

Business Culture and Values

in the Baltic states

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Business Culture and Values

in the Baltic states

Report on the results of the study

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GfK Custom Research Baltic

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Foreword

Maija Kāle

Director of the Centre for Sustainable Business
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The story of the economic situation in the Baltic states sometimes reminds me of the bumblebee. According to the laws of aerodynamics, the bumblebee should not fly due to its specific anatomy, but in reality it still does. The same seems to be the case with the economies of the Baltic states. Taking into account the level of activity

in shadow economies, bribery, the high tax rates, and the cumbersome bureaucracy, we could conclude that the economies cannot be sustainable in the long-term. Or in other words: the Baltic bumblebee cannot fly.

Dr Christian Ketels

Harvard Business School



Over the last few years, an increasing number of economists have lost their believe in generic policy recipes that argue for the same solutions independent of local circumstances. To know what to do, so is the new mantra, you need to know how things really are in an economy. This very basic recognition of the importance of local

circumstances has led to a growing number of efforts to provide information that can be used to diagnose the local context. Official statistics can do their part in this context, but much valuable information is dispersed in the knowledge and subjective perceptions of business people. Their views matter – not because they are always right (they aren't; business people are subject to the same biases and misperceptions as any of us), but because they influence their behavior. In this context, this study by the Centre for Sustainable Business at SSE Riga is an important step in providing us with a better understanding of how Baltic business leaders view themselves, their peers, and their environment. It covers a rich set of issues and allows comparisons on how business leaders answer by their country, their industry, and the size and international exposure of their firm.

Nevertheless, it does. This research is the first trial, along with an SSE Riga tradition of surveying the level of the shadow economies in the Baltic states, in an effort to unravel the mystery of the entrepreneurial processes, business values, and approaches which make the economies of the Baltic states exist and remain sustainable. And if we look at these characteristics, we can see that there is not one single Baltic bumblebee but three quite different ones. This discovery allows us to question regional unity, which has been similar in terms of some characteristics (shadow economy, disappointment with government policies) but so different in regards to others (business values, approach to entrepreneurship, and entrepreneurial traits). Here, we begin.

The data is as it should be – confirming some expectations and questioning others. Companies see taxes, inflation, and access to skilled labor as key growth barriers – not necessarily expected in the post-crisis environment. Estonians are different and oriented towards the Nordics, while Latvians and Lithuanians are more focused on each other and a broader set of neighbors. Somewhat shockingly, only half of the respondents think that a large majority of companies follows existing laws and regulations. That is a problem, as any scholar of the rule of law will tell you. More encouragingly, a good number of respondents report that their companies are active in areas that fall under a broad definition of 'sustainability'. And while low costs (or none) come at the top of the list of perceived competitive advantages Baltic companies have, other factors like the region's geographic location, quality, and workforce skills are also mentioned.

Whether one agrees with the survey respondents or questions their view, the survey results reported here provide an excellent opportunity to engage in a dialogue within the private sector and between the private and the public sector: Are the views documented here widely shared? Do they present a fair picture of what the reality of business in the Baltics looks like today?

Foreword

Many of these type of surveys reveal a deep disconnect between how different key constituencies, like entrepreneurs and politicians, view the current situation. These disconnects first need to be made visible before

Dr Wayne Visser

Director of Kaleidoscope Futures, Senior Associate at Cambridge University and Professor of Corporate Responsibility at Warwick University



This report is very timely and important in the evolution of corporate sustainability and responsibility in the Baltics. One of the principles of transformative CSR (or CSR 2.0) is “glocality”, which means pursuing global best practices but also adapting these to local contexts. This makes it essential to understand differences in values and business practices at regional and national levels. Apart from allowing culturally appropriate practices of sustainable business to be designed, it also

Dr Ģirts Dimdiņš

Professor, social psychology, University of Latvia



This is an interesting and informative study about the perceptions of business values and business culture in the Baltics by a sample of entrepreneurs working in these countries. The format of questions — reporting on the perceived common practices rather than own characteristics and behavior — reduces the pressure for socially desirable responses while sacrificing little in terms of precision of measurement. The responses to most questions are quite variable, suggesting that they reflect true individual opinions, rather than a collection of social norms or business folklore of the respective countries. Overall, the results project a positive and pragmatic image of the business culture in the Baltics, with a realistic assessment of its weaknesses, by those who create this culture in their everyday activities.

they can be overcome. And only if they are overcome can a dialogue begin on how the business environment and the sophistication can be improved to strengthen the competitiveness of the Baltic economies.

allows each country to learn from the successes and failures of the others.

The report shows that a great opportunity exists to improve business practices on sustainable development, with only a third of respondents currently believing that companies are taking social and environmental issues seriously. A good place to start is with basic awareness, since less than 40% are currently investing in training on sustainable development. If this training focuses on the business case, it will create more belief in the benefits of sustainable business. Best of all, this research provides a baseline to track these future improvements.

One aspect of the survey that has a significant potential for further studies is the perception of sustainable development. Sustainability is a buzzword of the 21st century, so it is not surprising that most respondents have an opinion about the prevalence of sustainable practices in the Baltic business environment. However, it is not obvious what the respondents understand by sustainability and what aspects of sustainable development — social, environmental, economic — are reflected in the responses. Digging deeper in the perception of sustainable development would achieve at least two goals. First, it would provide a more refined picture of the current understanding of sustainable practices by businesspeople in the Baltics, revealing aspects where further education is needed. Second, such in-depth survey could stimulate interest and awareness of various aspects of sustainability, and in fact facilitate sustainable behavior among the respondents.

1. Summary

Although there are many aspects of business values and practices that equally characterise all three Baltic countries, there are many differences as well. Thus, it is not possible to state that entrepreneurs from the Baltic states are very similar in their business values and practices. More similarities in evaluation results and opinions can be seen between entrepreneurs from Lithuania and Latvia, while entrepreneurs who are working in Estonia often have very different values and practices in comparison with other Baltic countries. It is obvious that entrepreneurs from Lithuania and Latvia largely focus on collaboration with German, Russian, and Polish entrepreneurs, while Estonians are more interested in collaboration with partners from Nordic countries.

When observing the main obstacles to entrepreneurship, the most positive evaluations were given by Estonian entrepreneurs, where just one out of all aspects included in the questionnaire (favouritism/cronyism) was mentioned more often in comparison to the other Baltic countries. At the same time, entrepreneurs from Lithuania have mentioned, considerably more often, almost all of the 15 aspects that were listed in the questionnaire as ‘obstacles to entrepreneurship’. In analysing answers for the aspect of self-assessment, it might be concluded that the most appealing business environment is in Estonia; the most problematic — Lithuania, while Latvia has quite an appealing business environment although with numerous specific problems. Entrepreneurs in Lithuania and Latvia identified tax rates as the most significant obstacle, whereas entrepreneurs in Estonia named inflation. In Latvia and Lithuania, serious hindrances included the frequency in changes to laws and regulations. The third most important problem mentioned for Latvia is access to financial resources, but in Lithuania — anti-competitive practices by other market participants. This issue was also mentioned as being very common in Estonia.

When characterising entrepreneurs, the entrepreneurs from the Baltic states most frequently mentioned such traits as being hardworking, diligent, enterprising, and competitive. However, it has to be noted that this kind

of evaluation was given only by 15% of all respondents, while others mentioned various other qualities — and their frequency did not exceed 10%. Hence, in the spontaneous evaluations there was no particular characterisation of entrepreneurs from the Baltic states. It cannot be reported that there was one specific positive or negative characteristic — the ratio of both was equal (from the negative traits, the most frequently named were — bad, dishonest, irresponsible, offenders).

Entrepreneurism was the only quality out of all the characteristics included in the questionnaire, which the greatest percentage of the respondents — 59% — considered applying to the majority of the entrepreneurs in their country. Hence, entrepreneurism can be seen as the only characteristic which is similar for all entrepreneurs in all three Baltic countries. More than 2/5 of the interviewees believed that the majority of entrepreneurs have the following positive traits: Responsibility, patience, initiative, ambition, and flexibility. Amongst the (comparatively) most often mentioned characteristics, selfishness was the only negative trait, which 41% of respondents identified as being common to the majority (the second most often-mentioned negative characteristic was envy (32%).

A majority of the respondents (58%) held the opinion that a large percentage of entrepreneurs from the Baltic states pay great importance to the company’s reputation. Also, half of them held the view that a majority of enterprises working in the Baltic states comply with laws and regulations and are risk-takers. But the perception is that just a small percentage of Baltic enterprises willingly employ disabled people, new mothers, older people, and new professionals with no previous experience. In addition, entrepreneurs rarely involve employees in decision-making processes. At the same time, distinct differences can be seen in the countries. Entrepreneurs in Latvia, in comparison to other Baltic countries, rarely believed that a majority of enterprises in Latvia use transparency in business practices. Lithuanian entrepreneurs rarely comply with limits; they take risks, comply with laws and regulations, and value quality higher than price as standard practice in

Summary

business in their country. And, more frequently, they plan their business in the long run, practice transparency in business, and cooperate with other companies for the benefit of a common goal. Entrepreneurs in Estonia, for the majority, very rarely mentioned business planning in the long run, but mentioned the factors of risk-taking and caring for the environment more frequently than other countries.

Just a small percentage of the interviewed entrepreneurs in the Baltic states believed that entrepreneurs also have business practices that can be evaluated negatively. Approximately 1/10 of the respondents admitted that a majority of the entrepreneurs in their countries pay “salaries in envelopes”, cheat on their taxes, give bribes, discriminate against employees because of their age, or have daily activities that do not match what has been announced to the public. Overall, it was clear that various negative business practices are rarely admitted by entrepreneurs working in Estonia, but more frequently – in Latvia and Lithuania. Entrepreneurs in Latvia, more frequently than representatives of other countries, stated that a majority of entrepreneurs pay “salaries in envelopes” and that their daily activities do not match what has been announced. Lithuanian entrepreneurs, more frequently than entrepreneurs in other countries, admitted that in their country a majority of the entrepreneurs give bribes and gifts. From all the negative business practises included in the questionnaire, Estonian entrepreneurs mentioned giving bribes/gifts, paying “salaries in envelopes” and cheating on taxes considerably less, when compared to Latvian and Lithuanian entrepreneurs.

Just 1/3 of respondents hold the opinion that a majority of entrepreneurs in their countries observe the principles of sustainable development. 33% point out that half of the entrepreneurs observe these principles. But 20% are confident that the principles of sustainable development are observed by only a few entrepreneurs. The result in each separate Baltic state does not differ much. Approximately 2/5 of the surveyed entrepreneurs from the Baltic states claimed that during the last year they have invested financial resources in employee professional development, provided practise opportunities for students or pupils, and donated money to charity. Another 1/4 (approx.) of respondents stated that they have sponsored the arts, cultural, or sporting activities and have provided health insurance coverage to employees. When analysing the data from each country, it is clear that Latvian entrepreneurs have carried out the various activities included in the questionnaire the least, unlike the Lithuanian entrepreneurs who participated the most. Entrepreneurs in Latvia, considerably less often than entrepreneurs in the Baltic states in general, have cooperated with local authorities on matters of business development, donated money to charity, sponsored the arts, cultural, or sporting activities, and collaborated with scientific and research institutions. Lithuanian entrepreneurs, more frequently than others in the Baltic states, have provided health insurance coverage to employees, invested financial resources in employee professional development, and cooperated with local authorities on matters of business development. Entrepreneurs from Estonia, more frequently in comparison to other Baltic countries, have cooperated with the national authorities on matters of business development.

2. Methodology of the study

The Centre for Sustainable Business at SSE Riga carried out this study to identify business values and practices specific to the Baltic region, which determine the sustainability of a business in regards to such aspects as competitiveness and export capability. The Centre for Sustainable Business at SSE Riga will use the results to determine the peculiarities of the business culture of the Baltic states and the ways in which these values are integrated in the Baltic business environment’s common culture.

The objectives of the study were:

- (1) To obtain information about the business culture/values typical of entrepreneurs from the Baltic states; their differences from the business cultures of other countries/regions;
- (2) To identify the business culture/values which favour and/or prevent the development of local and international cooperation;
- (3) To assess the business culture/values typical of entrepreneurs from the Baltic states in terms of sustainability.

To reach the set goals of the study, two research activities were carried out:

- (1) A survey of 500 entrepreneurs from the Baltic states (approximately 150 entrepreneurs from each country were interviewed between January 15th and February 6th, 2013). The field work in all three Baltic countries was performed by Ltd GfK Custom Research Baltic.
- (2) 24 in-depth interviews with entrepreneurs and entrepreneurship experts, interviewing 8 respondents in each country. The interviews were conducted by Ltd Excolo Latvia.

3. Data analysis of the entrepreneur survey

3.1. The business environment in general

A majority – 58 % – of entrepreneurs in the Baltic States believed that the main hindrance to business growth is tax rates. Also, a majority – 40% – said that the main hindrance is inflation. And about 1/3 of entrepreneurs thought that the primary obstacles are the frequency in changes to laws and regulations, anti-competitive practices by other market participants, and the lack of a labour force.

The obstacles mentioned the least were as follows: Public and municipal procurement processes (just 14% of respondents thought that it is a critical obstacle to business growth), “favouritism / cronyism” (15%) and availability of state aid (16%).

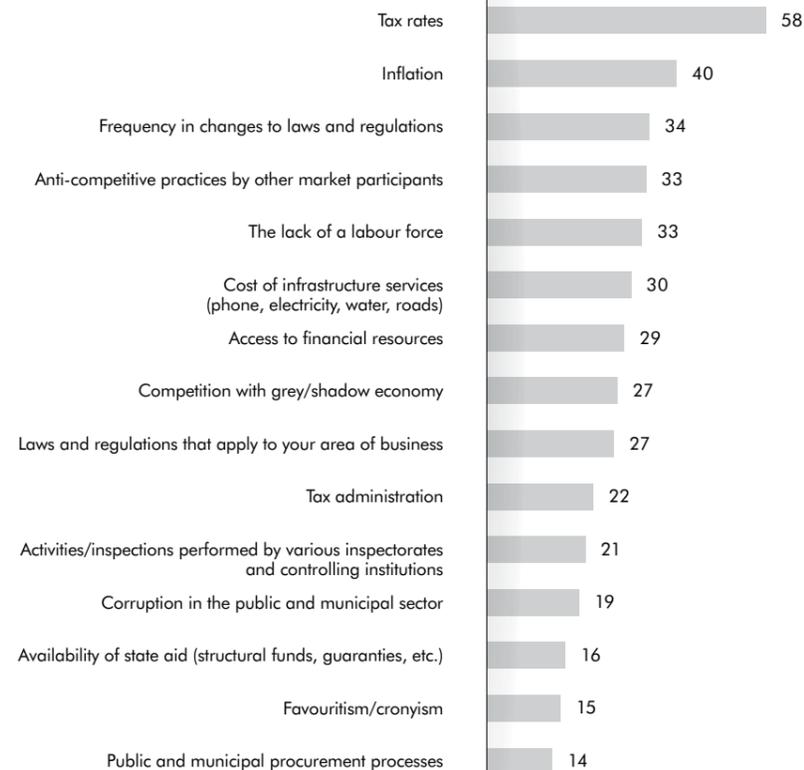
The business environment in general

(Baltics, %)

Base: Baltics, n=503

Q1.

I will read a description of several potential business obstacles. Please assess whether these barriers act as obstacles to your company's activities and growth.



Data analysis
of the entrepreneur
survey

When analysing the data obtained in each separate country, it was obvious that the most important obstacles to successful entrepreneurship differ in each of them. In comparison to other Baltic countries, entrepreneurs in Latvia picked tax rates and access to financial resources as the main hindrances; rarely mentioning inflation, anti-competitive practices by other market participants, the lack of a labour force, and public and municipal procurement processes. From all the aspects given in the questionnaire, entrepreneurs from

Lithuania (a lot more than entrepreneurs in other Baltic countries) chose tax rates, frequency in changes to laws and regulations, cost of infrastructure services, competition with the shadow economy, and corruption in the public and municipal sector as the most problematic for entrepreneurship. In contrast, Estonian entrepreneurs chose just “favouritism”, mentioning other problems much less than entrepreneurs in Lithuania and Latvia.

The business environment in general

(by countries, %)

■ LV, n=172
 ■ LT, n=169
 ■ Baltics, n=503
 ■ EE, n=162

Q1.

I will read a description of several potential business obstacles. Please assess whether these barriers act as obstacles to your company's activities and growth.



Data analysis
of the entrepreneur
survey

When analysing data in different sectors, it was obvious that construction companies, more than other sectors, mentioned tax rates, inflation, anti-competitive practices by other market participants, tax administration, as well as public and municipal procurement processes as obstacles to entrepreneurship. Trading enterprises, on the other hand, especially highlighted

such obstacles to entrepreneurship as tax rates, inflation, and the cost of infrastructure services. A very troublesome obstacle to entrepreneurship development in the manufacturing and industrial sector is the lack of a labour force. Those working in the service sector did mention various obstacles, but much less than entrepreneurs in other sectors.

The business environment in general

(by basic activity, %)

Q1.
I will read a description of several potential business obstacles. Please assess whether these barriers act as obstacles to your company's activities and growth.



Data analysis
of the entrepreneur
survey

Looking at the amount of turnover, it is obvious that different obstacles to entrepreneurship are more common to companies with turnover over 101 000 LVL (143 000 EUR), especially when it comes to the availability of a labour force, competition with the shadow economy, and anti-competitive practices by other market participants.

The business environment in general

(by turnover in 2012, %)

Q1.
I will read a description of several potential business obstacles. Please assess whether these barriers act as obstacles to your company's activities and growth.



