more and more liberal provisions introduced, e.g. at present Latvian citizenship is automatic for people born after 1991 (if parents ask for it), or after 5 years of residence, passing of lower intermediate level language test and some knowledge of the Constitution. As a result since independence citizenship has been granted to 135 000 non-Latvians (data of 2010) by way of naturalisation, there are more Russian citizens than non-citizens at present in Latvia. The number of naturalised non-citizens in Estonia today is even higher – around 155 000 in 2012. However, there are still huge numbers of people not interested in naturalisation, living in Latvia and Estonia as non-citizen residents. Since they have not chosen Russian citizenship either there seem to be a complex set of motives behind such a decision (ideological views, feelings of loss of homeland (USSR), indifference, visa-free travel to Russia, etc.)

Since the regaining of independence, the demographic situation of the titular nation has improved as a result of emigration of a part of recent newcomers in the 1990s, withdrawal of the Russian army and slightly better demographic indicators of the titular nations (despite a general decrease of population as a result of natural demographic processes and relatively large emigration of people after accession to the EU and during the economic crisis of 2008-2010).

The language issue has always been the core of the national identity. This is emphasised also by Druviete: “The Latvian language is undeniably an element of the national identity, not the only one, but the most significant one” (Druviete, 2012: 97; Druviete 2010b). Thus Latvian regained its status as the State language in 1988 in one of the first steps towards independence. The first “Law on the State Language” was adopted in 1989 while yet under the Soviet system. When a certain change of linguistic hierarchy and psychology had occurred a new “Official language law” (1999) was adopted and is in effect. The law defines the use of Latvian in public life, while its private use and use in private organisations is regulated only to the extent that it affects the legitimate interests of society and citizens. The status of Latvian as an official language was also enshrined in the Constitution (1998). Since regaining independence, the

Latvian language has functioned in all official spheres of activity. Its use was renewed in State administration, armed forces and law enforcement agencies. The Latvian community is bound by the Latvian language as the official language of the state. Latvian today is the language of education for 70% of pupils at school and this proportion is on the increase as a result of natural tendencies and gradual education reform. Latvian is the language of state higher education. The smallest proportion of native Latvian speakers is in towns – about 50%. In Rīga there are as yet only 42% native Latvian speakers – the only capital in Europe where the native population is a minority. Also Latvia is the European country with the highest proportion of minorities. The Estonian capital Tallinn is faring only slightly better – 52% of its residents were Estonians in 2009.

Looking at the shifts in language policies one can see three stages in the transformation process:

First, putting Latvian as a state language, changing and inverting asymmetrical bilingualism;

Second, granting rights for the small minority languages (assimilated by Russian), like Ukrainian, Belorussian, Estonian, Roma, German; and

Third, liberalising the linguistic system, gradually making it more moderate, while bolstering all aspects of the State language, ensuring its status as the vehicle of integration, and partial language of education (Valsts 2006).

Since regaining independence there has been a serious emphasis on study of Latvian by those residents who had no knowledge of the State language. This has been done by various means and different methods, the incentives being both legal provisions of knowledge of the State language for certain positions and posts, as well as other stimuli. A National Programme for Latvian Language Training was run from 1995. These activities have been rather heavily financed by the state, as well as international organisations and other sponsors who recognised the very specific and painful situation Latvia faced as a result of the 50 years of subjugation. Education system alterations (see further) compounded this trend.

## **Education system changes**

Within the educational system one can see a gradual but steady change:

- The soviet system – two parallel types of schools with Russian or with Latvian language of instruction,
- From 1990 – first Polish, Ukrainian minority schools, Lithuanian, Estonian, Roma classes (Veisbergs 1995:92),
- 1995 Education Law Amendments provide for 2 subjects in the State language in primary school, 3 subjects in secondary school in minority schools,

- 1998 New Laws on Education provide for a bilingual approach in primary school (transition in 3 years) and higher education in the State language in state Higher educational establishments,
- 2004 School reform provides for 60% tuition in the State language in minority (secondary) schools (transition was accomplished in 3 years).

The proportion of those attending Latvian schools has gradually grown – from around 55% in the early 1990s of the 20<sup>th</sup> century to around 73% in 2006 and 2010 (The Latvian 2012: 55).

## Latvian as a second language

Since the restoration of independence there has been a significant and rapid increase of people who possess Latvian as a second language. The knowledge of Russian and Latvian has equalised – about 80% of Latvians know Russian and 80 % of non-Latvians - Russians know Latvian. The first figure has been stable; the second has risen from 20% in 1990. Other sources provide even higher numbers – 90.6% and 87.1% respectively (Valodu 2006: 9, Valodas 2011). Also in Estonia the figure rose from 13% in 1989 to 40% in 2000 (2009:21). And by 2005 only 16% of Russians in Tallinn could not communicate in Estonian (ECRI 2010). Though its knowledge is generally passive, not much used in everyday life, the age factor has to be considered.

The steadily increasing level of bilingualism amongst Russian speaking population is particularly characteristic of the younger generation (Hogan-Brun 2005a: 275). The national census of 2000 showed that the age 14 was a boundary in terms of Latvian and Russian skills (Mežs 2005). Among those under 14 there were more Russians who could speak Latvian than Latvians who could speak Russian. Above 14 the opposite situation could be observed. Theoretically as years pass the age limit will grow upwards and eventually the position of Latvian should become predominant.

## Incentives

Studies of how language affects integration and pay suggest that for young non-Latvians the main motives for learning Latvian are: prestige and opportunities, jobs and career needs. This is recognised also by many non-Latvian parents – more Russian speaking children were sent into Latvian schools – 32% in 2003 (Priedīte 2005: 419). For older people also interest in passing language test, naturalisation, helping children acquire Latvian feature as the main motives for learning Latvian. Yet one cannot talk of assimilation – it would be very difficult to find Russians who have lost their language. Non-Latvians mainly use Latvian in the workplace and in contact

with public administration. On the other hand absence of motivation can also be noted – one can live in Latvia with Russian alone, the information space of Russian is enormous, both in Latvia (local TV, radio; newspapers) and from the huge neighbour – TV, newspapers, etc.

Besides, as pointed out by Ostler “Russian even after the fall of communism remains a highly ideological language” (Ostler 2006: 444). This can be seen also in Latvian politics – the most ardent defenders of Russian as a second official language of the state were Stalinist-oriented former Communists, now turned into populist trouble-makers that keep dreaming of the “internationalist” Soviet empire. Surveys show that Latvians still have a sense of being threatened and do not feel as a majority nation (Etniskā 2004: 14). 43.9% of Latvians find Latvian threatened by other languages (Ernstson 2004: 23). The reasons for such a phenomenon can be explained by an older study – linguistic passivity, habit, indifference, politeness (Valodas 1996: 34). It seems behind these motives is the old minority complex.

In conclusion one can say that the restoration and development of Latvian so far can be seen as a relative success story, keeping the ever changing balance between the democratic rights of individuals and the need to correct the historical injustice, as well as securing the positions of the titular language in the competitive globalised world.

## **Multilingualism – historical background**

The Baltic region has always been multilingual – as a result of wars, movement of people, changing borders, trade contacts, etc. From the 19<sup>th</sup> century to the present day the Baltic territories saw a culturally and socially and culturally divided population. The mass of the titular nations were peasants, living in the countryside and until the middle of the 19<sup>th</sup> century partly bound with the landlords and land. Yet there was a growing class of relatively well-off titular language speakers and towards the end of the century also a fast growth of working class in the major towns. With the national awakening there was a fast development of the landmarks traits of the Latvian-ness, Lithuanian-ness and Estonian-ness – singing, song festivals, associations, press, theatre, schools and literature and perhaps the strongest element of identity – the language, whose care passed to the representatives of the titular nations.

In Latvia and Estonia the German “minority” was still very much in control of society, education, though losing power both to the emerging Latvians and Estonians and to the Russian bureaucracy (especially towards the end of the century). It also lost its earlier, centuries-long function of culture carriers of education, including the linguistic work on the local languages. The Russian minority was comprised mainly of tsarist clerks

and working class in towns. Its cultural mission was that of russifying of the “Liefland provinces” and purging it from Latvian, Estonian and German traits. Jews were mainly involved in trading. Thus we can see a very distinct division of social roles of the ethnic groups in the region. The Lithuanian people fared even worse as Lithuanian writing was banned for 60 years, and books in Lithuanian were secretly imported from Prussia.

