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## FROM THE EDITOR

Dear Reader,

This is the first issue for 2019 and we expect to be able to publish the next issue in autumn-winter 2019.

The authors are both PhD students and established academics. The articles are a heterogeneous set and cover a number of fields in the humanities and social sciences such as management, economics, economic history, politics and sociology. In this issue, we have articles by authors not only from Latvia, but also from Germany, Poland, Turkey and Israel.

A reminder for past and future authors that the journal can be found in the EBSCO Sociology Source Ultimate database. It would be useful for you if you ensure that your university library subscribes to this particular EBSCO database.

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

Best wishes

Viesturs Pauls Karnups  
General Editor

# LATVIA-USA ECONOMIC RELATIONS 1918–1940<sup>1</sup>

Viesturs Pauls Karnups

Dr. oec.

## Abstract

Prior to the establishment of the Latvian state in 1918, Latvian economic contacts with the USA were minimal, confined to the USA trade with Tsarist Russia. Latvia declared its independence on 18 November 1918; nevertheless, the US hesitated in recognising Latvia *de iure*. In economic terms, the main problem was war debts. Latvia's war debt was set in 1925 at 5132287 dollars, which together with interest at 4 1/4 per cent, came to 5779562 dollars. The United States of America recognised the Republic of Latvia *de iure* on 28 July 1922. On 24 September 1925, Latvia signed an "Agreement Relating to the Funding of the Indebtedness of Latvia to the United States". Latvia ceased repaying war debts in 1934. In the interwar years, Latvian and USA economic relations was mainly confined to foreign trade and investment although other forms of economic relations such as shipping and tourism were also important. On 1 February 1926, Latvia signed a Provisional Commercial Agreement with the USA, which contained the Baltic and Russian clause and a reciprocal clause in respect of Cuba and the Panama Canal Zone. On 20 April 1928, Latvia and the USA signed a "Treaty of Friendship, Commerce, and Consular Rights", which contained all the provisions of the 1926 Agreement, as well as detailed provisions regarding consular rights, shipping and other provisions. This Treaty was in operation for the whole of the interwar period. In general, Latvia had a negative trade balance with the USA throughout the interwar period. The great distance of America from Latvia and the lack of transport, mainly shipping directly to the USA, negatively affected Latvian and USA trade. Latvia's main exports to the USA were canned fish including "Šprotes", chocolates and candy, cellulose, hides and furs, plywood, timber and timber products (including plywood), and peat and peat products. Latvia's main imports from the USA were cereals; raw cotton; automobiles and parts; industrial and agricultural machinery; petroleum products and, surprisingly, hides and furs. USA investments in Latvia were mainly in the banking sector (79% of total USA investments in 1929), followed by textile industry (8%), trade (commerce) (7%), transport (3%), clothes and shoes industry (2%) and some other minor investments. Most the Bank of Latvia's gold reserve was held overseas. Some 3 tons of gold was held in the USA with a value of nearly 18 million lats. Latvian government and Central bank deposits in U.S. banks were identified, transferred to the U.S. central bank – Federal Reserve System – and frozen in 1940.

**Keywords:** Latvia, USA, interwar period, trade, war debts, investment, Latvian gold

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<sup>1</sup> A version of this article was presented at the XVIII World Economic History Congress, July 29 – August 3 2018, Massachusetts Institute of Technology, Boston, MA, USA.

## Introduction

Latvian contacts with the USA prior to WWI were far and few between. These were mainly seamen and the occasional immigrant. The first significant wave of Latvian settlers who immigrated to the United States came in 1888 to Boston. There was no mass migration to the United States in the second half of the 19<sup>th</sup> Century as there was from Scandinavia, Russia proper and Lithuania. This was due in part to the rapid economic development of the Latvian provinces of Tsarist Russia, especially Rīga, which became the third largest industrial centre in Tsarist Russia.<sup>2</sup> A new wave of Latvian immigration began around 1906, after the failure of the 1905 Russian Revolution. The most famous of these “political” refugees was Kārlis Ulmanis, who later became the first Prime Minister of an independent Latvia. After the First World War, the promise of economic improvements in the newly independent nation, immigration quotas established in 1924 by the United States, and the Great Depression all contributed to slow emigration from Latvia.

The United States of America recognised the Republic of Latvia *de iure* on July 28, 1922, and on November 13 the first envoy of the USA to Latvia. The interwar period consolidated the diplomatic relations between the two countries, and several bilateral agreements were signed. Despite the Great Depression of 1929 and the considerable geographical distance, economic, trade and culture relations were established.

**Table 1. Selected economic indicators for Latvia and the USA in the interwar Period**

	Latvia	USA
Population (millions)	2 (1939)	150.6 (1940)
Share of urban population (%)	34.6 (1935)	56.5 (1940)
Share of agriculture in the labour force (%)	67.8 (1935)	21.4 (1930)
National Income (millions Ls)	1256 (1938)	418193 (1940)*
National Income per capita (Ls)	628 (1938)	2777 (1940)
Share of Agriculture in NI (%)	39.2 (1938)	7.8 (1940)
Share of Manufacturing in NI (%)	20.5 (1938)	25.2 (1940)

\* Conversion of 1940 US dollars to Latvian Lats

Source: Darbiņš, A. & Vītiņš, V. (1947), *Latvija: Statistisks pārskats* [Latvia: A Statistical Overview]; *Ekonomists*, 1934, No. 22, 30.11.1934; *Historical Statistics of the United States 1789–1945* (1949)

<sup>2</sup> See Karnups, V. P. (2013) for a more detailed examination of this period.

As Table 1 shows, apart from the enormous differences in population and national income, that Latvia was less urbanised and preponderantly agricultural with three times as many people working in agriculture than the USA, and a five times greater share of agriculture in national income. Thus, while Latvia had for all intents and purposes an agricultural economy, the USA was an industrialised economy.

## Latvia and USA Economic Relations prior to WW1

Prior to the establishment of the Latvian state in 1918, Latvian economic contacts with the USA were minimal, confined to the USA trade with Tsarist Russia. 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 importance of the three Latvian seaports to Tsarist 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>3</sup> USA trade with Tsarist Russia as a percentage of total trade through the Latvian ports increased enormously. For example, the increase through the port of Riga was from 0.3% in 1901–05 to 12.1% in 1912.<sup>4</sup>

**Table 2. 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)

<sup>3</sup> Skujenieks (1927), p. 676.

<sup>4</sup> Skujenieks (1927), p. 673.

As can be seen in Table 2, for Rīga, the USA was the 4<sup>th</sup> most important in terms of exports, but only 7<sup>th</sup> in terms of imports. For Ventspils, exports to the USA were negligible, whereas imports from the USA were in 1<sup>st</sup> place. For Liepāja, the important export partner was the USA, but for imports, the USA was in 3<sup>rd</sup> place.

## Latvia: US Recognition and War Debts

The United States recognised Latvia *de iure* on July 28, 1922, when the U.S. Commissioner at Riga, Evan Young, informed the Foreign Office of Latvia of the United States' decision. Secretary of State Charles Evans Hughes had instructed Young in a telegram dated July 25, 1922, to advise the Foreign Offices of Estonia, Latvia, and Lithuania of this decision on the 28th. The path to recognition was a long and tortuous one.

The aftermath of WWI left parts of Europe and especially Eastern Europe in dire straits with the threat of a full-blown famine looming. The US decided to distribute food aid and other humanitarian assistance to Europe from January 1919; the 'Baltic States of Russia' were also ranked among the countries in urgent need of food aid.<sup>5</sup> In the period 1919–1922, a number of US organisations became involved in providing relief and assistance in various forms to Latvia including the American Relief Administration<sup>6</sup>, the American Red Cross<sup>7</sup>, the YMCA and the YWCA<sup>8</sup>. Nevertheless, the US hesitated in recognising Latvia *de iure*.

Essentially the United States were on the horns of a dilemma. On the one hand was the issue of the self-determination of nations (Wilson's 14 points), but on the other hand was the idea of an undivided Russia, which would soon be rid of the Bolshevik scourge. The latter point was a contradiction in itself as the US was willing to recognise Poland, Finland and to a lesser extent Armenia, which of course had all been part of Tsarist Russia. In economic terms, the main problem was war debts.

The US calculated that the liabilities of Russia to the USA in 1921 amounted to 302,000,000 dollars.<sup>9</sup> Following the coup by the Bolsheviks in October 1918, the USA cancelled the credits to Russia, and the Bolsheviks in their turn declared that they renounced all of Russia's former debts and obligations. At this time, some 30 million dollars were added to the Russian debt in relation to Finland, Estonia, Latvia, and Lithuania, which had been

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<sup>5</sup> Organization of American Relief in Europe (1943): pp. 49–50, 143.

<sup>6</sup> For a detailed account see Jēkabsons, Ē. (2014).

<sup>7</sup> For a detailed account see Jēkabsons, Ē. (2010).

<sup>8</sup> For a detailed account see Jēkabsons, Ē. (2009).

<sup>9</sup> Loans to Foreign Governments 1921, p. 89.

incurred after 1918.<sup>10</sup> The question then became who pays. If Russia was reconstituted to include the Baltic States then obviously the new Russia would have to pay. On the other hand, if the Baltic States (in this case Latvia) remained independent then these governments would have to pay.

The USA made it clear that the loans given earlier could not be waived off, but made an effort to help the European powers by setting up the World War Foreign Debt Commission in 1922. Already in 1923, the US required Latvia to pay its war debts, which according to the Commission, Latvia provisionally owed 4159491 dollars. The Latvian government evaluated the claim and found that part of the aid had not even reached Latvia and much of what had arrived was in poor condition although Latvia had been charged the full price.<sup>11</sup> Latvia tried to get the amount reduced but failed. The Commission's final figure for Latvia's war debt was set in 1925 at 5132287 dollars, which together with interest at 4 1/4 per cent, came to 5779562 dollars (see Table 3). On 24 September 1925, Latvia signed an "Agreement Relating to the Funding of the Indebtedness of Latvia to the United States" and immediately paid 4562 dollars in cash (see Table 3). The remainder to be paid over 62 years with interest at 4 1/4 per cent – a total of 13500000 dollars.

**Table 3. Latvia's War Debt 1925**

Principal amount of obligations to be funded	\$ 5,132,287.14
Interest accrued and unpaid thereon to December 15, 1922, at	
The rate of 4 1/4 per cent per annum	647,275.62
Total principal and interest accrued and unpaid as of	
December 15, 1922	5,779,562.76
To be paid in cash by Latvia upon execution of Agreement	4,562.76
Total indebtedness to be funded into bonds	\$ 5,775,000.00

Source: Agreement Relating to the Funding of the Indebtedness of Latvia to the United States, p. 1.

Latvia dutifully paid the instalments due under the funding agreement regularly through June 15, 1931. Owing to the declaration of the Hoover moratorium, no payments on the war debts were made during the year running from July 1, 1931, through June 30, 1932. On December 15, 1932, the next instalment date, full payment of the amount then due was made

<sup>10</sup> Medijainen, E. (2012), p. 29.

<sup>11</sup> Andersons, E. (1982), p. 360.

by Latvia.<sup>12</sup> This was the result of the “Agreement Modifying the Debt Funding Agreement of September 24, 1925” signed by Latvia on 11 June 1932. The Agreement provided for the postponement of further payments to the beginning of fiscal year 1933–34 at the end of the moratorium period, which Latvia utilised. On 12 June 1934, the Latvian Prime Minister informed the US that Latvia will “suspend all payments pending the final revision of the Debt Funding Agreement of September 24th, 1925”<sup>13</sup> No further payments were made. It has been speculated “that the de jure recognition of the Baltic States was a small precaution on the part of the USA against the attainment of such unity [of purpose by the Baltic States at the Genoa conference of 1922], particularly on the debts issue.”<sup>14</sup>

### Latvia-USA Economic Relations 1920–1940

In the interwar years, Latvian and USA economic relations was mainly confined to foreign trade and investment although other forms of economic relations such as shipping and tourism were also important.

Latvia’s foreign trade in the interwar was based in large measure on a system of commercial and trade treaties. By 1929, Latvia had concluded commercial treaties with all important European and non-European states, including the USA. They provided the regulatory framework within which were stated the obligations undertaken by Latvia in its foreign trade relations with its trading partners. All these treaties contained the Most Favoured Nation (MFN) principle, as well as the Baltic and Russian clause.<sup>15</sup>

The USA for some time did not want to sign a commercial agreement with Latvia because of the Baltic and Russian clause. However, on 5 March 1923, President Harding issued an order to recognise the special circumstances of the Baltic States and reminding the State Department that the USA had inserted a similar clause in respect of Cuba in other USA trade treaties.<sup>16</sup> On 1 February 1926, Latvia signed a Provisional Commercial Agreement with the USA, which contained the Baltic and Russian clause and a reciprocal clause in respect of Cuba and the Panama Canal Zone.<sup>17</sup> On 20 April 1928, Latvia and the USA signed a “Treaty of Friendship,

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<sup>12</sup> Patch, B. W. (1936).

<sup>13</sup> Foreign Relations of the United States Diplomatic Papers, 1934, 800.51W89 Latvia/157.

<sup>14</sup> Medijainen, E. (2012), p. 31.

<sup>15</sup> The Baltic and Russian Clause stipulates that the priority rights and privileges, allowed to the Baltic States and Russia, may not be made applicable to other contracting states by virtue of the most-favoured-nation principle.

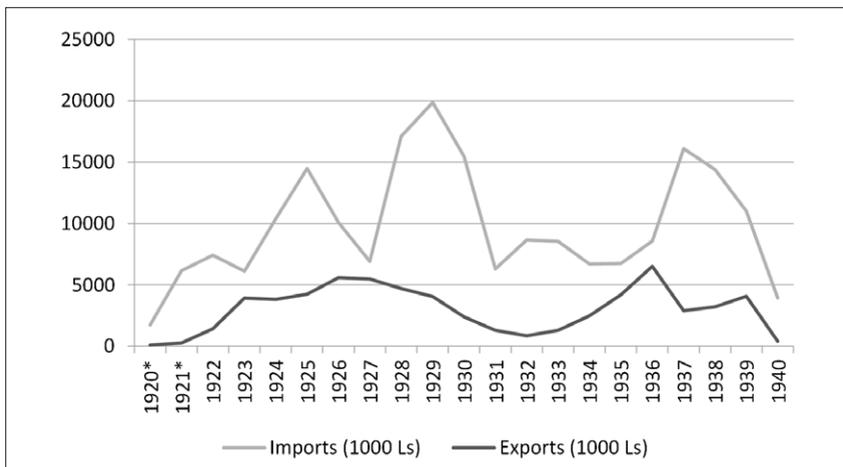
<sup>16</sup> Andersons, E. (1982), p. 362.

<sup>17</sup> Provisional Commercial Agreement Between the United States of America and Latvia (1926), Section 6.

Commerce, and Consular Rights”, which contained all the provisions of the 1926 Agreement, as well as detailed provisions regarding consular rights, shipping and other provisions.<sup>18</sup> This Treaty was in operation for the whole of the interwar period.

## Latvian-USA Trade 1920–1940

The value of Latvian imports from and exports to the USA can be seen in Figure 1. Imports grew to 1925, and then decreased prior to the signing of the Treaty in 1928. From 1928, imports increase substantially and in 1929 reached their highest value – nearly twenty million lats. There was second peak in 1937 with a value of over 16 million lats. Exports, on the other hand, were always less than imports with a first peak in 1926. They fell with the Great Depression, but slowly started to rise from 1932 and reached their second peak in 1936 with a value of over six million lats.



\* Latvian roubles in 1920 and 1921 have been converted to Latvian lats in accordance with the recalculations of the Director of the Ministry of Finance Credit department, A.Kārklīšs: For 1920, 21.41 Latvian roubles = 1 lats (imports) and 17.26 Latvian roubles = 1 lats (exports), but for 1921, 66.267 Latvian roubles = 1 lats (imports) and 66.914 Latvian roubles = 1 lats (exports)

Sources: Latvijas Statistika Gada Grāmata 1923 [Latvian Statistical Year Book 1923] Rīga: Valsts Statistiskā Pārvalde; Latvijas ārējā tirdzniecība un transits – 1924–1939. [Latvian Foreign Trade and Transit. 1924–1939.] Rīga: Valsts Statistiskā Pārvalde; Mēneša Biļetens Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939], p. 1057; Strukturbericht über das Ostland. Teil I: Ostland in Zahlen. – Rīga: Reichskommissar für das Ostland, 1942: 57–58 and Statistical Abstract of the United States 1941, U.S. Department of Commerce, pp. 546–547.

**Figure 1. Latvia-USA Imports and Exports 1923–1939**

<sup>18</sup> If the 1926 Agreement was a mere 2 pages, the full 1928 Treaty ran to 13 pages!

In the early 1920s, Latvia enjoyed the attention of what Americans call “carpetbaggers”. The most notorious case was with the “U.S.A. International Corporation” in 1920. The Latvian trade representative, Kārlis Ozols, signed a contract with the corporation for the supply of locomotives, railway wagons, soldier’s uniforms and other goods, and Latvia paid the corporation an advance of 450000 dollars. Latvia received none of the goods ordered nor did it receive its 450000 dollars back. The corporation was fictive and its “office” was two rooms in New York.<sup>19</sup>

In general, Latvia had a negative trade balance with the USA throughout the interwar period. The great distance of America from Latvia and the lack of transport, mainly shipping directly to the USA, negatively affected Latvian and USA trade.

A Latvian-USA Chamber of Commerce was established in 1939. It was established on the initiative of the US Consul, R. Tiller and the Vice-president of “International Forwarding Company” of New York, K. Schroff.<sup>20</sup> One of its initiatives was a delegation composed of the leading Latvian exporters to visit the United States at the end of summer 1939 to study the market conditions on the spot, and to become acquainted with the taste and requirements of the American public. “Some of our exporters are already in the States, and it is hoped that the establishing of direct contact will render good results.”<sup>21</sup> Unfortunately, the onset of WWII cancelled any such visits.

## Latvian Exports to the USA

Latvia’s main exports to the USA were canned fish including “Šprotes”,<sup>22</sup> chocolates and candy, cellulose, hides and furs, plywood, timber and timber products (including plywood), and peat and peat products. The amounts and value of Latvia’s main exports exported to the USA in the interwar period are shown in Table 4.

The most important (and consistent) export product to the USA was Hides and furs. In the 1920s, it was the most valuable export and although its value diminished in the 1930s, the trade was increasing in 1939 before the advent of WWII. Another consistent export was Canned Fish including “Šprotes”, which steadily increased from 1927 after the signing of the 1926 Commercial Agreement. Chocolates and candy became a significant

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<sup>19</sup> For a detailed account see Jēkabsons, Ē. (2015).

<sup>20</sup> *Ekonomists* (1940), p. 503.

<sup>21</sup> *Latvian Economic Review* (1939), p. 19.

<sup>22</sup> Famous Latvian canned fish export – “Šprotes” or Sprats). Sprats are part of the Clupeidae family, which means they call anchovies, sardines and herrings its cousins. In true Latvian technique, Sprats are smoked and/or preserved in oil and canned.

export item in the 1930s (see Figure 2). Another export of significance in the 1930s was Cellulose.