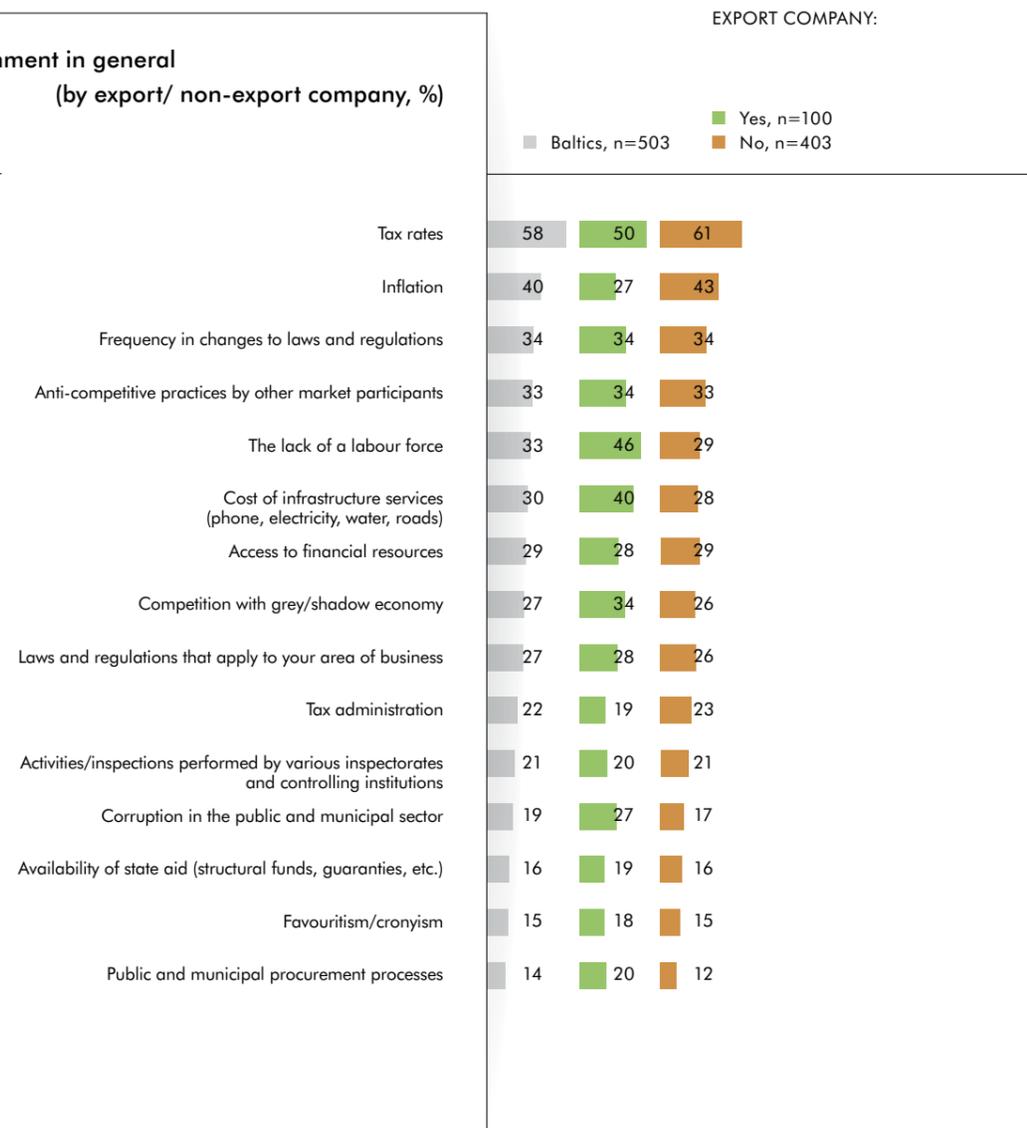
12 Business Culture and Values
in the Baltic states

Data analysis
of the entrepreneur
survey

A very common problem for companies which export is the lack of a labour force, but a less common issue is that of inflation.

The business environment in general
(by export/ non-export company, %)

Q1.
I will read a description of several potential business obstacles. Please assess whether these barriers act as obstacles to your company's activities and growth.



13 Business Culture and Values
in the Baltic states

Data analysis
of the entrepreneur
survey

Enterprises that have been operating for more than 10 years in the market meet different kinds of obstacles to entrepreneurship more frequently. For the companies which have not yet reached 5 years of operations, the critical problems are access to financial resources and anti-competitive practices by other market participants.

The business environment in general
(by age of company, %)

Q1.
I will read a description of several potential business obstacles. Please assess whether these barriers act as obstacles to your company's activities and growth.



Data analysis
of the entrepreneur
survey

3.2. Spontaneous characterisations of business people

When asked to describe the entrepreneurs from their country with one word, it was obvious that the opinions of respondents differed a lot and there was no way to identify specific characteristics which would uniformly apply to entrepreneurs in the Baltic states. For the characteristics that were mentioned – hardworking, diligent, enterprising, and competitive – responses were given by 15% of respondents. More widely different

characteristics were mentioned by less than 10%.

When looking at each country, some differences can be seen. However, with regard to the fragmented answers, an in-depth statistical analysis was not possible. Companies in Latvia most often mentioned characteristics such as being hardworking, diligent, enterprising, competitive, hardy, tough, stubborn, patient, and sur-

Spontaneous characterisations of business people (Baltics, %)

Base: Baltics, n=503



Note: "Hard to say/ NA" not shown in chart

Data analysis
of the entrepreneur
survey

vivors; in Lithuania – bad, dishonest, irresponsible, offender, adroit, shrewd, attractive, and creative; in

Estonia - hardworking, diligent, enterprising, competitive, good, and great.

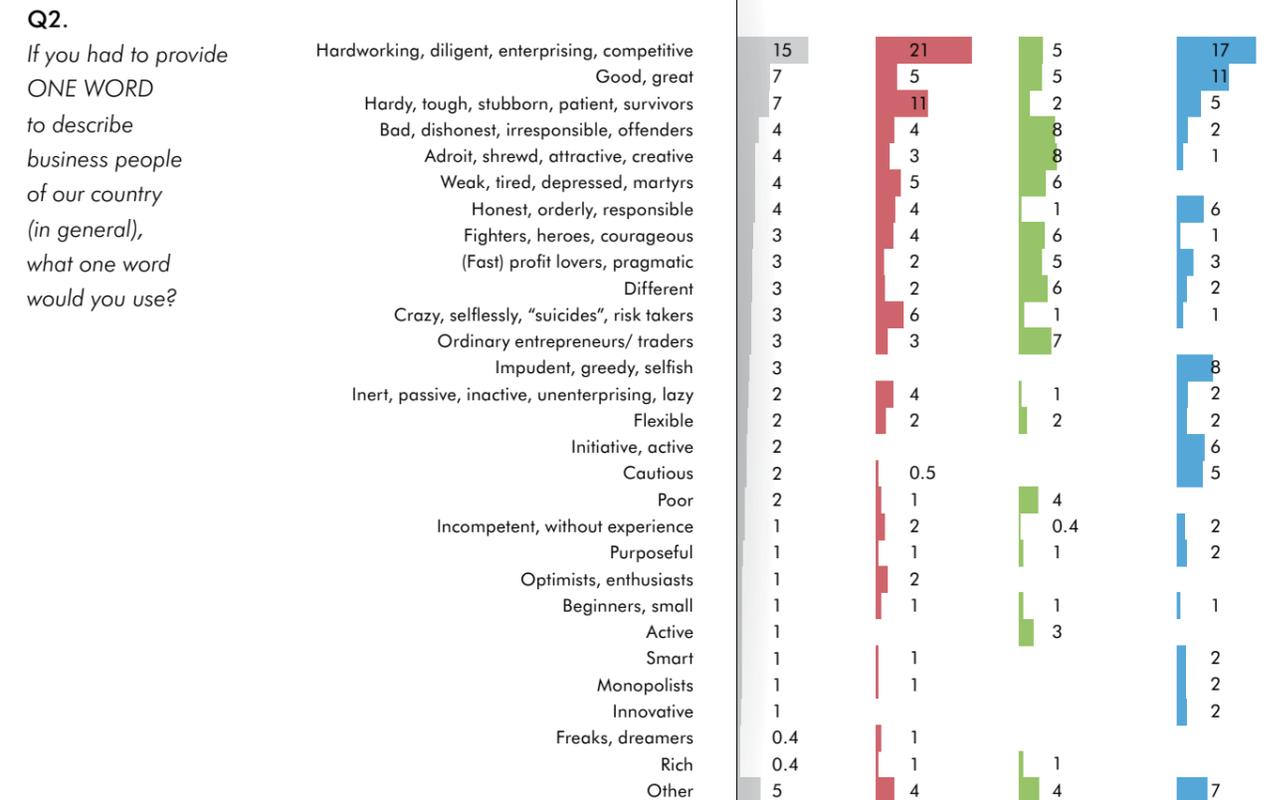
3.3. Characteristics of business people

In this research, entrepreneurs were asked to rate the extent to which the 21 characteristics given in the questionnaire belong to entrepreneurs of a particular country. Overall, there was no specific characteristic which

the respondents applied to all entrepreneurs in their countries, and there was just one characteristic which they applied to the majority of entrepreneurs in the Baltic states – entrepreneurship. More than 2/5 of the

The business environment in general (by countries, %)

■ LV, n=172
■ LT, n=169
■ EE, n=162
■ Baltics, n=503

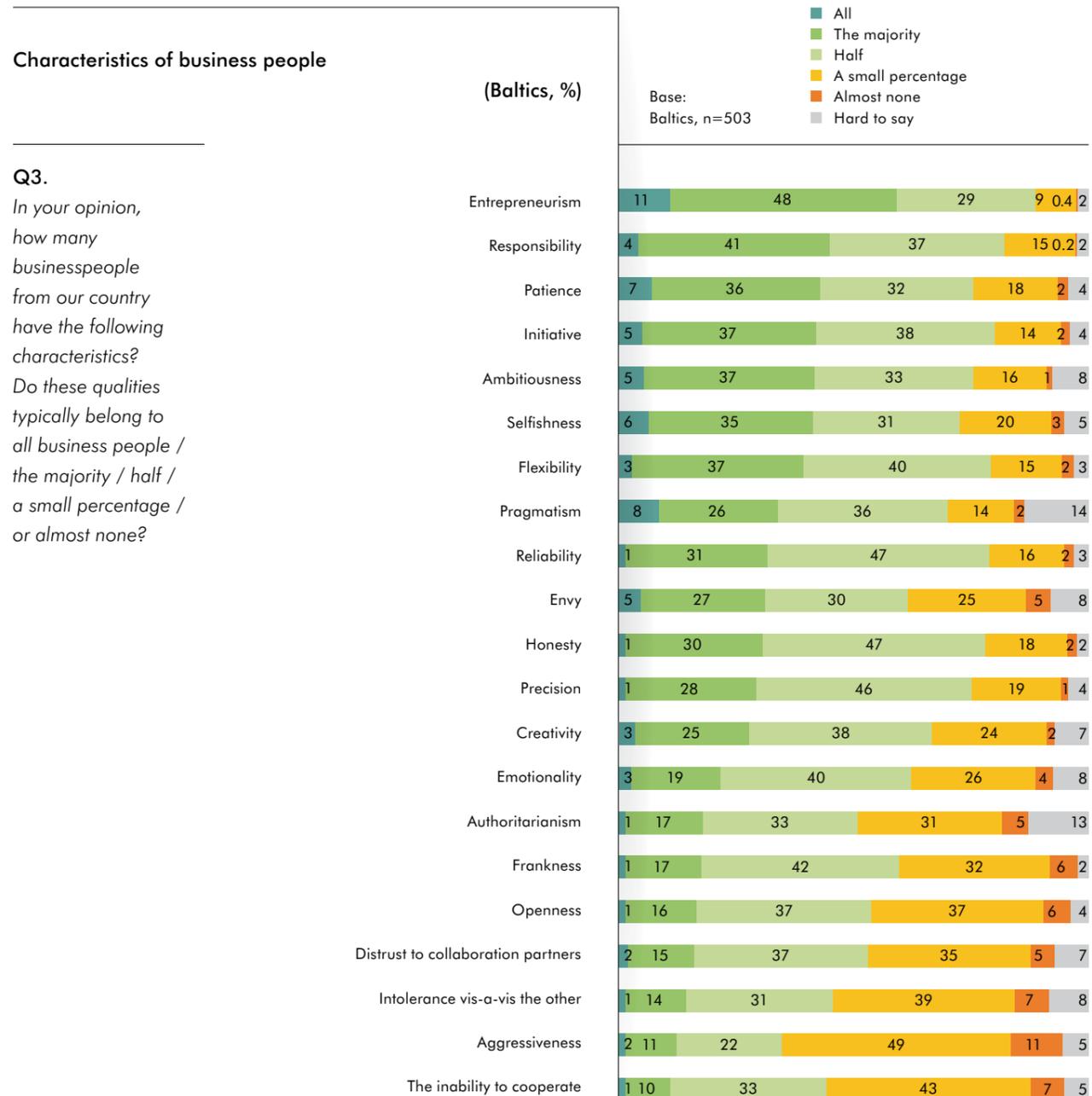


16 Business Culture and Values
in the Baltic states

Data analysis
of the entrepreneur
survey

respondents mentioned responsibility, patience, initiative, ambitiousness, selfishness, and flexibility as specific characteristics for the majority of entrepreneurs. In turn, such characteristics as distrust of collaboration partners, intolerance vis-a-vis the others, aggressiveness and the inability to cooperate, were applied

to entrepreneurs in the Baltic states very rarely – not more than 17% of respondents mentioned them as corresponding to the majority of Baltic entrepreneurs.

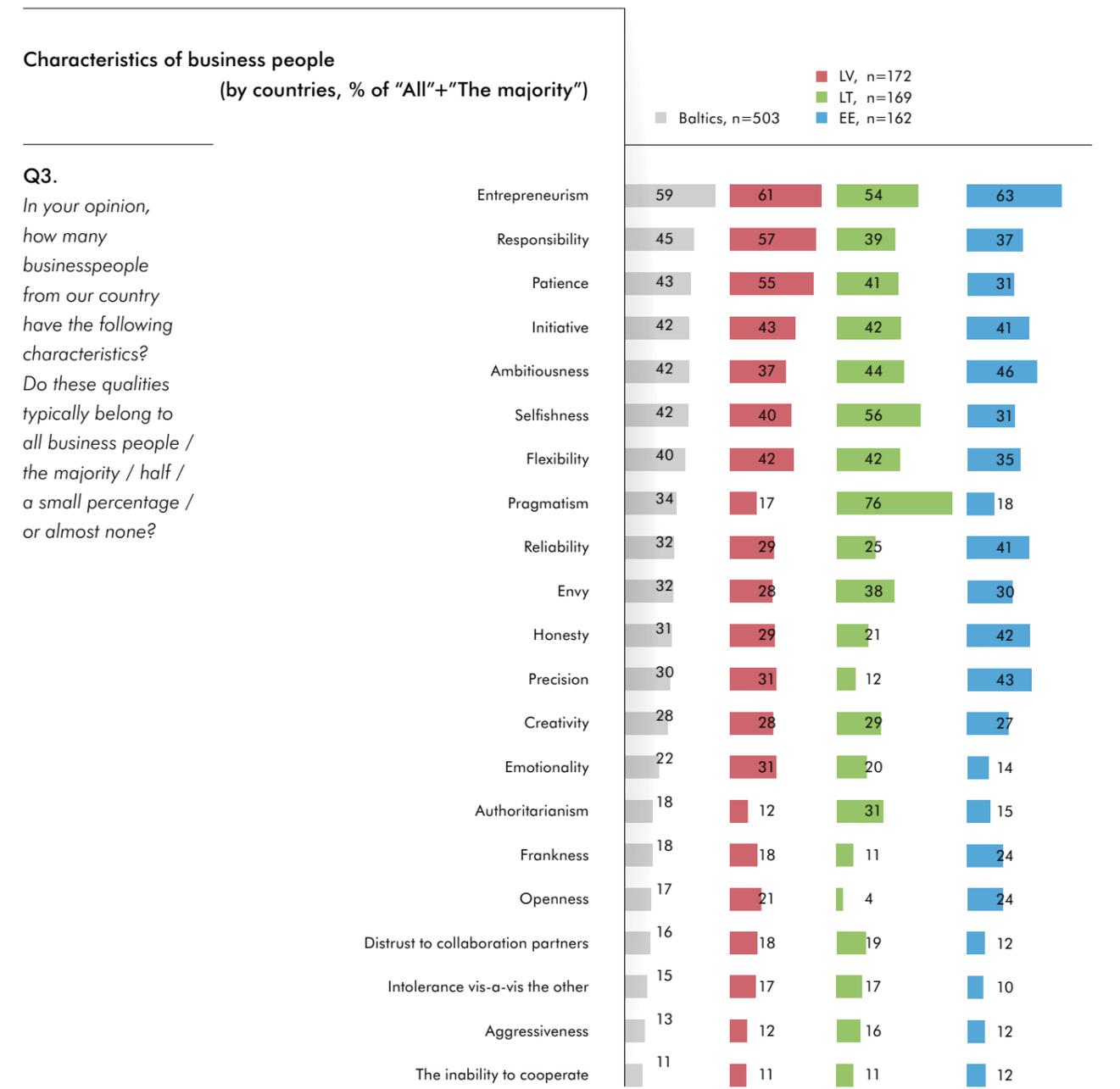


17 Business Culture and Values
in the Baltic states

Data analysis
of the entrepreneur
survey

Typical differences are noticeable when looking at individual countries. A characteristic such as pragmatism was rarely used to describe entrepreneurs in Latvia, while such characteristics as responsibility and patience were mentioned more frequently. In their self-characterisations, Lithuanian entrepreneurs seldom

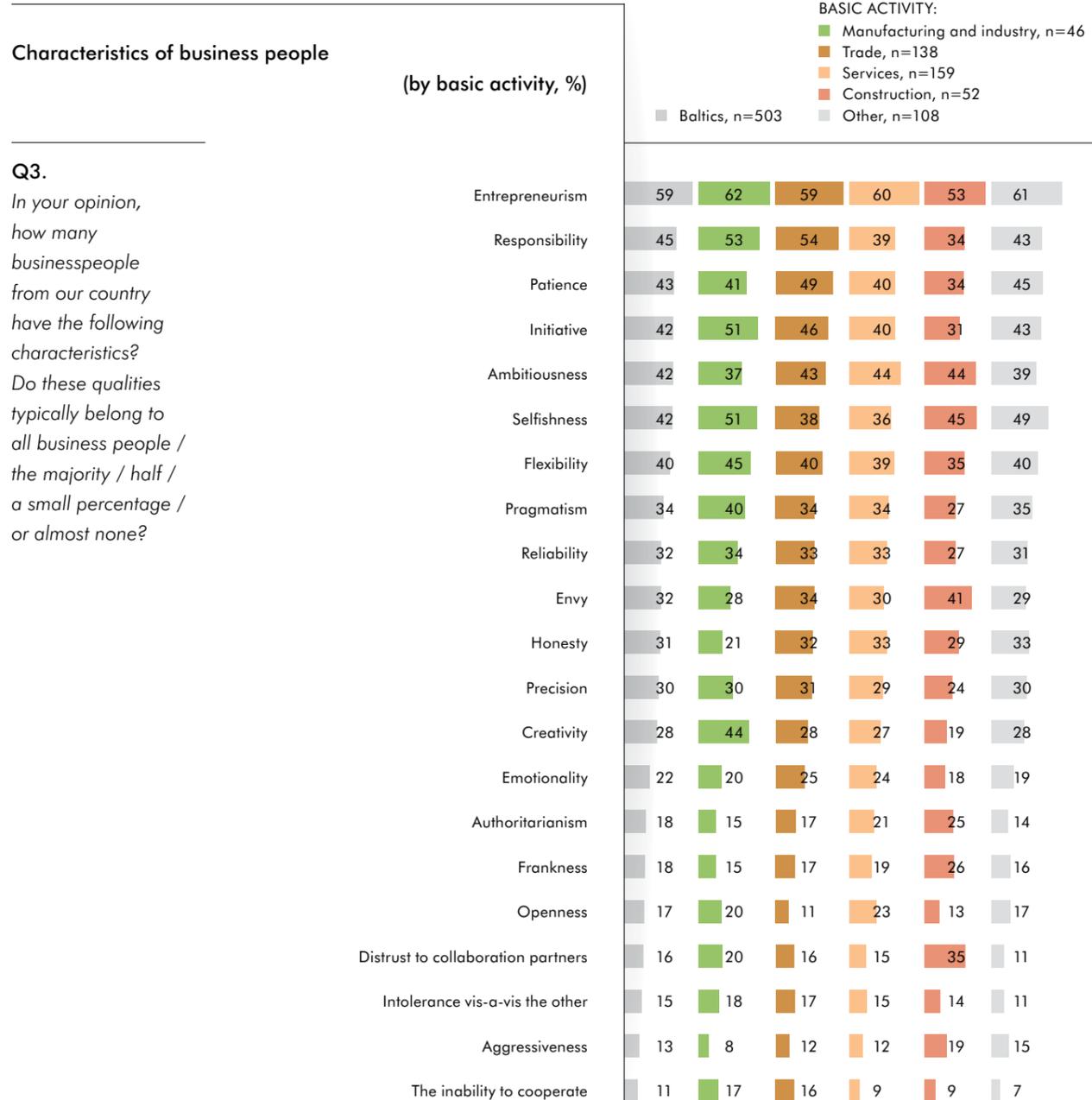
used the terms of precision, openness, and honesty; they more frequently used such characteristics as pragmatism, selfishness, and authoritarianism. Amongst entrepreneurs in Estonia, self-characterisation infrequently included pragmatism, patience, and selfishness, but more often included precision and honesty.