Since the national awakening movements in the mid-19<sup>th</sup> century, the cleavages between the traditional ethnic communities have thus been very distinct. At crucial times, the first of which happened to be the revolution of 1905, the cleavages lead to partly ethnically partly politically based open conflicts. A similar anti-German outburst could be observed during the World War 1, anti-Russian outbursts in 1919, 1941, 1990s (the latter were gradual and peaceful). We can see the cleavage also in the so called “nationalisation of history” – the titular nations having one view of the history, Russians – another and Baltic Germans still another (seeing Baltikum, not Latvia or Estonia). This comes out most starkly seen in references to Rīga – the Germans saw it as German Rīga, Latvians as Latvian Rīga and Russians as Russian Rīga (Diena 2007) viewing it from their ethnic standpoint. Historically much of co-operation between the communities occurred only in the economic sphere. There was a considerable learning or takeover – e.g. the Baltic nations took over from Baltic Germans the tradition of song festivals, expanded it, elevated it on a grand national scale, and have kept it until today, similarly the idea of associations (modern NGOs) was taken over by Latvians and Estonians and actually used to crush German power. Russians, though politically supreme, never had strong social positions in Rīga (Diena 2007). Incidentally also today Russian NGOs are very weak and ineffective. Yet the takeover of institutions did not really lead to consolidation or integration, thus, though sharing Lutheranism, Latvians and Germans had their own strictly separate church structures.

On the other hand (paradoxically), this aloofness was complemented by a highly developed trilingualism: German and Russian were well known in Latvia and Estonia, Polish and Russian in Lithuania in the second half of the 19<sup>th</sup> and first half of the 20<sup>th</sup> century. As stated above the need for the multilingualism was an economic one.

The relatively aloof character of the two communities (the German minority was recalled by the Nazi government before the USSR occupied the Baltic space), continued after the Soviet occupation. Bilingualism was almost universal with the Baltic people during the Soviet times, while relatively few Russians learned Latvian. The social roles of the communities were rather segregated with the titular nations dominating the countryside and the small towns, while Russians making up most of the “soviet working class” in the cities. The titular nations dominated the cultural sphere and professions like doctors, researchers, lawyers, while Russians dominated

among soviet apparatchiks, police, and army. Mixing did occur – mixed marriages existed, yet there would be few Russians listening to the Latvian radio, watching Latvian TV or going to the Latvian theatre. Basically the Russian cultural world was that of the Moscow menu. The Soviet cultural policy in a devious way supported the national culture of the republics, as it denied almost any development to the other nationalities, even the Russian minority in the national republics. The latter can be accounted for by the impregnable idea that there can be no independent Russian culture in the periphery – the cultural centres were Moscow and Leningrad. Thus the local minorities including Russians were in fact barred from cultural expression.

After regaining independence (in fact even before it) the Baltic States proceeded fast to change the language regime by reinstating the titular languages as sole official languages and carrying out various legislative and administrative procedures to implement the desired language policies. Relying on self-regulation or believing in linguistic Darwinism in such conditions would be naïve (Krupa 1998:167). The education system was gradually reformed to achieve Latvian, Estonian and Lithuanian proficiency in the younger non-titular generation while keeping teaching a certain proportion of subjects in minority languages. The linguistic policies of the 1990s were worked out in close collaboration with EU experts and there was not much consensus on the solutions achieved.

Today, despite the nominal one-official language policy, in fact we see “symmetrical” bilingualism (80-90%) in Latvia (Latviešu 2007, Valodas 2011) and Estonia. Though statistical breakdown shows the presence of many minorities in Latvia and Estonia, in reality one can speak about two large groups – titular nations and Russian-speakers. Also the main sociolinguistic functions are divided and composed by these two, with other languages used in family circle, among friends or in cultural contacts. Lithuania has fewer Russian-speakers and a rather independent Polish minority.

## **Multilingualism Discourse in the Baltic States Today**

Multilingualism in the Baltic States is basically viewed as an individual multilingualism – accomplishment of an individual, knowing two, three, four languages. There is general agreement that knowing more than one language is a good thing and the Baltic States within the EU rank high in foreign language competence (partly affected by the Soviet legacy – still widespread knowledge of Russian) (Valodas 2011: 29).

Within the discourse of multilingualism the term bilingualism, however, carries a political tinge and is generally understood as Latvian/Estonian/Lithuanian and Russian bilingualism (again a Soviet legacy).

The Baltic political discourse and politics itself is rather strictly divided between the Baltic titular nation parties and politicians (who advocate

narrow or broad nationalist agenda, one state language idea, and have controlled political power since the regaining of independence) and Russian-speaking politicians (in Parliaments and outside, who advocate official bilingualism and two state languages ideas). Both political stances partly reflect the attitude of the voters; however, tend to be aggravated by politicians for their agendas. This spilled out in the referendum on the second state language in 2012, which dealt a crushing defeat to the idea with a robust 74.8 % voting against Russian as a second official language. This occurred at a time of post-crisis social apathy and in spite of massive Russian and Russia's propaganda and pressure.

### **Reflection of ethnic cleavage in EU accession issues**

Various sociological surveys reflected deep scepticism in Latvia about the EU, even among the young generation before the accession (BISS 2003). The Eurobarometer Survey (2001) showed that only 30-40 % people supported the prospect of EU membership and only a half trusted the EU. The opinion in Estonia was more positive and Lithuania was somewhere in the middle. To very large extent Latvian wariness about the EU stemmed from two diametrically opposite perceptions. The Russian speakers – initially relatively positive about the EU demands on naturalisation and minority issues, were finally disappointed when these demands did not cross a certain line, which was unacceptable to the Latvian majority. The Latvian speaking majority in its turn saw “imposition” of EU standards which limited the effect of the legislation and regulatory framework introduced in early 1990s to protect the titular language and reverse the Soviet asymmetrical bilingualism as wrong, inappropriate and failing to take into account the unique post-imperialist/colonialist situation of Latvia. It was seen as an attempt to preserve elements or the whole of the situation where the former masters redefine themselves as minority and use liberal instruments to argue for radically non-liberal ends (Ozolins 2002) preserving the previous hierarchical language relations.

Local experts (Break-out 2008) had stressed the need to look at the situation diachronically (Blommaert 1999), but international frameworks adopted basically a synchronic approach. This was reflected in the pre-accession monitoring documents (Smith 2005) which obviously ignored the history of the region, e.g. EU experts seemed puzzled by the data of polls, unable to understand the ideological differences of the communities involved, e.g.: “Surprisingly, one third of the polled non-citizens do not plan to apply for naturalisation, as they do not see the slightest reason for obtaining citizenship (36%)” (Pirmsiestāšanās 2001: 84) (Tr. by A.V.) This would seem neither surprising nor unexpected to anyone aware of the local conditions. An emphasis on quick financing of studies of

Latvian (courses, courses at workplaces, TV programs) reminds one more of cases when some refugees are given crash courses and will be happy to integrate in the society, than of a profound analysis of the situation taking into account the historical and psychological aspects. On the other hand, Adrey tends to point at the “specificity of Baltic States’ inherited, ethnically divisive situations” being taken into account in his critical study of EU monitoring of minority rights situation in pre-accession stage, where double standards and smokescreen abounded. The author accounts for the “wide discrepancy between declarations of principles about monitoring accession conditionality in general and the actual monitoring process at a domestic level” by this specificity (Adrey 2005: 465)

Latvia and Estonia thus has two sociolinguistic communities with different ethno-political discourses on various issues – history, citizenship, education language issue, partly towards Latvia’s joining the EU (57% of Latvians voted for accession in the referendum of 2003, while only 20% of Russians voted for) (Kļave 2005: 108).

While most of Latvians would agree to the somewhat radical formulation of the language issue as voiced by Mozers: „There is a very simple, but exceedingly harsh formula in Latvia: the language identity is the national identity, and the national identity is the State identity. In other words, a State of Latvia where most people speak Russian is a totally surreal vision” (Mozers 2006: 428). However, a large proportion of the Russian speakers have very different views both on the history of the territory, the status of languages and citizenship, as well as the future (Petrenko 2008:57; Valodas 2011: 125-126). This points towards an ethnic cleavage. Similarly, riots in Estonia after the removal of a Soviet war monument from the city centre of Tallinn in 2007 showed that also there the political and cultural cleavage is real and serious. Cleavage can be seen, on the one hand, in a suspicious attitude of Latvians towards the Russian discourse, seeing hidden agendas, Russia’s imperial interests and threats to the independence and language, while, on the other hand, Russians feel wary about the policies of Latvian state elite which is invariably identified with the Latvian sociolinguistic community (Kļave 2005: 114). The latter is closely linked with the perception of the EU by Russian speakers, as it was the Latvian elite that “dragged Latvia into it”. Ironically this disregards the fact that most Latvians also feel very wary about the EU, but for different reasons. On a purely speculative level one could even suggest that dislike for the EU could become a consolidating factor for the two communities with the gap of other values growing (Tabuns 2006: 72).