**Table 4. Main Latvian exports to the USA 1924–1939<sup>23</sup>**

Year	Canned Fish including "Šprotes"		Chocolates and candy		Cellulose		Hides and furs		Timber and timber products (including plywood)		Peat and peat products	
	tns	Value (1000 Ls)	tns	Value (1000 Ls)	tns	Value (1000 Ls)	tns	Value (1000 Ls)	tns	Value (1000 Ls)	tns	Value (1000 Ls)
1924	37	48	0	0	0	0	448	3085	539	79	0	0
1925	15	21	0	0	0	0	411	2963	12	2	0	0
1926	67	135	0	0	226	72	524	3859	31	5	0	0
1927	277	527	0	0	203	63	442	2599	952	165	0	0
1928	167	241	0	0	254	69	551	2538	41	15	0	0
1929	371	508	151	381	46	13	238	1303	237	38	0	0
1930	333	461	6	18	30	9	135	515	37	16	0	0
1931	265	356	0	0	0	0	100	322	5	2	0	0
1932	236	268	0	0	633	71	76	166	0	0	0	0
1933	456	398	59	100	1427	147	210	449	19	4	0	0
1934	291	163	146	142	1118	118	57	149	7	2	0	0
1935	500	388	418	291	1063	103	186	538	302	63	138	30
1936	401	508	283	289	1793	240	178	635	137	20	532	23
1937	247	443	173	236	3064	607	7	118	50	1	2260	101
1938	263	584	133	172	4316	870	343	848	399	13	1985	93
1939*	195	470	135	153	2510	467	501	1634	0	0	0	0

\* Latvia, following the practice of other nations, stopped publishing detailed data regarding foreign trade after the commencement of WWII. See Ekonomists, 1940, No. 4, p. 231. The data for 1939 is for eight months only – to 31 August 1939.

Source: Latvijas ārējā tirdzniecība un transits – 1924–1939. [Latvian Foreign Trade and Transit. 1924–1939.] Rīga: Valsts Statistiskā Pārvalde; and Mēneša Biļetens Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939], p. 1057.

The economic crisis of the Great Depression increased the government's interest in peat production and use, both to reduce coal imports and to boost exports of wood instead of it being used as fuel. Moreover, of course, to combat unemployment as the peat industry was very labour intensive. After K. Ulmanis' coup d'état in 1934, the authoritarian regime's policy of self-sufficiency (self-sufficing) also affected the production and use of peat.<sup>24</sup>

The main market for Latvian peat was the USA. The main exports were of peat litter and peat dust. Peat to the USA was transported by ships to several ports – New York, Boston, as well as to New Orleans. Peat litter was transported in packages (about 1/3 kbm) and three assortments were available. The highest demand for peat was for the needs of the poultry industry, but there was also a high demand for livestock and gardening needs.

<sup>23</sup> Reliable detailed data is available only from 1924.

<sup>24</sup> For a detailed account of peat and peat products in Latvia during the interwar period see Karnups. V. P., (2016).

AS  
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Figure 2. Advertisement for “Laima” Chocolates showing the agent for exports to the USA

This high demand for peat from the USA led to the demand for the creation of regular shipping traffic between Latvia and the USA, which could also transport other Latvian export goods.<sup>25</sup> In 1939, a ship was purchased by the Latvian United Shipping Company, and renamed *Hercogs Jēkabs*, in honour of Duke Jacob of Courland. It was planned that she would maintain a monthly cargo service between Riga and New York City.<sup>26</sup> At that time, it was one of the biggest and most modern ships in Latvia as it was only

<sup>25</sup> Zemgales Balss, Nr. 185 (18.08.1938), p. 2.

<sup>26</sup> “Latvian Ship Due Friday; To End Fifteen-Day Trip From Riga at Brooklyn”. The New York Times. 1939-05-29. p. 10. (Accessed 30.03.2018).

second ship with diesel engine in the Latvian merchant fleet. The ship was involved in trans-Atlantic voyages from Europe to North and South America. In 1939, the joint-stock company “Overseas Export” was founded to promote the transport of Latvian export goods to the USA with a long-time Latvian resident, Voldemārs Bauce, as the US representative of the company.<sup>27</sup>

## Latvian imports from the USA

Latvia’s main imports from the USA were Cereals; Raw cotton; Automobiles and parts; Industrial and agricultural machinery; Petroleum products and, surprisingly, Hides and furs. The amounts and value of Latvia’s main imports imported from the USA in the interwar period are shown in Table 5.

**Table 5. Latvia’s Main Imports from the USA<sup>28</sup>**

Year	Cereals (Wheat, Rye)		Raw Cotton		Hides and furs		Automobiles and parts		Industrial and Agricultural machinery		Petroleum products	
	tns	Value (1000 Ls)	tns	Value (1000 Ls)	tns	Value (1000 Ls)	tns	Value (1000 Ls)	tns	Value (1000 Ls)	tns	Value (1000 Ls)
1924	20715	5908	6	20	17	168	47	135	778	1572	2270	344
1925	29640	10206	0	0	31	152	112	290	1053	1672	4408	611
1926	15903	5123	37	96	41	174	128	302	2114	2537	5249	863
1927	4204	1379	98	233	80	294	129	317	1660	2601	6217	1164
1928	15735	4529	453	1242	166	593	308	994	376	1238	9044	1568
1929	5688	1632	1321	3223	146	344	546	1764	620	1776	4249	1116
1930	1190	508	653	1334	105	254	615	1948	464	1428	8846	1691
1931	145	26	138	177	150	341	550	1572	588	955	4848	843
1932	0	0	1243	1275	46	148	14	77	15	81	4879	487
1933	0	0	3410	3561	15	122	69	211	45	135	634	200
1934	0	0	3872	4219	106	259	156	334	75	225	590	174
1935	0	0	3971	4343	7	272	254	531	61	175	751	202
1936	0	0	4078	5408	9	374	275	634	111	257	1024	200
1937	0	0	4222	7627	11	619	786	2373	265	910	5661	1084
1938	0	0	3804	5224	4	141	672	1978	324	1296	18115	2650
1939*	0	0	2453	3469	0	0	161	596	158	626	5609	885

\* Latvia, following the practice of other nations, stopped publishing detailed data regarding foreign trade after the commencement of WWII. See Ekonomists, 1940, No. 4, p. 231. The data for 1939 is for eight months only – to 31 August 1939.

Source: Latvijas ārējā tirdzniecība un transīts – 1924–1939. [Latvian Foreign Trade and Transit. 1924–1939.] Rīga: Valsts Statistiskā Pārvalde; and Mēneša Biļetens Nr. 10, oktobris 1939 [Monthly Bulletin, No. 10, October 1939], p. 1057.

Cereals, mainly wheat and rye, were an important import up until the Depression as Latvia’s agriculture was concentrating on animal husbandry (mainly dairying and pig farming). Latvia, following the lead of the rest of Europe, did all it could to reduce imports and halt the outflow of

<sup>27</sup> Daugavas Vēstnesis, Nr. 39 (07.08.1939), p. 2.

<sup>28</sup> Reliable detailed data is available only from 1924.

foreign currency including the promotion of import-substitution. The most successful import-substitution was in the area of cereals and animal fodder imports, which by 1931 had almost disappeared as an import item in the case of the USA.

Raw cotton for Latvia's cotton industry was mainly imported via Liverpool and Bremen although the USA was the country of origin. Cotton from the USA dominated raw cotton imports, for example, 69% of the total volume imported in 1933, 82% in 1934 and 85% in 1935.<sup>29</sup> Supplying the cotton industry with raw cotton from the USA was another reason for the push for a direct shipping line to the USA.

Surprisingly, Latvia did not only export Hides and furs to the USA, but also imported them from the USA and it was a small, but consistent import throughout the interwar period. Another consistent import was Automobiles and parts, which increased in the 1920s, decreased during the Depression and then steadily increased in the 1930s. American cars were popular in Latvia. One of these was the Cadillac Fleetwood All-Weather Phaeton, which was driven by the Latvian President and Prime Minister Kārlis Ulmanis and can be seen in the Rīga Motor Museum.

Industrial and agricultural machinery imports from the USA were particularly important in the 1920s, but became less so as Latvia's own industries started to produce similar goods, as well as in the 1930s due to the Clearing agreement arrangement with Germany where Latvia exchanged agricultural and timber products for industrial and agricultural machinery.

Petroleum products (petrol, kerosene, lubricating oils etc.) were a significant and consistent import from the USA. More so in the 1920s than later in the interwar period, when Latvia could import petroleum products made from Estonian oil shale.

## USA investments in Latvia 1925–1939

Foreign capital in Latvia was mainly invested in banking, industry, transport and trade. By 1927, over 60% of the equity capital of all Latvian joint-stock banks<sup>30</sup> was foreign owned, while foreign capital comprised 27.8% of aggregate capital in insurance, 33.9% in trade (commerce), 63.1% in transport and about 50% in industry.<sup>31</sup> Many investors hoped that from Latvia they would be able to expand in the huge Russian market.

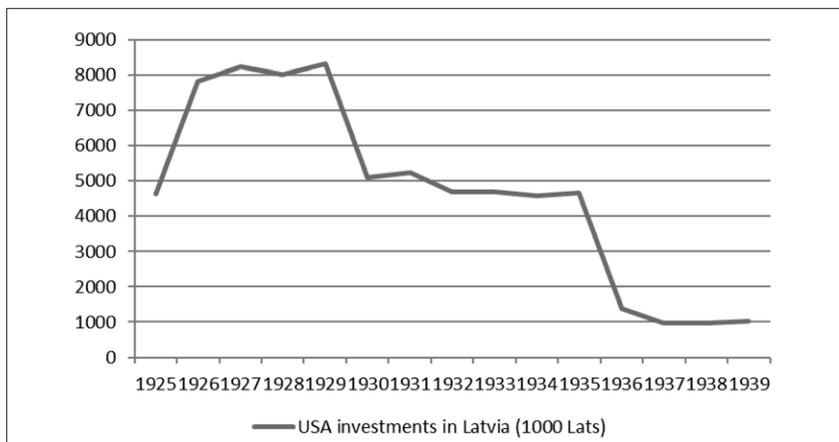
Figure 3 provides an overview of USA investments in the interwar period.

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<sup>29</sup> Latvian Economic Review (1936), p. 34.

<sup>30</sup> For a brief overview of banking in Latvia in the interwar period see Hiden (2000), pp. 133–149.

<sup>31</sup> The Latvian Economist (1928), p. 24.



Source: Latvijas Statistiskā gada grāmata. 1929, 1939 [Latvian Statistical Yearbooks 1929, 1939] – Rīga: Valsts Statistiskā Pārvalde; Statistikas tabulas [Statistical Tables] – Rīga: Latvijas PSR Tautsaimniecības Statistikas pārvalde, 1940.

**Figure 3. USA investments in the Company Capital of Latvian Undertakings (as at 1 January). 1925–1939**

The peak year for USA investments was 1929, when investments totalled 8325000 lats. USA investments were mainly in the banking sector (79% of total USA investments in 1929), followed by textile industry (8%), trade (commerce) (7%), transport (3%), clothes and shoes industry (2%) and some other minor investments.

On 22 October 1932, the government entered into an agreement with The Foundation Company of New York for a draft project regarding the utilisation of the River Daugava and the financing and building of a hydroelectric power station. Based on the research done by the company, on 10 January 1933, the government decided to build a hydroelectric power station at Ķegums. The cost of building the hydroelectric power station was estimated at 5.8 million US dollars (approx. 30 million lats), including a power grid to Rīga and transformer sub-station. However, the company was unable to find the necessary capital to build it by the terms of the agreement – 1 July 1933 and the government looked elsewhere for the necessary finance.<sup>32</sup> In fact, the company was in a process of liquidation already by April 1932<sup>33</sup> and the loss of the Latvian contract hastened its demise.

<sup>32</sup> Ekonomists (1940), pp. 190–192.

<sup>33</sup> New York Times, 8 April 1932, p. 8.

The onset of the Depression dramatically reduced the value of US investments in the banking sector – from 6583000 lats in 1929 to 3364000 lats in 1931. From this year, it remained reasonably stable, but the decrease accelerated after 1934, when the nationalistic Ulmanis regime began to systematically reduce the amount of the foreign investment stock. Foreign investment stock in the company capital of Latvian undertakings overall was reduced from 50.4% in 1934 to 25.4% in 1939 of which the reduction in industry was from 52.4% in 1934 to 31.9% in 1939, in commerce from 35.9% to 28.2% and in finance and banking from 62.4% to 9.7%.<sup>34</sup> By 1937, there was zero USA investment in the banking sector.

As can be seen in Figure 3, USA investments had been reduced from the peak in 1929 to a mere 1013000 lats by 1939, mostly on basis of the elimination of investments in the banking sector. The other sector investments remained more or less stable.

## Latvian Gold and Freezing of Assets

The Bank of Latvia Council and the Board managed the formation and storing of gold reserves. Latvia deposited most of its gold reserves in banks overseas. As at 15 July 1940, only 13.2% of its gold was held in Latvia, while the remainder (86.8%) was held in overseas banks.<sup>35</sup> The distribution of the gold held in overseas banks can be seen in Table 6. Some 3 tons of gold was held in the USA with a value of nearly 18 million lats.

**Table 6. Latvian Gold in Overseas Banks 1940**

Bank	Lats	Kgs*
London, Bank of England	38381588	6554.124
New York, Federal Reserve Bank	17890422	3048.119
Paris, Banque de France	5766122	999.952
Geneva, Bank of International Settlements	31652	5.022
Total	62069784	10607.217

\* 1941

Source: Leits, A. (1958), pp. 169, 223.

When Germany occupied Norway and Denmark in April 1940, the United States Treasury “froze” \$267 million in Norwegian and Danish property in the USA (Executive Order 8389, issued on 10 April 1940, had frozen Norwegian and Danish financial assets held in the U.S., following

<sup>34</sup> Finanču un kredīta statistika (1939), p. 172.

<sup>35</sup> Leits, A. (1958), pp. 169.

their occupation by Nazi Germany during World War II).<sup>36</sup> Executive Order 8484 extended the same protection to the assets of Estonia, Latvia, and Lithuania after their occupation and annexation by the Soviet Union.<sup>37</sup> Latvian government and Central bank deposits in U.S. banks were identified, transferred to the U.S. central bank – Federal Reserve System – and frozen. Part of these deposits, with the permission of the U.S. government, was converted into safe promissory notes whose fruit was used for the maintenance of Latvian missions in exile not only in the U.S., but also in elsewhere in the world for all years of the Soviet occupation. On 17 November 1992, the Bank of Latvia recovered most of the gold in the U.S. Federal Reserve system.

## Conclusion

Despite the tortuous path to US recognition *de iure* in 1922, the interwar period consolidated the diplomatic relations between the two countries, and several bilateral agreements were signed and economic, trade and culture relations were established.

In the interwar years, Latvian and USA economic relations was mainly confined to foreign trade and investment although other forms of economic relations such as shipping and tourism were also important.

In 1929, when Latvian foreign trade reached its pre-Depression peak, Latvian exports to the USA made up 1.48% of total Latvian exports, and USA imports made up 5.48% of total Latvian imports. Similarly, in 1937, when Latvian foreign trade reached its post-Depression peak, exports to the USA were only 1.1% of total Latvian exports, and imports from the USA were 7% of total Latvian imports. One suspects that the figures from the point of view of the USA would be significantly less. In other words, trade and thus economic relations were of marginal significance to both countries in the interwar period.

It is interesting to note that in 2017, Latvian exports to the USA totalled 283 946 065 EUR or 2.49% of total Latvian exports (mainly machinery, food industry products, optical equipment, timber and timber products). Whilst imports from the USA totalled 167 428 055 EUR or 1.19% of total Latvian

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<sup>36</sup> L'Hommedieu (2011), p. 40.

<sup>37</sup> "By virtue of the authority vested in me by Section 5(b) of the Act of October 6, 1917 (40 Stat. 411, as amended), and by virtue of all other authority vested in me, I, FRANKLIN D. ROOSEVELT, PRESIDENT OF THE UNITED STATES OF AMERICA, do hereby amend Executive Order No. 8389, as amended, so to extend all the provisions thereof, and with respect to, property in which Latvia, Estonia, or Lithuania or any national thereof has at any time on or since July 10, 1940, had any interest or any nature whatsoever, direct or indirect." Quoted in L'Hommedieu (2011), p. 41.

imports (mainly machinery, automobiles, optical equipment, chemical industry products and food industry products).<sup>38</sup> In contrast to the interwar period, Latvia now has a positive trade balance with the USA

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# STRUGGLE FOR DEMOCRACY AND INDEPENDENCE IN POST-SOVIET SPACE: COMPARATIVE ANALYSIS OF UKRAINE AND LATVIA<sup>1</sup>

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PhD

## Abstract

Latvia and Ukraine have very similar history. These countries both were in the framework of Russian Tsarist Empire and later in the Soviet Union due to tragic historical events such as occupation, military conquests and annexation. The goal of this article is to analyse the historical stages of the struggle for democracy and independence of these two countries in order to identify common features and peculiarities, the reasons of the temporary loss of independence and the behavioural features of the conquering country in order to avoid similar occurrences in the future. Consideration of the historical stages in this article starts from the XX century as a period of activation of the movements for democracy and independence. The conclusions of this article are based on the answers on the following questions: What lessons can we learn from historical experience? How small country to avoid occupation by a stronger neighbour? What is the role of the international community in protecting smaller countries and preserving peace?

**Keywords:** democracy, independence, occupation, post-soviet space, Latvia, Ukraine

## Introduction

This article intends to analyse the situation with democracy in two post-soviet countries – Latvia and Ukraine – the formation of democracy and democratic government, steps and fighting for receiving independence from conquering countries. This analysis starts from XX century. The beginning of this century was marked by the intensification of movements in these countries for independence and a democratic way of their development.

Latvia, like Ukraine, is a post-soviet country, but this country, in very short period of time after soviet regime, managed to create a really democratic society, transparent and effective system of government. It

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is the country with effective co-operation between citizens and elected officials, where the corruption in power practically is absent. Particularly for this reason, the experience of this country is very important for Ukraine and some other post-soviet countries, which are only in the process of the creation of effective, transparent, and responsible governments.

In this article, the main stages of struggle for democracy and independence of the mentioned countries were analysed.

The main questions of this research are the following:

- Why countries have so strong desire to be independent?
- What should be the state policy of small countries to maintain their independence?
- Which should be the international response to the annexation of small countries with larger countries and with greater military force?

This historical analysis is giving the answers on these questions.

## **Ukraine and Latvia before and just after October revolution in 1917**

As of the beginning of the 1917 revolution, Ukraine and Latvia were within the Russian Tsarist Empire. Latvia was in the framework of Russian Empire from XVIII until XIX centuries. XIX century in Latvia was finished by the Riga's revolt in 1899. Creation of a social-democratic organisation was a result of this revolt. It was a beginning of mass protests and workers' movement for their rights and freedoms.

Ukraine even now is continuing to struggle for its independence and democratic values.