Data analysis
of the entrepreneur
survey

Differences can also be seen in different sectors of entrepreneurship. Those who work in the industrial and manufacturing sectors in particular, rarely mentioned that honesty is typical for the majority of entrepreneurs and more frequently mentioned creativity; respondents from the trade sector rarely mentioned

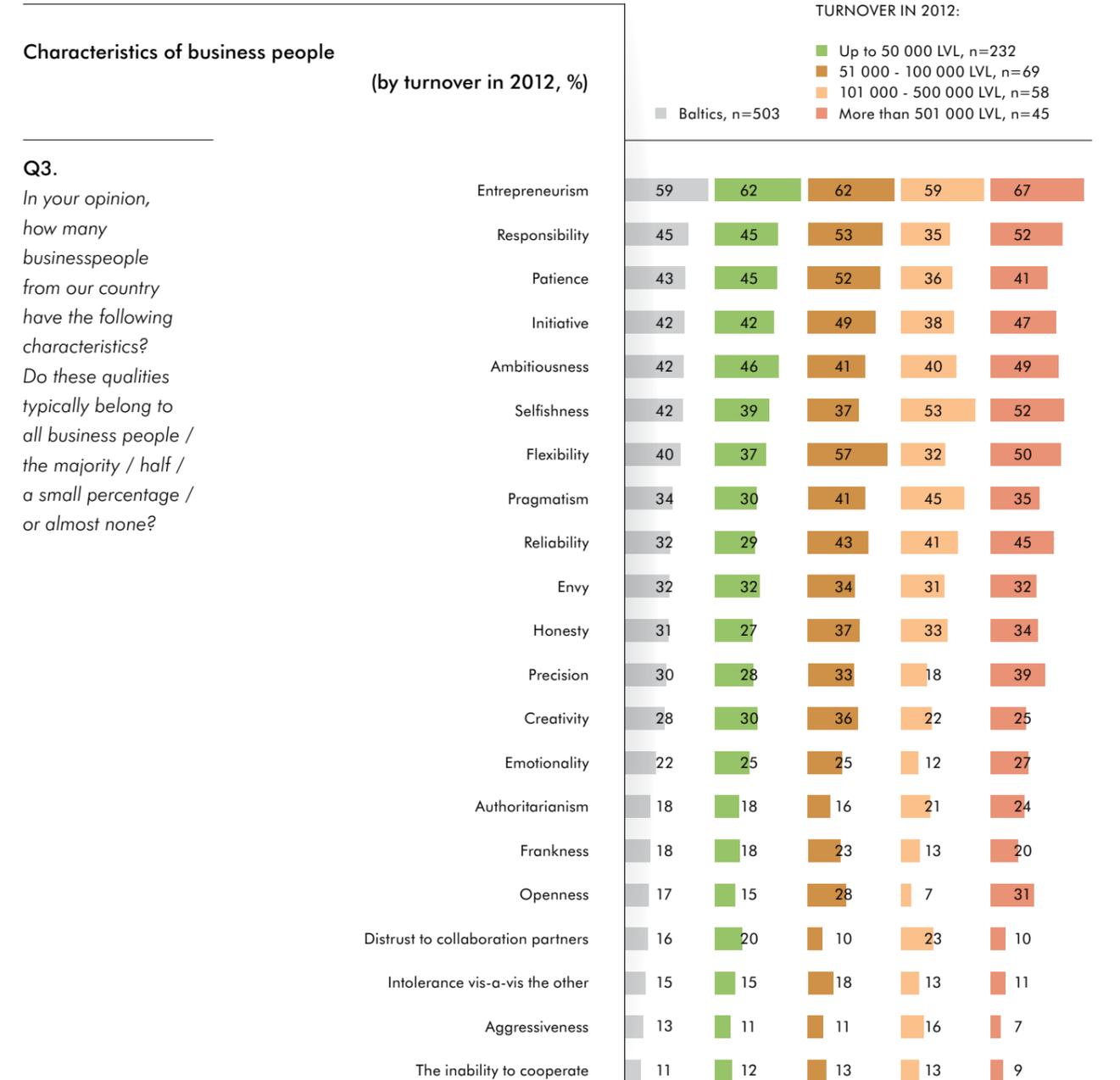
openness, but more frequently mentioned responsibility and patience; representatives of the service sector rarely mentioned selfishness and responsibility, but more frequently mentioned openness, whereas respondents from the construction sector rarely mentioned responsibility, initiative, patience and creativity, but



Data analysis
of the entrepreneur
survey

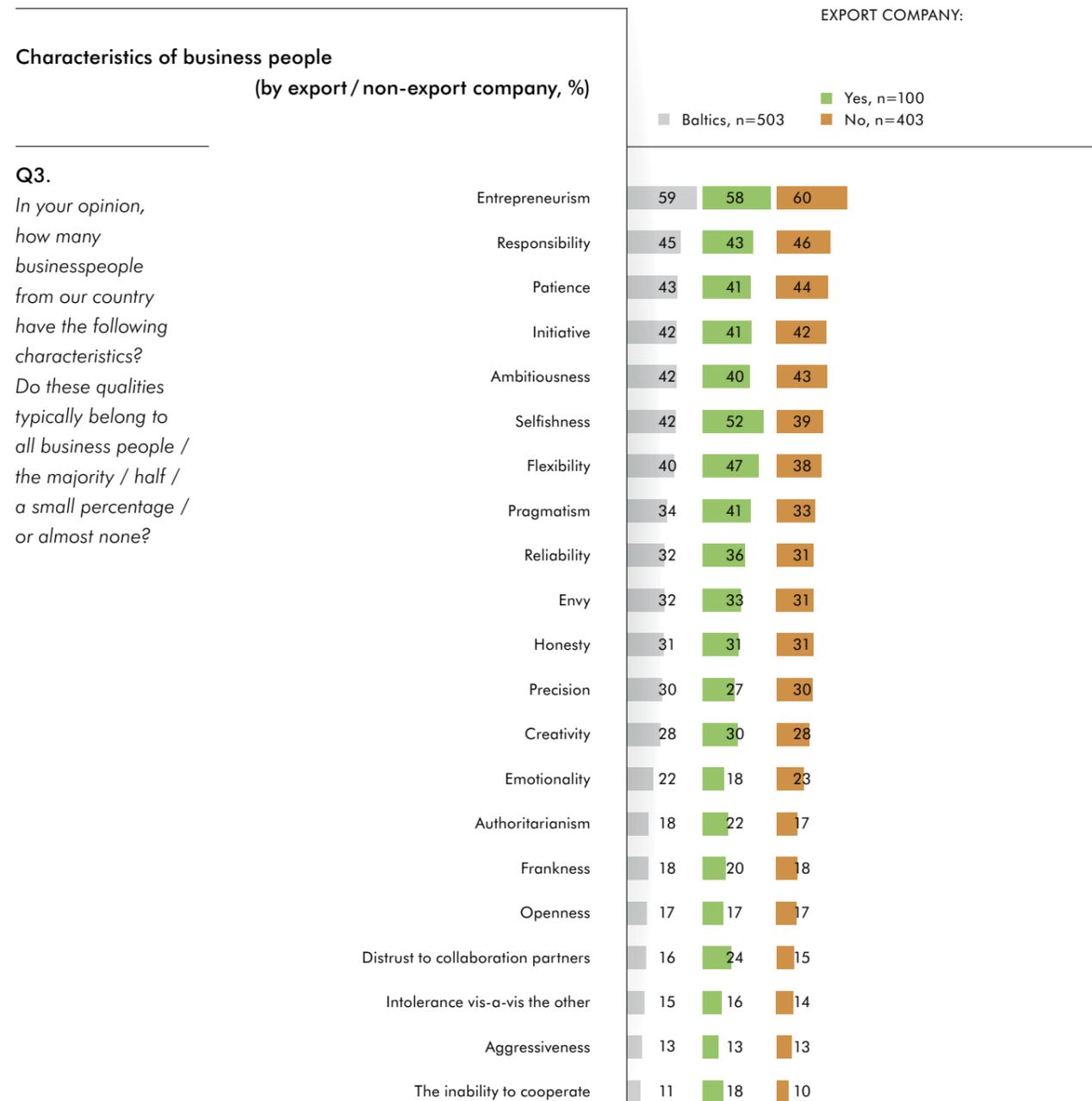
more frequently mentioned distrust of collaboration partners, envy, and frankness.

Enterprises with a turnover of more than 101 000 LVL (143 000 EUR) named flexibility, reliability, and openness along with selfishness as also corresponding to the majority's responses.



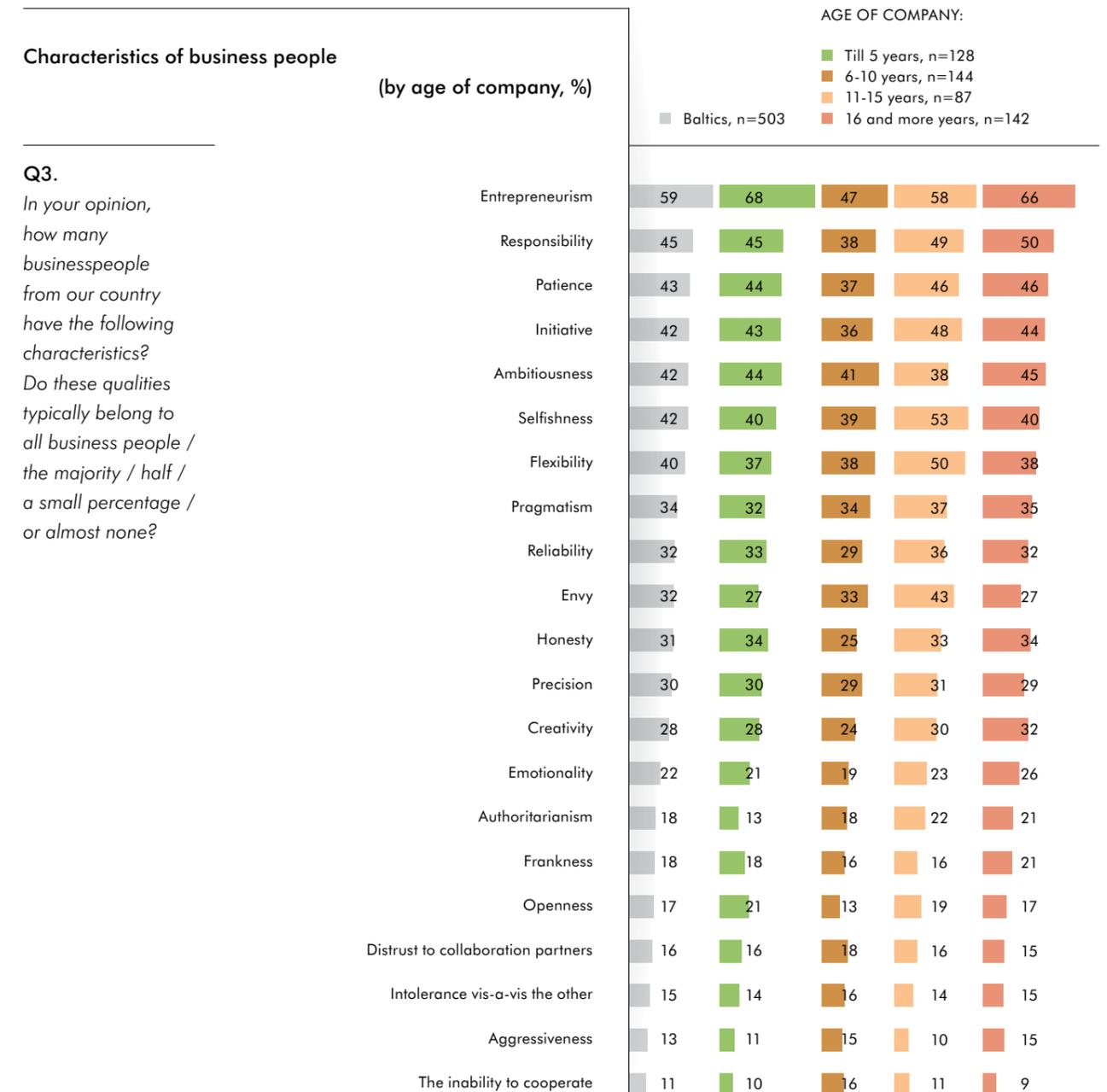
Data analysis
of the entrepreneur
survey

Exporters more often applied characteristics such as selfishness and distrust to collaboration partners, but seldom used the terms of emotionality and precision.



Data analysis
of the entrepreneur
survey

Looking at the “age” of the enterprise, with the meaning of how long the enterprise has been operating on the market, there were no specific differences in data noticeable between “old” and “new” enterprises – the differences were individual in each “age bracket”.

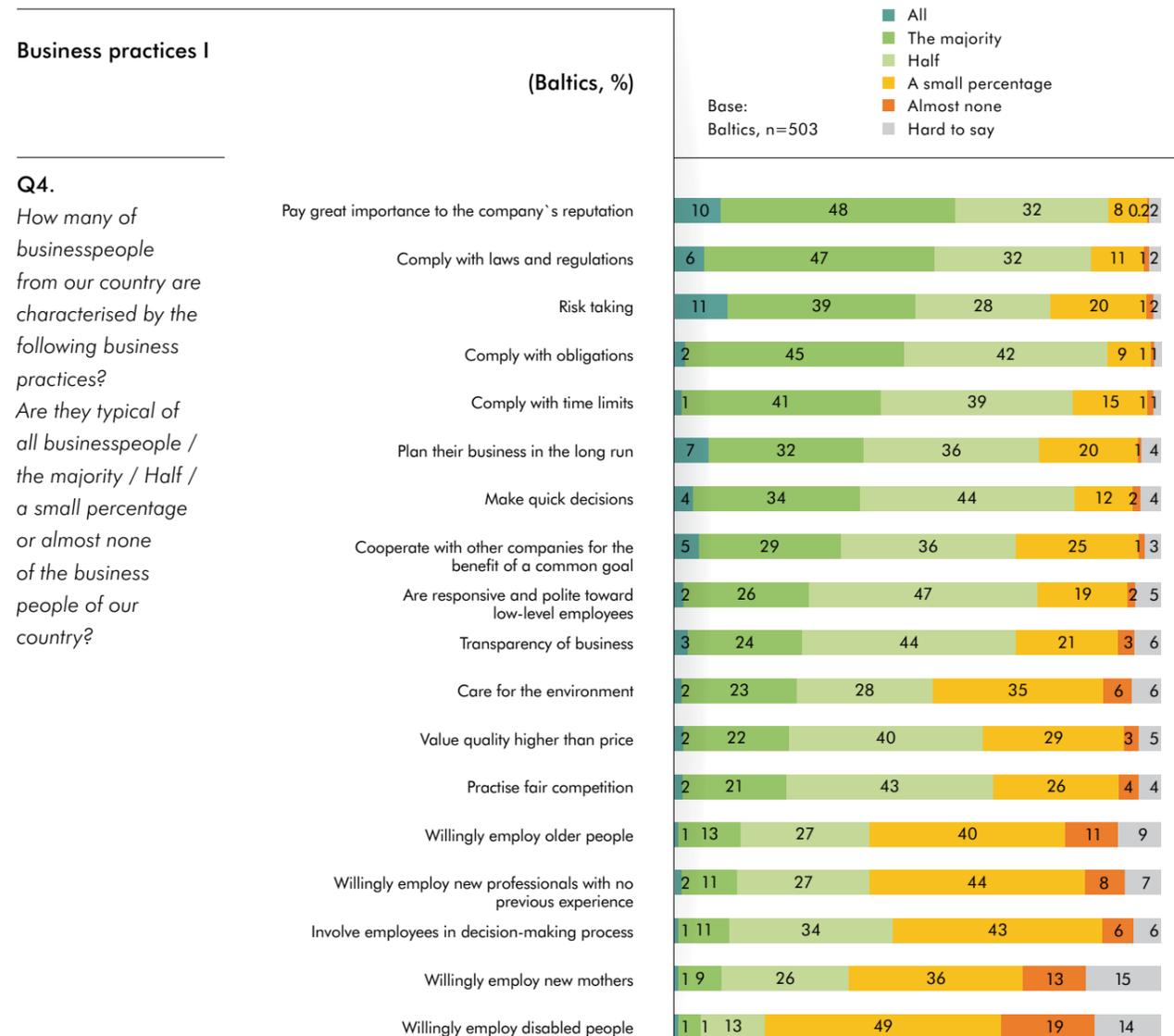


Data analysis of the entrepreneur survey

3.4. Business practices

A majority of respondents (58%) held the opinion that a high percentage of entrepreneurs from the Baltic states pay great attention to a company's reputation. Also, half of them held the view that the majority of enterprises working in the Baltic states comply with laws and regulations, and are risk takers. But just a small percentage of Baltic enterprises willingly employ disabled people, new mothers, older people, and new

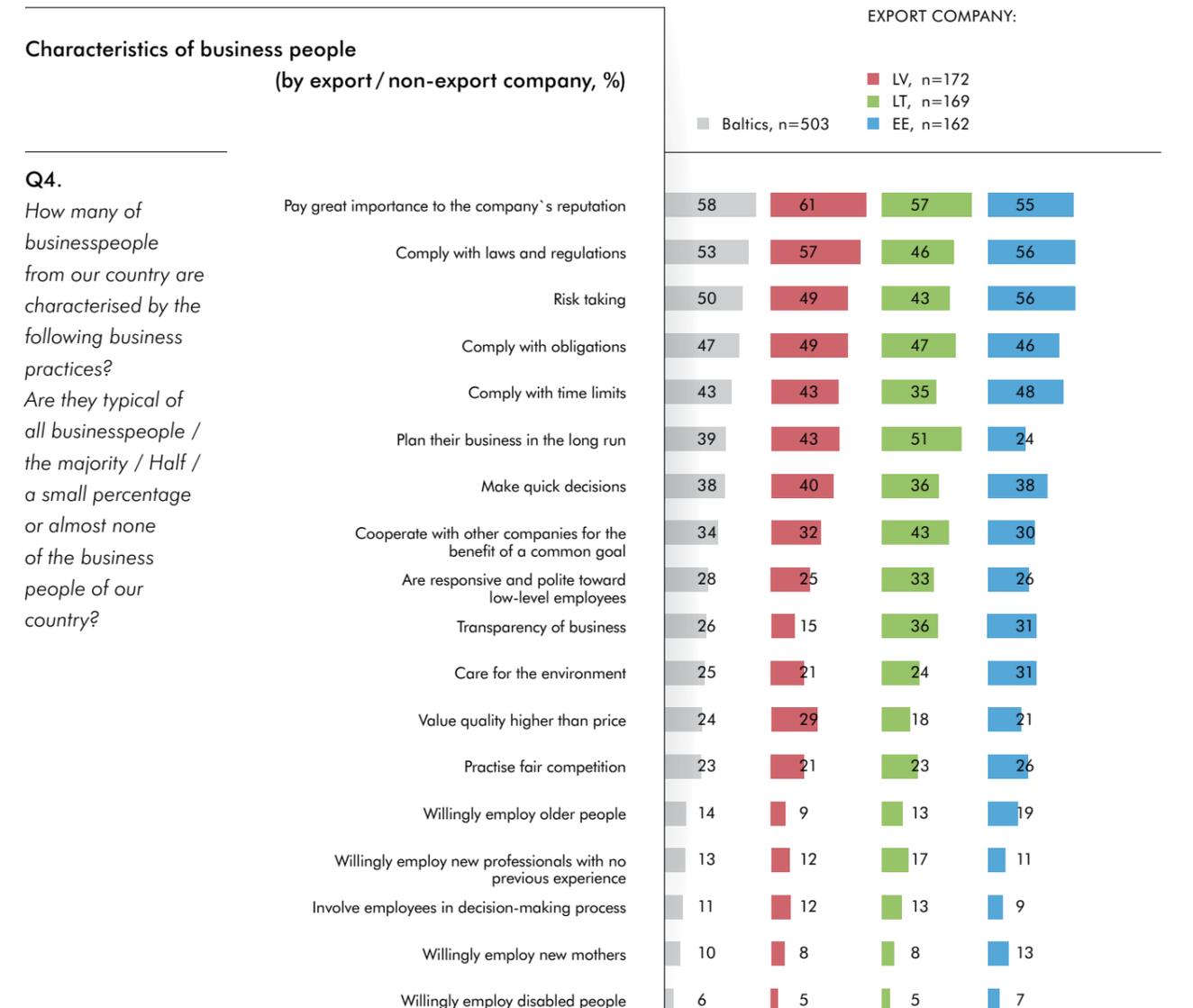
professionals with no previous experience. In addition, entrepreneurs rarely involve employees in decision-making processes.