Discussing ethnic cleavage – latent conflict – one can talk about development of cleavage – towards conflict or towards consolidation (Kļave 2005: 93). There are positive elements – education reforms in the Baltic meant that in the long run the Russian speaking population will have



acquired the titular languages. The titular languages are firmly rooted in the central and partly also local administration. The threat to the languages has been eliminated despite certain marginalisation of small languages in the EU context. Yet the situation is still precarious, as the two communities are as divided as before and one does not see serious results of integration policies which have been implemented since regaining independence. Almost free choice of language in private business (which the EU anchored in Latvian legislation) means that this sphere is subject to Russian and English domination.

Also the Putin Russia of the 21<sup>st</sup> century suggests reverting to the tsarist and soviet imperialist traditions and authoritative ways, which has gained both genuine and manipulated support in society (Sprice 2007: 255; Lucas 2008,). As stated by one of the strong men of the Kremlin Anatolij Chubais, the mission of Russia in the 21<sup>st</sup> century is to create a “liberal empire” (Chubais 2004). In such conditions the Russian minority in neighbouring countries is often used as a pretext for interfering. The Baltic States are regularly accused by Russia for violating the rights of Russian speakers and attempts of assimilation. Yet Russia itself has undertaken in fact to assimilate its own minorities in a rapid pace. While 20% of its population belong to ethnic minorities only 2-3% is being taught in their minority language (Mežs 2005:28) not to mention the non-existence of any Baltic people’s languages in schools in Russia.

The inhabitants of the Baltic countries now have to combine local smaller-scale multilingualism with the larger-scale multilingualism of the European Union (Dzvonkaite-Koivula 2005: 181) which is far from simple under the tense language competition resulting from the historical heritage. Under the conditions of globalisation (Veisbergs 2006) which penetrates ever increasing spheres of human activity the increasingly hollowed notion of „diversity” when asserted for its own sake or ignoring the common denominator it requires, does not promise harmony, but carries the threat of quashing local culture and language.

## **Contradictory discourse on multilingualism in the Baltic States. Methodological issues**

The study of the discourse on multilingualism involved polling language policy makers in the Baltic States. These were rarely the elected politicians, but people directly involved in formation of linguistic legislation in the past and present, at least by advisory rights. We also wanted to gauge the responses to the EU language policies and issues. Questionnaires were handed out/sent to 10 respondents in Latvia (7 were received back); 5 in Lithuania (4 were received back); 5 in Estonia (4 were received back). The

survey poses the issue of representativeness – polling unequal and small numbers (4 or 7) of actors involved in policy formation may not provide fully trustable results. Yet on the other hand in small countries the number of people involved in these decisions is generally limited and the cohesive views suggest these are the dominant views. It reflects the views of the linguistic elite. The popular views could/would be different. We might assume them less different in Latvia and Estonia, but the questionnaire suggests generally little interest in language issues (both policies and purely linguistic) in Lithuania.

The people covered were informed that their answers will be viewed without any preconceived ideas, they will stay anonymous. The latter aspect had to be several times stressed to the Lithuanian participants, who definitely insisted on their anonymity and pointed out that it was extremely important. Some of Latvian participants were also serious about this aspect. No particular interest in confidentiality was expressed by the Estonian colleagues. This might be explained by national mentality differences, partly also by the fact that Lithuanian language policy seems more formalised and institutionalised, also perhaps by the fact that e.g. Lithuanian Language Commission is legally under the Parliament and their ideas might provoke certain political repercussions. All in all there are no grounds for believing the answers were not frank and honest.

The **unwritten hypothesis** was that the answers will show a dissolving picture of understanding, moreover that conceptualising of the issue of multilingualism is affected by the specific country linguistic situation and its problems. The discourse would reflect these problems. The method used – questionnaire – allows comparing relatively standardised answers, measuring the attitudes of the actors. This study would help putting the issue into the perspective of the receivers of the policies. It highlights problem areas that exist between the discussion and ideologies of multilingualism and the implementation at Member State level can be counteractive.

Returning to the discourse on multilingualism it should be pointed out that an unclear understanding of the notion complicates evaluation and comparison of views, policies and interpretations. Multilingualism as a semi-political term also carries ideological nuances, which it is often difficult to separate from the semantic contents of the term and which affect understanding of the term and also its policy implementation.

## **Questionnaire**

**Design.** The questionnaire itself consisted of 13 questions. The questions were set up in part by the logic of the issue, in part intuitively,

in part on suggestions by colleagues, of what could provide interesting outcomes. In a way the first questions dealt with multilingualism as a concept. The second part dealt with Member State and the EU interaction on this issue – mainly in the past. The last questions concerned future.

(“Estonia” would be substituted by Latvia or Lithuania respectively).

1. *How do you understand EU multilingualism policy?*
2. *How does it affect Estonian society?*
3. *Did Estonia experience European “pressure” on language policy issues in pre accession stage?*
4. *Were Estonian language policies changed because of this?*
5. *Which European institutions were involved in Estonian language policy issues?*
6. *Which Estonian (language?) institutions dealt with language related issues concerning the EU?*
7. *Which Estonian institutions (governmental and NGOs) deal with multilingualism issues.*
8. *Does Estonia experience European language policy influence in its internal policy now/today? Which European institutions, you feel, are mainly involved?*
9. *What do you expect from EU language policies in the future?*
10. *Does Estonia have anything to contribute to EU multilingualism policies or any language issues?*
11. *Are there public discussions on these issues and what points dominate in them?*
12. *What are the general feelings about the role of Russian and English in the Estonian language scene today?*

There was an interesting difference in the volume of answers, a striking difference between the Lithuanian (answers even to one question would generally cover a page), Latvian average paragraph per question and Estonian conciseness, not to say abruptness (on average a sentence per question). This might reflect national psychology - testifying to the routine stereotype of the North-South psychological differences among the Baltic States – the terse Estonians and the Latino like Lithuanians with Latvians in the middle. It seems such a stark difference should not disqualify the results and the comparison, as even the brief answers had a clear message.

Secondly, within the country there were no contradictory statements or views, yet the answers were certainly not identical/ standardised neither in form nor content. Perhaps it is worth remembering again that all people polled were representatives of the titular nations.

Thirdly, the tonality of the discourse differed (judged by some frequent keywords and general impression) from a somewhat tough and unyielding formulation in the Estonian case, to worried, resentment filled and battle

ready tonality in Latvian case, and critical and pessimistic stance in case of Lithuania. Correlating this to the language situation and general attitudes to policies and solutions, the Lithuanian discourse is surprising, as in comparison with the neighbours, there do not seem to be reasons for pessimism. It seems more to do with the concerns about the internal state of Lithuanian - more purist attitudes to language issues in general, which Lithuanians can afford (Druviete 2010a: 238) in the absence of a direct, existential threat to the language use as such.

## **Similarities**

In all three states the respondents see the EU as having imposed its unclear standards, being more orthodox in demands with the new accession states than with the existing Member States. They see EU policies as uncoordinated and inconsistent, partly threatening the language policies of the Member States. A common feature was reference to the past injustices and Soviet occupation as a reason for the need of emphasis on State language and certain ignoring of minorities linguistic rights (Lithuania – Polish, Latvia, Estonia – Russian). There is serious resentment about EU pressures and their consequences that have aggravated the integration issue (Latvia and Estonia). There is similar attitude to Russian impact in the past in all three states.

## **Differences**

The basic difference relates to the understanding of multilingualism. Latvians generally stressed multilingualism as language diversity issue with a focus on minority languages - a fear that Russian might come under the minority status and in reality the situation would revert to the Soviet times – ran through all answers.

Estonians perceive multilingualism as the learning of languages. In the Lithuanian case multilingualism boils down to learning the big languages (in reality English).

Is this variety of perception a result of unclear understanding of multilingualism in EU in general, is it a changing perception of multilingualism in EU, or inability to explain/agree on it, or it reflects unwillingness to accept these guidelines? This issue remains open.

As regards the attitude to Russian today it does not seem to be a problem in Lithuania while it is seen as a major problem for Estonia and even more so for Latvia. The attitude to English in outdoor media does not seem to be a huge problem in Latvia and Estonia, but is viewed very critically in Lithuania.

A different attitude to language prestige among the younger generation seems to emerge: the generation gap is stronger in Lithuania – the view that no one, especially, younger people care about Lithuanian is clearly stated. It seems there is certain language snobbism in Lithuania - the educated vs. the uneducated. In Estonia and especially Latvia the experts suggest that language quality issues as regards broader masses deserves serious concern. Thus the language vitality index in Latvian could be viewed as fearful, in Estonia as more stable, while Lithuanians seems to be fighting their internal problems. It might be the result of Latvian being in more precarious situation than Lithuanian; hence the preservation instinct is stronger.