As Ukraine, Latvia several times was occupied. As it was noted by Plakans (1995: p. 113), the most pessimistic assessment with respect to national survival was that, in the years just before World War I, only some 60 percent of the population of the Latvian territories was Latvian, with other nationalities being more prominent in such non-agricultural domains as politics (Germans and Russians), business (German and Jews), and the professions (German and Jews). Even in agriculture, only an estimated 39% of Latvian farmers owned 5 percent of all arable land in the Latvian territories; 90 percent or so of the rest was the property of some 1,300 private estates, owned or leased for the most part by Baltic Germans and, in Lettgallia, by Russians and Poles. Nevertheless, the Latvian political elite had an opportunity to rectify those injustices after 1914, when Russia's participation in World War I caused imperial power to wane. It was at this time that the idea of self-determination gained in appeal, though by no means among all Latvians.

At the beginning of the 20th century in Latvia, the idea of creation of Latvian state has originated. A little later, it was transformed into demand of political autonomy in the framework of Russian Empire. The revolution in Russia in 1917 was an important impulse for development of national and political independence of the country. In spring 1917, the issue of political autonomy was discussing in all newspapers in the country. The slogan was “Free Latvia in Free Russia”. Latvians wanted to be in Russia because they were sure this country will choose the democratic way of its development as the main motto of new Russian power was “All power to the councils” that meant all power belongs to citizens as representatives and members of these councils. In August 1917, a conference was held in Riga. The participants of it were the members of many civil organisations and political parties. In some literature, the decision of this conference called “Declaration of Latvian independence”. Riga’s conference was the first conference on which all Latvian people were represented. (Блейере, Д., Бутулис, И., Зунда, А., Странга, А., Фельдманис, И., 2005: p. 110).

After September 1917, when Riga was occupied by German troops, there was a strong conviction among Latvians that only self-determination and independence would save Latvia from disintegration and division between Russia and Germany. For implementation of this idea were created two organisations – Democratic bloc and Latvian Provisional National Council. These organisations advocated the political independence of Latvia and its separation from Russia.

The National Council of Latvia was created in November 17, 1918. On the position of a Prime Minister of Latvia was elected Kārlis Ulmanis. He was responsible to create new interim government.

‘His small team faced an enormous task. The government had no funds, no military force, and no police... The Latvian population at large had suffered three years of war action across the country...The Latvians remember this time as the “Struggle for Freedom” (Ābols, 2002: 157–158).

The recognition by the international community of the National Council as the authority of Latvia has contributed to this to a large extent. The Latvian state was proclaimed on November 18, 1918. It was a new stage of Latvian development. Understandable, the decision of Latvia to be independent from the Bolsheviks’ Russia was not pleasant for it. In December 1918, Bolsheviks’ troops invaded Latvia. The war for independence was started. It was very difficult time for Latvians, because they had to defend their independence with weapons and in heavy fighting. The process of fighting with the Bolsheviks was complicated by the fact that part of the citizens of Latvia, due to misunderstanding of what was happening, sympathised with the Bolsheviks.

Ābols (2002) describes this situation as follows:

‘The majority of Latvians were poor and underprivileged and a vision of a New World with more justice fitted them perfectly. Exposed daily to the arrogance of the ruling class, the promise of brotherhood, an important component of the theory (egalite, fraternite of the French Revolution) was particularly appealing. It is quite likely that the majority of adherents to the movement were emotionally motivated’ (Ābols, 2002: 111).

It was not possible to win in this war alone for small Latvia. Moreover, the Government of Latvia had to sign the agreement with Germany for receiving the help of this country in the fighting with communist Russia. By this agreement, Germany had to help with the weapons, and the German military volunteers were receiving the Latvian citizenship if they took part in the fight against the Bolsheviks no less than 4 weeks. The signing of such a treaty was a necessary measure to protect the country from the Bolsheviks. However, this event only complicated the situation inside the country and the split between the opinions of citizens. Somebody called it German occupation.

To quote Ābols (2002: 154):

‘In the fateful year of 1918, however, the whole of Latvia was under German occupation... The Latvians were facing terrible odds. The land was under harsh military occupation, a large part of its population was dispersed over endless Russia and its young men served with the Latvian Riflemen losing themselves in the vortex of Russian civil war’.

At the turn of 1918–1919, the Provisional Government of Ulmanis was in a hopeless situation. The Social Democrats refused to cooperate and withdrew from the National Council on December 30, and on January 3, the Bolsheviks entered Riga, and within a short time, they occupied almost the entire territory of Latvia. In December 1918, the Latvian Soviet Social Republic was proclaimed. (Блейере, Д. et al., 2005: 123–124).

*If all Latvian parties were together, if they together, in close cooperation worked on Latvian independence and development, it would not be possible for Bolsheviks or any other forced to seize this country. However, internal strife and quarrels did not allow political forces to unite for the main goal – the prosperity of their country.*

In December 1918, Soviet rule was established in Latgale and Vidzeme. On 17 December 1918, the Bolsheviks founded their own state in Latvia, “Soviet Latvia”. Peteris Stucka and Fricis Rozins headed this state. The government of Soviet Latvia was created by military force. The Councils quickly merged with the Bolshevik Party institutions, forming a “partocratic” dictatorial machine (Straume, 2007: 37).

*By a strange coincidence, the countries of Europe did not seek to substantially assist and support Latvia in its struggle for independence from Russia. This was especially evident during the Paris Peace Conference in 1919. The allies, who considered the Soviet power in Russia as a temporary phenomenon, did not intend to ignore the fact that before Latvia was formerly a part of the Russian Empire. State leaders, politicians of European countries began to defend the idea of united Russia and offered to solve the issue of the independence of the Baltic states of Russia itself at the All-Russian Constituent Assembly. – (Блейере, Д. et al., 2005: 125).*

Even Germany started to co-operate with Russia, which was very dangerous for Latvia. On November 25, 1919, Latvia decided to break the diplomatic relations with Germany. *With support of Poland in 1920, Latvia received some victory on the communist's troops. The government of Soviet Latvia ceased to exist.* The period of the struggle of Latvia for international recognition has started. Only in January 16, 1921, Latvia was recognised as a state de jure. In September 1921, Latvia was accepted into the League of Nations.

The victorious Ulmanis government signed an armistice with Soviet Russia on February 1, 1920, and a peace treaty on August 11. At that time, Soviet Russia also recognised Latvia as an independent state (Plakans, 1995: 120).

*The main conclusion of Latvia's victory is that not very big countries can win in the fighting with more big country only with support of other countries. For Latvia, it was possible to receive independence only after Poland's military assistance and with support of other countries in Europe.*

*Quite different situation was in Ukraine. This country did not receive timely support from other countries and as a result – the loss of independence and the compelling entry into the Soviet Union.*

Still being part of totalitarian Russian Empire Ukrainians created several secret groups for fighting with the regime. The members of these groups were very famous Ukrainian writers, poets, active citizens, etc.

The ideas of this social activity were reflected in the "Book of the life of Ukrainian people", written by M. Kostomarov. He was a supporter of the ideas of equality, freedom and democracy of Ukraine. In his view, the ultimate goal and the main task for Ukrainians was to build of independent Ukraine on the basis of Orthodox religion and democracy. Kostomarov emphasised that the Ukrainian people have always sought to democratic forms of government (M. Kostomarov, 1921). Very active member of the group of Kosomarov was the famous Ukrainian poet Taras Shevchenko. Like Kostomarov, he also dreamed of Ukrainian independent state built on the democratic principles.

The end XIX – beginning of XX century was a period of appearance of citizens' associations, groups of active defenders of the interests of Ukrainian people on the basis of the general rise of Ukrainian national identity, increasing their social activity. Just before revolution in 1917, in Ukraine were about 20 political parties and organisations with political orientation.

The victory of the Revolution in 1917 allowed people to hope that they will receive their so desirable independence and build their own independent state on democratic principles. Unfortunately, the Provisional Russian Government did not support these ideas.

In 1917, in Kiev, a Ukrainian National Congress was conducted – 1st Universal. On this Congress was elected a new composition of the governing body of Ukrainian state – Central Council. On the post of a Head of this Council was elected M. Grushevskiy. He developed the Concept of government of Ukraine in which proposed to establish a democratic electoral system. It was expected that all social groups would be involved in the elections. At local level had to be several types of local self-governmental bodies: self-governed local communities; elected councils of districts and elected volost' councils; regional parliament. Like in Latvia just after revolution 1917, when there were still some hopes for a democratic way of development of new Russia, on the Congress in Ukraine was taken a decision about Ukrainian autonomy in the framework of Russia. The special delegation was sent to Petrograd. Understandable that Russia did not allow creation of this autonomy. However, the Head of above-mentioned Council M. Grushevskiy decided in any case to create independent Ukrainian state. Several Congresses were organised after it and on the 3<sup>rd</sup> Congress (III Universal) was taken a decision to create Independent Ukrainian State without Russia. It was called the Ukrainian People's Republic (UPR). This country existed 3 years. In 1917, the leaders of soviet Russia decided to send military forces and destroy this country. This war lasted 3 years. It was very difficult period of fighting for democracy for Ukrainians. Many people were killed. A red army defeated in this battle.

On December 25, 1917, the Red Army launched an offensive on the territory of the UPR. Independent Ukraine decided to appeal to the international community for help. On December 28, 1917, peace talks between the delegations of Ukraine, Russia and Germany began. The German delegation was ready to support Ukraine's independence. Seeing this, while negotiations were still ongoing, the Bolsheviks formed three shock armies and began a military offensive on Kiev.

This political situation in Ukraine led to the adoption on January 22, 1918, of the Fourth Universal. "From this time, Ukrainian People's Republic," noted in it, "becomes an independent, free, sovereign state of

the Ukrainian people.” At the same time, in the adopted “Law on National and Personal Autonomy” were proclaimed the rights of all peoples of Ukraine to establish their national life, to unite in unions with the right of legislative initiative and the use of subsidies from the budget for national and cultural needs. However, the independent Ukrainian state failed to defend itself (Byt et al., 2016: 268).

The Bolsheviks established control over the Kharkiv, Ekaterinoslav and Poltava provinces and launched an offensive on Kiev. Two groups led the offensive of the Bolshevik forces: one along the Kharkiv-Poltava-Kiev railroad, the second – in the direction of Kursk-Bakhmach-Kiev. Several days of fierce fighting went to the station “Bakhmach”, in an unequal battle, the Ukrainian army was forced to retreat to the station “Kruty”.

On January 29, Ukraine commemorates the Day of the Heroes of Kruty – Kiev students, participants in the battle with the Bolshevik Army 100 years ago. About 200–300 young people entered an unequal battle with the many-thousand-strong Bolshevik army on the approaches to Kiev. The squads of M. Muraveev for 5 days were fired Kiev and after it they invaded the city. In Kiev, in pursuance of the order of M. Muravayov, “to mercilessly destroy all officers, cadets, monarchists and all enemies of the revolution”, thousands of people were shot without trial and investigation (Byt et al., 2016: 269).

Ukrainian People’s Republic, in accordance with the aggression of Soviet Russia, asked Central European countries for immediate armed assistance. The Allies did not hesitate for a long time and on January 27 (February 9) in 1918 a treaty was signed between the UPR and the states of the German bloc, according to which Ukraine would have to supply Germany and Austria-Hungary with 60 million pounds of grain, 3 million pounds of sugar, 2.8 million pounds of sugar, meat and so on. Germany and Austria-Hungary put forward an ultimatum to Soviet Russia and began to prepare troops for the offensive and on February 18, 1918, German-Austrian troops launched an offensive. Soviet Russia signed on March 3, a peace treaty and was compelled to recognise the independence of the UPR and its treaty with the Central European states. *With support of other countries, Ukraine managed to receive independence.*

*After this victory, instead of building a new independent state, representatives of various political forces in Ukraine began the struggle for power. Soviet power decided to use this fact.*

In October 1919, a fracture occurred at the front. On December 12, Soviet troops captured Kharkiv. In January 1920 – Donbas, in February – Odessa. The remains of the White Army fled to the Crimea. During 1919 in Ukraine, as a result of the fierce civil war, power finally collapsed, chaos and anarchy prevailed. In less than a year, Kiev moved five times from one

hand to another. Cities were empty. The peasantry sought to preserve its land plots and grown bread. Under such conditions, it was ready to support any government. However, as soon as this or that authority proved unable to meet the demands of the peasantry, it opposed it and turned to the opposite side. The Ukrainian peasant knew well that it was not necessary to return to the old order, but did not know what kind of system to fight. Often he cursed all the townspeople and all the governments. The support of the peasantry of the “green” atamans with their anarchism and banditry as a whole did not have positive consequences for Ukraine. Regular troops fought for cities and railroads, while peasant partisan groups dominated villages, and the only authority recognised there was the power of weapons. It was extremely needed to find a consensus. As a result of different negotiations between the leaders of Ukraine and some territories around Ukraine, it was make a decision to create one country – Ukraine with some additional territories like Kuban.

Some countries decided to help Ukraine, but they had some requirements. For example, Poland in exchange for military support asked for part of the territory of Ukraine, and the government agreed to this, since it understood that it was impossible to defeat the Soviet regime alone.

As Latvia, Ukraine decided to participate in the peace conference in Paris in 1919. But, if Latvia did not receive support and desirable decisions on this conference, the result of it for Ukraine, and, as further events shown, for other European countries was terrible.

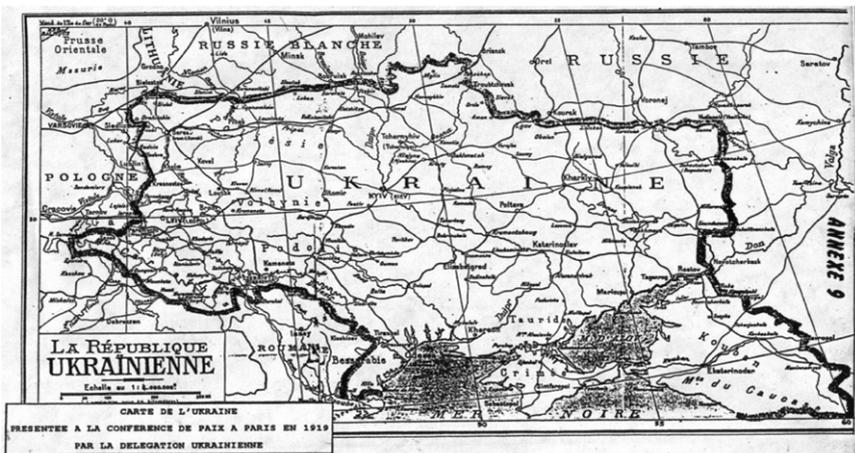


Figure 1. Map of future Ukraine. It was presented at the Paris Peace Conference in 1919.

The Ukrainian delegation presented the map of future Ukraine, which was based on the agreements achieved as a result of above-mentioned negotiations.

At the Paris Peace Conference “Ukrainian Question” did not stand as a separate item for consideration. It arose in the process of determining the post-war borders of Poland, Romania, and Czechoslovakia. Representatives of the Ukrainian delegations were not recognised as real representatives of Ukrainian people. Ukrainians were one people, whose right to self-determination at the conference was ignored. As it was noted by Ukrainian historian O. Gisem, they ignored the speeches of Ukrainian representatives about the natural right of the Ukrainian people to self-determination. In June 25, 1919, to Poland was given the authority to join the whole of Galicia and to introduce the civil administration in this territory. The condition was to ensure the autonomy of Galicia, political, religious and personal freedom of the population. The tactically flexible diplomatic line to seize Transcarpathia was conducted by the President of Czechoslovakia T. Masaryk and Minister of Foreign Affairs E. Benes. They co-ordinated their actions with Western states and enlisted the support of Transcarpathian emigration to the United States. In January 1919, the Czech troops entered the city Uzhgorod. May 8 in Paris, it was decided to transfer the Transcarpathian Ukraine to Czechoslovakia. In September 1919, it entered into the Saint-Germain peace treaty. In the capital of France, questions about Ukrainian lands of Northern Bukovina and Bessarabia were also discussed. They were rejected in favour of Romania”. (Гісем О. Б. et al., 2012).

*Later, this decision led to tragic consequences – not only Ukraine was occupied by Soviet troops, but also countries such as Poland and Czechoslovakia became communist and for many years they were left behind in their development under the communist pressure.*

After the entry of parts of the Red Army to Poland and eastern Galicia, Polish and Galician Revolutionary Committees were immediately formed. They proclaimed the nationalisation of enterprises and banks, expropriation of landed estates and the organisation of labour committees to manage them. In Halychyna, the Galician socialist Soviet republic was proclaimed (Гісем О. Б. et al., 2012: 279).

Between the RSFRR, the Ukrainian Soviet Socialist Republic, on the one hand, and Poland on the other hand, on October 12, 1920, an armistice agreement was signed and the conditions for the future of peace were outlined. The war was concluded on March 18, 1921 in Riga. Western Ukrainian lands, which were promised for help in the war with the Soviet army, remained under Poland.

## **Ukraine and Latvia before World War II**

The period of 1917–1920 gave to Ukraine many heroes, but did not give the main thing – independence.

From 1920, it was a territory of Soviet power. The motto of it: “All power to the Councils, to the citizens” was only on the paper and only words. It is not possible to say about real democracy or self-government in that period. They were absent. However, it was not the main problem then. The process of collectivization was started. The people were obliged to give their lands, all their property including horses and cows, their food including flour and wheat to soviet power. Understandable that people did not want to do it. The representatives of soviet power said that “we will collect all what you have and create the farms and factories, and you will receive from it according to your needs”.

For fighting with significant opposition of Ukrainians, the soviet power decided to use force, to take the property of Ukrainians forcibly. All people who did not want to give their property were shot or imprisoned. Despite of it, Ukrainians as before did not want to unite into soviet collective farms. In addition, soviet regime found a new mean of fighting with Ukrainians. For this territory were discontinued all food supplies. In 1930s, it was a very strong starvation. The people died from famine just on the streets.

Historians (Гісем О. В. et al., 2012: 340) noted that indeed, the famine affected various regions of the USSR. But only in Ukraine (and in the Kuban, where ethnic Ukrainians predominated), the Kremlin, through its natural fines, turned hunger on the Holodomor with ten times more victims in only two regions, of which two thirds of the population consisted of Ukrainians. According to S.V. Kulchytsky, and they coincide with the estimate of the American researcher John Mace and his English colleague Robert Conquest, the death rate from starvation in Ukraine was 3–3.5 million. Over 1900–1934 more than 5 million people suffered a complete demographic loss. This is the genocide of Ukrainian people, which was carried out by the Soviet authorities.

As a result, the soviet power received an agreement from Ukrainians for their uniting into collective farms and to give all their property to these farms. It was really a very difficult period for Ukraine and its people.

However, the troubles of the Ukrainians, as well as all other countries, which were the part of the Soviet Union, did not end there.