Data analysis of the entrepreneur survey

There are clearly noticeable differences between countries. Entrepreneurs in Latvia, in comparison to other Baltic countries, seem to rarely believe that a majority of enterprises in Latvia apply transparency of business in practice. Lithuanian entrepreneurs rarely mentioned the business practices of: Comply with the limits, risk taking, comply with laws and regulations, and to value quality higher than price as a standard practice in their country, but more frequently mentioned: To plan their business in the long run, transparency of business,

and to cooperate with other companies for the benefit of a common goal. And entrepreneurs in Estonia very rarely mentioned business planning in the long run, but mentioned more frequently than other countries the topics of risk taking and care for the environment.



Data analysis
of the entrepreneur
survey

Representatives from enterprises from the industrial and manufacturing sector, more frequently than others, assessed that a majority of entrepreneurs comply with laws and regulations, and make quick decisions and practise fair competition. Respondents from the trade sector, more frequently than others, stated that a majority of entrepreneurs plan their business in the long run and willingly employ new professionals with no previous experience. Those working in the service sector did not identify any of the aspects given in the questionnaire

more frequently than others, and seldom mentioned that a majority of entrepreneurs in their countries plan their businesses in the long run, make quick decisions, and value quality higher than price. But those who work in the construction sector consistently stated that the majority of entrepreneurs are risk-takers, plan their businesses for the long run, and care for the environment, but rarely stated that entrepreneurs comply with laws and regulations, are responsive and polite toward low-level employees, and practise fair competition.

Business practices I

(by basic activity, %)

Q4.
How many of
businesspeople
from our country are
characterised by the
following business
practices?
Are they typical of
all businesspeople /
the majority / Half /
a small percentage
or almost none
of the business
people of our
country?



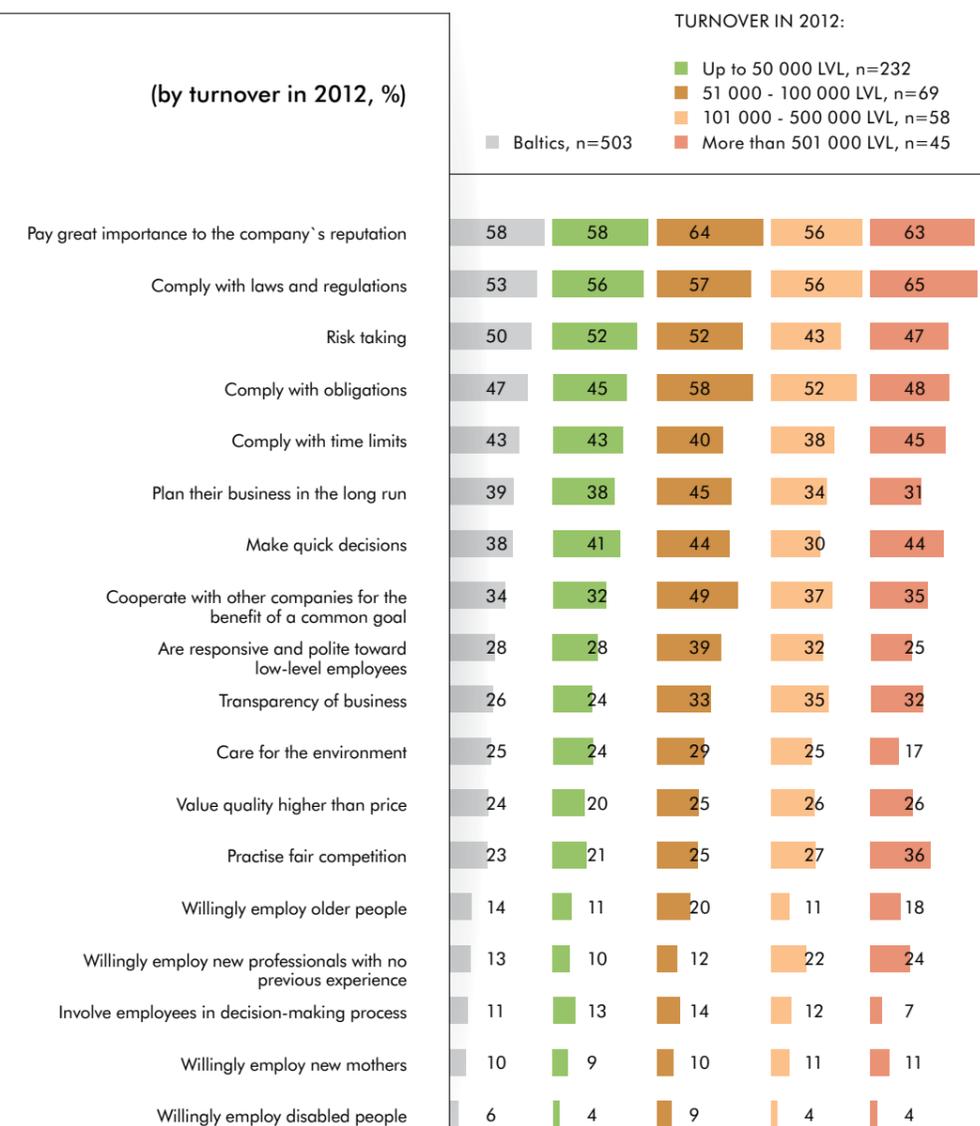
Data analysis
of the entrepreneur
survey

Representatives from large companies with a turnover exceeding 143 000 EUR per year frequently responded that entrepreneurs in their countries practise fair competition, willingly employ new professionals with no previous experience, comply with laws and regulations, and also observe business transparency practises. At the same time, large companies rarely evaluated that entrepreneurs in their countries plan their business in the long run, and care for the environment.

Business practices I

(by turnover in 2012, %)

Q4.
How many of
businesspeople
from our country are
characterised by the
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Are they typical of
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Data analysis
of the entrepreneur
survey

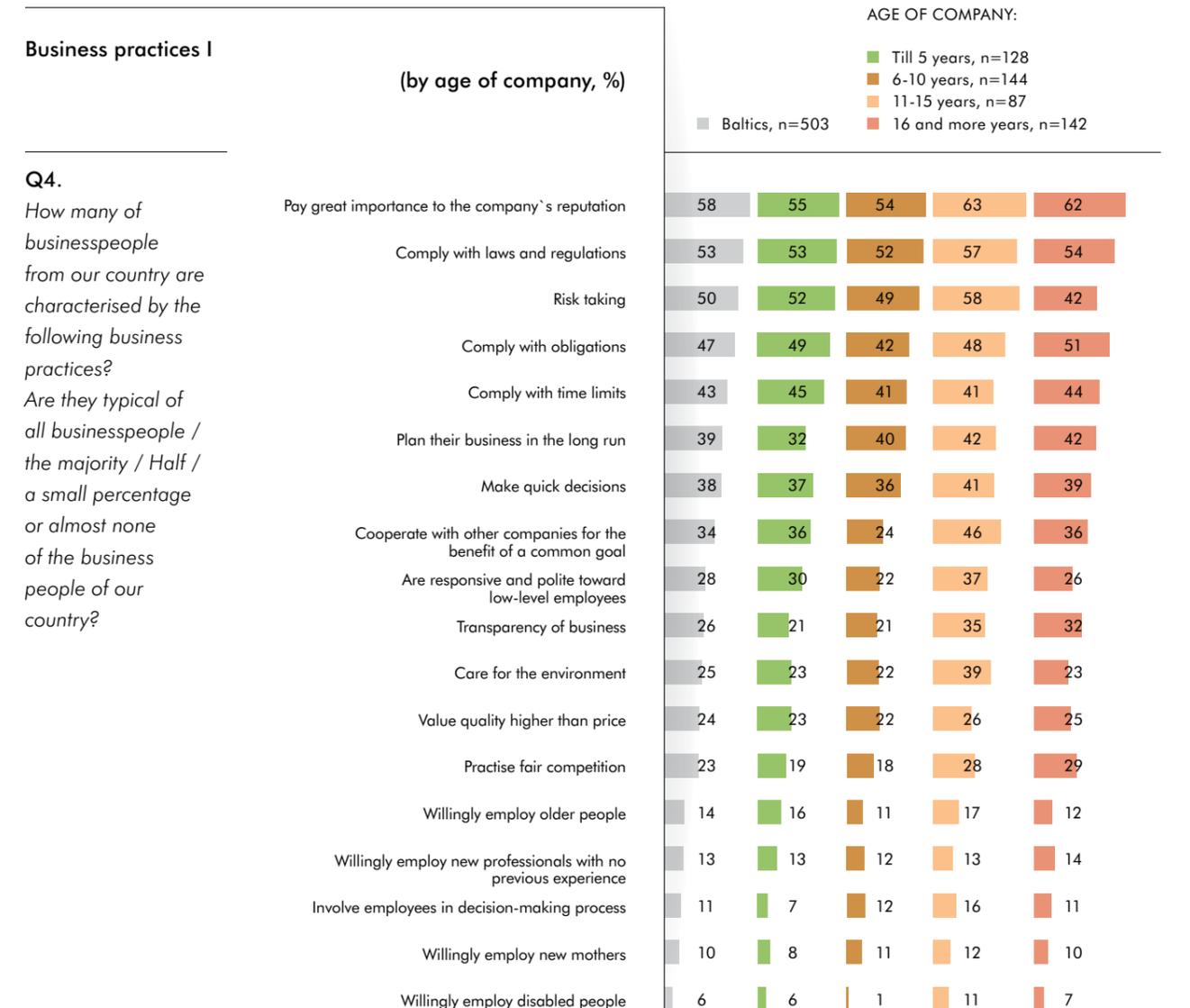
Exporters more frequently believed: Common business practices are cooperation with other companies for the benefit of a common goal, fair competition, responsiveness and courtesy toward low-level employees, and willingly employ new professionals with no previous experience.



Data analysis
of the entrepreneur
survey

Companies which have been on the market for more than 10 years already, relatively frequently responded that entrepreneurs in their countries practice transparency in business, fair competition, cooperation with other companies for the benefit of a common goal, employ disabled people and pay great importance to the company's repu-

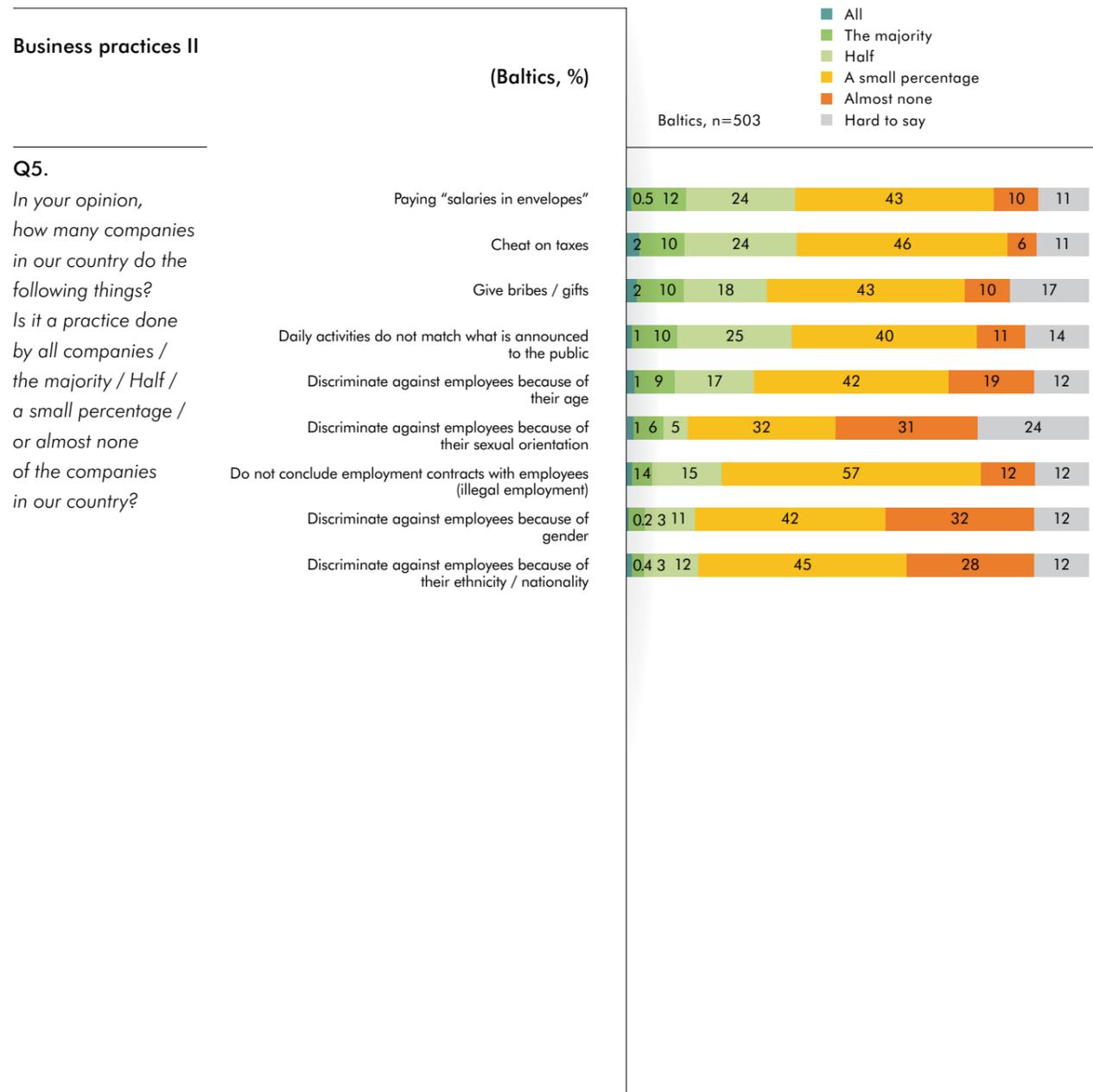
tation. It is interesting that new companies, that have not yet reached 5 years of operations, very rarely said that entrepreneurs plan their business in the long run. Also, business transparency was more frequently acknowledged as a popular business practice by enterprises younger than 10 years, unlike the older companies.



Data analysis
of the entrepreneur
survey

Just a small percentage of the interviewed entrepreneurs in the Baltic states believed that entrepreneurs also perform various business practices that can be evaluated negatively. Approximately 1/10 of respondents admitted that a majority of entrepreneurs in their countries are paying “salaries in envelopes”, cheating

on taxes, giving bribes, discriminating against employees because of their age, as well as that their daily activities do not match what is announced to the public.

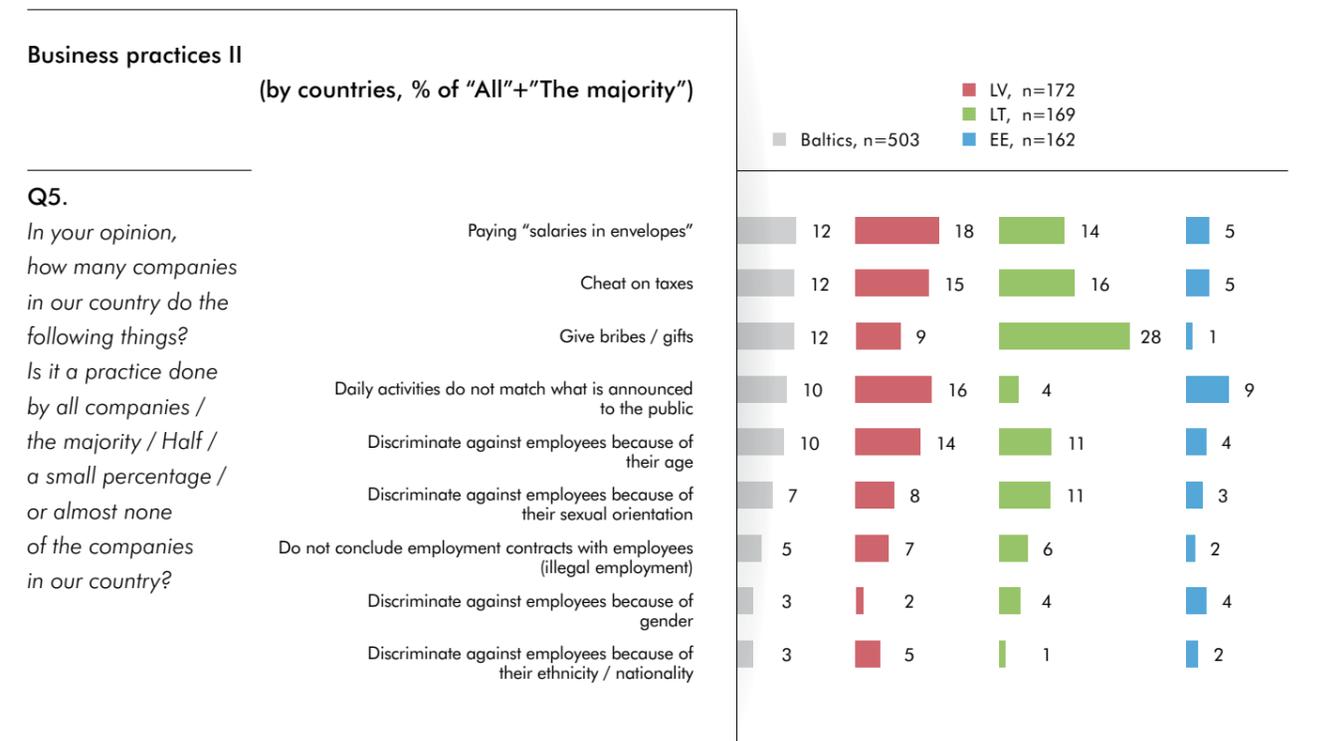


Data analysis
of the entrepreneur
survey

Overall, it is obvious that a variety of negative business practices were rarely identified by entrepreneurs working in Estonia, but more frequently identified in Latvia and Lithuania. Entrepreneurs in Latvia, more frequently than representatives of other countries, admitted that a majority of entrepreneurs are paying “salaries in envelopes” and that their daily activities do not match what is announced. Lithuanian entrepreneurs, more frequently than entrepreneurs in other countries, admitted that in their country a majority of entrepreneurs give bribes and gifts. From all negative business practises included in the questionnaire, Estonian entrepreneurs have mentioned giving bribes/gifts, paying “salaries in envelopes” and cheating on taxes considerably less, in comparison to Latvian and Lithuanian entrepreneurs.