## Conclusions

The survey produced a rather contradictory picture. The contradictions relate to understanding of the notion of multilingualism fluctuating from multilingualism as a language diversity issue with a focus on minority languages in Latvia, to promotion of learning of several languages in Estonia and learning the big languages (English) in Lithuania. The homogeneity of answers within each country suggests that the interpretation within the country is stable. One can conclude that local (Member State) issues are pasted on the understanding of the notion. The local situation and past experience seems to modify not only the attitude and implementation of the EU legislation, but also understanding of the basic concepts. EU multilingualism efforts, unless clearly explained can be misunderstood and misapplied. One also has to take into account that the perception of the notion of multilingualism and the discourse and rhetoric are combined with the policies and discourse of migration, history, education policies. Thus it is embedded in the social, political and cultural context which is far from similar in the three Baltic States.

Viewing the past situation the transformation processes carried out under the supervision, monitoring and guidance (generally soft power, but occasionally rather blunt pressure) of OSCE, Council of Europe and the EU institutions, use of synchronic approach to the language situations has been noted. This has led to deep distrust and resentment in the language policy actors and titular nations. It has also disappointed the largest minority (Russian speakers) who were led by Russia's propaganda to believe that the EU will insist on Russian being granted the second official language status. Baltic language policy makers also think that some of the aspects imposed have actually slowed down the integration of non-titular language speakers raised suspicions about the feasibility of integration processes and caused new problems. Thus all parties were to some extent alienated from the

theoretically benevolent aims of the EU. This falls in line with an observation by Ozolins that “universal principles of linguistic rights and language policies must be formulated so as to ensure that in the former colonialist cases there is not a perpetuation of the previous hierarchical language situation” (Ozolins 2002). The ability to interpret/misinterpret basic notions of the EU policies gives room to various political, ideological and ethnic factions and groups to apply EU policies to their own narrow goals.

## Recommendations

The EU should clarify the (current?) understanding of multilingualism. A clash between the ideological and pragmatic dimension can be observed. By overemphasising the theoretical aspects while having no/little implementation power the EU creates misapprehension and distrust. It can be suggested to take a pragmatic stance, tone down the hype and leave it to the Member States and partly economy to deal with the issue or take over some practical functions (pan-EU legislation, funding for learning, preserving, maintaining languages across the EU) to complement the theory. The latter however is an almost unrealistic task because of the contradictions and huge variety of linguistic situations. Past experience tends to highlight that imposition of EU standards (unclear as such) on the basis of synchronic situation in the new Member States without taking into account the diachronic aspect can be counterproductive, negatively affecting the consolidation and integration of the population. This could be even more dangerous and counterproductive in cases of probable further enlargement in regions of ex-Yugoslavia, Moldova, the Ukraine, Turkey. “Historical understanding in assessing contemporary language policy” is necessary, even mandatory if one wants to provide a fair judgment of the language situation in countries that have “undergone a fundamental return to values and orientations previously denied” (Hogan-Brun 2008: 38)

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# IMPLEMENTATION AND EFFECTIVENESS OF ENVIRONMENTAL MANAGEMENT ACCOUNTING

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## Abstract

This article explains the significance of the introduction of environmental accounting based on the criticism of many authors towards traditional accounting systems, which arises from the shortcomings of these systems. The role of environmental management accounting is separately examined in the article. Based on the real situation in Latvia, according to the present research, the public lacks information on the basics of environmental accounting. It is important to note that so far Latvia has lacked successful practical activity in the field of integration of environmental policy. An entire chapter is dedicated to the description of this situation in the article. Compared with the experiences of other countries regarding environmental accounting, it is not assumed in the present research that the unsuccessful integration of environmental policy into the economic sectors is the only cause for today's situation in Latvia. Other causes may also be involved. The opinions of many authors referred to in the article justify the role of environmental accounting in enhancing the existing accounting systems; the literature review deals with the criticism of traditional accounting systems that advocates the introduction of environmental accounting and its effects on the micro- and macroeconomic level. Based on case studies in Lithuania, the practical application of environmental accounting and also its introduction possibilities are reflected, especially addressing the significance of environmental management accounting. It plays an essential role in management decision-making. The role of environmental management accounting continues increasing in developing environmental management systems, and the Lithuanian case studies prove it. In the result, it was concluded that an environmental management system was an important prerequisite for introducing environmental accounting at a company. The environmental management system introduction standard does not require introducing environmental accounting as such. A possible solution for enhancing the existing accounting system might be the introduction of environmental accounting. The number of environmental management systems introduced in Latvia is quite small. To develop environmental accounting in Latvia, the strategy and principles of environmental policy have to be integrated into the economic sectors. To implement it, professionals are necessary. Therefore, by means of education and information exchange through various ways of communication, it is possible to integrate some environmental policy aspects into the national economy and to inform the public on the nature and role of environmental accounting. From political decisions to practical

instruments, environmental accounting serves as one of the instruments for making and integrating environmental policies.

The overall aim of the article is to examine the role of introducing environmental accounting.

**Key words:** environmental accounting, environmental policy, environmental management accounting.

## Introduction

Many researches have been dedicated to environmental accounting. The present article reviews the opinions of many authors on environmental accounting, addressing particularly environmental management accounting. Accounting systems are one of the most important management tools for every economy. The purpose of accounting is to reflect reality as accurately as possible. Reliable information can be an important foundation for improving a company's environmental record and contributing towards its sustainable development. Such authors as Gray, Owen, Adams point out that financial accounting, the form of accounting with which business is most familiar, covers only one aspect of business activity – the financial/economic aspect. However, business activity also has environmental and social aspects and environmental and sustainability accounting enable business to account for the consequences of its activities in these spheres. For instance, Gray et.al defined corporate social reporting as: "... the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society at large. As such, it involves extending the accountability of organisations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders," [14].

A criticism of accounting systems in general is that the information from today's systems only reflect what the economic leaders currently consider important in accounting systems, environmental impacts are often consider as externalities, such an opinion is expressed by Schaltegger and other authors. As regards the present situation in Latvia, it is important to search for possibilities to enhance the existing accounting systems. One of the solutions might be the introduction of environmental accounting. The industries of Latvia's economy that significantly affect the quality of the environment are the energy sector, manufacturing, agriculture, and the transport sector. These industries cause hazardous emissions for the environment: gases – mainly CO<sub>2</sub>, SO<sub>2</sub>, as well as NO<sub>x</sub>– polluted wastewater,

and solid waste. According to national statistical reports on the environmental burden in the air sector, the total amount and the amounts of several kinds of emissions considerably increased in this period. The introduction of environmental accounting is one of the instruments for integrating environmental policies into the sectors of national economy.

The conventional accounting systems are well accepted and have been in place for many years, therefore, it is important that the strengths and weaknesses of existing systems are known before suggesting changes. Financial accounting records flows of an economic entity and its environment, expressed in the published financial statements, is governed by standards and regulations, providing information to external users. Financial accounting includes most environmental costs along with other costs, and thus environmental costs cannot be identified. To reduce pollution, some company granted significant funds. In some cases they are easily identifiable, but environmental costs are much higher than those relating to pollution prevention and control and are often included in hidden costs. Management accounting is “internal accounting” providing information to internal users. As in all cases, environmental management accounting is a tool to inform managers about the environmental costs and to quantify the environmental effects of the company. It appeared as a result of increasing pressure on the company’s management to reduce costs and minimize environmental impact activities [15]. Further criticism by Schaltegger includes the inherent variance between the accounting system and the nature. Natural systems are based on interconnectedness and interaction within the system, whereas accounting systems divide, separate and count everything independently. Epstein, Schaltegger and others believe that by differentiating environmental costs in traditional accounting systems, environmental issues will be reflected and therefore these issues will obtain more consideration.

For environmentalists, conventional accounting practises have several shortcomings as well: “They hide environmental costs, e.g. in overhead accounts, they often allocate environmental costs incorrectly, they consider environmental costs as fixed, while they may actually be variable, they do not account for volumes (and thus costs) of wasted raw materials correctly and, especially they do not include relevant environmental costs in the accounting records at all,”[9].

The information collected with an accounting system must provide a reliable basis for decisions of managers, investors and many other stakeholders. Environmental accounting provides monetary, physical and qualitative information to the management about the environmental impacts of business and the financial consequences of environmentally relevant business activities – information that supports internal and external decision – making, reporting and accountability. According to Schaltegger,

the emerging environmental accounting systems are the result of a change in goals and perspectives within business and are also caused by critical stakeholders. The role of the environment is constantly increasing. Bennett and James accentuate that, the development of tools is also a response of insufficiency of current accounting techniques in handling environmental issues. Environmental accounting techniques were developed during the 1990s by, amongst others, Epstein, Schaltegger, Spitzer and Elwood and Gray. Van der Veen define managerial environmental accounting as "... the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of financial (and non-financial) information used by management to plan, evaluate and control the environmental aspects of an organisation. Tools from management accounting have been translated and applied to the environment and new tools have been developed." Spitzer and Elwood represent the views, nevertheless, environmental and traditional accounting are, to a large extent, based on the same principles as traditional accounting, in which environmental accounting relates to activities only with environmental connotations [6].