At the 17th Congress of the Party, Stalin emphasised: “Repressions in the field of socialist construction are a necessary element of the offensive”. Therefore, monopolisation of power generates violence. In this case, communist propaganda is of great help. It does not allow criticising the communist doctrine, the Soviet government and the Bolshevik Party. In

the pre-war period, beginning in 1929, in Ukraine there are three waves of mass repressions. The first wave, which took place in 1929–1931, was directly related to the processes of deportation and dispossession. They were aimed primarily at those who opposed violent collectivisation. The second wave of mass terror (1932–1934), which is closely connected with the first, led to the death of millions of people, had a continuation after the assassination of one of the Bolshevik leaders – S. M. Kirov. The most famous not only for scholars, but also for the general public, the third wave swept the territory of the USSR in 1936–1938. The last in the historical literature was called the “Great Terror”. (Masalskij (Масальський), et al., 2009: 269).

The national Ukrainian elite received a tangible blow from Stalin's terror. According to estimates of victims of repression, only for the period from 1933 to 1938 were 360 thousand Ukrainian citizens. It should be noted that many of those who had previously made considerable efforts to identify “enemies of the people”, in the years 1937–1938 they themselves became the victims of terror. The co-authors of the Stalinist “great terror”, the leaders who headed the NKVD of Ukraine, also became the victims of repression. Thus, a totalitarian regime was established in Ukraine, as well as in the USSR in the 20–30's. Having removed from the political arena representatives of other political forces, the Bolsheviks led by J. Stalin established total control over all aspects of social life. (Masalskij (Масальський), et al., 2009: 270).

Unlike Ukraine, which, after long and bloody battles, became part of the Soviet Union, Latvia received long-awaited independence, as it was noted above.

New independent Latvia has chosen the democratic way of its development. In first years of independence in the country, several democratic laws were created. The most democratic from it was the law on election, which has given possibility to participate in the political life in Latvia even very small political groups and parties. However, it had not only positive, but the negative outcomes as well. Because the way to politics was open for people who were very far from it and could not make anything useful for the country.

At the same time, as Latvian historians have noted (Блейере, Д. et al. (Bleiere D.), 2005: 152), the achievements of Latvian democracy were significant. The economy of the country was developing at a rapid pace. Many European countries suffered from rising inflation, but Latvia already in 1923 introduced its own currency, the lat, which was stable and soon became weighty not only within the country. Agrarian reform was successfully carried out. The culture and cultural traditions were developing. Moreover, the whole country was reborn.

The Communist Party in Latvia was forbidden, because their members tried to destabilise the situation and their main task was to restore Soviet Latvia and its accession to Soviet Russia. Without communists and Soviet power, Latvia flourished. In 1922, the main law, the Constitution, was adopted, in which Latvia proclaimed as independent democratic state. The power, by the Constitution, belongs to the people of Latvia. The citizens of Latvia elected the Latvian Parliament (Saeima).

However, there were people who were not satisfied. The opponents of Latvian democracy were not glad that there are so wide possibilities for wide range of public to participate in political life and political activity. In 1922, the Latvian National Club was created. The representatives of this club said that Latvian public policy should be “more Latvian” and not so democratic. In general, the beginning of XX century was not a time for democracy. At that time, democracy ceased to exist in many European democratic countries.

As it was noted by historians (Straume, 2007: 45), democracy in Europe had been under threat since the early twentieth century, when totalitarian philosophy began to spread. In 1922, totalitarianism flourished in Italy; in May 1926, authoritarianism was introduced to Poland and half a year later, to Lithuania.

In 1925, in Latvia was the election of the President. In addition, even democratic leader Kārlis Ulmanis made a criticism of democracy in his election speeches. It was the beginning, the first calls of Latvia's departure from democracy. However, Ulmanis did not receive the victory on this election.

The economic world crisis of 1930s has its impact on Latvia as well. The fall in living standards always leads to criticism of the power and power authorities. Therefore, the opponents of the Latvian democracy received more supporters.

Although the attacks on democracy were growing, in Latvia it was still much calmer than in the countries of the old democracy, even during the years of economic crisis. In Germany, democracy not only fell, its enemy came to power – Nazism. In Austria, democracy died as a result of a bloody civil war. France was also close to this, where some people were already killed in strikes and street battles. In the late 1930s, only 12 from 29 European countries managed to maintain a democratic system. Latvia embarked on the path of totalitarianism – the last of the Baltic countries – in the spring of 1934. On the night of 15 to 16 May, Prime Minister K. Ulmanis and his supporters carried out a coup d'état. This was a manifestation of the weakness of the parliamentary-democratic system. Democracy in Latvia was destroyed by a politician, whose role in the creation and formation of the state was decisive (Блейере, Д. et al. (Bleiere D.), 2005: 157, 161).

Negative outcomes of this coup d'état were not only elimination of democracy, but also creation of a dictatorship, which led to "policy of one person" without any possibility for citizens to take part in the process of decision-making in the country. Even the functions of the parliament passed to the government. In general, the system of state policy was imbalanced.

In 1939, when Germany decided to use military force in relation to Poland, Latvia advocated a neutrality policy, and in June 1939 signed a non-aggression treaty with Germany. One year before it, Latvia decided to abandon the signing of the principles of collective security proposed by the League of Nations. Understandable, it was a mistake for small country to avoid support of this organization.

On August 23, 1939, Germany and the USSR signed a nonaggression pact and a secret additional protocol, known as the Molotov-Ribbentrop Pact. According to this protocol, the fate of Latvia, as well as of other countries, was predetermined.

In the Article 1 of the Secret Additional Protocol was defined the following:

'In the event of a territorial and political rearrangement in the areas belonging to the Baltic States (Finland, Estonia, Latvia, Lithuania), the northern boundary of Lithuania shall represent the boundary of the spheres of influence of Germany and U.S.S.R. In this connection the interest of Lithuania in the Vilna area is recognized by each party'.

*There is a very interesting fact that traditionally Soviet Russia was trying to receive desirable results by means of natural resources of the country, by manipulation of it. By official information, after signing the Soviet-German treaty, Germany received over a period of 17 months from the USSR 865 thousand tons of oil, 140 thousand tons of manganese ore, 14 thousand tons of copper, 3 thousand tons of nickel, almost 1.5 million tons grains and other strategic materials (But et al. (Byт), 2016: 406).*

The victory over Poland created the necessary prerequisites for invading other countries. The USSR proposed Latvia, Lithuania and Estonia to sign mutual assistance agreements. These treaties provided for the deployment of Soviet military bases in these countries, which in itself already meant occupation. *It is clear that it was impossible to sign these treaties in any case, but the leaders of the mentioned countries apparently feared aggression from the USSR and decided that signing such an agreement would help avoid war. However, for example, the Finland-Soviet war shown that even small country can defend itself and its independence, if it is really ready to struggle for it, if the citizens of this country are ready as well.*

*Despite the obvious desire to seize these countries, expressed in the agreements proposed for signing, these countries signed them. They signed not only*

*agreements, but also a condemnation to themselves as independent countries. It was a demonstration that the desire to avoid small problems by neutrality leads to much greater problems. As a result of the signed agreements, the USSR introduced its military contingent into the territory of the Baltic countries.*

However, the agreement was signed by representatives of Baltic States, by this it was given possibility for USSR to seize these territories.

On June 17, 1940, Soviet troops violated the border of Latvia and entered its territory. On June 20, a new puppet government of Latvia was formed.

Just a month before July 21, 1940 – before the first meeting of the so-called National Saeima – more than 70 Latvian citizens were arrested and deported to Russia. It was nevertheless unprecedented – the arrest by the state security organs of another country of citizens of formally still independent Latvia (Блейере, Д. et al. (Bleiere D.), 2005: 234).

In Latvia a government loyal to the Soviet government was created, which asked the Soviet Union to accept Latvia. A delegation of the National Saeima in Moscow asked accept Latvia “in brother family of people” (Блейере, Д. et al. (Bleiere D.), 2005: 235). From this time, the period of soviet annexation was started.

## **Latvia and Ukraine in the period of World War II and later**

Latvia and Ukraine have very similar history. The situation after the country’s annexation to the USSR in Latvia was the same as in Ukraine in 1920s, when country was joined to the USSR as well. The so-called “collectivisation” and “dispossession” began. All private property has been cancelled. The rouble gradually replaced the national currency of the lat, the stability of which the Latvians were so proud. Not only their private enterprises, if such were available, but also houses were taken from people.

As it was noted by A. Plakans (1995: 144), the Latvian Constitution was abolished and replaced by the constitution of USSR; strict control was established over the printed publications. With respect to agriculture, the new authorities repeatedly asserted that collectivisation would proceed only on a voluntary basis. Although a few state farms (kolkhozy) were created.

However, this situation was not as terrible as further events – repressions.

Political repressions against the inhabitants of Latvia began immediately after the occupation of June 17, 1940. The USSR authorities arrested 3353 people, including most of the officials of the Republic of Latvia, the president of the state and other members of the government. The charges were based on the 58th article of the Criminal Code of the RSFSR, which

provided for the punishment of the so-called “counter-revolutionary activities”, including “for treason against the Motherland”. The repressions reached their culmination on June 13–14, 1941, when during one night in the USSR 15443 inhabitants of Latvia were taken out of the USSR – women, men, and children. Among them was a significant number of former soldiers and officers of the Latvian Army, many of whom were shot after being arrested in a camp in Ligatne or deported to the USSR. Mass killings also took place in Riga Central Prison, Dreilini, Stopini, Baltezers, Katlnalns and other places. In 1940–1941, about 26,000 people in Latvia were arrested, killed and repressed (Uldis Neiburgs, 2018).

Understandably, that after so much terror, many Latvian people were glad when German troops come to the country. (The same was in Ukraine). The people met them with the flowers as liberators.

J. Straume (Straume, 2007: 61–62) described that situation as following: ‘The Soviet Terror of 1940–1941 had so traumatized the Latvian people that in the space of a single year, the 700-year long enmity towards the Germans had disappeared. News of German’s attack on the Soviet Union was met with relief. Units of partisans known as “Brothers of the Forest” began operations, clearing part of Latvia of the Soviet army. They hoped that Latvia would regain its freedom and independence. However, Germans had no such intention. On 1 July 1941, the Germans ordered all partisan units to be disbanded and for them to hand over weapons. The wearing of the army and defence uniforms of the Latvian Republic was forbidden. The Latvian flag could not be flown. Latvian words disappeared from institutions and place names throughout Latvia... As the German occupation began, one dictatorship was replaced by another’.

Thus, the situation was the same as in Ukraine. The Nazis started not only abolish Latvian main principles of being, but to kill Latvians. Therefore, the Nazis began to lose the people’s support. Latvians started to fight against the Nazis for their independence. After victory of Soviet Union Latvians hoped that they will manage to receive independence, but again it was not possible and country again was the member of USSR.

In the period of Soviet Union, Ukraine as Latvia was a republic in the framework of this state. Only in 1990, Ukraine received so desirable independence. However, it was very long and difficult way.

Ukrainians hated Soviet power due several real reasons (mentioned above). When the Second World War was started and the German army was on the territory of Ukraine some of Ukrainians were very glad. They hoped that they would receive so desirable independence of their country. Moreover, on the first stages they were trying to have some negotiations with the representatives of German army. Ukrainians decided to fight the

communist regime together with them. However, when they saw that the fascists can kill any person without any reason they started to fight with the fascists as well. Therefore, they were fighting both with communist's Russia and German army. Understandably, that so small country could not receive a victory in this battle. The leader of this struggle was Stepan Bandera. He was fighting both with the communist regime and with the Nazis. His struggle was not successful and as a result, he was put in a German concentration camp. From 1942 until 1944, he was in the Sachsenhausen concentration camp.

Particularly for the reason, that just after arrival of German army, Ukrainians and their leader Stepan Bandera were trying to combine their forces in fighting with the communist totalitarian regime, the representatives of Soviet Union said that Stepan Bandera was a fascist. It was in all textbooks in soviet schools throughout all the communist period. By opinion of soviet power, and current Russian power, if Ukrainians were fighting with the communist regime and now continuing to fight for democracy and independent state, they are the fascists.

On June 23, 1941, on behalf of the Organization of Ukrainian Nationalists, led by Stepan Bandera, was sent on 14 pages of the Memorandum to Adolf Hitler, in which it was strongly emphasised that the main task of the organisation is the restoration of an independent Ukrainian State: "Even if German troops, when they arrive in Ukraine, will be greeted at first, apparently as liberators, this instruction can change quickly when Germany comes to Ukraine without appropriate promises regarding its intention to restore the Ukrainian State [...] Ukrainians are determined to create conditions that will guarantee national development in an independent state. Each government, which pursues its own interests in building a new order in the Eastern European space, must take into account this resolution" (Посівнич М., 2015).

Understandably, in the Nazis' plans of "New Europe" such a state, as an independent and free Ukraine could not exist. The government, headed by Yaroslav Stetsko, was arrested and sent by the Gestapo to concentration camps.

On July 3, 1941, bilateral talks were held between representatives of Ukraine and Germany. The threat of a reprisal by the representative of Germany, if the OUN does not cease its activities, said the leader of the OUN: "We entered into a battle that unfolds now to fight for an independent and free Ukraine. We are fighting for Ukrainian ideas and goals. [...] OUN – the only organisation that was fighting, and it has the right, on the basis of that struggle, to create a government." In order to induce Bandera to cooperate and withdraw the Act on June 30, July 5,

1941, the Gestapo arrested him near Belza and sent him to Lublin via Krakow. The next day he was summoned by the chief of the government of the General Province Bühler and demanded that he refuse the proclamation of the Act. After a negative response, Bandera was placed under house arrest and, along with his wife, they were sent to Berlin on July 9<sup>th</sup>, where they placed in a Gestapo prison Lichterfeld-Ost. On September 15, 1941, Bandera was sent to the Gestapo's central prison No. 29. At the same time, mass arrests of OUN members were carried out in all German occupied territories in Ukraine and in Europe. In the prison were about 1500 members of OUN. Bandera's brothers Vasily and Alexander were tortured at the end of July 1942 at the Auschwitz concentration camp. In Kherson, the Gestapo shot the third brother of Bogdan and in the Lvov's prison; the brother of his wife was killed. At the same time, by the NKVD in Kyiv on July 10, 1941, Bandera's father a priest Andrew was shot, and two sisters Volodymyr and Oksana were taken to the Siberian concentration camps (Посівнич М., 2015).

Without Bandera, Ukrainians were continuing to fight with Nazis, but not with the communists. Firstly, it was need to run through the main enemy – Nazis. The losses of Ukrainians and citizens of other nationalities of the former USSR during 1941–1945 amounted to 4.5 million people of the civilian population of the occupied territories (dead and missing persons); about 4.1 million military people (killed, dead in captivity, missing persons, dead in hospitals in the first post-war years); 2,4–2,8 million people exported to Germany for forced labour (most of them were killed); at least 100,000 OUN-UPA members; about 16 thousand Ukrainians who perished in the armed formations that fought on the German side. Totally, about 10 million people (Безсмертя. Книга Пам'яті України, 2000: 561).

The victory over fascism was possible by the unity of people who were ready to give their lives for the liberation of their countries. Who knows what the world would be like, if the German army, instead of mocking the people of the captured countries, would give them freedoms, as they had promised at the beginning: *...Although, historical experience shows, and it must always be remembered, that no country, capturing another, will give freedom and promote development – it will only use the territory and its people for realizing its own goals, needs and tasks.*

After the victory over fascism, Ukraine, like Latvia, continued to function within the framework of the Soviet Union. The situation in the Soviet Union with economy, Soviet propaganda, approaches to culture and society is well known. Therefore, this period of time will not be considered here.

## **Transition to Democracy in Ukraine and Latvia (the end of the XX – the beginning of the XXI centuries)**

In 1987, Latvian activists became trailblazers within the Soviet Union, feeling out and even stretching the boundaries of glasnost with their calendar demonstrations. Many in the West saw these demonstrations, which received extensive media coverage throughout the world, including the USSR, as the litmus test of Gorbachev's sincerity and seriousness in implementing liberalisation. The demonstrations were organised by a small human rights group, formed in the summer of 1986 by three workers from the city of Liepāja, calling itself Helsinki'86. The purpose of the demonstration was to commemorate publicly the events of June 14, 1941 (the mass deportation of Latvians to the Soviet Union), August 23, 1939 (the signing of Molotov-Ribbentrop Pact) and November 18, 1918 (the proclamation of Latvian independence) – three turning points in Latvian history that had been distorted or ignored in official publications (Dreifelds, 1996: 55–56).

In general, the restructuring called “perestroika” initiated by Gorbachev gave impetus to the active development of the democratic movement and the creation of new political parties. In Latvia, various anti-communist political parties began to emerge in 1988. Understandable, as soon as the slightest opportunity appeared, in Latvia they started talking about the independence of the country. On May 4, 1990, a vote was taken in the Supreme Soviet of the LSSR on the independence of Latvia, and more specifically on the Declaration of Independence. This Declaration received the majority of voters and from this moment, Latvia was a new state – Latvian Republic. Latvian society was very glad to receive this news, which, unfortunately, was short-lived.

10 days later, on May 14, 1990, Gorbachev signed the decree on the incompatibility of the declaration proclaiming the independence of Latvia, like other Baltic countries, to the USSR Constitution. Next day, on May 15, a special committee was created for defence of Constitution of USSR.

The period began, which was characterised by a sharp confrontation and the growth of extremism on the part of opponents of independence. As soon as the confrontation between the Kremlin and the leadership of the Republic of Latvia intensified, the growth of extremism also intensified (Блейере, Д. et al. (Bleiere D.), 2005: 405).

Latvia's true independence was impossible without the proper recognition of the USSR and the international community. In 1989, the 2nd Congress of People's Deputies of the USSR officially recognized the presence of a secret protocol to the Molotov-Ribbentrop Pact and condemned it. However, the fact of the occupation of the Baltic countries was not recognised.

In the period from the adoption of the declaration on May 4, 1990 to August 1991, the opponents of independence directed all their efforts to obtain Gorbachev's consent to defeat the Republic of Latvia, especially after in September 1990 Gorbachev was authorised to introduce presidential rule (Блейере, Д. et al. (Bleiere D.), 2005: 407).

The Baltic countries, in one united front, confidently followed the path of independence. Naturally, the power of the Soviet Union could not accept this. The Soviet power decided to use the force. This decision was fatal for the Soviet Union, but it was the impetus for raising the people's desire for freedom and independence, which they were ready to defend in any case.

On January 12, 1991, Soviet troops began to use force against the Baltic countries, which were so eager for independence. In Vilnius, during the capture of the television by the Soviet troops, 13 people were killed.

Deksnis and Jundzis (2015: 126–127) described these events:

'When violent intervention came from Moscow, it did not take the form of introduction of presidential rule. Armed intervention in Lithuania preceded attempts at armed intervention in Latvia to restore Soviet power. On the night of 11/12 January 1991, a Soviet military detachment killed 13 persons whilst taking over the Lithuanian TV centre in Vilnius... For its part the LPF reacted to events in Vilnius in a way that evidently caught by surprise forces that might have sought to intervene violently in Latvia. A massive demonstration (estimated at half a million persons) was held on 13 January 1991 in Riga... During the brief daylight hours of 13 January 1991, a series of defensive barricades were erected to protect a number of strategic sites, important public and government building in Riga'.