Only a few statistically significant differences were observed in the different target groups:

- Entrepreneurs working in the industrial and manufacturing sector rarely, in comparison to others, said that a majority of entrepreneurs are paying “salaries in envelopes”;
- Those who work in the service sector, more frequently than others, thought that a majority of entrepreneurs in their countries discriminate against employees because of their age;
- Entrepreneurs from the construction sector more frequently stated that entrepreneurs in their countries are paying “salaries in envelopes”, cheating on taxes, and giving bribes, but more rarely said that their daily activities do not match what is announced, as well as that they discriminate against employees because of their age;
- Representatives from companies with a turnover of 101 000 – 500 000 LVL per year admitted more frequently than others that a majority of entrepreneurs are paying “salaries in envelopes” and do not conclude employment contracts with employees (practice illegal employment).



Data analysis
of the entrepreneur
survey

Business practices II

(by basic activity, %)

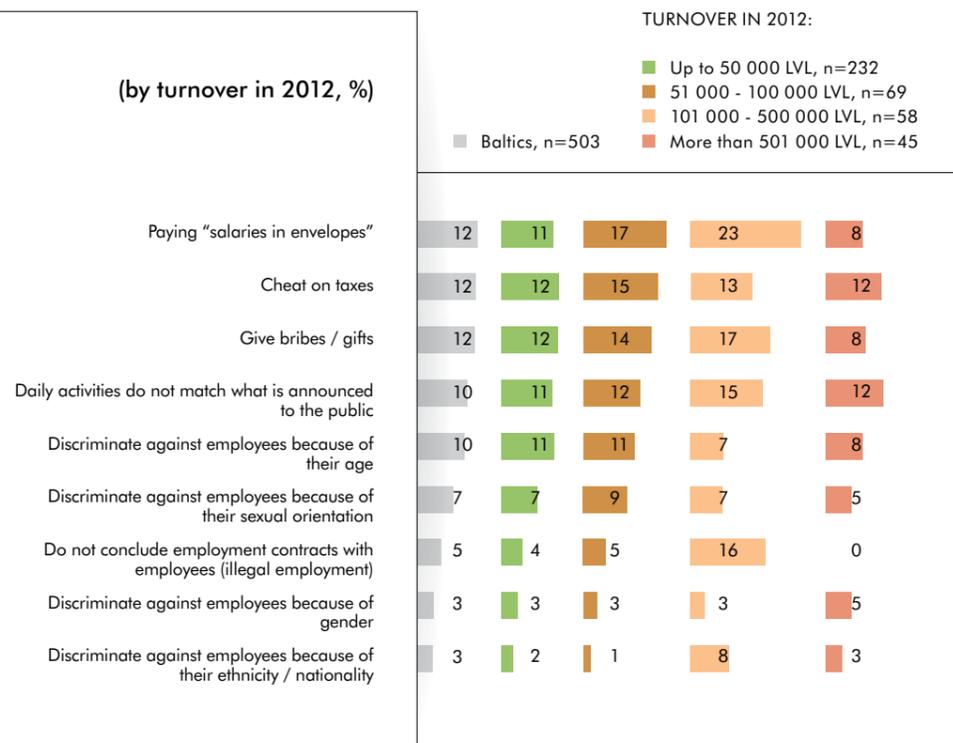
Q5.
In your opinion,
how many companies
in our country do the
following things?
Is it a practice done
by all companies /
the majority / Half /
a small percentage /
or almost none
of the companies
in our country?



Business practices II

(by turnover in 2012, %)

Q5.
In your opinion,
how many companies
in our country do the
following things?
Is it a practice done
by all companies /
the majority / Half /
a small percentage /
or almost none
of the companies
in our country?



Data analysis
of the entrepreneur
survey

Business practices II

(by export / non-export company, %)

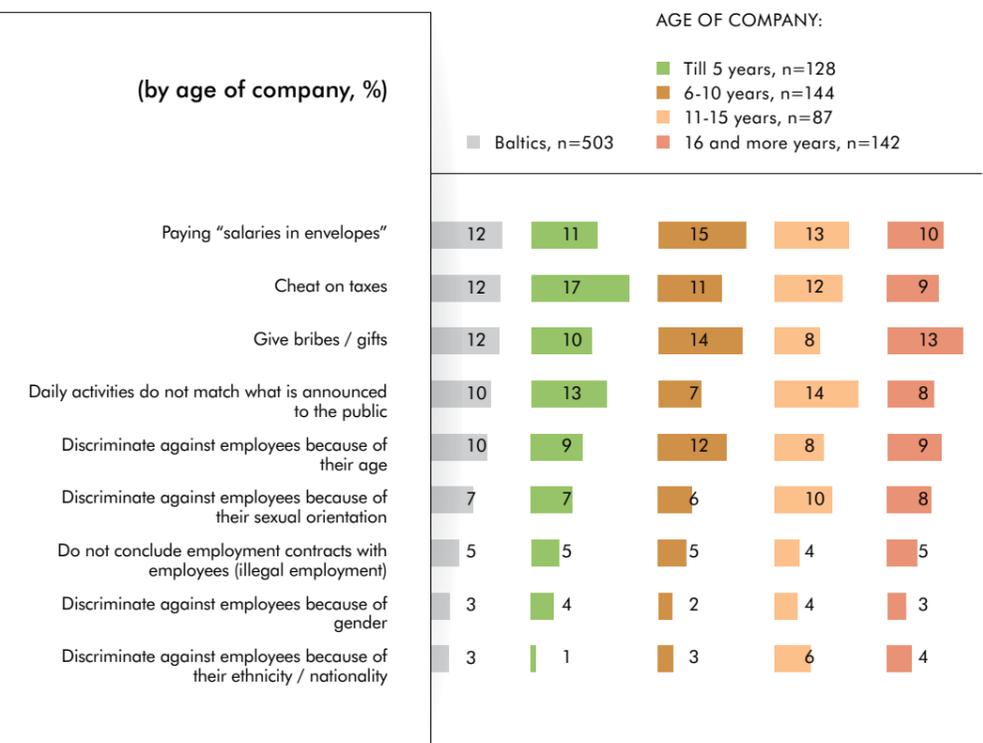
Q5.
In your opinion,
how many companies
in our country do the
following things?
Is it a practice done
by all companies /
the majority / Half /
a small percentage /
or almost none
of the companies
in our country?



Business practices II

(by age of company, %)

Q5.
In your opinion,
how many companies
in our country do the
following things?
Is it a practice done
by all companies /
the majority / Half /
a small percentage /
or almost none
of the companies
in our country?



Data analysis
of the entrepreneur
survey

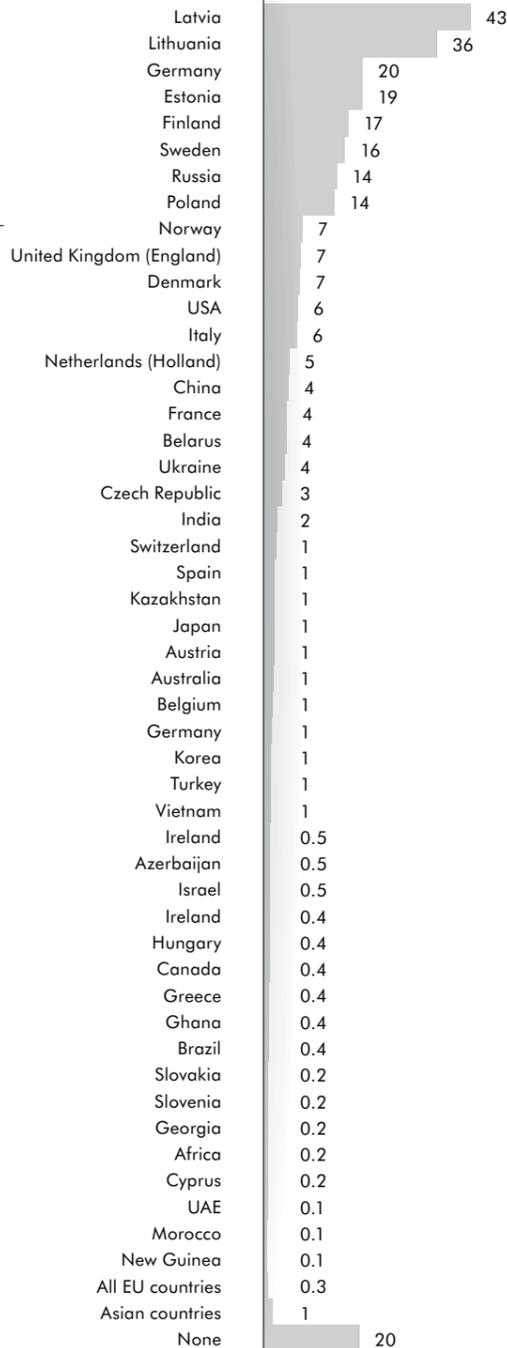
3.5. Cooperation with businesspeople from other countries

Most entrepreneurs in the Baltic states cooperate with companies from other countries in their region. Approximately 1/5 of enterprises have collaboration partners in Germany, Finland, Sweden, Russia, and Poland. Not more than 1/10 of entrepreneurs in the Baltic states cooperate with enterprises from other countries.

Q6.
Businesspeople from which countries have you cooperated with (as partners, suppliers, customers or otherwise) during the past two years? Any other?

Cooperation with businesspeople from other countries (Baltics, %)

Base:
Baltics, n=503



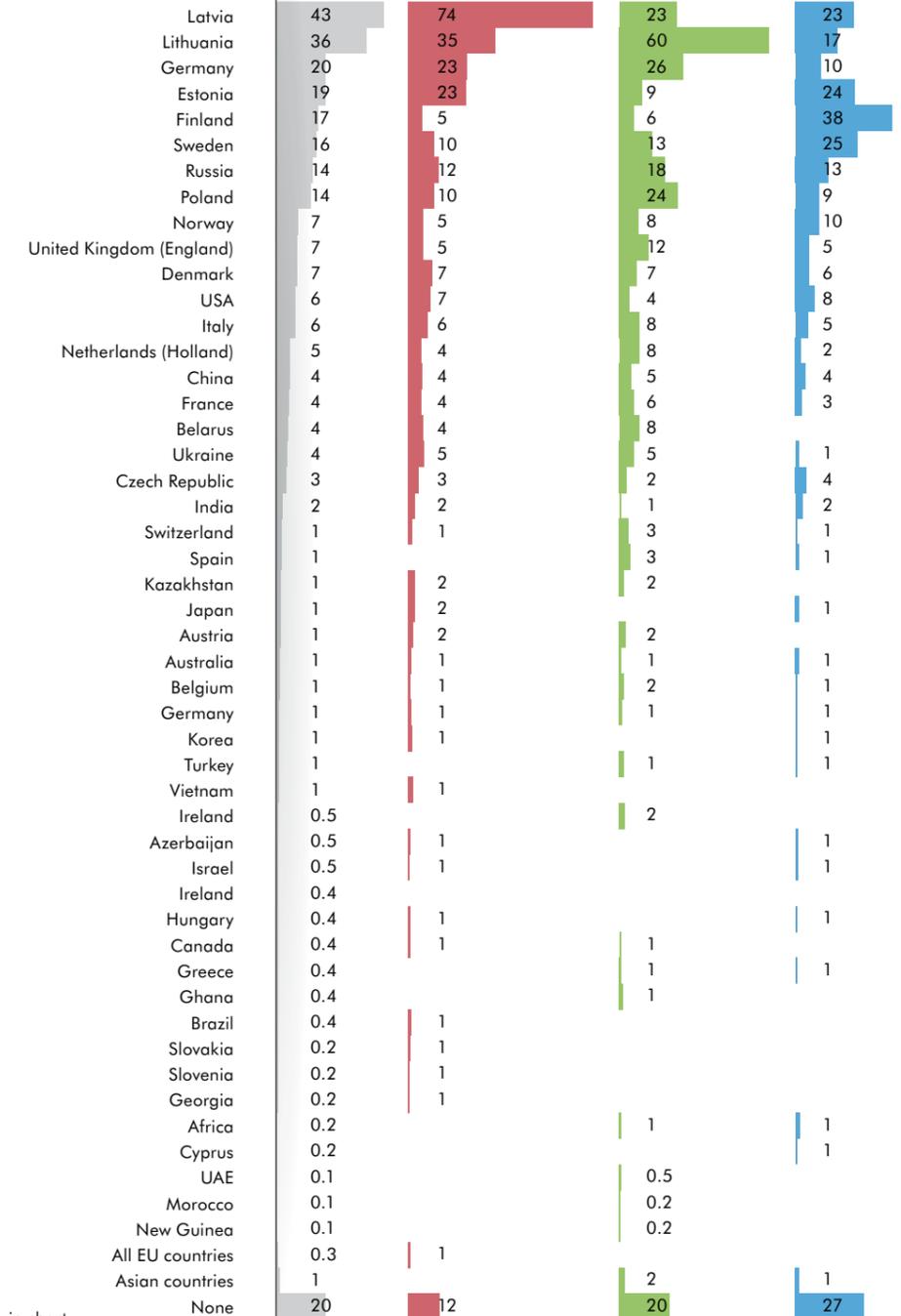
Note: "Hard to say / NA" not shown in chart

Data analysis
of the entrepreneur
survey

Cooperation with businesspeople from other countries (by countries, %)

■ Baltics, n=503
■ LV, n=172
■ LT, n=169
■ EE, n=162

Q6.
Businesspeople from which countries have you cooperated with (as partners, suppliers, customers or otherwise) during the past two years? Any other?