The overall aim of the article is to examine the role of introducing environmental accounting.

The study aims to fulfil the following tasks:

- to analyse environmental accounting and its role in an economy;
- to analyse the role of environmental management accounting in an organisation
- to analyse the implementation of environmental management accounting based on case studies from Lithuania
- to examine the situation in environmental policy integration in Latvia, and
- to elaborate conclusions and recommendations for the successful development of environmental management accounting

The research methods employed in the paper: analysis, synthesis, and the monographic method.

## Literature review

This chapter of the article reflects the opinions of many authors regarding the significance and stages of introducing environmental accounting. The environmental issues have found a reflection in the accounts only in the last period of the twentieth century. The emergence of environmental accounting dating back to 1970, considerably increased interest in this area, and managers paid greater attention to environmental issues.

In a study of environmental manager's attitude towards accounting Ljungdahl, Wycherly found that environmental managers were sceptical towards results achieved from environmental accounting systems. One

important reason was that available accounting systems insufficiently reflect environmental costs. Interestingly, the environmental managers from Wycherly's study also mistrusted the accountants because they were generally seen as inflexible supporters of a more traditional approach to management and unmotivated and resistant to change toward a sustainable corporation. Environmental reporting practises have developed during this last decade, but as *Affarsvarlden* and *Ljungdahl* put it is the descriptive information on activities in companies that has not increased the reporting of quantitative measurements. *Ljungdahl* has investigated the role of environmental reporting in his dissertation. He points out a number of paradoxes that explain the development of environmental reporting. Lack of distinct definitions and uncertain input data are seen as obstacles to why financial information is missing. Another fact is that financial investors do not pay attention to environmental reporting when making capital investments. Hence, there is still scepticism towards environmental reporting, and some of the managers interviewed in *Ljungdahl's* study regarded environmental reporting as a passing trend. *Ljungdahl* noticed in his study on environmental reporting that the prefix environment is interpreted by the company's management as being equal to showing responsibility, which paradoxically can imply that companies that report large environmental expenditures are considered to be more environmentally responsible than others. This can also be evidence for the fact that profitable environmental investments are classified as ordinary investments and consequently are not reported in environmental reporting. *Zaring* and *Gaugh* and *Ward* maintain that a learning approach to management would support managers to make more environmentally responsible decisions. *Zaring* also found that any sequential investment decision was used as a way of aggregating different kinds of knowledge [6].

The conclusion from the *Ecomac* project led by *Bartolomeo* is that only a small percentage of interviewees considered that the benefits of introducing environmental management accounting were sufficiently high to compensate for the high costs of changing accounting systems, but when going through the texts and references of most of the contributions, it looks as if environmental management accounting is developing as a new field of research separate from the much wider body of management accounting research generally.

During the early days of environmental accounting, *Larid* suggests the use of environmental accounting as a means of adding up damage to the environment and change in more conventional economic indicators. He sees environmental accounting as a method that would pressure decision makers to put a proper value on environmental inputs in gross domestic product (GDP). In their analysis, *Ekins*, *Hilman* and *Huchinston* question the validity of GDP. They note the shortcomings of mainstream economics

in contributing to the present distortions in national accounting systems. Jacob traces the link between economic activities and pollution. He observes that the extent to which high GDP retards the environment depends on what is growing. Jacob's arguments are firmly planted in developed and developing nations and deal with valuing the environment, instruments of environmental protection, and global environmental policy [11].

Authors such as Gray et al, Schaltegger and Burritt point out - today a large number of companies collect, use and distribute information related to the natural environment. This reflects a fundamental change compared with a decade ago. There is increasing pressure from stakeholders concerned about the impact of corporate activities on the environment, and the costs of environmental impacts have risen substantially – for example, through penalties established in new environmental legislation, and investments in environmentally benign processes and products encouraged by stricter environmental regulation. Such pressures based on the researches of Burritt et al, Gray et al, Parker, Schaltegger, Schaltegger and Burritt, Schaltegger and Stinson have led to the emergence of various perceptions of the concept and practises of environmental accounting [14]. Merem's perceptions and those of other authors are considered further.

Many writers in environmental accounting, such as Nordhaus, Repeto share the view that the national economic accounting system inadequately contains natural resource depletion and environmental degradation, for instance, as it substantiate Merem: "Despite the rising justifications for environmental accounting as evidence by the growing list of studies, during the last decades, most of the researchers in environmental accounting have rightly lamented about the inadequacies inherent in the economic accounting system due to its omission of ecological liabilities." There are many reasons for this. Thus, Brown argues that the economic accounting system used by governments to calculate GDP takes no account of depreciation of natural resources. This approach generates environmentally destructive policy of natural resources. El Serafy and Norgard see the national accounting system as a faulty tool for policymakers and planners to evaluate the economic health of the nation. Hueting points out how contemporary growth in national income is not only being followed by the damage to much of principally limited resources with the most fiscal worth, namely the ecosystem. He points out that because of the defects in the measurement of gross national product (GNP), the occurrence of resource depletion is often concealed through the misrepresentation of facts.

According to Markandya, the conventional economic accounts that measure GNP and related indicators of national welfare and income performance do not fully allow for the damages caused to the environment during the production and consumption of goods and services. Nor do they fully account for the fact that some resources are being depleted in

achieving the living standards that society currently enjoys. Markandya realising the scale at which economic and environmental problems are often overlooked in the conventional system, focused on the European Union. The author examines the methodology used for measuring damages inflicted through the surrounding area's air pollution and environmental costs. In another study, Markandya uses the European region states of Germany, Italy, the Netherlands, and the UK to demonstrate how environmental damage costs measurement procedures are often negated in the current system of national economic accounts with coverage of the major issues. The findings point to numerous things that can be accomplished through the regular assessment of environmental damage costs along with major shortcomings to be encountered. Based on the foregoing analysis on a similar position, Van Dieren notes how indicators used to direct economic policy (GDP, national income, and the like) are based on a number of factors, but nowhere in their calculation is there an appraisal of the degradation of natural resources. The numbers may appear acceptable, as the author notes, but the continued deterioration of the environment is leading us closer to crises in which policymakers and the public are basing decisions on dangerously incomplete information.

According to Carson, environmental accounting should present relevant information on natural resources within an accounting framework. Despite the importance accorded to environmental information in business financial reporting and decision-making in the literature, in a comprehensive study Epstein concluded that most companies do not know what causes those costs. It is generally agreed that, decades ago, the lack of understanding of the eventual environmental impacts of products and services together with the related liabilities caused companies to ignore the consideration of those impacts in their calculation of product costs. One of the barriers to improving the management of environmental impacts is lack of accurate measurement and reporting [17].

In terms of future needs for environmental accounting analysis, Lange observes that environmental accounts bring together economic and environmental information in a common framework to measure the contribution of the environment to the economy and the impact of the economy on the environment. She notes: "Environmental accounts enable governments to set priorities and monitor economic policies more precisely so as to enact more effective environmental regulations and resource management strategies. This attribute helps in the design of more efficient market instruments for environmental policies."

Pearce and other authors insist on the following approach: the steps in the design of such environmental information involve the preparation of a "balance sheet" indicating a profile of what stocks of the resources are

available within a given period of time. The process consists of creation of an account of what uses are made of these stocks, what sources they are derived from, and how they are added to or transformed over time. This ensures that the stock accounts and flow accounts are consistent so that the balance sheet in any year can be derived from the balance sheet of the previous year plus the flow of accounts of that year. Bartelmus: "Greening the conventional national accounts in that mode provides opportunities for bringing environmental impacts and expenses into a nation's balance sheets and accounts. The results would help create an innovative scale for piloting the economy towards sustainability in a manner that can transform not only our main procedures for assessing prosperity and the state of the economy, but also the fundamental beliefs guiding environmental and resource policies." [11].

Sefcik et al. related environmental issues to the traditional accounting sub-disciplines of financial accounting, managerial accounting, accounting information systems, auditing and tax. Their study in which they sought to show environmental linkages among the sub-disciplines, showed that environmental accounting affects all of the traditional accounting sub-disciplines and that environmental accounting can be enhanced through it as integrative accounting course offering. An extensive study of Bebbington and Gray concluded that "accounting functions are more usually passive with regard to environmental considerations, and often await direction from other areas of business." Bebbington and Gray summarised their findings in support of that conclusion. Bebbington, Gray, Tomson and Walters reported that accountants have low levels of involvement in their company's environmental activities, which explains the absence of environmental reporting in practise. They argued that the reason for this situation is that "the present education and training programs inadequately prepare accountants for the (associated work) environment they will face within organisations." [17].