These events in Vilnius and Riga did not stop the Soviet power, which further decided to use force. On January 20, Soviet military forces began an assault on the Ministry of the Interior of Republic of Latvia in Riga. In addition, very interesting fact: as in Kyiv in the period of Maidan in 2014, in 1991 in Riga people (in Latvia about 500 thousand residents) of Latvia were gathering in Riga on January 13th for the demonstration. When the citizens of Ukraine have known about the use of military force against peaceful demonstrators in Kiev, they began to converge on the Maidan from all over the country.

Edgars Engizers (Engizers, 2017: 35) claimed that the attack by OMON on January 20th on the building of the Ministry of the Interior of the Republic of Latvia represents the culmination of the period of the Barricades, yet at the same time, these two historical events are very different. One was violent and had a definite aim, although there is still no clarity about the detail of the attack, the chain of command and its place in the pyramid of geopolitical processes; the other was a peaceful and all-encompassing process, one which has been exhaustively

examined, although there is still much unknown, this referring more to the Third Awakening in a global sense, the triumph of which is irreversibly related to the period of the Barricades. Despite of all this, the events of January 20<sup>th</sup> are most fundamental to the significance of the period of the Barricades. The most important outcome of the period of the Barricades in the context of the restoration of Latvian independence was that the people of Latvia realised that their only way forward was through renewing full independence...

Despite the resistance of the Latvian people and their willingness to go to the last in the struggle for their independence, the Soviet Union and its leadership did not abandon the idea of returning Latvia and other Baltic republics “to the friendly family of fraternal peoples”. Getting independence was not easy.

Joint armed actions of the OMON and regular Soviet army units from the Baltic Military District began in Latvia, starting late in the afternoon of 19 August 1991. From 19 to 20 August, many government and other public buildings in Riga were stormed and occupied, or had their interiors ransacked. Several state institutions ceased to function after being raided. Regular army units blocked access roads to Riga and the bridges across the Daugava within the city, stopping the movement of all large vehicles (Deksnis, Jundzis, 2015: 139). It is very interesting, but exactly the same situation was in Kyiv in 2014 in the period of the Maidan. Due to the fact that it was impossible to drive, people from other cities went to Kiev on foot, in whole columns of several tens of kilometres.

Whereas there is considerable evidence that the Soviet adopted a Constitutional law “On the Statehood of the Republic of Latvia” which decreed the transition period for de facto renewal of Latvia independence to be over. Soviet armed forces occupying building were ordered from Moscow to stand down and return to their bases. Undoubtedly, failure of the August putsch contributed substantially to de facto restoration of Latvian independence (Deksnis, Jundzis, 2015: 140). After it, independence of Latvia received international recognition.

In the period of Soviet Union Ukraine was a republic in the framework of this state. Only in 1990, Ukraine received the so desirable independence. However, it was independence only on the paper. As before, Ukraine was like a province of Soviet Union and the communists were the leaders of the country. As a result, the level of corruption was very high, and citizens’ rights and freedoms were not protected. The mass protests started from 2002. In addition, in 2004 they were finishing by Orange Revolution. The elections in 2002 become the beginning of the manifestation of public activity. Those elections have had many infringements and did not express, in full measure, the public will. From this period of time in the country

were started the mass actions of public protests. Many political forces have taken part in it. They were political parties with different ideas and political views. The events of “orange revolution” in Ukraine have proved that citizens are very active and they are ready to take active part in the life of their country, that civil society in Ukraine not only formed, but active functioning – it can assert own rights, interests and even form a power and its structures.

In that new political situation, the issues of co-operation and partnership between power and public were very important. New democratic power, which received a big trust and support from citizens, have had to more collaborate with them, to rush be as more as possible responsible and responsive to the citizen’s needs. Moreover, the most important task for new Ukrainian power was to not only support the public activity, but also create all conditions (technological, legislative etc.) for real development of democracy in the country, as well as effective system of administration, particularly the development and reinforcement the system of local self-government as the main manifestation and expression of local democracy.

All these points were in the pre-elective promises of candidates from democratic forces. Unfortunately, technological and legal aspects of democracy were not radically improved; citizens did not receive additional possibilities to take active part in the process of decision-making.

The election of the President of Ukraine in 2010 has shown the great disappointed of Ukrainians by the leaders of “orange revolution”. As a result, their opponent received political power.

Ukrainians though that maybe so strong totalitarian person as V. Yanukovych will be better than weak and inactive V. Yushchenko. In addition, another motivation to vote for this person was his promises to develop the country in democratic direction and achieve real and effective European integration of Ukraine as well. However, from the first days of his presidency the situation was quite different. Moreover, the events from November 2013 were a citizens’ reaction on it. However, it was very difficult for Ukrainians to go on the actions of mass protests. They were not sure that another leader who will receive power as a result of these protests would execute his or her promises and be really democratic leader that he or she will not deceive. Nevertheless, the country was in situation when citizens could not suffer more. The European integration for Ukrainians was not a question of an improvement of the economic situation, their economic well-being. It was a question of their personal security and life. The Ukrainians hoped on realisation of two important things: human rights and personal security, and strong system of control.

So, how the mass protest action was started? Why? What were its leading forces?

The last 2 years of the reign of Yanukovych, in Kiev and other Ukrainian cities took place the protests of different categories of citizens. They were teachers, representatives of medical sphere, people who have suffered from the actions of the police, etc. The members of the Party of the Regions have taken into account all components, all possibilities to keep power, but they did not take into account only one – the ordinary people, the citizens of this country. Moreover, it was clear that if these people combine their protests, their forces, it will be very powerful and strong action. For their unit it was need only one impetus. In addition, this impetus was very sudden and bloody crackdown of students protesting for not signing the agreement with EU. The students were sitting near with the monument of Independence of Ukraine on the main square in Kiev, which called a Maidan of Independence. They decided to be on this square not only during the day, but also at night. In addition, in 4 a.m. hundreds of police officers attacked several dozen of students. They not only dispersed students, but also were herding them into the yards and beaten by truncheons. They chased after them through the streets of several hundred meters and beat. It was terrible cry on the streets. This cry heard the monks of the monastery, which located near with the Maidan. Moreover, they decided to open the gate. Only it saved people. Many of them were with broken heads, arms and legs. For police officers it was not important is it boy or girl. When Ukrainians saw it in the morning news they began to gather and go to the monastery. Many students, their parents gathered near with the main Kiev University – Taras Shevchenko University. It was only first days of the protests. After it, 3 months Ukrainians were on the Square (Maidan) of Independence all days and nights, but without any positive solution, because, at the national legislation there is no any possibility for citizens to dismiss the government. If in developed democratic European countries, even for a small fault, the government or its members should resign, in Ukraine the governmental officials, civil servants can do whatever they want without any responsibility before citizens. Therefore, now Ukraine has a situation in which the governmental or elected officials, members of the Parliament if they want, they can work for this country, for its citizens, but if they do not want to do it, there are no any legal measures to force them realise their duties and responsibilities. In Ukrainian legislation, there are defined responsibilities for civil servants, elected officials, but the system of control does not work. There are no any possibilities to withdraw the elected officials from their posts if they do not want to work for the citizens, for the country. As noted before (Babinova, 2015) in future, this situation may lead to desire of some people to use power for their personal purposes and interests as previous Ukrainian power, and as before, citizens will not have any legal instruments to have any impact, to fight with this situation in legal way.

4 years after of the presidency of new leader of the country Petro Poroshenko, it is not possible to say that the forms and methods of public participation, particularly public consultations were improved, that he really consults with the citizens, as it was the main requirements of the Maidan. Now, 4 years later there is no real and effective public participation in the process of decision-making, real public control of the governmental activity, as before these is a significant gap between power and citizens, activity of all branches of power is not transparent and open for public. In Ukraine the mechanisms and methods of collaboration between power and public are not completely thorough yet and require its improvement and, in some cases, its creation. Many points of legislation now only are “on the paper”; they are not working, because the mechanisms, instruments of its realisation, as well as the mechanisms of control of their execution, in most cases, are absent. Creation of the effective mechanisms of public involvement, public participation and, as a result, strong system of public control of the activity of all governmental bodies will be important element of transparency of the power, improvement of the process of service delivery for public and reinforcement, development of democracy. Ukraine now is only on the way to implementation of above-mentioned tasks.

## Conclusions

In the comparative historical analysis of the struggle for the independence and democracy of two post-Soviet countries – Latvia and Ukraine, which was made above, the defined goal was achieved: the common features and peculiarities were identified, the reasons of the temporary loss of independence and the behavioural features of the conquering country were defined in order to avoid similar occurrences in the future.

This analysis has given possibility to make the following conclusions:

1. Latvia and Ukraine have very similar history. They were in the structure of Russian Empire and later in the Soviet Union. They fought for their independence for many centuries and lost it because of unequal confrontation with more big and powerful countries. In XX century, the main struggle of these countries was with totalitarian countries, seeking to conquer as many other countries as possible. They were fascist Germany, Russia and later the Soviet Union.
2. Historical experience shows that exactly and only totalitarian leaders are the initiators of the wars; particularly they have strong desire to seize or annex other countries. Historical experience shows, and it must always be remembered, that a country, capturing another, will not give freedom and promote development – it will only use the territory and its people for realising its own goals, needs and tasks.

3. Small or not very big countries can win in the fighting with more big and powerful countries only with support of other countries. It is possible to avoid a war only with their quick and effective response, and not only other countries, but all international society. Quick, relevant and effective reaction is a basis of peaceful existence in the world. When Latvia and Ukraine were receiving international support, they were receiving their independence as well. Without this support, they not only lost their independence. The aggressor country went further and decided to conquer or annex those countries that were waiting, chose neutrality or simply did not help very actively. For example, after Paris Peace Conference in 1919 on which Latvia and Ukraine didn't support in the struggle with Soviet Russia the main participants who didn't support them – Poland, Romania, Czechoslovakia after it like Latvia and Ukraine were joined to the Soviet Union.
4. There was another important reason for the loss of independence of Latvia and Ukraine. It was inability to negotiate and work together on the prosperity and development of their countries by various national political forces. They were several examples of it in the above historical analysis. At the moment, Latvia has managed to overcome these problems, and Ukraine still bears the negative consequences of such political actions.
5. In order to avoid wars, the world community should make every effort so that no totalitarian leader appears in any country. It should be the special developed international mechanisms. Nevertheless, the main fighter against totalitarian leaders is the citizens of these countries, who should have the broadest possibilities to control power, and not only choose, but to dismiss political leaders from their posts in legal way.

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# DEBATING OVER EUROPEAN UNION'S FUTURE: RE-POLITICISATION AND BACK TO DIRECT DEMOCRACY?

Nellie Munin

LL.D

## Abstract:

The article analyses the recommendations of the Van den Brande report titled: **Reaching Out to EU Citizens: A New Opportunity: 'About us, with us, for us'** (published October 2017) in light of three previous policy statements by the EU Commission: the Five Presidents Report (2015), the White Paper on the Future of Europe and the State of the Union Address (2017). It tries to assess whether the sequence of these policy statements and the VdB report reflects a chronological EU shift from 'de-politicisation' to 're-politicisation', whether VdB report reflects an innovative approach towards this challenge compared to these previous statements and whether acting according to it, particularly with regard to intensifying the direct dialogue with EU citizens, may improve the democratic nature of the public discourse and of the decision-making processes regarding EU's future.

**Keywords:** EU, democratic deficit, direct democracy, de-politicisation, re-politicisation.

## Introduction

The crises with which the EU is struggling in recent years seem to intensify EU's citizens' frustration regarding what is known as the 'democratic deficit', namely: the remoteness of ordinary citizens from decision-making centres and processes. This, in turn, triggers nationalist and Euro-sceptic feelings.<sup>1</sup>

The 'democratic deficit' encompasses a *procedural* aspect, regarding the due democratic representation of the citizens' opinions in a supranational regime (e.g. Majone 1998; Moravcsik 2002; Munin, 2016a), establishing its 'legitimacy' or rather 'illegitimacy' (e.g. Scharpf, 1999; Schmidt, 2006; Hix, 2008; Scharpf, 2013; Tsoukalis, 2016). It also holds a *substantive* aspect, referring to the 'choices the democratic politics can make' (Bartl, 2015a, p. 18; See also Durach, 2012, pp. 48–9).

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<sup>1</sup> These feelings are turned not only towards the EU, but also towards national governments acting according to their international commitments in the EU, instead of being more 'responsive' to their voters, e.g., Kriesi (2014); Hobolt (2015).

Realising that citizens' participation in decision-making processes should be enhanced, EU institutions take growing efforts to close their information gap: modern technology facilitates better access to EU documents; platforms for direct dialogue between EU citizens and leaders are set; official reports appeal to EU citizens. EU institutions strive to intensify the involvement of EU Parliament (Hereby: EP), the only institution the members of which EU citizens directly elect, in decision-making processes,<sup>2</sup> and to enhance dialogue with national parliaments; they initiate public events where EU citizens can meet decision makers and discuss with them.

Nevertheless, these efforts are proved to be insufficient to decrease EU citizens' mistrust in the EU and its institutions.

Luc Van den Brande, a Flemish politician enjoying rich national and EU experience, addresses both these *procedural* and *substantial* challenges in his report to the president of EU Commission, dated October 2017: **Reaching Out to EU Citizens: A New Opportunity: 'About us, with us, for us'**. (Hereby: VdB report).

Turning to a political expert for advice on this issue may reflect EU's shift from 'technocratic-driven de-politicisation – which had assumed that good policy performance... and quality procedures... was sufficient for legitimacy' (Schmidt, 2017, p. 3; see also Bartl, 2015, pp. 6–7), to seeking political legitimacy.

This article examines VdB report's recommendations in light of three previous EU Commission's attempts to reach out to EU citizens: *The Five Presidents Report (2015)* (Juncker, 2015, hereby: Five Presidents Report), *The White Paper on the Future of Europe (2017)* (Juncker, 2017, hereby: White Paper) and the *State of the Union Address* given by EU Commission's President in *September 2017* (Juncker, 2017a, hereby: State of the Union Address).

These attempts are criticised (e.g., Munin, 2016; Munin and Matthee, 2018) for the gap between their rhetoric and their real effect, enhancing the sense of *procedural and substantial* 'democratic deficit' among EU citizens.

This article tries to assess whether the sequence of these policy statements and VdB report reflects a chronological EU shift from 'de-politicisation' to 're-politicisation', whether VdB report reflects and innovative approach towards this challenge compared to these previous

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<sup>2</sup> Some scholars stress EP's growing importance, e.g. Hix and Hoyland (2013); Fasone (2014); Dinan (2015); Héritier et al. (2016). Others mark its growing use as an EU platform for populists 'to speak to their national constituencies', while non-majoritarian EU institutions do not experience the same degree of politicisation, e.g. Schmidt (2017) p. 9.

statements and whether acting according to it, particularly with regard to intensifying the direct dialogue with EU citizens, may improve the democratic nature of the public discourse and of the decision-making processes regarding EU's future.

### 'De-politicisation' and 'Re-politicisation'

EU institutions establish their supranational authority by allegedly adopting a de-politicised approach. Focusing on the establishment, development and functioning of the internal market as a major aim, '[g]oals are presented as noncontroversial, and solutions are presented as based on scientific knowledge.' (Mańko, 2017, p. 35).

This rational approach builds on a strong bond of such knowledge (claimed to be held by EU institutions, particularly by the Commission) and governance: 'the relationship between governance and knowledge is one of dependence, when the two *co-produce* each other in a dynamic and evolutionary fashion.' (Bartl, 2015, p. 4, emphasis original). Since the EU is an artificial creation, formed by legal means, 'just as the normative objectives infuse knowledge, so does the accumulated knowledge, both cognitively and normatively, shape the creation of new normative objectives.' (Bartl, 2015, p. 4). This mutual fertilization is reflected in the process of EU legislation, directed and mastered by EU officials. (Ziętek, 2012, p. 282, translated by Mańko, 2017, p. 37). The decisiveness of this process to internal market development is stressed by the president of EU Commission, urging in the *State of the Union Address*: '[w]e must now work together to turn proposals into law, and law into practice.'

This technocratic or 'functional' approach is criticised for effectively preventing a vivid political discourse among EU citizens, turning them passive. 'Social and economic issues which would otherwise be politically contestable<sup>3</sup> become the object of uncontested technocratic assumptions allegedly following from a body of commonly accepted knowledge.' (Mańko, 2017, p. 34).

Critiques thus perceive this technocratic approach as 'symbolic violence' against traditional legal knowledge (deemed irrelevant to solve 'modern' problems), political actors (undermined on grounds of lack of expert knowledge), and human subjects (treated merely as means to an end: smooth market functioning, factoring out all other human

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<sup>3</sup> For example, this form of decision making prevents thorough discourse regarding the feeling of many EU citizens that the capitalist industrial society takes advantage of the EU supranational structure, to emancipate itself from the social market economy with regard to issues such as employment and distributive social policy. Habermas (1996) p. 418; Böckenförde (2017b) p. 351.

dimensions, e.g. spiritual, ethical) (Mańko, 2017, pp. 42–3), nourishing the *substantial* ‘democratic deficit’. The supranational structure of decision-making, underlining EU’s *procedural* democratic deficit, highly facilitates this process.

To recover the ‘democratic deficit’ scholars<sup>4</sup> thus recommend ‘re-politicisation’ of this technocratic approach. Questioning the system and considering ‘whose interests must the law articulate, serve and protect’ already marks a certain degree of ‘re-politicization’ (Mańko, 2017, p. 61).

Recently, ‘the increasing politicisation of EU institutions’ is recognised in the literature, although EU theories of integration have done little so far to incorporate it into their considerations of EU governance as a whole (Schmidt, 2017, p. 11). Hence, what scholars describe as ‘de-politicisation’ may be alternatively understood as preferring political interests of EU players over national and regional ones.

If this is correct, ‘re-politicisation’ may be understood as merely changing the political equilibrium in favour of national, regional and personal political interests of EU citizens.

The importance of citizens’ participation in politics, to balance the opinion of elite leadership, has been long recognised. Zaller (1992, p. 331) provides three justifications for it: people have a right to be involved in governance; political participation is a value in itself; and citizens’ involvement provides a check on the government’s tendency to go ‘astray and become . . . overbearing or worse.’ Hochschild (2013) stresses the importance that citizens would not follow elite opinion leadership automatically, particularly when leaders’ assertions are empirically unsupported or morally unjustified. However, sometimes both citizens’ and government’s positions on a certain issue may be only assessed hindsight, which ‘makes one’s normative stance uneasily hostage to fortune’. (Zaller, 1992, p. 540).

The next sections assess whether VdB report recommends proceeding towards ‘re-politicisation’, in comparison to the previous EU Commission’s policy statements examined.