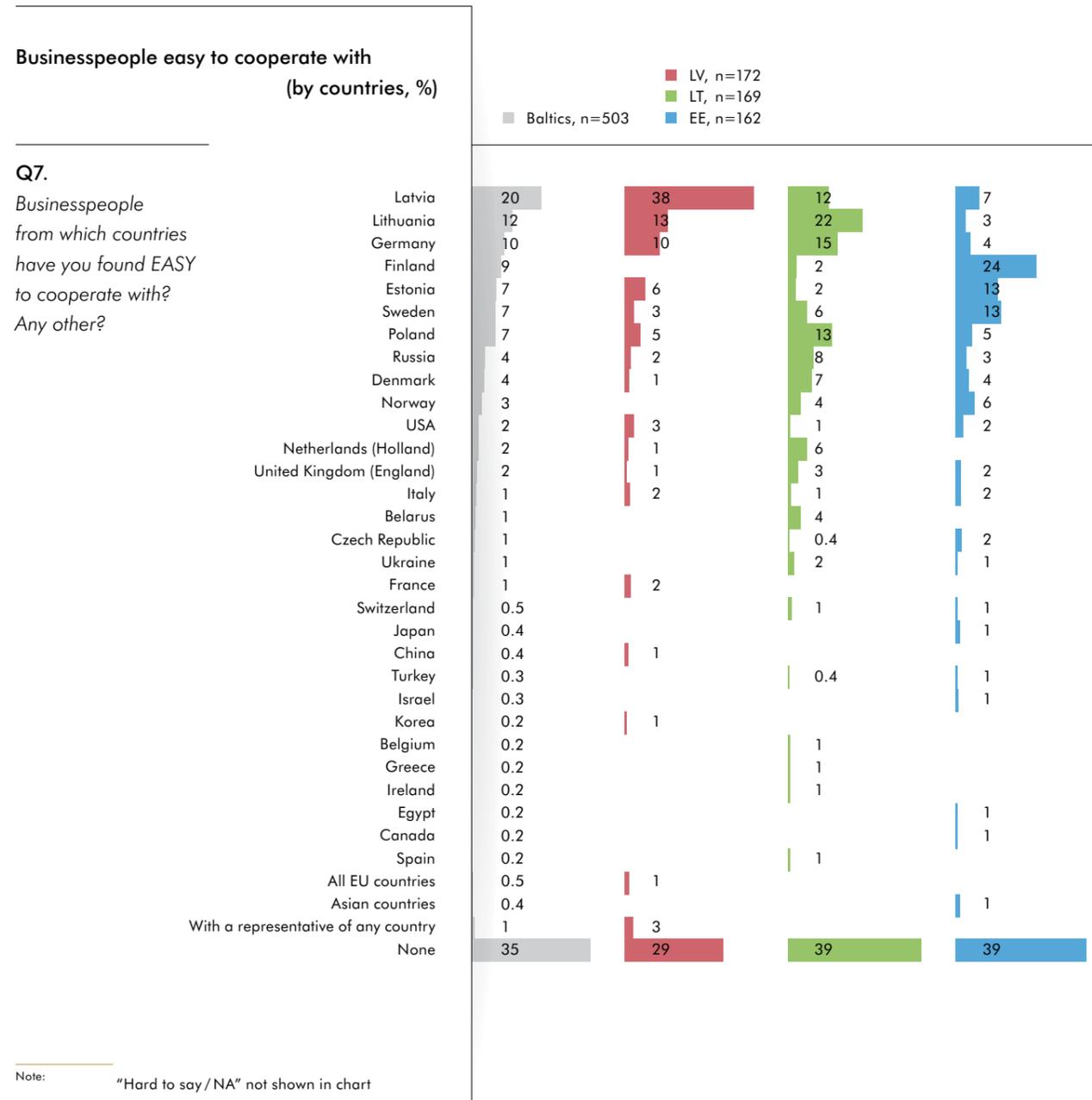


Note: "Hard to say / NA" not shown in chart

Data analysis
of the entrepreneur
survey

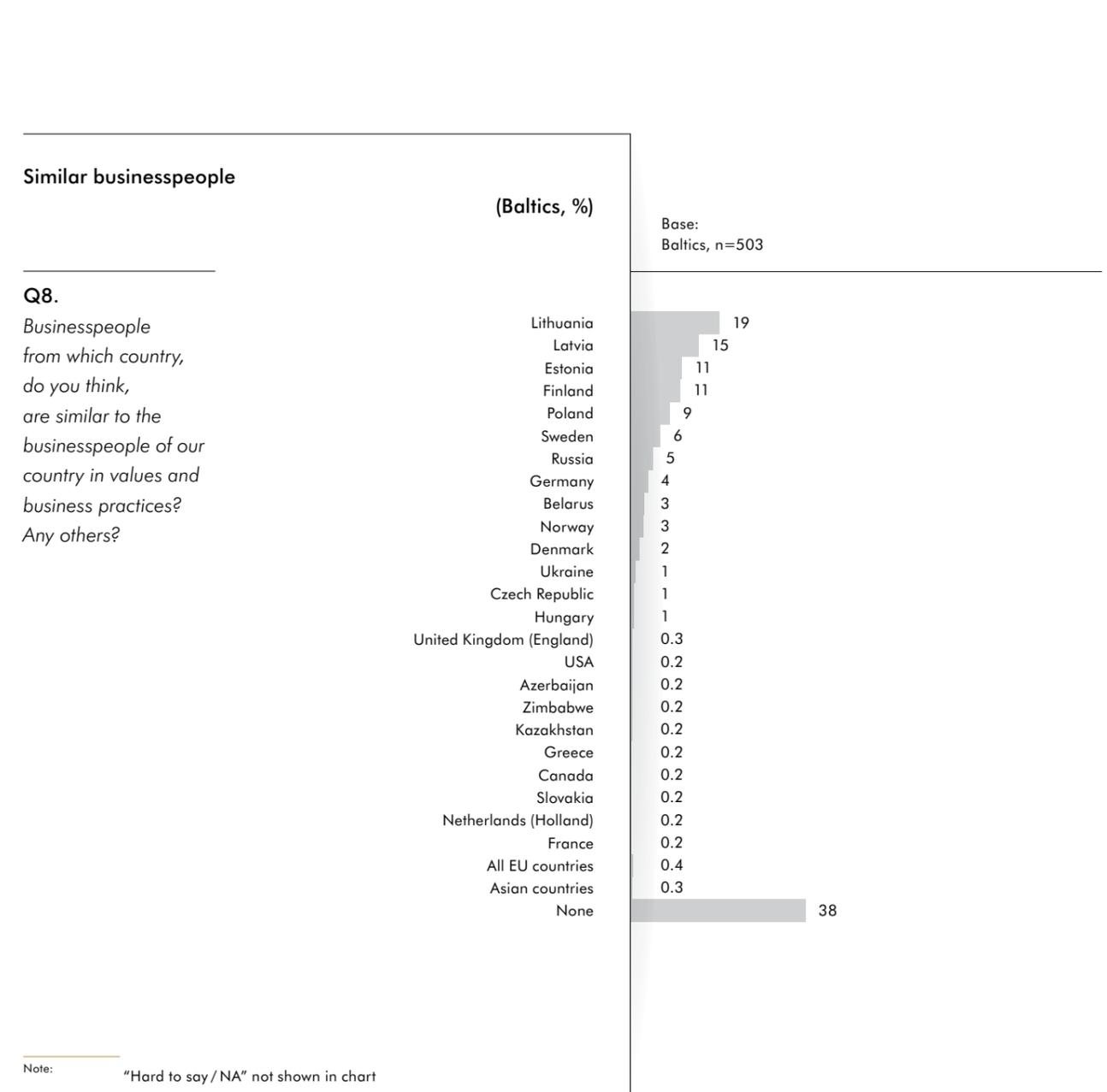
Latvian entrepreneurs most commonly have collaboration partners from Lithuania, Germany and Estonia, while approximately 1/10 also cooperate with companies from Sweden, Russia and Poland. Lithuanian entrepreneurs most frequently collaborate with companies from Poland, Germany, and Latvia, as well as with

Russia and Sweden. Estonian entrepreneurs most commonly cooperate with business partners from Finland, Sweden, and Latvia, but less frequently with companies from Lithuania, Russia, Germany, and Norway.



Data analysis
of the entrepreneur
survey

When asked about which countries' entrepreneurs are the most similar in business practices and values to the entrepreneurs representing the country of the respondents, the most frequently mentioned are the Baltic states. Approximately 1/10 of respondents also mentioned Finland and Poland.



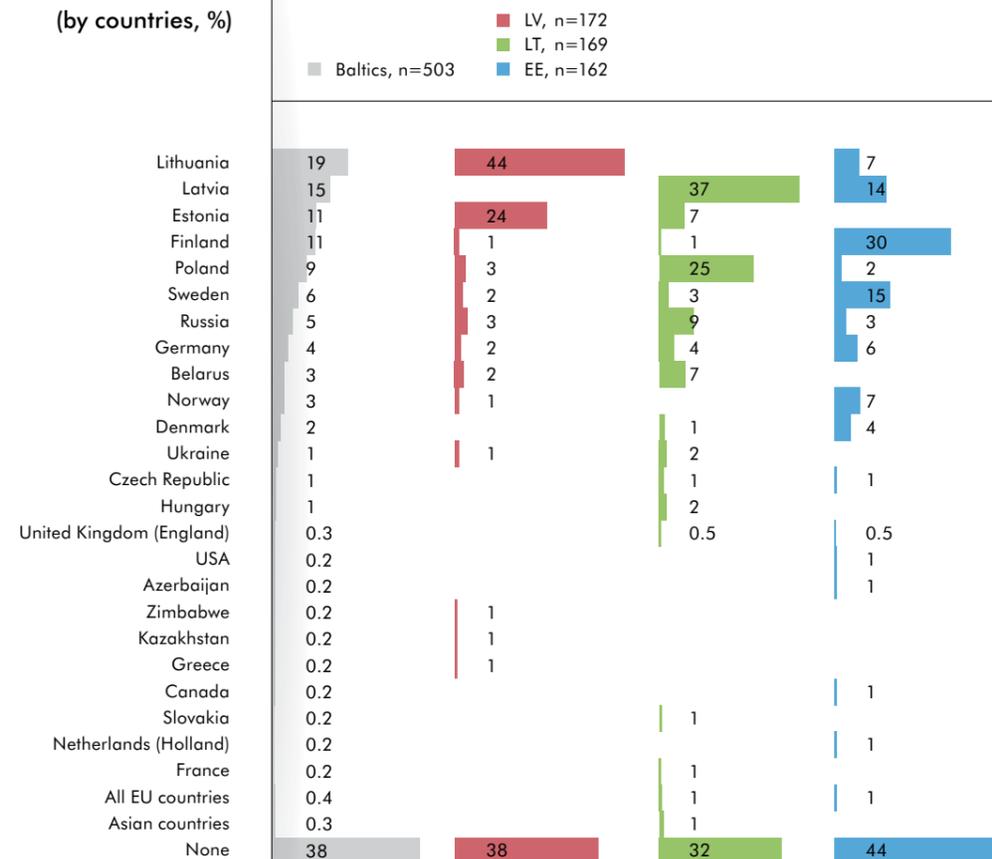
Data analysis
of the entrepreneur
survey

Entrepreneurs from Latvia identified Lithuanian entrepreneurs as the most similar to themselves, and rarely identify Estonians this way. Those working in Lithuania thought that the most similar entrepreneurs are from Latvia, and relatively often – Polish entrepreneurs as well. But Estonian entrepreneurs see similarities between themselves and entrepreneurs from Finland, and rarely between those from Sweden and Latvia.

Similar businesspeople

(by countries, %)

Q8. Businesspeople from which country, do you think, are similar to the businesspeople of our country in values and business practices? Any others?



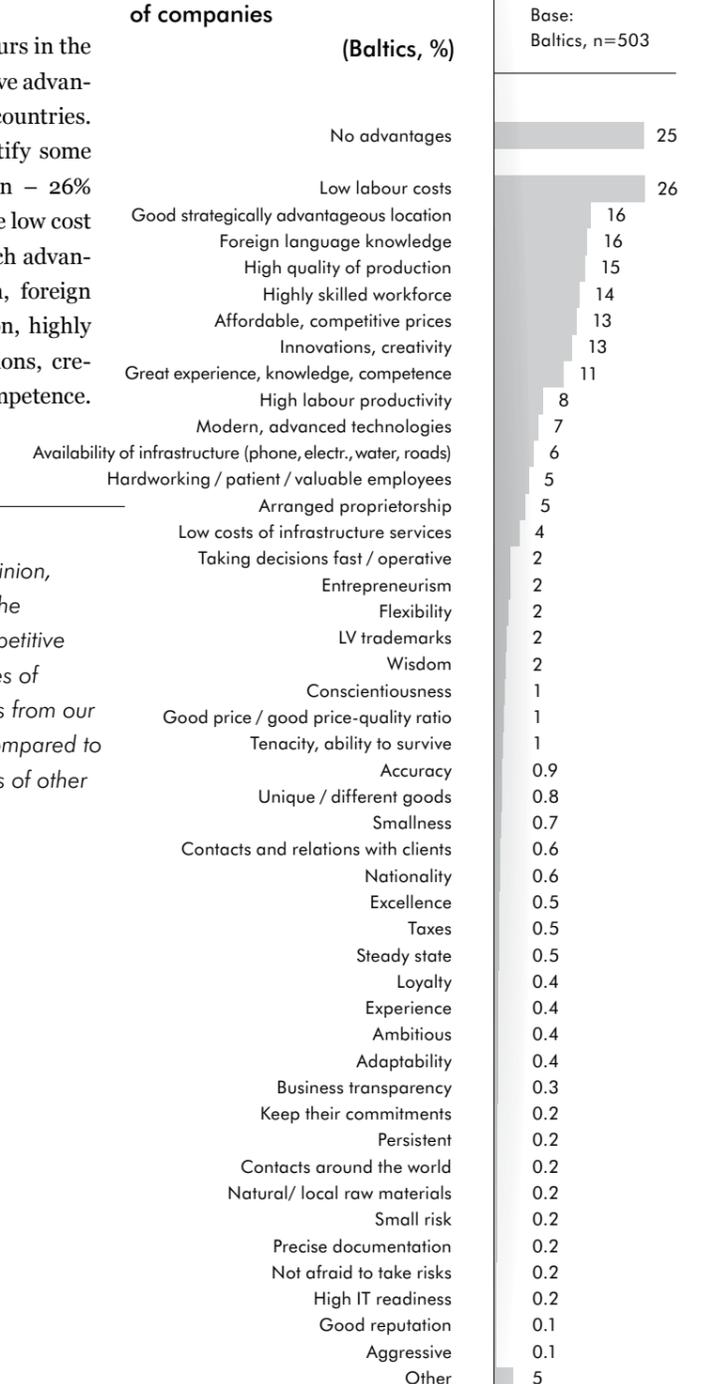
Note: "Hard to say / NA" not shown in chart

Data analysis
of the entrepreneur
survey

3.6. Competitive advantages of companies

1/4 of the interviewees believed that entrepreneurs in the Baltic states do not have any essential competitive advantages compared to entrepreneurs from other countries. But amongst those respondents, who did identify some advantages, there is no one particular opinion – 26% think that the main competitive advantage is the low cost of labour. Similarly, respondents mentioned such advantages as a strategically advantageous location, foreign language knowledge, high quality of production, highly skilled workforce, competitive prices, innovations, creativity and great experience, knowledge, and competence.

Main competitive advantages of companies (Baltics, %)



Q9. In your opinion, what are the main competitive advantages of companies from our country compared to companies of other countries?

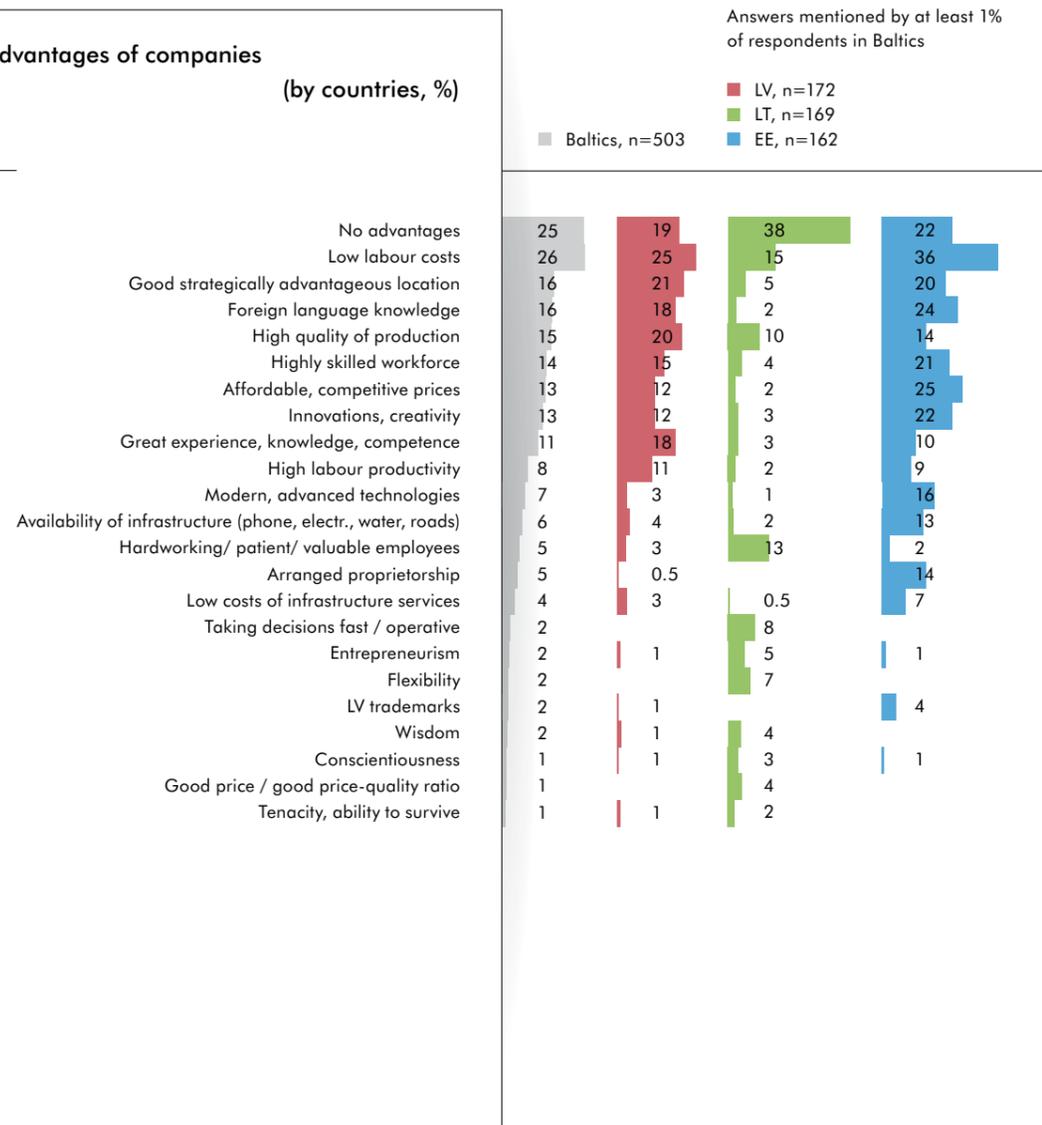
Data analysis
of the entrepreneur
survey

Latvian entrepreneurs hold the belief that the major competitive advantages are low labour costs, a strategically advantageous location, and foreign language knowledge. In Lithuania, the proportion of entrepreneurs who hold the opinion that they do not have any competitive advantages is very high – 38%, whereas those who did mention some advantages mainly chose low labour costs, hardworking and patient employees,

and high quality production. In contrast, Estonian entrepreneurs mentioned many more competitive advantages than those from Latvia and Lithuania. The competitive advantages of Estonian entrepreneurs, mostly mentioned by representatives of Estonian companies, are as follows: Low labour costs, affordable, competitive prices, foreign language knowledge, innovations, creativity, and highly skilled workforce.

Main competitive advantages of companies
(by countries, %)

Q9.
In your opinion, what are the main competitive advantages of companies from our country compared to companies of other countries?



Data analysis
of the entrepreneur
survey

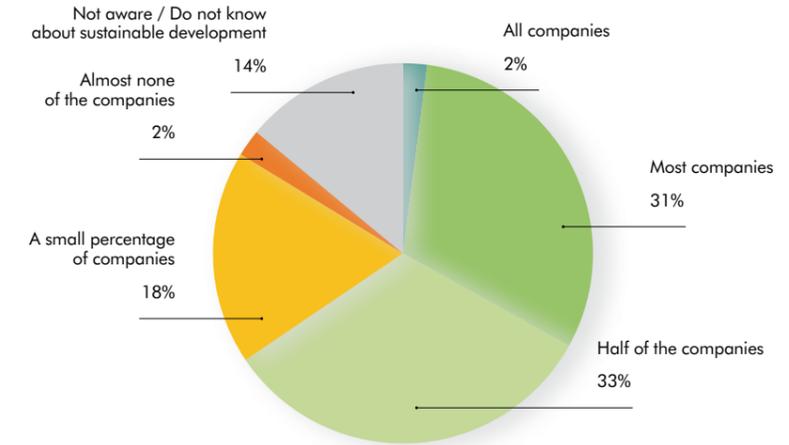
3.7. Sustainable development

Just 1/3 of respondents held the opinion that a majority of entrepreneurs in their countries observe the principles of sustainable development. 33% pointed out that half of the entrepreneurs practice this. But 20%

are confident that the principles of sustainable development are observed by only a few entrepreneurs. Results in each of the Baltic countries separately do not differ widely.

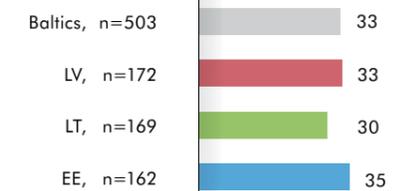
Principles of sustainable development in day-to-day operations
(Baltics, %)

Q10.
In your opinion, how many companies in our country observe the principles of sustainable development in their day-to-day operations? Are the principles of sustainable development observed by?



Principles of sustainable development in day-to-day operations
(by countries, % "All companies" + "Most companies")

Q10.
In your opinion, how many companies in our country observe the principles of sustainable development in their day-to-day operations? Are the principles of sustainable development observed by?