## **Environmental management accounting (EMA) and its role**

The majority of authors support the idea the main difference between conventional and environmental accounting systems is that the latter separately identify, measure, analyse and interpret information about the environmental aspects of company activities. Within the conventional or traditional approach this distinction is somewhat unclear. According to Schaltegger's research, "Traditional accounting systems do not provide information on how much the environment is harmed, no matter how high the social costs are, or whether the damage is irreversible or the carrying capacity exceeded. If the management relies only on traditional accounting



in formation, it might be very often not even recognising that the environment has been harmed.” Among the main benefits of correctly considering environmental issues in traditional accounting are:

- to correctly consider the actual and potential economic consequences of environmental issues
- to adapt the economic effects of new environmental regulations (in advance)
- to take the economically superior measures of environmental protection, and
- to be able to respond to environmental issues raised by shareholders [12].

Traditional accounting should certainly deal with environmental issues to provide correct information about the growing economic consequences of environmental issues and pollution prevention. Only with correct information, the management can assess the potential economic consequences of environmental issues, adapt the economic effects of new environmental regulations and have a mutually fruitful discussion of how best to implement pollution prevention.

If the management relies only on traditional accounting information, it might very often not even recognise that the environment has been harmed. Accounting practises are extremely important because they strongly influence management activities. Financial accounting theory does not recognise environmental costs as a part of production and management of an enterprise, so they are not recorded in specific accounts, but are considered overhead costs. So, there is a tendency for their separation from products, processes or activities which cause them. [15] Correct accounting for environmentally included costs and revenues enhances future profits. First, because the costs and revenues are correctly reflected in the accounting system. Second, because only correct information allows the most profitable management decision to be taken. If companies don't correctly calculate their environmentally included costs, the management simply cannot know whether the marginal costs of collecting environmental information and reducing environmental impacts are smaller than the marginal costs of environmentally included fees, fines, image problems, etc.

The term environmental accounting has a lot of meanings and uses. For Burritt and Lehman (1995), environmental accounting is the generic name to the field of study highlighting the interrelationships between accounting, accountants, and environmentalists. The core of all definitions is that the application of environmental accounting may be and shall be used as a managerial accounting tool for internal business decisions. Since accountancy is a very practical science, it is of vital importance to clarify the

relative position of environmental accounting in the whole accounting system and its relationship with the conventional financial and management accounting systems. In addition to the main categories of accounting, the environmental accounting includes:

- Environmental financial accounting (EFA), which focuses on reporting the cost of environmental liabilities and other significant environmental costs, and provides related environmental financial information to external stakeholders, and
- Environmental Management Accounting (EMA), which as part of management accounting, addresses mainly to the information for internal decision makers of a corporation.

So it can be underlined that environmental accounting takes place in both management accounting (e.g. assessment of an organisation's expenditures on pollution control equipment, revenues from recycled materials) and financial accounting (e.g. evaluation and reporting of the environment related liabilities) [18].

The basic information needed by EFA relies on the proper recognition and summary of environmental cost, which is also the core component of EMA. So we can conclude that EMA plays a decisive role in the whole system of environmental accounting. Several authors such as Bennett and James, Bouma and Wolters, Bartolomeo, Schaltegger, Burritt support the following opinion: "Within the framework of environmental accounting, EMA represents internal company accounting and reporting for company – related environmental impacts." Because environmental costs in companies are still frequently underestimated and remain hidden in overhead accounts, by enabling managers to assess environmental costs, EMA, as indicated by Schaltegger and Muller, helps to visualise the full amount of these costs, as well as to calculate profitability to environmental protection measures. However, many companies have not implemented EMA in spite of the various advantages flowing from its application in companies [1].

There are many definitions of environment management accounting (EMA); a network of researchers, policymakers and business promoting EMA defines EMA as "the identification, collection, estimation, analysis, internal reporting, and use of materials and energy flow information, environmental cost information, and other cost information for both conventional and environmental decision-making within an organisation" [9].

According to C. Jasch: "EMA, environmental management accounting represents a combined approach which provides for the transition of data from financial accounting, cost accounting and material flow balances to increase material efficiency, reduce environmental impact and risk and reduce costs of environmental protection. EMA is performed by private or public corporations, but not nations, and has a financial, as well as a physical component," [7].

EMA is first and foremost a decision-making instrument, which can be used by the company management to prioritise environmental tasks and investments. As in all cases, EMA is a tool to inform managers about the environmental costs, to quantify the environmental effects of the company. EMA can be used also by other organisations, e.g. local authorities.

Environmental accounting is also examined from the point of view that shows that EMA defines itself primarily in terms of its main audience; its main purpose is to provide relevant and useful information to the management of the organisation, as distinct from external stakeholders, in order to support the various responsibilities of management – planning, decision making, controlling, etc. The most convincing use of EMA is to support an organisations' environmental management, but it is also an important issue for accounting and finance professionals, because, if the case for environmental concern is accepted, the environment is likely also to become an increasingly impact factor in the business context as a major strategic variable for businesses to recognise and respond to. The twin premises on which EMA depends are:

- that the environment is important and will gain in importance over time, in the first place for the society as a whole, and therefore for governments and organisations, too; and
- management accounting techniques and approaches are potentially one of a number of tools which organisations can apply in order to manage better their environmental performance.

Undoubtedly, the essential role of environmental management accounting is associated with its ability to record costs that arise from liabilities to the environment and from reductions of a company's effects on the environment. The most important role of EMA is to make sure that all relevant costs are considered when making business decisions, with environmental costs being a subset of the wider cost universe that corporate decision-makers need to take into account. EMA can be an attention – director to encourage managerial decision-makers to take a different look at a familiar process in order to reflect new priorities.

The literature on environmental management accounting contains many case studies which suggest that a low level of cost allocation is one major reason why organisations ignore the potential of pollution prevention measures to cut down on production costs. One of the findings in bibliographical sources shows that four cost categories in particular were selected that are especially important for environmental management: waste management costs, energy costs, water costs and waste water costs [1].

Environmental management accounting may contain the following components, EMA, based on Bennett and James, Burritt et al, Bouma and Wolters, IFAC, is an integrated system that can include monetary and non-monetary approaches to internal accounting. EMA can be defined as

a generic term that includes both monetary (MEMA) and physical (PEMA) environmental management accounting. Based on the literature review, it was concluded that monetary environmental management accounting (MEMA) deals with environmental aspects of corporate activities expressed in monetary units and generates information for internal management use (e.g. costs of fines for breaking environmental laws, investment in projects that improve the environment). Results of the study of Schaltegger and Burritt show that it is a central, pervasive tool, providing, as it does, the basis for most internal management decisions, as well as addressing the issue of how to track, trace and treat costs and revenues that are incurred because of the company's impact on the environment. MEMA contributes to strategic and operational planning, provides the main basis for decisions about how to achieve desired goals or targets and acts as a control and accountability device. Physical environmental management accounting (PEMA) also serves as an information tool for internal management decisions. However, Schaltegger and Burritt argue that, in contrast to MEMA, it focuses on the company's impact on the natural environment, expressed in terms of physical units such as kilograms. PEMA tools are designed to collect information on environmental impact in physical units for internal use by management [12].

The analysis of research conducted in Lithuania shows that it seems logical to assume that it makes more sense for companies with relatively high environmental costs to implement accounting systems to control these costs. However, it is important to note that environmental accounting by itself is not enough, but has to be incorporated into the larger context of environmental management, this ensures that the information gathered by accounting is used efficiently, effectively and purposefully to improve the environmental performance of the company. Practical research performed in Lithuania indicates the effectiveness of environmental management accounting and finds that "EMA is very beneficial for industry companies, because by better identifying, assessing and allocating environmental costs it allows us to find the main environmental problems affecting the economic situation of the company. It gives the motivation to search for more efficient resource usage, to control pollution more effectively and to increase the competitive ability," [8].

## **EMA implementation issues**

EMA could be one of the most effective instruments to support implementation of environmental management system (EMS), it is becoming increasingly important not only for environmental management decisions, but also for a development of environmental management systems (EMS).