## Section 1: Win the People’s Hearts

Van den Brande (2017, p. 6) stresses one major reason for the ongoing ‘democratic deficit’: the lack of EU citizens’ ‘emotional engagement’ with the EU, and of a feeling ‘that they are fully part of the European project’. He argues that EU institutions communicate to citizens mainly *rational information*, based on facts and figures, neglecting the complementary

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<sup>4</sup> Bartl (2017) and Mańko (2017) examine these insights in the context of private law.

need to *win their hearts*. It seems to echo the perception that 'symbolical identification with the EU... could help build up support'. (Durach, 2012, p. 9). This approach constantly competes with the EU's 'instrumental' approach, relying on a 'utilitarian' thesis, assuming that citizens' support depends merely on EU performance and cost/benefit considerations. (Scheuer and Schmitt, 2009; Siagalas, 2010).

The disadvantage of the 'utilitarian' approach is that 'support for integration becomes highly dependent on short-term outputs and benefits'. (Kumlin, 2009, p. 410; Durach, 2012, p. 9). VdB report assumes that emotional identification may establish a more stable, long-term support. The literature supports this assumption. The power of emotions in politics is decisive, since power relations and social hierarchies condition human emotions (Gross, 2006). Political trust builds on the emotional sense of identity and community (Harteveld et al, 2013). Affective support complements instrumental support, encompassing emotional responses, identity-related factors, and perceived threats to the nation, thus being more stable and stronger. (Durach, 2012, p. 9).

EU leaders were already aware of emotions' importance while drafting the three policy statements examined:

*The Five Presidents Report (2015)* – was written in the height of the financial crisis. It suggests that recovering the financial crisis and immunising the EU from future financial crises depends on deepening the financial and monetary integration among its Member States, to create a full monetary union, followed full fiscal, economic and finally political union. Generally, this is a very 'technocratic' document, mainly consisting of what VdB report would perceive as *rational information*, highly advocating for the major 'functional' aim: strengthening the internal market. Nevertheless, it includes some marginal attempts to invoke citizens' emotional empathy, using a simpler language:

### **The House Allegory**

The report uses an image of a house that belongs to all EU citizens, shared by them and sheltering them from external storms, in need for repair or completion, to the general benefit (Juncker, 2015, pp. 4–5). However, this allegory seems misplaced in its general, rational and technical context, and thus unreliable (Munin, 2016).

### **Invoking Mutual Pride at the Euro**

The report describes the success of establishing a strong currency, being 'the second most important currency in the world' (Juncker, 2015, 4). However, the pride potentially invoked by this statement is used as leverage to advocate for intensified market integration: 'the world's second

largest economy cannot be managed through rule-base cooperation alone', but 'would require Member States to accept increasingly joint decision-making on elements of their respective national budgets and economic policies.' (Juncker, 2015, p. 5).

*The White Paper (March 2017)* published two years after the Five Presidents Report, takes a far greater effort to appeal to EU citizens (Munin and Matthee, 2018). Thus, for example:

- It is written in a far more popular language than the Five Presidents Report.
- It depicts five proposed scenarios for EU's future very briefly and schematically, for the citizen's choice.
- It uses graphic and oral allegories to describe the relationships between the EU and its citizens, e.g., a repetitive graphic motive of a flock of birds that may symbolize a strong, interdependent alliance.
- Building on the emotion of *fear*
  - It recalls World War II horrors, to stress a shared destiny and mutual commitment to prevent future wars, by strengthening the EU.
  - It reminds the readers of their shared responsibility to leave a better place of living for their offspring.
- To enhance *solidarity*
  - The Commission takes full responsibility for its failures and admits them.
  - The document reflects optimism, criticising or blaming EU citizens and national institutions for the current situation more moderately and implicitly, compared to the Five Presidents Report.
- It invokes mutual *pride* by praising the EU project and its achievements hitherto.

Nevertheless, these efforts are meant to promote the 'functional' agenda: enhancement of the EU project, which the document strongly advocates for.

In the *State of the Union Address (September 2017)*, to invoke citizens' *pride* Juncker specifies the recent achievements of Commission's policy: stabilising the internal market – the project underlining the 'functional' approach, praising EU institutions, which 'played their part in helping the wind change.' Building on EU citizens' sense of *fear*, Juncker proposes to opt for to 'a Europe that protects, a Europe that empowers, a Europe that defends.' Declaring his love to the EU could have invoked instinctive emotional identification, had it not been immediately followed by 'functional' reasoning.

At the end of this statement, Juncker repeats the house allegory, indicating there is still much repair work to do, adding another picturesque, populist image, of sailing the EU boat together.

Substantially, however, Juncker's determinant ruling out of the *White Paper's* five scenarios in favour of a sixth one: full 'functional' market integration, undermines the impression of sincere appealing to citizens' hearts, potentially invoked by the White Paper or by this Statement.

#### The Emotions Invoked

VdB report's assumption that EU citizens' emotions are not addressed is thus inaccurate: the statements examined reflect juggling between citizens' emotions of pride, fear and guilt (e.g. Munin and Mathee, 2018, pp. 13–15). However, citizens' emotions are *manipulated* to impose the Commission's 'functional agenda' by carrots and sticks, instead of treating EU citizens as sincere partners for a dialogue that would foster true and deep emotions of belonging, involvement in the project and care.

#### Simplicity of the Message?

Van den Brande (2017, pp. 6, 26) implicitly criticises the amount of information the EU communicates to its citizens, highly recommending simplicity of messages. The brief and schematic description of the five proposed scenarios in the *White Paper*, and the determinant 'mantras' of the *State of the Union Address*, reflect the shortcomings of this approach: they do not equip EU citizens with enough information to seriously weigh these options comparatively, to make an informed choice.

The choice between these two tactics may be further challenged by Durach's finding (2016, p. 8) that low level of knowledge and little understanding of EU politics yield citizens' indifference, while highly informed and knowledgeable Europeans tend to develop ambivalence towards the EU.

#### Assumptions as Shortcuts

Instead of listening carefully to EU citizens and taking their opinions and suggestions into consideration, to make them feel 'that they are fully part of the European project' (Van den Brande, 2017, p. 6), assumptions are used as shortcuts to policy decisions. E.g., the 'technocratic' assumption that intensifying market integration is necessarily the best way forward. The *White Paper* pretends to question it, but the later *State of Union Address* reinforces it.

Using such shortcuts 'both restricts the space for democratic determination of what... Europeans want and constrains the possibility to control for the possible mistakes (biases) in those assumptions...' (Bartl, 2015, p. 4).

## Section 2: Enhanced Dialogue with Entities Representing EU Citizens

### 'Open Government'

Van den Brande (2017, p. 6) stresses the importance of 'acting with a mindset of 'open government', appealing to citizens as an equal partner.' This recommendation encompasses a *procedural* aspect, i.e. enhancing the dialogue with entities representing EU citizens (discussed in this section), and the direct dialogue with EU citizens (discussed in the next section), and a *substantial* aspect, discussed in both sections.

### *Ambivalent approach*

VdB report (Van den Brande, 2017, p. 10) recognises the 'need to engage more with Member States in developing a European vision.' However, by the same token it implicitly blames them for '*nationalising* the successes and *Europeanising* the failures of the EU' (emphases original) and for not collaborating fairly with EU institutions in communication with the public.

It recognises the importance of intensifying the involvement of European Parliament in the decision-making process, stressing its 'special opportunity to interact from a bottom-up perspective with citizens', while at the same time doubting its capacities by mentioning the low turnout by which the EP is elected (Van den Brande, 2017, p. 24) and questioning '[t]he election of Members of the European Parliament (MEPs) on the basis of Member State determined constituencies', calling for creating '[a]n EU-wide electoral constituency'. (Van den Brande, 2017, p. 23).<sup>5</sup>

Regarding this ambivalence, or implied criticism, towards entities representing EU citizens, VdB report does not mark any progress compared to the previous statements:

*The Five Presidents Report* – on the one hand praises the gradually growing participation of the European Parliament by engaging in 'economic dialogues' with the Council, the Commission and the Eurogroup, and the intensification of its dialogue with the national parliaments, calling for further intensification of these collaborations. (Juncker, 2015, pp. 17–18).

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<sup>5</sup> This need, in itself, is supported by scholars, e.g.:

'[T]he European Parliament cannot represent what does not exist: The European people; and it cannot mirror something that does not (yet) exist: A European political public that takes shape beyond national boundaries around the decisive questions of European politics.' Böckenförde (2017) p. 359.

On the other hand, it implicitly criticises the EP by recommending it to 'organise itself to assume its role in matters pertaining especially to the Euro area.' (Juncker, 2015, p. 17).

While realising the importance of co-operation with the Member States on the EU project, it carries some counter-productive, implicitly criticising messages, stressing that democracy and stronger democratic participation implies enhanced accountability (of EU citizens and Member States) (Juncker, 2015, p. 5) and that enhanced market integration would imply further delegation of powers from national to EU level, as well as a shift the focus from the Members' needs to EU priorities. (Juncker, 2015, p. 9).

In his opening message to the *The White Paper*, the President of EU Commission expresses his expectation for 'a broad debate... including the European Parliament...' (Juncker, 2017, p. 3). The White Paper scenarios foresee the enhancement of EP's participation in decision-making processes (e.g. scenario 5 – final say on international trade agreements by 2025; supporting the European Investment Bank in boosting investment in the EU; hosting meetings regarding the debate over the future of the EU). (Juncker, 2017, pp. 24, 25, 26 respectively).

At the same time, Scenario 1, titled 'carrying on' (Juncker, 2017, p. 17) implicitly criticises the functioning of national and regional parliaments, by describing them as delaying the ratification process of international progressive trade agreements, successfully negotiated by EU Commission.

This repetitive ambivalence, that may be interpreted as 'coexistence of positive and negative evaluations of a single object' (Stoekel, 2012, p. 25), undermines the credibility of Commission's declared position, of striving to enhance collaboration with national and regional authorities, and with the EP. Indirectly, it may undermine citizens' trust in their national political institutions, and local and regional elites, through which trust in the EU is driven. (Durach, 2012, pp. 17, 38; De Vries, 2018).

### *Co-operation – to promote EU agenda*

The *State of the Union Address* reflects that Juncker supports intensified involvement of the EP, national parliaments and civil society at national, regional and local levels in EU's decision-making process, *as long as it serves 'the work on the future of Europe:'*

- Addressing the controversy with the Member States on the Asylum policy, Juncker suggests a compromise, based on negotiations. He stresses, however, that it will be acceptable 'as long as the outcome is the right one for our Union.'
- While 'open government' would presume deciding the agenda together, Juncker specifies the priorities forward, starting every suggestion with the words 'I want.' The five priorities he specifies

all serve the ‘functional’ purpose of facilitating the internal market: strengthen trade agenda and industry; lead the fight against climate change; enhance cyber protection; control migration.

### ***Broadening and deepening the dialogue: procedural innovation***

VdB report suggests considerable, coherent expansion of the dialogue circle, to include Mayors and councillors, the Committee of the Regions, the European Economic and Social Committee, and expansion of democratic functions of representative institutions, e.g.:

- *The European Parliament*: using its elections campaigns to discuss EU matters; open its doors on regular basis to EU citizens and discuss their concerns in a joint plenary session with EU Commission; organise ‘question time’ sessions for EU citizens.
- *National and regional parliaments*: providing them with a possibility to show a ‘green card’ for legislative proposals put forward by citizens, compelling the Commission, following a proposal submitted by one third of the national and regional parliaments, to examine the proposal for EU action in any given policy area. (Van den Brande, 2017, pp. 23, 24, 27).

These recommendations are *procedurally innovative*. However, even if adopted, their success would depend on complementary, *substantial* replacement of EU’s ambivalence towards the entities representing EU citizens, with ‘equal partners’ treatment: sincere weighing of the interests they represent against ‘functional’ EU interests.

## **‘Multilevel Community’**

### ***A New Kind of Political Thinking?***

VdB report recommends the adoption of ‘a new kind of political thinking’, inspired by the Charter for Multi-Level Governance of the Committee of the Regions (European Committee of the Regions, 2014),

‘which refers to the principles of togetherness, partnership, awareness of interdependence, multiactor community, efficiency, subsidiarity, transparency and sharing of best practices, enabling the development of a transparent, open and inclusive policymaking process, promoting participation and partnership, respecting subsidiarity and proportionality in policymaking and ensuring maximum fundamental rights protection at all levels of governance to strengthen institutional capacity building and investing in policy learning among all levels of governance.’ (Van den Brande, 2017, pp. 11–12).

This list implies some deficiencies, or lacks, of the current system, some well reflected in the three examined statements, e.g.:

*The Five Presidents Report* – recognises the *interdependence* among EU Member States and between them and EU institutions, reinforced by their financial integration, but insufficiently respects it in terms of sharing decision making with national authorities. (Munin, 2016).

*The White Paper* – allegedly respects the principles of *togetherness, partnership, transparency*, enabling the development of a *transparent, open and inclusive policymaking process, promoting participation and partnership*, by initiating an EU-wide dialogue, allegedly compatible with the acknowledgment that ‘...only an awareness of clear future perspectives can provide the necessary confidence in the Union’s future’. (Van den Brande, 2017, p. 8). However, the strong dissonance between this message and the confession by the President of EU Commission, in his *State of Union Address* that the Commission still highly supports full market integration, casts a doubt whether EU institutions seriously refer to this discourse as ‘a disempowered dialogue of emancipated people’ (Habermas, 2008; See also Van den Brande, 2017, p. 7).

‘*Inclusiveness*’ is used in the *State of the Union Address* to portray a tighter ‘functional’ alliance, where all Member States participate in Schengen arrangements, adopt the Euro and join a banking union, have a European Minister of Economy and Finance, a European intelligence unit, establish a European Defence Union, merge the functions of the Presidents of the Commission and of the Council, agree on a European Social Standards Union and maintain enlargement perspective for the Western Balkan.

VdB report does not suggest how to change the interpretation of the Charter’s words to meet the expectations of EU citizens and Member States for a sincere, open dialogue.

### ***Identity and Values***

Van den Brande (2017, p. 10) advises to grasp EU institutions as one layer of a ‘community’,

‘which embraces the local, regional, national and international contexts that individuals live in to create a common public space, within which individuals can act together on a value-based foundation. The Union, in this context, needs to *add its own identity and shared values to existing regional and national notions of belonging*, which reflect the concept of multilevel citizenship. The Charter of Fundamental Rights of the European Union and Article 2 of the Lisbon Treaty provide exactly that.’ (Emphasis added).

### ***Values***

One could assume that most EU citizens, national governments, local authorities and EU institutions would embrace universal values included in

the legal documents mentioned. Nevertheless, the different *motivation* of the parties (Bartl, 2015, p. 10) seems to imply different *meanings* of these values, although justified on universal grounds.<sup>6</sup>

‘For me – Juncker reveals in his *State of the Union Address* – Europe is more than just a single market. More than money, more than a currency, more than the Euro. It was always about values.’ This declaration is allegedly compatible with the spirit of VdB report’s recommendation. Alas, it is only an opening remark to his description of a future EU vision: the ‘functional’ project, which, according to Juncker, must entail the three basic values: freedom, equality and the rule of law. To illustrate *freedom*, he mentions the alternative regime that Central and Eastern European Member States experienced before 1991, invoking fear. He interprets *equality* as implying: vaccinations to all; a common labour authority; Union-wide consumer protection. By the *rule of law*, he means respecting EU law and CJEU judgments. He reiterates that respecting these principles would lead to a more *democratic* union, without explaining how. Needless to say, in a national context or individual eyes, these values may bear different meanings.

### *Democracy*

A major perception-gap between the EU, its Member States and citizens, focuses on the substance of ‘democracy’.<sup>7</sup>

### *EU's Superiority*

VdB report does not specify the recommended *division of powers* between the different layers of the EU community.

It recognises the limits of EU responsibilities, admitting they are *defined by the Member States* – only to argue that criticising the EU for issues beyond its responsibility is unjustified.<sup>8</sup> (Van den Brande, 2017, p. 12).

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<sup>6</sup> See, e.g. Perju (2018) pp. 432-433; the interpretation of ‘justice’: Bartl (2015), addressing the different interpretative motivation of these parties in the context of private law.

<sup>7</sup> In general, the perception of democracy seems to change over time with regard to international organisations, increasingly seen as objects of democratic demands for transparency and accountability, while representational concerns become more relevant justifications for demanding greater participation in them. Dingwerth et al. (2015).

<sup>8</sup> Such criticism indicates citizens’ information gap: ‘as long as the average citizen is poorly informed and has a low level of political interest, he or she does not clearly distinguish the achievements and shortcomings of the different layers of EU governance,’ thus judging by the overall political performance. Durach (2012) p. 17).

It further contends:

'The Lisbon Treaty allows for the EU to be described as a 'polity of states and citizens, in which the citizens are entitled to participate both in the national democracies of the countries and in the common democracy of the Union'... it is the citizens themselves who are, ultimately, the owners of EU democracy, leading to Europeanisation through democratisation.' (Van den Brande, 2017, p. 11).

This statement may be interpreted in one of three ways:

- as recognising the importance of the States in EU structure and politics (like Böckenförde, 2017b, p. 358), since EU citizens elect their national governments;
- as reflecting the perception of 'bi-directional' flow of authority between EU institutions and States (like Weiler and Trachtman, 1996–7, p. 374), which some criticise for leading to an 'ill-advised celebration of the clash among competing claims to authority' (Perju, 2018, p. 416); or
- as a call for a direct dialogue of EU institutions and the citizens, circumventing the Member States.

Some elements of VdB report reveal that eventually, it supports EU supremacy. This may not come as a surprise, as the Commission ordered the report. Thus, for example:

- Van den Brande (2017, p. 11) calls for considering the EU not only as a socio-economic endeavour, 'but also as a community of destiny, life, purpose, responsibility and multicultural learning, as well as a meeting place of multiple identities', namely as an alliance embracing all fields of its citizens' lives, *in line with the Commission's vision on comprehensive integration*.
- Criticising the contradicting messages the EU and the Member States often send to their citizens, Van den Brande (2017, p. 11) contends that EU Member States 'are at the same time part of a common European space; 'splace' as the cross-fertilisation between 'place' and 'space'.
- Van den Brande (2017, p. 17) stresses that '[i]t is no longer possible for the EU to be explained in terms of the traditional, so-called Westphalian system of isolated responsibility of Member States. *The Member States are pillars of the Union's project.*' (Emphasis added).

This is a far-reaching statement, particularly for those EU citizens, scholars and States who perceive the Westphalian system of national-state as a mechanism protecting the space of democratic self-government and immunising it from supranational interference (the German Federal

Constitutional Court, 1993; Paris, 2017; Perju, 2018, p. 414).<sup>9</sup> To a certain extent, it contradicts the former references of the report to the EU as a layer of a community, which needs to add its own identity and shared values to its existing ones, and its alleged recognition of EU citizens as the source of EU's legitimacy and power.

On that issue, the VdB report's approach does not mark a change compared to the approach of the three previous statements:

In the *State of the Union Address* Juncker announced the establishment of a Subsidiarity and Proportionality Task Force 'to take a very critical look at all policy areas to make sure we are only acting where the EU adds value,' allegedly in line with the Charter for Multi-Level Governance recommendation. However, as long as Commission officials take this decision, it might be biased in favour of Commission's interests. *The Five Presidents Report* openly linked recommended market integration with further delegation of powers from the Member States to the EU. The *White Paper* implied it in the context of advanced integration scenarios.