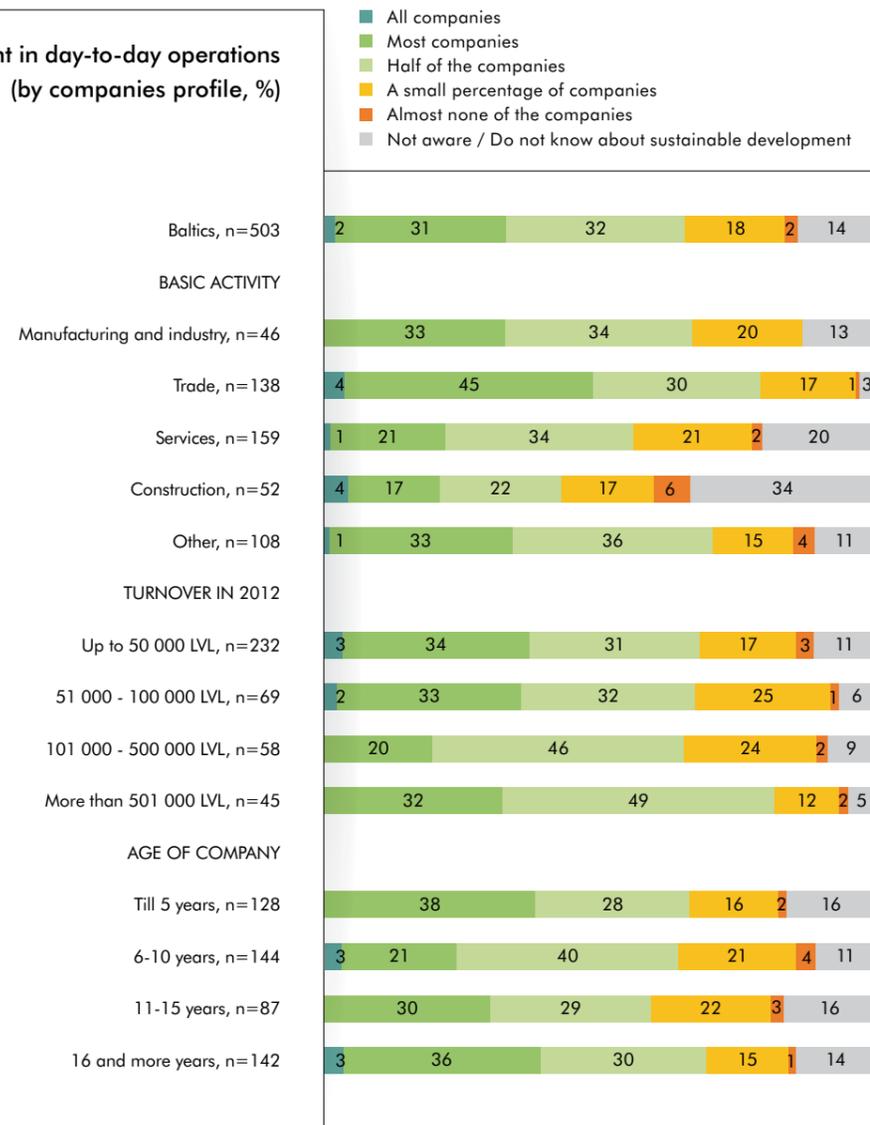


Data analysis
of the entrepreneur
survey

Large enterprises (with the turnover exceeding 501 000 LVL) and those working in the trade sector mainly agreed that a majority of enterprises observe the principles of sustainable development in their day-to-day operations. But entrepreneurs from the service and construction sectors and those who have been operating in the market for 6 – 15 years rarely agree with this opinion.

Principles of sustainable development in day-to-day operations (by companies profile, %)

Q10.
In your opinion, how many companies in our country observe the principles of sustainable development in their day-to-day operations? Are the principles of sustainable development observed by?



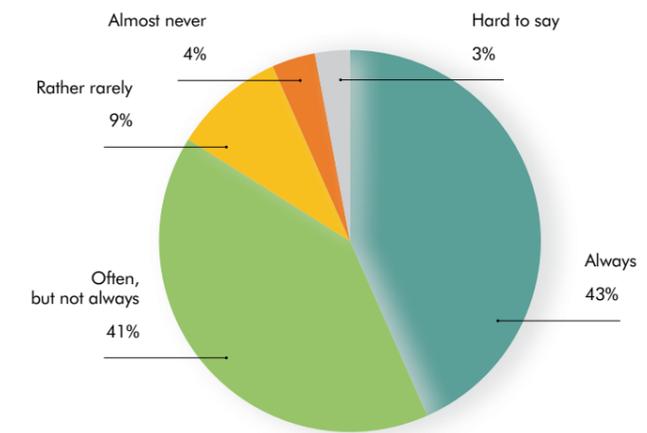
Data analysis
of the entrepreneur
survey

Although only 1/3 of respondents believed that a majority of entrepreneurs follow the principles of sustainable development, on the whole 43% believe that their enterprises do it consistently and 41% – that they do it often. Only 13% of respondents admit that they rarely practise it.

91% of entrepreneurs in Lithuania, 84% – in Latvia, and 76% – in Estonia assert that they observe the principles of sustainable development.

Principles of sustainable development company observes (Baltics, %)

Q11.
What is the extent to which your company observes the principles of sustainable development in its day-to-day operations? Does your company observe principles of sustainable development?



Base:
Baltics, except those who don't know about sustainable development, n=432

Principles of sustainable development company observes (by countries, % "Always" + "Often, but not always")

Q11.
What is the extent to which your company observes the principles of sustainable development in its day-to-day operations? Does your company observe principles of sustainable development?



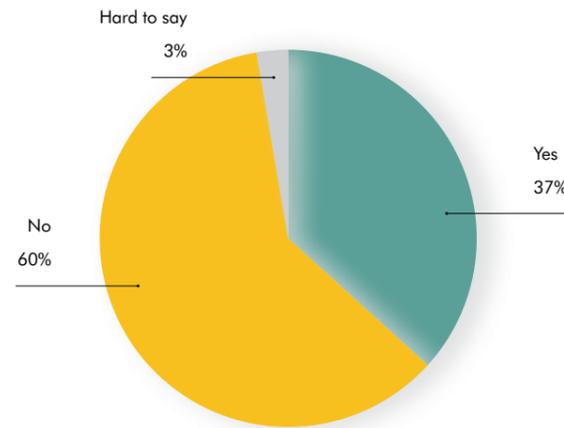
Data analysis
of the entrepreneur
survey

A total of 37% of entrepreneurs in the Baltic states said that in the previous year they have invested financial resources in employee training activities on sustainable development. The proportion of enterprises that have made such investments is similar in all three Baltic countries.

Investments in employee training on sustainable development (Baltics, %)

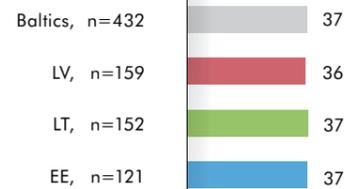
Base:
Baltics, except those who don't know
about sustainable development, n=432

Q12.
Has your company
invested financial
resources in employee
training activities
on sustainable
development during
the last year?



Investments in employee training on sustainable development (by countries, % "Yes")

Q12.
Has your company
invested financial
resources in employee
training activities
on sustainable
development during
the last year?



Data analysis
of the entrepreneur
survey

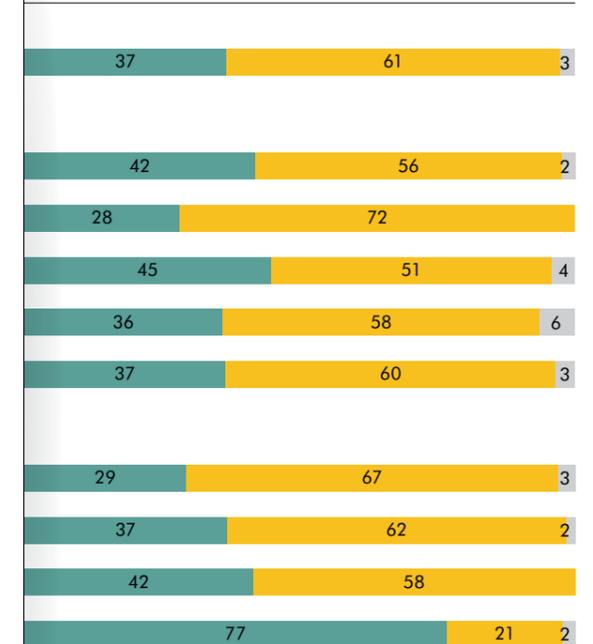
The fact that financial resources have been invested in employee training activities on sustainable development was more often stated by representatives of the service and industrial sectors, as well as by representatives of big companies, but less frequently by those working in the trade sector and in small companies.

Investments in employee training on sustainable development (by companies profile, %)

Q12.
Has your company
invested financial
resources in employee
training activities
on sustainable
development during
the last year?

Baltics, n=503
BASIC ACTIVITY
Manufacturing and industry, n=46
Trade, n=138
Services, n=159
Construction, n=52
Other, n=108
TURNOVER IN 2012
Up to 50 000 LVL, n=232
51 000 - 100 000 LVL, n=69
101 000 - 500 000 LVL, n=58
More than 501 000 LVL, n=45

■ Yes
■ No
■ Hard to say



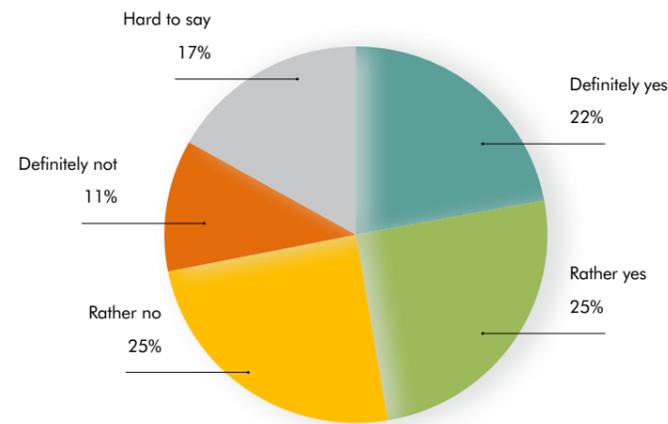
Data analysis
of the entrepreneur
survey

A total of 47% of entrepreneurs in the Baltic states admitted that they would be interested in investing financial resources to teach employees in the following year. This kind of answer is given by 47% of Latvian, 50% of Lithuanian, and 46% of Estonian respondents.

Investments in employee training on sustainable development in next year (Baltics, %)

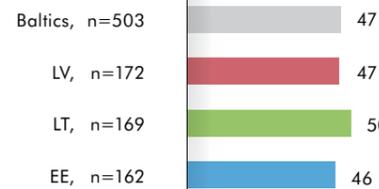
Baltics, n=503

Q13.
Would your company be interested in investing financial resources in employee training activities on sustainable development during the next year?



Investments in employee training on sustainable development in next year (by countries, % "Definitely yes" + "Rather yes")

Q13.
Would your company be interested in investing financial resources in employee training activities on sustainable development during the next year?



Data analysis
of the entrepreneur
survey

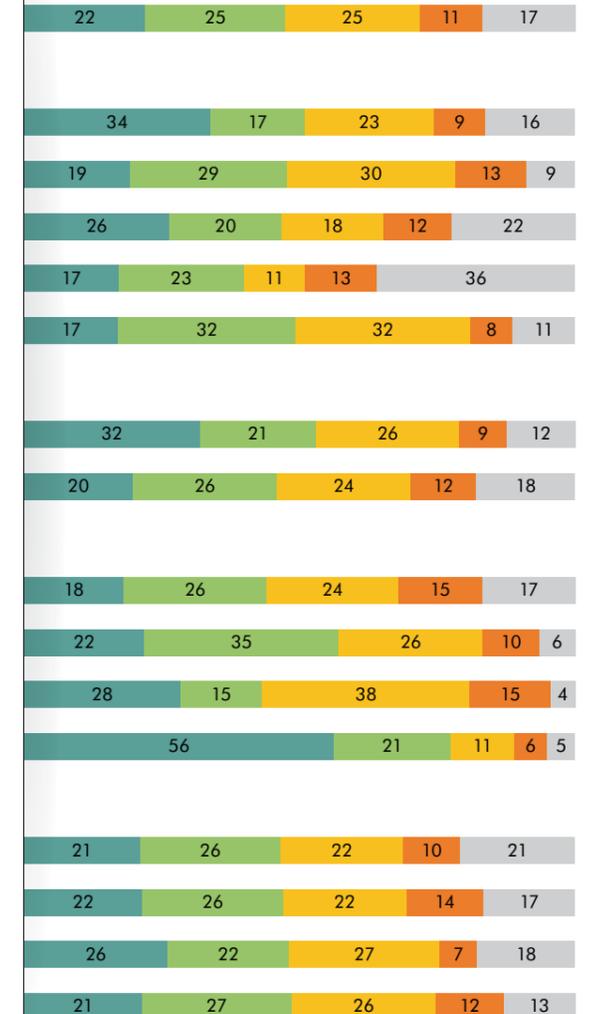
Often, the willingness to invest financial resources in employee training activities on sustainable development was expressed by those working in the industrial and manufacturing sector, and by exporters and representatives of big companies, but less often by those working in the construction sector.

Investments in employee training on sustainable development (by companies profile, %)

Q13.
Would your company be interested in investing financial resources in employee training activities on sustainable development during the next year?

All sample, n=503
BASIC ACTIVITY
Manufacturing and industry, n=46
Trade, n=138
Services, n=159
Construction, n=52
Other, n=108
EXPORT COMPANY
Yes, n=100
No, n=403
TURNOVER IN 2012
Up to 50 000 LVL, n=232
51 000 - 100 000 LVL, n=69
101 000 - 500 000 LVL, n=58
More than 501 000 LVL, n=45
AGE OF COMPANY
Till 5 years, n=128
6-10 years, n=144
11-15 years, n=87
16 and more years, n=142

Definitely yes
Rather yes
Rather no
Definitely not
Hard to say

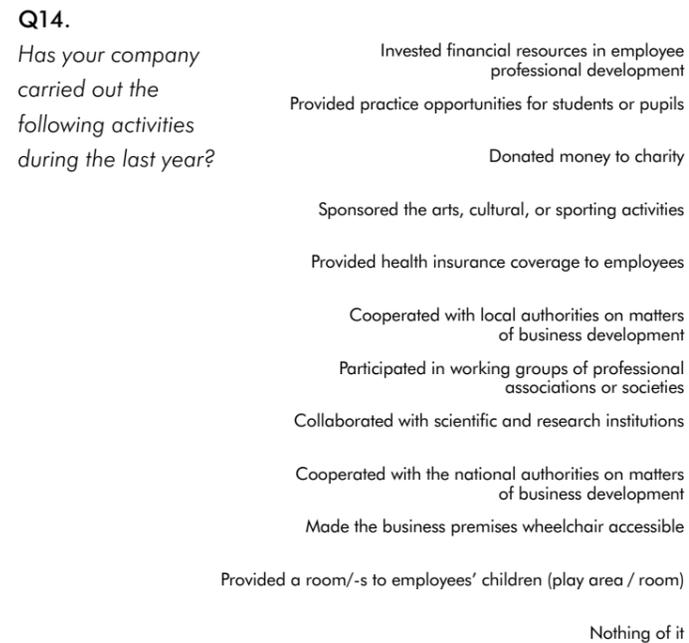


Data analysis
of the entrepreneur
survey

Approximately 2/5 of the surveyed entrepreneurs from the Baltic states claimed that during the last year they have invested financial resources in employee professional development, provided practise opportunities for students or pupils, and donated money to charity. Approximately another 1/4 of respondents stated that they have sponsored the arts, cultural, or sporting activities and have provided health insurance coverage to employees.

Different activities carried out by company
(Baltics, %)

Base:
Baltics, n=503



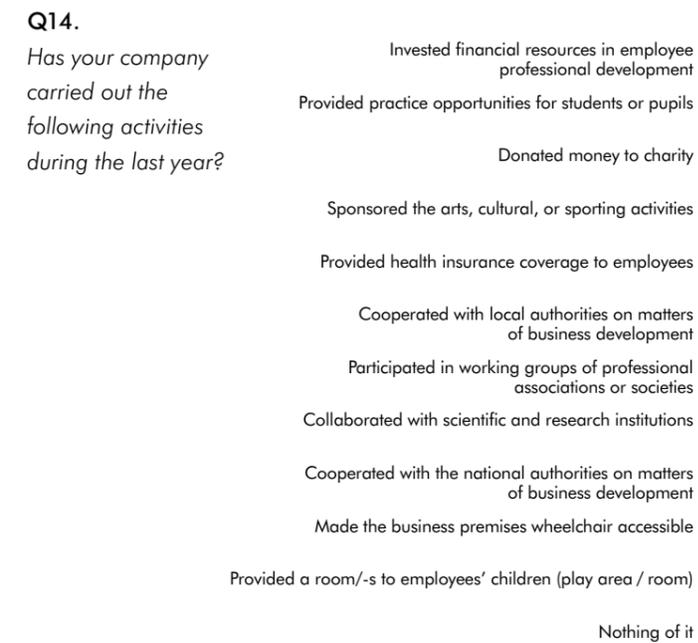
Data analysis
of the entrepreneur
survey

In analysing the data from each country, it was clear that Latvian entrepreneurs have performed the various activities included in the questionnaire the least, compared to Lithuanian entrepreneurs who did it the most. Entrepreneurs in Latvia, considerably less often than entrepreneurs in the Baltic states in general, have cooperated with local authorities on matters of business development, donated money to charity, sponsored the arts, cultural, or sporting activities, and collaborated with scientific and research institutions. Lithuanian

entrepreneurs, more frequently than others in the Baltic states, have provided health insurance coverage to employees, invested financial resources in employee professional development, and cooperated with local authorities on matters of business development. Entrepreneurs from Estonia, more frequently in comparison to other Baltic countries, have cooperated with national authorities on matters of business development.

Different activities carried out by company
(by countries, %)

■ LV, n=172
■ LT, n=169
■ EE, n=162
■ Baltics, n=503



* In Estonia, health insurance of employees is compulsory; therefore such a low score indicates ensured insurance additional to the compulsory, rather than health insurance as such!

4. Analysis of information from entrepreneur and expert interviews

4.1. Strengths and weaknesses of the business environment

Political factors

Entrepreneurs, foreign collaboration partners, and experts highlighted the political and business environment in **Estonia** as the most stable, organised and safest among the Baltic states. The Estonian political stability, organised legislation, and transparency of authority received positive evaluations. According to entrepreneurs, the tax system in Estonia is directed toward business growth and encourages reinvestment in enterprises. Entrepreneurs are of the opinion that the government of Estonia is open and accessible to entrepreneurs, but it cannot be influenced. Foreign collaboration partners hold the opinion that Estonia stands out among the Baltic countries with the lowest level of corruption and ratio of shadow economy. **Latvia** receives

the most critical assessment of the business environment, where local entrepreneurs criticised the unstable political situation and lack of enthusiasm in the government for stimulating entrepreneurship, while foreign collaboration partners highlighted corruption and the shadow economy. In **Lithuania**, local entrepreneurs and experts positively evaluated the country's political and economic stability, as well as the tax policy and government support for business; in contrast, foreign collaboration partners were very critical in highlighting the size of the shadow economy, tax avoidance, and common scams and unfair competition practices. Also, foreign collaboration partners pointed to a relatively large bureaucracy, which results in hardships when establishing and managing enterprises.