According to the analysis of Lithuania's companies, the companies which use EMA as a part of integrated management system, are provided with accurate and comprehensive information for the measurement and reporting of environmental performance [8]. EMS is a set of guidelines, which instruct workers and management how to prevent pollution, handle resources, and reduce emissions, waste and wastewater from the production. Environmental management systems are most commonly used by industry, but can be used by all kind of organisations, including public authorities and state and local government institutions like universities, schools, hospitals and within elderly care [9]. Integration of environmental control into organisational processes was the introduction of EMS in accordance with the European Environmental Management and Auditing Scheme (EMAS) and International Organisation for Standardization (ISO 14001). The European Union EMAS scheme and the ISO 14001 are international environmental management support system standards. There are presently more than 150 organisations in Latvia that implemented certified environmental management systems in accordance to international Standard ISO 14001 and there is only one organisation which implemented the environmental management and audit scheme (EMAS) [5]. In 2012 in the world, more than 150 thousand organisations were certified in accordance to international Standard ISO 14001. As of the end of June 2011, 4615 organisations and 8011 objects were registered in the EMAS system [4]. If EMS is introduced at a company, it is an important prerequisite for introducing environmental accounting. The standards of EMS have no requirement to introduce environmental accounting as such and the introduction of it is a voluntary decision. Yet, the introduced environmental management system is based on environmental monitoring data and on keeping their records. It is practised that only a part of all environmental management system elements; in this case, of course, the introduced system is not certified. By introducing EMS, the company identifies the main aspects in which it creates the greatest effects on the environment, defines parameters that have to be regularly accounted and analysed. The environmental management system, to a great extent, is based on environmental monitoring and it is often said that "if you cannot monitor, you cannot manage." The introduced environmental management system often significantly contributes to management of various resources for instance in the field of energy.

Actually, introducing the environmental management system is associated with introducing environmental accounting. Based on research conducted in 2004 and 2005 in Lithuania's companies regarding environmental management accounting (in addition, as of January 2005, there were 156 companies in Lithuania that implemented certified environmental management systems in accordance to international Standard ISO 14001)

it was concluded that “Governmental institutions should take an active role in promotion of environmental management accounting. Their effort can benefit from co-ordination among governmental agencies, other regulatory agencies, including environmental protection agencies, tax and local authorities, and others.” International experiences show that governments can promote the introduction of environmental management systems by means of national budget subsidies, tax relief, including the tax on natural resources, relief in relation to environmental licences, depending on the country.

A number of activities in different countries have shown an increasing commitment of governments to the promotion of EMA. A conception has been elaborated regarding what the policy of government should be in order to foster the introduction of environmental management accounting:

- Fundamentally, according to Bennett and James, EMA serves to integrate environmental aspects into essential business decision processes. EMA enables managers to take environmental and economic valid decisions.
- EMA helps governments to achieve pollution prevention at minimal cost to government and with minimal political resistance. Business decision – makers are able to implement the full range of environmental measures which are economically favourable.
- In addition, EMA can increase the effectiveness of new environmental policies. Companies that use EMA are in a better position to comply with environmental regulations and have greater awareness of the benefits from undertaking further reductions in environmental impacts to go beyond compliance with legislation.
- Furthermore, EMA provides an appropriate basis for accountability of businesses, and encourages companies to act in the public interest. Only those companies that have created the necessary internal information system are able to demonstrate responsible behaviour in relation to corporate environmental impacts and to provide high quality information to third party stakeholders.
- Finally, as shown by Schaltegger and Sturm, EMA is an economic viable approach designed to encourage greater environmental protection [1].

Based on the experience of respondents, the overall opinion among various target groups at the level of government and financiers allow one to conclude that the Latvian economic environment in the current period misses information about the essence of environmental accounting and its application possibilities. In her research, I. Bruna recommends that the companies do not have specific conditions to provide environmental information in detail for annual report users. To address this problem, it could be recommended to make changes into accounting laws regulating

the “Law on Annual report” and “Law on the Consolidated Annual Report” and other normative acts in accordance with the recommendations of the “Commission recommendation of 30 May 2001 on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies” [3].

Lithuania’s case studies enable one to define recommended activities for developing environmental management accounting. Based on this practice, the possible options for action to develop the environmental management accounting system in Latvia may be enhanced.

In September 2004, EMA methodology developed by IOW, Institute of Environmental Management and Economics, Vienna, Austria was introduced to representatives of industrial companies. The pilot testing was performed in 18 economic significant Lithuanian industrial companies. For introduction to EMA methodology, a conceptual approach was used, which includes the following main steps:

- training materials and training seminars
- company case studies, and
- further dissemination of EMA.

The seminars were attended by mixed audiences of financial and technical experts from companies, some with an environmental background, some without. The financial experts learned some basic concepts of material flows identification and evaluation and the technical experts learned some basic concepts of cost accounting. The results of the seminars led to visiting companies mostly interested in EMA implementation, examining their environmental problems and gathering data at the first hand. Analysis of the results shows that in all cases the environmental costs were significantly higher than those, which company declared in official reports. According the results, the areas of most intensive cost could be clearly identified. Also the majority of company representatives stated that the revealed hidden costs strengthened pollution prevention and cleaner production initiatives. Schaltegger, in one of his works, writes that accounting systems do not reflect environmental impacts caused directly or indirectly by a company. This will remain the same as long as organisations are treated as a “semi-closed system with hard (accounting) boundaries”, as well as – traditional accounting has been strongly criticised because it does not sufficiently reflect environmental costs (and social costs) [12]. The effectiveness of the measures identified that applying EMA and efficiency of their implementation largely depended on the integration level of these measures in the overall strategy of enterprises and everyday activities. It meant that adequate changes were needed in the management system of a company, e.g. new policy, new methods and new procedures. In addition to production process management, the overall management system should be modified in such way that effective communication with all stakeholders

is ensured. It was obvious that, such changes related to the enterprise's informational and reporting system. Any changes in management system or implementation of technical improvements required adequate human and financial resources [8].

In 2005, Lithuanian companies used different methods for evaluation environmental costs, however, no proper attention for the costs of waste (cost of energy, water, materials, labour, packaging, etc.), which were used to produce waste, but not a product, i.e. "non-product output", was paid. Experience and analysis of EMS implementation in Lithuanian industry showed that companies needed to estimate environmental costs. Environmental costs might be a substantial portion of a company's total costs, although many companies were not aware of the actual magnitudes of them. In most cases, the environmental costs were under-estimated and could vary from 3% of total cost (in the investigated Lithuanian electronic company, only waste disposal and treatment costs were considered as environmental, other items such as labour and planning costs were not included) to 17% of manufacturing (including costs of environmental innovations) costs in chemical companies. In reality, the actual environmental costs were significantly higher: companies did not include costs of raw materials, which were not converted to products, but turned to waste and related energy, processing, personnel costs, etc.

The pilot studies of EMA in Lithuanian industrial companies (mostly SMEs) showed that environmental management accounting not only helped to reduce corporate operating costs, but also to save natural resources. In a company, EMA concerns definition, assessment and allocation of environmental costs and expenditures for the purposes of cost and resource management, compliance reporting and capital budgeting, planning and operational decision-making. Modifications of existing management accounting systems could be relatively inexpensive if they generated significant financial and environmental benefits. Some suggestions from case studies simply involved the introduction of an extra field in the accounting system to provide physical information about the resources being acquired (for example, amount of electricity or water consumed), or a modification of cost allocation to process or product. Obviously environmental issues should also be reflected in existing financial accounting systems.

From an environmental point of view, absolute indicators were the most important because they measure a total consumption of resources and emission of pollutants. Further, the concept could be divided into two main areas: financial and managerial environment accounting. In the financial environment accounting, the analysis and reporting component of internal costs and liabilities related to environmental matters was emphasised. Into EMA the assessment and reporting of environmental



risks and liabilities, capitalisation for environmentally related expenditures and the treatment of environmental debt fell. EMA supported the internal management and decision-making process through various techniques of cost allocation, performance measurement and business analysis. It was interdisciplinary in scope: on the one hand it helps to identify internal and external costs; on the other hand it could be used to allocate these costs within existing and emerging environmental accounting frameworks. It should be stressed that there were obvious differences between various case studies in different industries. However, a review of the results showed that there were many similarities in what improvements could be suggested for environmentally concerned companies both in terms of environmentally based operation and for reporting of environmental management accounting information [13].

Environmental problems are vast, and the described case studies allow one to conclude that environmental costs are much greater in relation to various examples of Lithuania's industry. Applying EMA was simply doing better, more extensive management accounting, because emphasising environmental issues highlighted hidden costs. However, despite encouraging developments in the field of EMA, it had to be kept in mind that simply updating of the conventional accounting system and its improvement with environmental information would not help to solve environmental problems unless the management of environmental protection efficiency information was integrated in the environmental management system. EMA was still in a development stage and its concepts, tools, processes and potential benefits to both Lithuanian industry and government are not clearly recognised. Therefore, common and close collaboration between them and with academic, research institutions, and environmental organisations nationally and internationally will be an important factor in EMA development and implementation. International organisations (for example, United Nations) were performing an increasingly important role in international exchange of information and experience, and in the establishment of various guidelines and standards [13]. Bebbington stated that environmental accounting is enabling tool for reporting environmental costs and transforming the accounting profession and practise. The results indicated that faculty members recognise the importance of reflecting costs of environmental impacts. Bebbington and Gray concluded that, to enable students to become effective practitioners, accounting programs must increase instruction in the use of approaches that reflect environmental accounting's role in translating impacts to costs. Further, innovative accounting curricula are needed to link environmental research with teaching, and teaching with practise. This will provide the critical skills needed to manage organisations [17].