### *Elections' financing*

Under the headline of 'democracy', Juncker in the *State of the Union Address*, reiterates with regard to financing political parties in the next elections: '[w]e should not be filling the coffers of anti-European extremists,' i.e. implies taking advantage of EU's dominant position, to bias the democratic process in favour of their supporters.

### *Citizens Participation*

The VdB report's sub-title: 'about us, with us, for us' echoes Abraham Lincoln's definition of democracy (1863) as 'government of the people, by the people [and] for the people'. However, the report's choice of words: 'about us, with us' rather than 'of us, by us' reflects its ambivalent approach towards the citizens' effective participation in the decision-making process, trying to please them and EU Commission at the same time.

### *Narrowing down the scope of discussion*

VdB report's suggestion for *open and inclusive policymaking process, promoting participation and partnership* seems to overlook two major deficiencies in EU's public discourse, perceived as core causes to the *substantial* 'democratic deficit':

'First, the range of topics open to democratic debate in the EU is narrower thanks to the EU functional design (horizontal substantive

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<sup>9</sup> For elaboration on the players and relative powers in the post-Westphalian arena see: Terhalle, (2016).

democratic deficit). Second, the proportion of the debate, which we could genuinely describe as being political, is declining as a result of the de-politicisation of EU goals, underpinned by a massive accumulation of allegedly apolitical expert knowledge (vertical substantive democratic deficit).’ (Bartl, 2015a, p. 1).

Thus, by introducing the *White Paper’s* five scenarios, the Commission narrows down the discussion, *a priori* excluding other options. The same tactic is used in the *Five Presidents Report*, which determinately advocated for further market integration, and by the *State of the Union Address*, where Juncker says, for example: ‘[w]e only had two choices. Come together either around a positive European agenda or each retreat into our own corners. Faced with this choice, I argued for unity.’ Then, he limits the time frame: ‘[w]e now have a window of opportunity but it will not stay open forever.’<sup>10</sup>

In sum, the three statements reflect that the Commission does not seem to perceive the EU as a link in a chain, and instead of ‘adding its own identity and shared values to existing regional and national notions of belonging’ as the VdB report recommends, imposes its ‘functional’ positions on EU citizens, neglecting regional and national notions of belonging.

Following this VdB report’s advice may thus mark an EU’s substantial change of approach.

### Section 3: Direct Dialogue with EU Citizens

‘Citizen’s political participation and governing elite’s responsiveness’ (Schmidt, 2017, p. 3) is one important component of EU’s legitimacy.<sup>11</sup> However, Bartl (2015, p. 12)<sup>12</sup> suggests that during EU evolution, the perception of individuals substantially changed, from ‘customers’ that should be well served by the system, to ‘vehicles for achieving a greater objective – market integration.’ Moreover, EU institutions build their policy and practice on assumptions with regard to what is good for EU citizens, which may be false for many of them and lead to market failures, such as regressive redistribution, from poor to rich (Bartl, 2015, p. 14). Realising that this approach of EU institutions needs to be changed, Van den Brande

<sup>10</sup> Framing consultations narrowly to avoid discussion on broader implications of suggested EU policy is a tactic the Commission used in other fields as well, e.g. private law. Bartl (2015) p. 24; Bartl (2015a) p. 12).

<sup>11</sup> The other components being policy effectiveness and performance and the quality of governance processes: efficacy, accountability, transparency, inclusiveness and openness to interest consultation. Schmidt (2017).

<sup>12</sup> Bartl addresses this change in the context of private law. Nevertheless, it seems to be valid in the broader context as well.

(2017, p. 11) recommends that EU citizens would be 'given the capacity to decide their future priorities themselves, by providing them with the tools and faculty of choice.'

If followed, this could mark a progress compared to the previous statements' approach.

### Reaching out to Young Citizens

Van den Brande (2017, p. 20) indicates that more than 40% of Europeans are under the age of 35. He assesses that '[t]hey usually tend to be more 'Euro-critical' than 'Euro-sceptic' and are often aware of the advantages of the Union, but may well advocate alternative models of EU governance.' This is why Van den Brande (2017, pp. 8, 27–8) stresses the particular importance of reaching out to them, making better use of the social media and educational programs.<sup>13</sup>

This seems to be a lesson drawn from the Brexit referendum: most supporters of the Brexit were the elder citizens, while many youngsters, objecting it, refrained voting (Time, 2016). It marks an innovation compared to the three previous statements, which convey a uniform message to all addressees.

The report calls for implementing the Council resolution on the structured dialogue and the future development of the dialogue with young people in the context of policies for European cooperation in the youth field, post 2018 European Council. (EU Council, 2017). This resolution relied on broad consultation with EU youngsters. It includes some recommendations to enhance youth participation in the EU project, by improving their access to quality and critical information, fostering communication among young citizens from different countries, education, mobility programs etc.

Nevertheless, VdB report does not elaborate on the *substance* of the message that might appeal to them.

Additionally, the report does not elaborate on any particular strategy to approach the rest 60% of EU citizens. Doing so, it overlooks (as the other statements examined) assessments that the heterogeneity of public preferences in the EU casts a serious doubt over the success chances of any one-size-fits-all approach to Euroscepticism. (De Vries, 2018).

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<sup>13</sup> The report particularly recommends extending the use of ERASMUS program. However, studies show that it does not necessarily strengthen students' EU identity and can even have adverse effect on it. E.g. Sigalas (2010a).

### Means: Aiming at the Social Media

Van den Brande (2017, pp. 16–17) recognises the advantages of the digital society and the social media to interactively reach out to the young EU citizens: facilitating information reception, while at the same time turning each user into a potential *producer* of information. Allowing for multidirectional communication, for crowdsourcing, providing fast capacity for reaction.

Unlike the other two statements, the *White Paper* encouraged an interactive dialogue with EU citizens, both through the internet and in face-to-face meetings, allegedly a step in the direction VdB report recommended. However, it used the 'one size fit to all' model; it is unknown to what extent participation of *young* citizens in this debate was effectively triggered; people's voice was not translated into pragmatic change of approach by EU institutions and in any case, VdB report foresees a more comprehensive and systematic interactive dialogue.

#### *Deficiencies of the Social Media*

Van den Brande (2017, p. 16) warns that while the social media uniquely facilitates the enhancement of direct democracy, it involves risks such as the dissemination of fake news, 'alternative facts' and myths. Thus, anti-democratic forces may misuse it. Furthermore, it tends to lookout for sensationalist topics to keep the public interest high, compromising quality and trustworthiness compared to traditional media, and 'paving the way to populist and extremist trends.'

EU institutions and scholars (e.g. Anderson, 2014; Müller, 2016; Bugarič and Kuhelj, 2018) share this concern. Social media may reflect the competition between national and supranational powers over EU citizens' hearts, but at the same time it may facilitate 'vertical de-fragmentation of political and constitutional transformations at the domestic level' (Perju, 2018, pp. 407–8), or an 'authoritarian backsliding' (e.g. Pech and Scheppele, 2017)<sup>14</sup> of domestic governments, invoking the question whether – and to what extent – EU institutions can or should interfere to defend the rule of law and restore the normative integrity of the Member States so affected. (Perju, 2018, pp. 419–430).

Yet another challenge to the democratic discourse through the social media lies in 'the capacity of the majority of the population to find, access, understand and evaluate the flow of online information.' (Van den Brande, 2017, p. 16).

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<sup>14</sup> Some scholars (e.g. Perju (2018) p. 421; Bugarič and Kuhelj (2018)) regard the risk of 'authoritarian backsliding' in Central and Eastern European countries as particularly threatening.

Despite these potential deficiencies, the report strongly recommends that the EU opt for 'digital democracy', stressing in particular the importance of 'big data' such networks can uniquely handle.

### Means: Bottom-up Approach

Van den Brande (2017, pp. 23, 27 ,28) recommends to replace the current, lobbyist-dominated character of vertical civil dialogue with direct inputs from the general public, i.e. bottom-up agenda-setting, by:

- turning the existing European Citizens Initiative (ECI) into a platform of direct exchange between citizens and EU Commission, handled by a single entity.
- conducting a regular dialogue with churches, philosophical and non-confessional organizations, and members of all accredited organisations.
- reaching out to 'non-organised citizens' and organised movements belonging to different groups in the society, to initiate decentralised citizens assemblies, the outcomes of which would be informed to the European Parliament.
- developing a new scheme to facilitate exchanges and networks for politicians and social activists.
- striving for the direct election of a single President of one EU institution, such as the European Council, the EU Commission or the President of a new functional constellation.
- establishing a European Foundation co-financed by the EU, the Member States and the private sector to foster better understanding between the EU and its citizens.
- initiating a European training program for local and regional journalists, to deepen their knowledge about the EU and awareness to EU issues, to improve local and regional media coverage of these issues. Initiating an overall communication campaign to encourage EU citizens to express their voice regarding EU affairs.

These are all relatively innovative ideas, which were not mentioned in the previous three statements examined, or exercised so far. If seriously adopted, they may contribute to enhancement of *direct* dialogue between EU institutions and citizens. 'Such greater EU level public deliberation and debate, however contentious, is in and of itself politically... legitimating.' (Schmidt, 2017, p. 21).

Yet, if adopted their success would depend on their functioning as forums for sincere *substantial* dialogue. Also, efficient ways to channel the variety of public opinions on a rich, elaborated agenda to decision makers, who should assess them and translate them into reality, should be figured out.

## Direct democracy?

The social media is already subverting the national political agenda-setting (Caramani, 2017). Successfully handled, intensified direct connection between EU institutions and citizens recommended by VdB report may thus gradually circumvent the national and regional institutions.

Taken to the extreme, such direct dialogue with EU citizens may establish a modern version of old Athene's 'direct democracy', potentially rendering unnecessary the States, and the entire long debate in the literature over the legitimacy and due form of 'representative democracy' in the EU (e.g. Majone, 1998, 2012; Moravcsik, 2008, 2012). This may appeal to EU institutions, saving the necessity to consult one layer of governance.

However, the States fill an important function in the EU structure, serving the citizens' interests: 'by positioning itself between powerful non-state actors and self-governing citizens, the state creates spaces of human interaction in which individuals can share meaning with "full freedom and distinctiveness".' (Perju, 2018, p. 404, citing Böckenförde, 2017, p. 94).<sup>15</sup> Simultaneously, they serve EU interests by translating EU policy to the national context, enforcing it and serving as a political link between the EU and the citizens: '[a]s the average citizen is uninterested and uninformed about European integration, he or she relies on domestic cues in order to estimate its costs and benefits.' (Durach, 2012, p. 9). '[T]he more divided a country's elite, and the more elements within it mobilize against European integration, the stronger the causal power of exclusive national identity.' (Hooghe and Marks, 2004, p. 417; see also Stoeckel, 2012).

Thus, '[i]t would be very difficult endeavour for the EU to foster a European identity as strong as the national one because this artificial supranational political object is more distant from citizens' sense of community.' (Durach, 2012, p. 14). Furthermore, perceiving the EU as a threat to the State is a major motivation for Euroscepticism. (Hooghe and Marks, 2004).

For all these reasons, obtaining 'direct democracy' in the near future seems highly unlikely and undesirable.

### *Different political interests in the EU*

To make it work, the deficiencies of direct communication through the social media, specified in the report, have to be dismantled. This would greatly depend on decisions such as: who in the EU will handle this branch of communication as a whole and how the 'will of the people' will be reliably measured, considering the severe, constant struggles for powers

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<sup>15</sup> Recognising States' importance, Böckenförde (2017) p. 340) suggested to put 'on hold' advancement in supranational integration to establish their agreed status.

among various EU actors, regarding ideas and policies, authorities and financing (Schmidt, 2017, p. 1), which VdB report conveniently overlooks.

### *Perpetuating differences or striving for a common identity?*

While strengthening the direct communication channel with EU citizens may boost the notion of democracy (Nicolaidis, 2013), creating an accessible platform for expression of all different views, cultures and opinions, others (e.g. Böckenförde, 2017, p. 330) stress the importance of strengthening the common denominator – the ‘us consciousness’, both at the national and supranational level, believing that in its absence the EU will not survive. While scholars usually view these two approaches as alternatives, VdB report recommends both, but does not elaborate on the *substantial* ways to obtain them and combine them.

### *Building a digital community*

Obtaining such results necessitates much more work than the report seems to anticipate. Developing a ‘sense of community’ in the EU is a slow process, with a centre–periphery distinction between the core members and the joiners of the different enlargement waves. (Scheuer and Schmitt, 2009). While a digital community can facilitate this process, creating an effective and vivid community of such a huge scale necessitates a considerable investment in terms of time, budget and professional effort (e.g. Millington, 2013).

### **Substance: Building a Common Narrative**

VdB Report highly stresses the necessity to build a common, reliable narrative for EU’s purpose and values, with which EU citizens can identify. This message complies with the recognition by some scholars that both the national and supranational levels of EU regime must rely on some homogenous social basis.<sup>16</sup> VdB Report does not specify the essence of this narrative. It rather mentions some assisting indications:

It recommends that the narrative developed would be *real*, not propaganda, *new*, and would ‘meet the double objective of helping the European public gain *confidence* in ‘their’ Europe and conveying *hope* for the future.’ (Van den Brande, 2017, p. 7). It has to be ‘a *values-based narrative to attract the interest of younger generations* and provide them with the tools to become the new leaders of the European project’ (Van den Brande, 2017, p. 30), suggesting *a new scale of values* appealing to them, taking

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<sup>16</sup> There is a controversy among scholars as to the necessary level of homogeneity in the EU: Böckenförde stresses its relativity, while Carl Schmidt stresses its substanciality/subtensiveness. Böckenförde (2017a).

into account that '[t]heir sense of solidarity and commitment focuses far more on *social activities* than on politics.'<sup>17</sup> (Van den Brande, 2017, p. 20). It has to encompass *differentiated narratives* covering multiple identities (ibid) and *local colour* (Van den Brande, 2017, p. 25) in a way that would make EU citizens feel it is 'their' EU, despite national, cultural, lingual and other differences. It has to be *coherent* and *facilitate connections* between EU communities. (Emphases added).

In terms of essence, the report suggests to 'give a new impetus to the European integration project by articulating a new narrative following the debate on the *Bratislava Declaration*, linked to values and political aspirations.' (Van den Brande, 2017, p. 26).

This Declaration (European Union, 2016) expresses the commitment of EU leaders and Member States to ensure the success of the EU project ('functional' approach), depicting a short road-map, indicating most urgent priorities in light of the ongoing crises, e.g. better handling of migration waves while securing EU borders, support Member States in ensuring internal security and fighting terrorism, strengthen EU cooperation on external security and defence, create a promising economic future for all, safeguard the EU's way of life and provide better opportunities for youth.

It reinforces the following elements:

- The EU remains indispensable for the Member States.
- It secured peace, democracy and enabled prosperity in the aftermath of the wars and deep divisions in Europe.
- Determination to make a success of the EU with 27 Member States, building on this joint history.
- The EU is not perfect but it is the best instrument for addressing the new challenges ahead.

This message is not new, but rather characterises the ordinary fear-pride 'functional' narrative underlining the *Five Presidents Report*, the *White Paper* and the *State of Union Address*, overlooking the fact that the old economic and war-preventing EU justifications are currently being questioned. (Durach, 2012, p. 48).

It does not suffice to meet the requirements of the VdB report:

- The statements and the report pay 'lip service' to the need to acknowledge the *differentiating narratives, interests and cultures* of EU

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<sup>17</sup> Scholars have long debated the question whether politics is 'good' or 'bad' for EU development. Some believe that it is necessary to make EU citizens accept EU integration (e.g. Hix and Follesdal, 2006; Zürn, 2006) while others believe it interferes the integration process, due to the need to take into account conflicting interests and preferences (e.g. Moravcsik (2006)). Since recent crises burst, many scholars accept the presence of politics in EU affairs as a fact, E.g. De Wilde and Zürn (2012); Kriesi (2016); Schmidt (2017).

citizens, but do not specify *how* to do it. Nor do they suggest a narrative that would *facilitate connections between EU communities*.

- All five documents (including the Declaration) do not offer any narrative particularly addressing the *young* citizens, to strengthen their sense of belonging to the EU.

All five documents rely on the false presumption, underlying the 'functional' approach, that while the *means* the EU takes are controversial, the ('functional') *goals* are broadly agreed. (Bartl, 2015, p. 5). Even VdB report, acknowledging the importance of these elements, elaborates more on the *means* of communication than on the *substantial* discourse.

## Conclusion

This article reflects the current conflict between EU's narrative, stressing the importance of multilateralism<sup>18</sup> and enhanced market integration for EU's future, and EU sceptics and critics' positions, through the analysis of EU's policy statements and attempts to change the latter's opinion.

Ordered by EU Commission, VdB report does not challenge EU's 'functional' aim. Written by a politician, it openly admits EU's political motivation behind a 'technocratic' justification, urging the EU to use tools such as the social media to promote it.

Abstaining from questioning the *substance* of EU 'functional' goal, its main innovations, compared to former statements examined, focus on the *means* to promote this goal. Adopting the report's recommendations on this issue may improve citizen's political awareness, which 'affects virtually every aspect of citizens' political attitudes and voting behaviour.' (Zaller, 1990, p. 125).

The report – more openly than previous statements – acknowledges the need for a new narrative and a new political approach, addressing *substantial* EU citizens' differences, concerns, desires and expectations, and particularly addressing the young generation, but fails to specify how to obtain it.

Its reliability is watered down by its reflecting of EU's traditional ambivalent approach towards EU citizens and their representing entities, challenging the well-known fact that '[t]rust in the EU is built back home'. (Durach, 2012, p. 16).

To win EU citizens' hearts, as the report recommends, adopting its recommendations should be complemented with a *substantial* shift from EU's current 'functional' approach and with serious pragmatic efforts to

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<sup>18</sup> For historical review of multilateralism's development and importance see: Plesch and Weiss (2015).

listen to EU citizens and take their positions into account. Otherwise, citizens' frustration may be reflected in the 2019 elections (Daniel, 2018), or worse – challenge the EU project altogether.

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# GENDER AND LEADERSHIP – DO FEMALE LEADERS PERFORM A DIFFERENT, BETTER OR EVEN A HEALTHIER LEADERSHIP STYLE?

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## **Abstract**

Organisations are facing new challenges due to the constantly changing world of work. In addition to technical developments and innovations in work and organisational processes, the human factor is increasingly becoming part of competitiveness. Businesses benefit greatly from their employees, their knowledge and skills during this fast-moving time. Healthy employees are a prerequisite for innovation, progress and growth, which must be protected as part of a sustainable corporate strategy. Thus, in scientific discussions, both, workplace health promotion and healthy leadership are considered to be successful components in dealing with volatile, dynamic and complex conditions. The conduct of executives has a significant influence on the well-being of the employees and thus a direct effect on the company's success. Managers can influence social relationships, as well as prevailing work situations – and finally the health status of employees. In occupational science studies, as well as in leadership research, the differences in leadership between men and women are analysed. There are very few studies on healthy leadership, which examine gender differences more closely. This article deals with the question of how gender differences affect leadership behaviour, leadership styles, and ultimately leading employees in a health oriented way.