"I think Estonia is a little bit ahead of other Baltic countries in terms of the business environment and its attractiveness. There is less corruption and less monkey business in Estonia. In other countries I see more grey business, companies avoiding tax-paying, etc. The Estonian government is very welcoming and supportive, while the Lithuanian government, in comparison, likes to control everything."
(Entrepreneur, EE)

"What's unique about Estonia is that their government does everything to make their country investment friendly."
(Foreign partner, EST)

"Estonia is more transparent than its neighbours: investors and companies are actually able to oversee the government's decisions."
(Expert, EE)

"Changes in the tax system and legislation of Latvia are so frequent and unpredictable, that it steals away the chance for planning the future for the entrepreneurs."
(Entrepreneur, LV)

"At a municipal level, the role of the local enterprises is undervalued. Cooperation is not as productive as it could be. Local companies are taxpayers and job creators, but authorities do not know how to use this."
(Entrepreneur, LV)

"Statistics show increasing FDI over the last few years in LT, that is a response to growing government concerns about attracting big investors to LT; the government tries to be very open and welcoming towards big investment projects and offers good tax conditions, etc. and that seems to work."
(Expert, LT)

Economic factors

In all **Baltic countries** the local market is rated as small and economically boring. Nevertheless, the Baltics, thanks to its relatively organised environment, can serve as a secure "gate" to Russia or as a beneficial starting-point to Western Europe because of the low labour costs. Russia is often seen as an attractive market for entrepreneurs in Latvia, but Finland and Sweden are preferred in Estonia.

"The business environment is attractive only for doing business globally, as local markets are so small and purchasing power – low."
(Expert, LT)

"For me, as an investor, the Baltics would not be appealing. Only as a stepping stone to Russia, because our entrepreneurs are able to cooperate with the Russian market. For westerners, Russia is like wild jungle."
(Expert, LV)

Analysis of information from entrepreneur and expert interviews

In **Lithuania**, entrepreneurs and experts emphasised the country's potential to become an important logistics centre, this would connect Europe with Asia and the North. It would be supported not only by its geographical location, but also by the relatively advanced local transportation infrastructure.

"Lithuania has all it needs to become an important international logistics centre: it has a good location and good infrastructure with several sea ports and

airports, a developed rail and road system, as well as an active local logistics sector."
(Expert, LT)

In all **Baltic countries**, the labour force is valued as being educated and high-quality, and at the same time – comparatively inexpensive. Several representatives of foreign companies pointed out that low labour costs, specifically in comparison with Northern and Western European countries, are the main advantage when

making positive investment decisions. Local entrepreneurs evaluated their employees as being flexible and creative. Foreign partners praised workers' abilities to integrate into Western business culture, but pointed to Latvian and Lithuanian workers' fears of responsibility and low initiative.

Social factors

In **Lithuania**, when comparing to other Baltic countries, a quality labour force is not concentrated in only one city (like Riga, Tallinn), but it is available in numerous cities. Therefore investors have more possibilities when choosing a location for their business.

"Another advantage is the labour market – there are several big towns and all of them provide access to good quality labour. In Latvia there is only Riga, if you want to develop a business, and that's

not competitive. Lithuania has a widely dispersed, non-concentrated, good quality-for-price labour market; investors have a good choice for where to locate a business."
(Expert, LT)

Technology

Handy and favourable e-administration solutions in **Estonia** give companies a chance to settle numerous formalities in the Internet environment, hence reducing the heavy load of bureaucracy. The e-administration was praised by both local entrepreneurs and foreign collaboration partners. The clearest example is

the option to register a company on the Internet. Local experts also mentioned Estonia's successful public image that is associated with innovation and technology development, and present Estonia to investors as the most successful and technocratic country among all of the Baltic countries.

"It is very easy to establish a company, with an ID card you can do it online in 20-30 minutes for free."
(Entrepreneur, EE)

"We have several well-known success stories, like Skype and the NATO cyber security network. So, there is a common public perception that Estonia is doing best among its neighbours."
(Expert, EE)

"Estonia has twice as many ITC start-ups as the two other Baltic countries together."
(Expert, EE)

Analysis of information from entrepreneur and expert interviews

Business Culture

It is possible to speak about the local business culture as an important advantage of the business environment, but only in the context of Estonia. According to local and foreign entrepreneurs as well as experts, Estonians have taken on the business traditions from Finland in terms of business culture, and are thought of as trustworthy, honest, and precise partners.

“Estonia has strong connections with Finland and Sweden, which are big markets. I think that we share a similar corporate culture with them, but due to our small size we’re more flexible.”
(Entrepreneur, EE)

“It is easier to do business in Estonia – their corporate culture is closer to Finland and Sweden.”
(Foreign partner, EE)

Table 1. PEST analysis of business environment in the Baltic states

	LV	EE	LT
Political	<ul style="list-style-type: none"> ⊖ weak or non-existent government support for business ⊖ volatile political environment has a negative impact on business ⊖ excessively high taxes on labour force 	<ul style="list-style-type: none"> ⊕ arranged and safe business environment ⊕ government provides significant support for business ⊕ appealing tax system 	<ul style="list-style-type: none"> ⊕ stable macroeconomic situation ⊕ government actively takes part in attracting foreign investors ⊕ good tax system ⊖ burdensome bureaucratic requirements
Economic	<ul style="list-style-type: none"> ⊕ “gate” to EU and Russian markets ⊕ quality low-cost labour force ⊖ small local market 	<ul style="list-style-type: none"> ⊕ “gate” to the Northern European market ⊕ alignment with the EU market and the Euro area ⊕ quality low cost labour force ⊖ small local market 	<ul style="list-style-type: none"> ⊕ favourable geographical location ⊕ advanced transport infrastructure ⊕ quality low-cost labour force ⊖ small local market, low purchasing power
Social	<ul style="list-style-type: none"> ⊕ attractive nature, ecological environment 		<ul style="list-style-type: none"> ⊕ equally developed labour force market in numerous cities all over the country
Technology		<ul style="list-style-type: none"> ⊕ convenient e-administration opportunities for entrepreneurs in collaboration with the public sector ⊕ an image as a technologically developed and innovative country ⊕ comparatively high number of newly established companies in the IT sector 	<ul style="list-style-type: none"> ⊖ local companies are not willing to invest in technology and education of employees
Business culture	<ul style="list-style-type: none"> ⊕ understanding of the Russian market and business traditions 	<ul style="list-style-type: none"> ⊕ the local business culture encourages cooperation with countries from Northern Europe 	<ul style="list-style-type: none"> ⊕ competence in both Eastern and Western business cultures

Analysis of information from entrepreneur and expert interviews

4.2. Business culture in the Baltic states

In both **Latvia** and **Estonia** there was a prevailing opinion that each country has its own unique business culture. However, the interviewees were able to characterise the business culture of their country only by comparing it with other countries. The most coordinated and consistent was the characterisation of the business cul-

ture of **Estonia**. This country is always being compared with Finland, and sometimes also with other countries in Northern Europe, but less often with other Baltic countries. Similarly to Finland, entrepreneurs from Estonia were assessed as precise, trustworthy, and honest. Estonians believe that in comparison to Finnish entrepreneurs, they are faster and more efficient in decision making, as well as more flexible and more open in thinking.

Table 2. Business culture in Estonia

<ul style="list-style-type: none"> ⊕ precise ⊕ honest and trustworthy ⊕ practical and pragmatic ⊕ more open and more flexible than the Finns ⊕ make decisions faster than the Finns ⊕ fulfil liabilities, comply with the terms ⊕ have adapted the Western practice of long-term planning ⊕ comply with the laws, pay taxes ⊕ support transparent and honest competition 	<ul style="list-style-type: none"> ⊖ do not show emotions ⊖ slow in decision making
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In turn, the most dissent occurred in the characterisation of the business culture of **Latvia**. Most frequently, it was compared with other Baltic countries, Nordic countries, Germany, or Western Europe in general. A common view was that Latvian business culture involves influences from all of the above mentioned coun-

tries, complemented by a strong Russian influence. Unlike the Western European countries, local collaboration partners should be checked for reliability over time. Not fulfilling obligations and non-compliance with time limits is a common practice in Latvia.

Table 3. Business culture in Latvia

<ul style="list-style-type: none"> ⊕ precise ⊕ honest ⊕ patient ⊕ creative ⊕ flexible 	<ul style="list-style-type: none"> ⊖ lack of initiative ⊖ need for authoritative management, precise instructions ⊖ evade taking responsibility ⊖ failure to plan a long-term business development ⊖ evade paying taxes, pay salaries “in envelopes”, use unfair business practices ⊖ in society entrepreneurs are considered to be unfair towards other people ⊖ society lacks entrepreneurship skills
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Analysis of information
from entrepreneur and
expert interviews

The respondents from **Lithuania** were not unanimous on whether or not their country has a distinctive business culture which exists at a national level. The local entrepreneurs and experts that were interviewed most frequently admitted that the business culture in Lithuania is to be viewed only on a business level, and each company's corporate culture is different. However, the culture of the enterprise is determined by the origin of the capital, the company's size, experience, and success

in the market. Lithuanians evaluated themselves as active, entrepreneurial, and courageous, and always open to new things. Also, Lithuanians stated that personal contact with their clients or partners is really important. In contrast, foreign collaboration partners were not eager to highlight positive characteristics of mentality – they are worried about widely-prevalent dishonest business practices.

Table 4. Business culture in Lithuania

<ul style="list-style-type: none"> ⊕ active, entrepreneurial ⊕ willing to risk ⊕ welcome new things ⊕ open 	<ul style="list-style-type: none"> ⊖ not always fair ⊖ price matters, not quality ⊖ failure to plan for long-term business development ⊖ evade paying taxes, pay salaries "in envelopes", use unfair business practices ⊖ do not invest in technology and education of employees ⊖ search for possibilities to evade laws
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Some also expressed the view that the business culture in all three **Baltic countries** has not yet developed, and it will be determined by next generations. The lack of knowledge and experience in business is a legacy of the Soviet regime for the older generation. In contrast,

new generations are taking on practices from foreign countries. In Estonia, the most severe example is the impact of Finnish business culture, but in Latvia and Lithuania there is a mix of various business cultures – German, Swedish, Russian, etc.

"In the case of Lithuania, we cannot talk about the national business culture – there is no common tradition. Time to time something is taken from Nordic countries, Germany. But that is just a recurring phenomenon. I think that we will be able to talk about the business culture in Lithuania only with the change of generations in the business environment."
(Entrepreneur, LT)

"There's a lack of business culture and traditions. People are afraid to start something, but those who succeed in making something, rapidly sell their enterprises just to spend the income. Entrepreneurship as a lifestyle is not typical to Latvia."
(Entrepreneur, LV)

"The low entrepreneurial skills of the population are a consequence of historical development, namely, it is the inability to create and expand a business. Unfortunately, we can see this characteristic even in the youth."
(Expert, LT)

Analysis of information
from entrepreneur and
expert interviews

The business culture is closely linked with the impact of those who hold capital, as a result, business practices in a variety of industries and companies differ significantly. For example, the banking sector in the Baltic states has a visible Swedish influence in the business administration and decision-making processes.

When it comes to business culture, the closest countries to **Latvia** are the other Baltic countries, Sweden, Germany, Russia, or Western Europe in general. Local entrepreneurs believed that there is a mix of numerous business cultures from different countries that dominates in Latvia. Japan, and the Middle and Far East are mentioned as the most distinctive countries compared to Latvia, when speaking in terms of business culture. But the business culture of **Estonia** is the closest to Finland. Rarely, but sometimes, Estonia is equated with Sweden and Norway. Russia and Japan are the most distinctive countries from Estonia in terms of business culture. In contrast, in **Lithuania**, Latvia is considered to be the most similar country in terms of business culture; but Estonia is assessed as completely different

The interviewed experts and entrepreneurs did not see the Baltic states as a region with one common business culture. Estonia and Lithuania rejected this fact the most, stressing the vital differences between their busi-

"Our subsidiary companies in Latvia and Lithuania are very Estonian, because we participate in their creation, employee recruitment and management. It has been very important for us to strictly maintain the same position that is in Estonia also regarding the ethical and cultural matters in order to

maintain our reputation."
(Entrepreneur, EST)
"Two companies from the same industry can still be totally different in terms of their culture just because one is local, but other – belongs to a multinational group."
(Foreign Partner, LT)

in terms of business approach. There are highly diametrical opinions about similarities with Poland – some respondents said that Lithuanians and Poles are similar at least in terms of mentality, while others believed that the business practices in both countries are very different. Estonia and Nordic countries have been mentioned as the least similar countries to Lithuania in terms of business culture.

"Estonia is most similar to the Nordic countries; Lithuania is rather Slavic; and Latvia is in-between with a big influence from Russia."
(Partner, LV)

"I think Lithuania and Latvia are somewhat similar – we share a similar history and language. Also, in terms of mentality, I think there are not so big differences."
(Entrepreneur, LT)

ness tactics and mentality. In Latvia, the respondents' opinions about the Baltic states as a region with one common business culture varied, despite the similarities that were found with both Lithuania and Estonia.

"I don't think so – the Baltic countries differ from each other very much. Estonians are reserved and respectful in their behaviour and they do not evade liabilities, whereas Lithuanians are ambitious, aggressive and often do not keep promises. Estonia and Lithuania have so little in common, but Latvia is somewhere in-between."
(Entrepreneur, LV)

"I think they are different. Something is similar, but I see differences. Estonia is the most Nordic."
(Partner, LV)

"Lithuania and Latvia are somewhat similar, but Estonia is very different. We share similar history, but not a common culture."
(Expert, LT)

"Latvia and Estonia can make good business together – we share a similar way of thinking and business attitude. But Lithuania, for us Estonians, is a totally another world. They have a completely different corporate culture and different business thinking."
(Entrepreneur, EE)

Analysis of information
 from entrepreneur and
 expert interviews

As similar aspects, those that were mentioned include the impact of the Soviet time and the similar historical course of development, as well as the impact of neighbouring countries on business development in the Baltics.

“We share a common history with other former Soviet countries, and all of us had wild times in 90s, but now we are not the same.”
 (Expert, EE)

“The common thing is that they're all very hungry, they want to advance and develop at a very fast pace; there is a strong hunger for growth. I would explain it with history: when borders opened companies realised how much they were lagging behind the Western business world.”
 (Partner, EE)

“We share some things in common, but these are transnational things that do not refer specifically to the business environment. The most significant one is the Russian and the Scandinavian influence on the Baltics; we as small countries always have to consider the interest of our big neighbours.”
 (Entrepreneur, LT)

On the other hand, **differences** are connected not only with mentality and communication, but also with business tactics and values. For example, Estonians have such characteristics as a high level of responsibility and liability, and a commitment to quality. Estonian enterprises highly evaluate the reputation of a company and long-term cooperation with partners. In turn, in Latvia and Lithuania, liabilities are not that meaningful – companies prioritise profitability instead of long-term partnership.

“In my experience, in Lithuania the highest value is on price, not so much on quality; in Estonia, the main focus is on the quality – it matters the most; and Latvia is somewhere in the middle, they consider both.”
 (Partner, EST)

“Sometimes I have the impression that each company wants to collaborate with others just once. Cooperation, based on long-term partnership and reliability is definitely not a priority in Latvia.”
 (Entrepreneur, LV)

4.3. Key business values

Every respondent fails to name his / her own or company's values, regardless of the size of the company and its experience in international markets. The corporate values in large international companies are often determined centrally, and are formalised. However, representatives from the companies were not always able to name these values. They talked about their own personal values much more willingly, which differ but do not conflict with corporate values. Most often they included friendliness and care for employees, as well as loyalty to the company. In smaller companies, where the company's management personnel is also a

business owner, the corporate values are the same as personal ones. The most often-mentioned values were honesty, compliance with laws and liabilities, and making long-term partnerships with clients/partners and employees. When looking at the named values, there were no critical differences between the Baltic countries. Most often respondents were ready to name 2-3, but not more than 4 values.

Analysis of information
 from entrepreneur and
 expert interviews

Table 5. Business values in the Baltic states
 (arranged starting with the most frequently mentioned)

LV	EE	LT
Close collaboration with clients	Close collaboration with clients	Trustworthiness
Long-term goals	Trustworthiness, loyalty	Responsibility
Competence of the team	Employees, friendliness	Honesty
Openness	Quality	Liabilities
Quality, excellence of the product	Honesty	Obedience to the law
Honesty	Flexibility	Employees
Flexibility	Ethics	Quality
Ethics	Innovation, creativity	Reputation
Creativity	Professionalism	Creativity
Keeping one's word	Entrepreneurism	Loyalty
Labour force stability		
Equal price policy to all clients		

In all three Baltic countries entrepreneurs would have been glad to see their own values in their collaboration partners' business approaches. It was believed that if everyone followed the same business principles, the business environment would be orderly and attractive.

This opinion was common throughout all the Baltic countries. Other frequently mentioned values that entrepreneurs praise in their collaboration partners are compliance with meeting obligations and trustworthiness.

Table 6. Most appreciated partner values in the Baltic states

LV	EE	LT
Same as ours	Same as ours	Same as ours
Compliance with meeting obligations	Compliance with meeting obligations	Obedience to the law
Quality	Responsibility	Trustworthiness
Compliance with delivery terms	Honesty	Compliance with meeting obligations
	Quality	Honesty
	Transparency	Quality

In all three Baltic countries, entrepreneurs meet with unacceptable business practices on a daily basis. In-compliance with the law is the most often practiced negative activity in collaboration between companies

– it is reported by entrepreneurs in Latvia and Lithuania, and rarely, in Estonia, too. In Latvia and Lithuania evasion of laws and tax evasion are mentioned as unacceptable business practices. Enterprises hold the

Analysis of information
from entrepreneur and
expert interviews

opinion that these practices are illegal and ruin both market competition and the overall public image of a business. All of the interviewed foreign collaboration partners pointed to a significant proportion of shadow economy activity in Latvia and Lithuania. The respondents in Latvia and Lithuania particularly highlighted opaque practices in cooperation with State administration. The collaboration partners from foreign countries most often considered corruption as an unacceptable condition. In Estonia, other negatively evaluated practices included copyright infringement, denigration of competitors, and the use of a dominant market position.

Companies in the Baltic states do not select customers based on their business values – companies serve all customers, unless the risk caused by a specific customer is too high. The choice of suppliers and other collaboration partners is made very carefully, evaluating all information available about these potential partners and gradually developing collaboration with them. The local entrepreneurs that were interviewed in all three Baltic countries pointed out that the main prerequisite for making a successful collaboration is the option to preserve the values they have set for themselves without lowering them. In turn, the foreign partners that were interviewed stated that they do not make any deals with companies which might be suspected of evading taxes or taking part in other illegal actions. Also, they called attention to the fact that human relations play a very important role in interrelations between enterprises, particularly in Latvia and Lithuania – if the partner's employees do not seem to be reliable, then it is not preferable to trust this company at all. Entrepreneurs in the Baltic states would gladly make a long-term partnership with collaboration partners whose business values are in line with their values. In particular, Estonian entrepreneurs have indicated that price is not the decisive factor in the choice of partners, but reliability, quality, and the potential for a long-term relationship.

The entrepreneurs that were interviewed in all three Baltic countries stated that their business values and tactics do not vary depending on the origin of the partners. At the same time, some companies admitted that they do act more carefully when working with local partners rather than with foreign partners (Western European), because local companies more often tend to neglect due dates, are late in paying, and hide essential information. Entrepreneurs indicated that in adapting business strategies, the duration of the cooperation and a foundation of mutual trust is more crucial than the partner's nationality. National differences and business traditions are taken into account in terms of communication. In turn, foreign partners choose to serve each customer individually, taking into account the specific characteristics of each client, but keeping their business values.

Business Culture and Values

in the Baltic states

The Centre for Sustainable Business at SSE Riga

The Centre works in the areas of research, training, and popularising sustainable business activities in the Baltic countries.

**The Centre for Sustainable Business
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