## **Environmental policy integration issues in Latvia**

According to K. Uno, the accounting framework is intended to support policy decisions [16]. Environmental accounting may be regarded as one of the instruments for integrating the strategy and principles of environmental policy into the sectors of economy. In Latvia, the environmental policy is not successfully integrated in the economy.

This chapter reflects the opinion of R. Bendere and many authors that, to integrate environmental policies and sustainable development, a lot of instruments and activities may be exploited to create an environment suitable for the integration, which may be both various institutions and procedures. Therefore, instruments for policy integration, based on the findings of Lenschow, Zito, and Partidario may be classified as follows:

- legal acts and planning documents;
- institutional instruments – organisational structures (formal and informal consultative and scientific councils, agencies, co-ordinative and audit institutions); and
- monitoring and assessment instruments.

The practical use of legal acts in developing and introducing programmes and plans for industries of the economy is closely associated with the development of a communication system among government ministries and subordinate institutions, as well as with relations with non-governmental institutions, sectorial specialists, and public groups, which are engaged in elaborating government policy planning documents and introducing them in practice. The performance of several economic sectors is characterised by their long-term planning documents – sectorial strategic plans, medium- and short-term planning documents, as well as reports on results achieved in the sectors. Sectorial strategic documents indicate the essential role that is played by the environmental requirements included in the EU legislation in relation to Latvia's economic policies and documents. Latvia's economic sectors, which significantly affect the quality of the environment, are the energy sector, manufacturing, agriculture, and the transport sector. If analysing the integration of environmental policy into sectorial policies in Latvia in general, one has to stress that uncertainty over the requirements for the performance of ministries concerning operational enabled changes in priorities in the economic sectors, which, in its turn, affect the implementation of environmental policy objectives. Thus, actually not only the EU policy requirements are ignored, but also the country's overall development is hindered.

Environmental requirements that ensure the further sustainable development of the economy are relatively observed in sectorial strategic documents, but practically are often ignored. On the whole, if analysing the ministries, it has to be stressed that sufficient attention is not paid to en-

vironmental policies and the institutional framework of economic sectors. In several sectors, it may be justified by the need for specific and diverse knowledge. The most significant mechanism in co-operation among economic sectors is not formal structures, but informal professional interpersonal connections. It requires even more that concerted policies targeting achievements and objectives are made and the existing co-operation mechanisms for better environmental policy integration at all government levels are developed and enhanced. Leading employees of the ministries responsible for economic sectors most often mention the problematic financial situation and insufficient funding for the economic sectors as the reasons for the limited capacity to achieve the objectives set. Yet, while planning, activities requiring actually small investments are not separated from long-term activities needing large investments [10]. However, it has to be taken into consideration that environmental measures are long-term ones and large investments have to be appraised for a long-term. Such issues have to be tackled at a strategic level in the country, as the gains will be long-term activities.

The environment and the integration of environmental policy are set a priority at all government levels, yet, in reality, the local government level is the weakest link. Making environmental policy in response to environmental degradation and limited resources was specific to Central and East European countries, yet, no achievements were observed regarding environmental policies made by Latvia's municipalities.

Latvia differs from other EU Member States in terms of local environmental policies and lack of public participation in making decisions on the environment. It requires higher level knowledge from local governments not only regarding the environmental sector, but also its links and interactions with other sectors. According to Lagzdina, Ernsteins, the formation of integrative planning knowledge has to be based on a disciplinary understanding of environmental sector, which undoubtedly has to be used as a complementary integrative approach. R. Bendere supports the idea, the integration of environmental policy in economic sectors requires the engagement of professional. Not only materials for publishing in the media have to be prepared or commented, but also discussions have to be actively held on websites regarding the topic concerned. One of the practical solutions is the extension of the websites of ministries for the purpose of receiving and assessing public comments on the topics essential for an economic sector. The website of the ministry responsible for the sector concerned has to have links with national and local government institutions and public organisations and companies that are engaged in the sector or make a policy. As a positive example, the wide network of organisations involved in agriculture may be mentioned. The Ministry of

Agriculture and the institutions supervised by it closely cooperate with providers of agricultural education and practical assistance [10].

Nevertheless, as of today few companies have incorporated sustainability into their strategic thinking. Instead, environmental strategy consists largely of fragmented projects aimed at controlling or preventing pollution. Based on Starkey, Welford: "Focusing on sustainability requires putting business strategies to a new test. Taking the entire planet as the context in which they do business, companies must ask whether they are part of the solution to social and environmental problems or part of the problem. Only when a company thinks in those terms can it begin to develop a vision of sustainability – a shaping logic that goes beyond today's internal, operational focus on greening to a more external, strategic focus on strategic development. "Such a vision is needed to guide companies through the stages of environmental strategy. The authors conclude, pollution prevention, clean technology, etc. all moves a company toward sustainability, but without a framework to give direction to those activities, and their impact will dissipate. A vision of sustainability for an industry or a company is like a road map to the future, showing the way products and services must evolve and what new competencies will be needed to get there. As it is defined by Starkey, Welford, social or sustainability accounting aims to access the impact of an organization or company on people both inside and outside. Issues often covered are community relations, product safety, training and education initiatives, sponsorship, charitable donations of money and time, and the employment of disadvantaged groups." Socio-economic sustainability, says Professor Tom Gladwin of the Leonard N Stern School of Business, New York University, involves poverty alleviation, population stabilisation, female empowerment, employment creation, human rights observance and opportunity on a massive scale. Like an environmental accounting, this is an area where a great deal of further work is needed [14]. This is priority issue for policy makers in Latvia.

## Conclusions and recommendations

In the present study, based on literature studies, the role of environmental accounting and its contribution to both the micro- and the macro-economic level is examined in the country, beginning with the criticism of traditional accounting systems, represented by several authors, especially Schaltegger, and ending with environmental accounting.

A traditional accounting system has shortcomings, as it:

- includes most environmental costs along with others costs, and thus environmental costs cannot be identified;
- hides and allocates environmental costs;
- considers environmental costs as fixed, while they may be variable;

- features insufficiency of current accounting techniques in handling environmental issues;
- inadequately contains natural resource depletion and environmental degradation;
- omits ecological liabilities;
- takes no account of depreciation of natural resources in GDP calculations;
- is a faulty tool for policy makers and planners to evaluate the economic health of the nation;
- often neglects environmental damage costs measurement procedures;
- does not provide information on how much the environment is harmed; and
- does not reflect environmental impacts caused directly or indirectly by a company.

Gains from environmental management accounting (EMA):

- a tool to inform managers about the environmental costs and to quantify the environmental effects of the company;
- it reflects environmental issues and these issues will obtain more consideration;
- it evaluates and controls the environmental aspects of an organisation;
- a method that would pressure decision makers to put a proper value on environmental inputs in GDP;
- it helps to visualise the full amount of environmental costs as well as to calculate profitability to environmental protection measures;
- a decision-making instrument for company management to prioritise environmental tasks and investments;
- it deals with environmental aspects of corporate activities expressed in monetary units;
- it gives the motivation to search for more efficient resource usage to control pollution more effectively and to increase the competitive ability;
- it serves to integrate environmental aspects into essential business decision processes;
- it helps governments to achieve pollution prevention at minimal costs;
- it can increase the effectiveness of new environmental policies;
- an economically viable approach designed to encourage greater environmental protection;
- it helps to reduce corporate operating costs and also to save natural resources; and

- it supports the internal management and decision making process through various techniques of cost allocation, performance measurement and business analysis.

An environmental management system introduced at the company level is a significant prerequisite for introducing environmental accounting. The environmental management system is based on environmental monitoring data and their record-keeping. Latvia, on the global scale, has no large number of environmental management systems introduced. It may be related to the fact that its environmental policies were not effectively integrated in Latvia's economic sectors. Actually, the introduction of an environmental management system is associated with the introduction of environmental accounting. Environmental accounting plays an essential role in integrating the environmental policy in economic sectors, yet, it has to be based on amending the legislation regulating accounting.

To introduce and develop environmental accounting in Latvia, the strategy and principles of environmental policy have to be integrated into Latvia's sectorial management, municipalities, and economic sectors where so far the environmental policy was, in reality, has been poorly developed.

The reason for it was the lack of knowledge, as the integration of environmental policy into the fields concerned requires professionals. Therefore, in order both to achieve this goal and to develop environmental accounting at a company, training has to be conducted, training materials on environmental management accounting have to be produced and disseminated and training seminars have to be held.

Based on research it is concluded that more should be developed in Latvia sustainability accounting as a framework to incorporate socio – economic sustainability factors into state policy.

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