**Keywords:** female leadership, health oriented leadership, transformational leadership, leadership styles.

## **Introduction**

By reviewing the literature on the topics “Leadership”, “Leadership Behaviour” or “Leadership styles”, constants can be found: A “perfect” executive simply does not exist, because leadership is situational and therefore incredibly complex (Walenta & Kirchler 2011:9; Gräser 2013:253; Malik 2007:262). There are different leadership styles (e.g. studies of Lewin et al. 1952, McGregor 1986; Hersey & Blanchard 1969). There are also typical leadership traits that exist gender dependent (Madsen 2017:169; Foegen Karsten 2006:195) and the fact that women in leadership positions are less represented than men (Schnitzer, M. 2015:684; Walenta & Kirchler 2011:107; Badura et al. 2007:85).

Women in leadership positions are said to be more committed to co-operative social relationships in the workplace, to be a team player, and to have multiple approaches to solve problems. In contrast, male executives adhere to the traditional notion of leadership as an exercise of power (Schwarz 2008:247; Tewes 2015:41). Modern leadership today expects from superiors social openness, compassion, empathy, coordination and communication skills, as well as teamwork (Hahnzog 2015: XVI; Ahrens & Ahrens 2014:7–9). Nevertheless, according to the ideas of modern management research, the manager should also keep the role of a playmaker. For the playmaker, life and work are a game comparable to a competition. His goal is to be victorious in competitive activities. He is relaxed, flexible-adjusted, but also driven by success. The playmaker behaves co-operatively and fairly, but is always set for battle situations (Gözlner 2007:59 inspired by Maccoby 1979:313).

If the components of modern management coincide (at least in part) with the characteristics of the female leadership style, then the question arises, as to whether the female leadership style is the solution to all difficulties. Additionally – would not women, in times of burnout and fatigue depressions among employees, be the better “coach” in the sense of health-oriented leadership? Does this highly praised portrayal of femininity and leadership really exist?

The scientific literature, with its empirical studies on female leadership styles, draws an ambivalent picture, because parts of the research identify gender-specific differences. In the 1990s, it was believed that women are the better leaders with a typically female leadership style. More recent studies, on the other hand, argue that there are no differences due to a person's gender. Modern gender research consequently denies the existence of the female style of management. The following remarks will shed more light on this question.

## **Prejudices and reasons for the low share of women in top positions**

The reason given for the low share of women in top positions is, that women are supposedly less likely to be interested in leadership positions and exercise of power due to gender characteristics or behaviour (Hoffmann 2016:100). They are – under these aspects – less suitable for it. Women are also assumed to have a lower average productivity as they have limited availability as a result of family responsibilities, as well as lower objectivity or less assertiveness (Domsch & Regnet 1990:107, Elger 2013:164). These stereotypes are not just prejudices – for example, empirical evidence has shown that women are more risk-averse indeed

(Balaoutas, Kerschbamer & Sutter 2011:131). In top management, a high level of risk-taking is required. Since it is generally assumed that women are more risk-averse than men are, male applicants are preferred in filling top positions (Littmann-Wernli & Schubert 2001:135). Because of this, women experience less support than men (Regnet 1997:251) do.

In a US-study, Powell, Butterfield & Parent concluded that leadership positions are mostly associated with male characteristics. Thus, in 1999, 46% of women were in leadership positions and yet management positions were male stereotyped, not female as it was originally thought. The authors' assumption was that leadership positions were required to have androgynous<sup>1</sup> characteristics. Because nearly half of the women were in leading positions, and since women brought their "femininity", both male and female qualities should be required for those management positions. In addition, the authors of the study argued, that most of the women work in the lower management positions – there are hardly any women in top management, and those who have succeeded have male characteristics (Powell, Butterfield & Parent 2001:188).

Despite formally equivalent qualifications, women are often denied the last career jump to top management (Glass-Ceiling-Effekt) (Gaetane & Brenda 2011:83). Rustemeyer & Thrien blame the low number of women in management for leadership positions on masculine attributes, and, secondly, that women in leadership positions do not have feminine attributes, but either already possessed or acquired male attributes to be compatible with the requirements for a management position. For Germany Rustemeyer and Thrien carried out a similar study and came to the same conclusion, so the attribution of male attributes to leadership positions also applies to German culture (Rustemeyer & Thrien 1989:108–116).

According to Gmür (2004), managerial positions are more strongly influenced by male characteristics than by female. From the author's point of view, the preference for masculinity is independent of the interviewed person and their status. Women in leadership positions, more than men, must meet male stereotypes (Gmür 2004:405). In addition, employment decisions are often influenced by stereotypes. In the course of the "think manager – think male" phenomenon features of a certain prototype often replace (Dodge et al., 1995:253) missing information regarding the suitability for a certain job profile. In other words – if the same or similar professional activity has always been occupied by a man over a long period

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<sup>1</sup> People who present themselves deliberately as not gendered or appear to other people as not gendered, are called androgynous. Weak secondary sexual characteristics or secondary sexual characteristics of the opposite gender are often the cause of this assessment.

of time, the decision between a male and a female candidate will usually fall for the male, as it corresponds to the proven prototype (Krell 2011:413).

There is also a study by Kaiser et al. (2012) on career breaks by women executives. The reasons the authors have revealed, are the typical male attributes to leadership positions and, above all, the claim of “ever-availability”. Ever-availability means that managers are to devote their lives exclusively to the company. In addition to an extremely high number of working hours, managers are also expected not to take a (family-related) career break or work part-time. Furthermore they are expected to be mobile (make business trips and possibly even change their place of residence) in order to be full flexible. Since it is, mainly women who take care of the children and therefore cannot always be available for the company 24 hours a day – this means in most cases the end of a career, or no beginning of a career (Kaiser, et al. 2012:32–39). Male attributes and ever-availability are the main reasons why few women are found in leading top-positions.

### **Leadership style of female superiors (theory of difference)**

The core idea of the theory of difference relates to the differences between man and woman. By gender, individuals are attributed with certain characteristics and derived predictions about their behaviour and abilities (Assig & Beck 1996:156). According to Neuberger 2002, there are specific female strengths, which are not inherent to most of man and vice versa. However, these strengths are too gender specific so that the opposite gender cannot acquire them. Thus, Neuberger postulates that women with their skills are indispensable for the economy (Neuberger 2002:783). Therefore, stereotypes act as “order categories”, which should convey safety and orientation (Regnet 1997:245). Men are typically described as dominant, independent, confident and competitive, whereas women are characterised as friendly, sensitive, willing to compromise, sympathetic and caring (Heilmann 2001:658). In their self-descriptions, women are more likely to be empathetic than men, with the hypothetical presumption that women like to deal with their own emotions and the feelings of others (Myers 2008: 167). Höhler (2001) also identifies the female leadership style as feminine and the male as masculine. Moreover, she credits women with better communication skills and the ability to multitask. Men, on the other hand, are more success-oriented, more aggressive, and more self-centred than women are. Only through co-operation, men and women could meet the demands of the modern world. They (women) should not be seen as an alternative (in management), because the competences of both genders are in demand (Höhler 2001:201). Höhler refers in her statements to brain

research and gender stereotypes. Both genders are born with different identities, e.g. female and male identities. These two variants are the result of a relentless optimisation process. A post-natal “remodelling” is in her view nonsensical (Höhler 2001:19).

When considering a typical female leadership style, it must first be noted that for a long time any leadership qualities of women were doubted, because in the 1950s, concepts of authoritarian rule and the classical distribution of roles enjoyed great popularity. Already in 1977, Rosabeth Kanter argued that women perform differently than men. Due to the widespread opinion that “women are weaker”, they would have to assert themselves again and again and lead harder than their male counterparts. Women have tried to be more distant, without intimacy, in order not to lose their authority, for they are subject to increased attention (Kanter 1977:202). However, unlike other researchers of that time, Kanter did not value the difference in leadership. This is an image of the female leadership style, which is still experienced today by employees. In the 1980s, companies often expressed a desire to move from authoritarian to co-operative or participatory leadership – an entrepreneurial response to a change in social values (Müller 1997:23). This change called for the skills of communication and conflict management, and thus the skills of women increasingly came into the focus (Wunderer & Dick 1997:49).

The “interview study” by Marilyn Loden (1998) and the “diary study” by Sally Helgesen (1990) had also shown that women, who are today still referred to as the weaker gender, have potential that would correspond to new organisational cultures. The female leadership style, which meets the demands of these new management tasks, is thus defined, in contrast, to an obsolete male leadership style. These characteristics belong to women, simply through their gender or their experienced socialisation (Funken & Schulz-Schaeffer 2008).

Although not all women are equally well equipped with these skills, but men don't have those abilities at all. The female leadership style relies on rational and on emotional data. Women consequently take into account numbers, as well as emotions in decision-making processes – they are thus more able to maintain personal relationships (Loden 1998:70–71). According to Helgesen (1990), women act more co-operatively than men, who are more competitive. Therefore, women embody more networked thinking and try to practice flat hierarchies because the exercise of power is not important to them. Women organise the structure of the organisation into teams and their basic objective is quality. (Helgesen 1990: 38–39). Furthermore, women act more intuitive-rational to solve problems, but men prefer their individual assertiveness. Decisive characteristics of the female leadership style are also the lower control of the workers and the

high empathy, which increases the self-esteem of the employees. Women also better pass on information, because they do not consider it as a power resource (Helgesen 1990:28).

Moreover, women were more likely to apply the concepts of transformational leadership<sup>2</sup> and are thus superior to men (Eagly et al 2003:569–591). Hence, the female management style is characterised by communicative competence, teamwork, responsibility, networked thinking, empathy and trust in the employees.

### **Do women lead better or worse than men do?**

Women as superiors have historically not always received much positive recognition. They were previously regarded as the poorer executives and were faced with prejudices, being pedantic, difficult to satisfy, they did not delegate, they hindered the development of the staff, and they would take everything personally. To lead differently than the male colleagues was equated with “worse leadership”. This view has changed over time, because the qualities needed today in management seem to be those of typical female characteristics (Krell 1994:377–392). As clarified in the last section, the female leadership style – from the viewpoint of the theory of difference – embodies the requirements of today’s management executives. Women are therefore the resource that executive boards need to solve current problems. “Different leadership” than men today, thus often has the appearance of “better leadership” (Al-Omry 2015:12–14; Stroot 2004:188).

The above-mentioned authors Marilyn Loden and Sally Helgesen, can be seen as advocates of the theory of difference. Their intention to write their books arose from a deficit of appropriate management literature for female executives, because the existing counselling books merely gave advice on how to deal with the male cultures. Helgesen and Loden tried to prevent women from “masculinising” and facilitating their adaptation in modern organisations, and praised the differences between men and women. The discussion about “soft skills” or “soft qualities” has been going on for some years now through the management literature. These terms are understood to be abilities and qualities that are considered to be particularly promising for future management: relationship-orientation, intuition, empathy, a social “feeling” for employees and for future developments. According to

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<sup>2</sup> The above-average achievements result from a change (transformation) of the attitudes of employees: they trust their leader, they are loyal, show initiative and team spirit and they are intrinsically motivated. This influence on behavior is mainly the result of the leaders’ role-model-effect.

prevailing gender stereotypes, especially women should have these “soft” skills. Consequently, it is argued that women are particularly suited to leadership positions (Rastetter 1997:43–55).

In 1985, Loden proved this view empirically in interviews with 50 men and 200 women. She concluded that women pursue a different style of leadership than men. Women were more co-operative than their male counterparts were and practiced flatter hierarchies (Loden 1998:72). In 1990, Helgesen conducted her calendar study. The starting point of her study was the analysis by Henry Mintzberg (1973). Mintzberg followed five managers in their daily routine and recorded all activities. The observations suggested that most of the men were more concerned about their goals and showed less interest in the activities, which were necessary for the achievement of the tasks (Helgesen 1991:21; Schmitt 2007:46). Helgesen compared Mintzberg’s remarks to find gender-specific differences in day-to-day management (Helgesen 1991:29) and worked out a typical female leadership style as explained in the last section. Regarding motherhood and the ever-availability claim<sup>3</sup>, she explicitly stated that motherhood is an excellent school for management. The mother does not give her favour – like the lover – to a single man, but ideally distributes it to all (the employees) equally. The man does not want to feel inferior to the beloved; he can recognise the power of the mother if necessary. In a family, the mother typically plays the role of second authority alongside the father (Rastetter 1997:43–55). This shows clearly the qualities already mentioned (sensitivity, social skills, patience, kindness, insertion in group, empathy, adaptability, discipline) of the female executive, matching the role of the caring, yet organised mother who has her family firmly under control, but not losing loving relationships out of sight.<sup>4</sup>

Eagly et al. (2003) prepared various meta-analyses to obtain a research overview and to prove the existence of the female leadership style. In 2003, they compared 45 studies and concluded that there were small, but significant differences between women and men in leadership. Consequently, women used to be more of a transformational type, and men more likely to be transactional (Eagly 2003:569–591). The behaviour of the male executives thus has no or even a negative impact on the organisational success. Women, on the other hand, practice behaviours that have a positive impact on the effectiveness of management. In addition, the researchers found a connection between the leadership style and existing gender stereotypes. People have certain gender-based expectations, and those expectations are internalised and lived out (Eagly 2001: 781–797).

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<sup>3</sup> See above.

<sup>4</sup> See above.

According to Krell, the sketched appreciation of femininity is a “gift of the Danaans” for female executives and criticised that the postulated existence of a female leadership style also carries risks. A present from the Danaans proves to be a gift in Greek mythology, which presents extraordinary difficulties for the recipient, and so it is supposed to behave with the postulated existence of the female leadership style. If women are hired because they are supposed to persecute the female leadership style, they would be under pressure to control it as well. However, it is not possible, that not all women lead in the same way and in a similar style, and thus they cannot fulfil expectations, which are placed on them (e.g. every woman would be expected to work empathic and team-oriented). Furthermore, Krell fears that women would be hired to refine the organisation by improving the working atmosphere and taking care of the social (Krell 2004:388, Krell 1994:378, Nerge 1992:79–88).

The question of whether women really have a “better” leadership style was not directly addressed in the mentioned studies above. It was only argued that the leadership style of women differs from male leadership styles because of specific female attributes and that these would be beneficial in many ways in organisations.

## **Female leadership seen from the equality theory**

The basic idea of equality theory is, that women and men are equal – and not only formally equal, but in all aspects of their existence. Thus, followers of this theory also conclude that women and men lead the same way. The theory also refers to any ability, attitude or motivation that people can have. In terms of leadership style, studies confirm equality between men and women.

In their study in Germany and Switzerland, Wunderer & Dick (1997) found “little disparity between disposition and behaviour” (Wunderer & Dick 1997:132). They interviewed male and female executives and their staff on gender and leadership-style. In terms of career orientation, advancement ambitions, network use, or leadership style of managers, no gender differences were found. The statements of the employees who participated in this study confirm that their superiors, whether male or female, have similar behaviours. The assessment of the managerial style of the supervisor was independent of the gender of the employee. As a result, a male executive was rated equal by both, her female and her male employees and vice versa. The most chosen leadership style of both female and male executives, from the point of view of employees, was a “consultative” or “co-operative” style (an employee is informed of intended decisions and can/is allowed to comment these) (Wunderer & Dick 1997:12; 69–70).

Bischoff (1999) carried out several large studies between 1986 and 2004 called “Men and Women in Leadership Positions in Germany”. “The great and partly evoked difference in the leadership behaviour of men and women that was propagated in the past could not yet be proven by empirical investigations. Basically, men and women lead co-operatively and behave – if need to be – even authoritarian”<sup>5</sup> (Bischoff 1999:131–132). For other characteristics, however, such as salary, Bischoff found gender differences, but not leadership style related. “Women earn less than men at the same hierarchical level” (Bischoff 1999: 83, 92)<sup>6</sup>.

Further studies, such as those by Hyde (2005), also conclude that women and men are equal. Equal opportunities, equal rights and gender equality are therefore, if not given, established by corrective measures of women’s empowerment programmes and gender equality policies. Weinert (1990) examined both genders in terms of dominance, social demeanour, self-reliance, accountability, self-control, good impression, conventionality and achievement. There were no significant differences between men and women in any of the characteristics (Weinert 1990).

The above-mentioned studies show, that no gender-specific leadership style exists. Depending on the situation, task and goal, male and female executives choose the style of leadership equally; some leadership styles are more preferred, others less, but both studies by Wunderer & Dick and Bischoff, confirm the theory of equality in its core idea.

## Is there a “female” health-oriented leadership style?

Healthy employees make a substantial contribution to a company’s success (Bienert and Razavi 2007:62, Kraemer & Lenze 2011:169, Badura & Hehlmann 2003:9). The relationship between management behaviour and employee health has been increasingly the subject of scientific research in recent years. There are a number of literary studies and meta-analyses from the period between 1990 and 2009 that were reviewed Gregersen et al. (2011:3–12 & 2013:28–39). On the one hand, leadership behaviour acts as a resource or as a stressor on the health and well-being of the workforce. On the other hand, there are certain leadership styles that can be either beneficial or harmful to employee’s health. With regard to these insights and assuming a typically female leadership style, it may be possible that women’s leadership behaviours have a positive impact on the health of employees.

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<sup>5</sup> Citation translated from German.

<sup>6</sup> Citation translated from German.

### *Leaders – Stressors or Resistance Resources*

Mental well-being is the result of a balance between workload (amount and difficulty) and resources available (structural, social and personal) (Ducki 2000:45, Hüttermann 2015:16, Antonovsky 1979:99, Lazarus 1984:19). In the context of health-promoting employee leadership, these resources are of central importance, as managers have a direct influence on them in the framework of their leadership behaviour. (Cohen-Mansfield 1995:444-466; Leiter & Harvie 1996: 90–101; Moore & Cooper 1996:82–89). The direct support from supervisors is one of the social resources (Tameling 2014:39; Hüttermann 2015:16). It can influence the well-being of employees, both in the form of direct assistance and indirectly, by influencing the basic conditions (Hüttermann 2015:15). An autocratic leadership and self-centred leadership, however, usually causes negative health impairments and triggers stress on the part of the workforce, which manifests itself in higher absenteeism or presenteeism. Gregersen et al. also confirm this (2011:3–12 & 2013:28–39). Social stressors, caused by the behaviour of superiors, have a negative impact on self-esteem and in the worst-case lead to a desire to change of employer.

For executives, it is also possible to provide structure-related resources, e.g. they should grant reasonable room for manoeuvre and enable employees to deal effectively with this autonomy. Workers with high task requirements are thus able to minimise mental stress through effective management of work demands (Hüttermann 2015:15, Siegrist 1996:97, Tintor 2015:60).

According to the Conservation-Of-Resources approach (Hobfoll 1998:143), mental stress due to resource loss, or lack of resource gain, can occur after a resource investment. These may be aspects such as self-protection or the maintenance of self-esteem. Through an appreciative, fair and predictable leadership, executives can empower employees' personal resources while reducing mental stress.

A mindful and health-promoting leadership style does not mean a deliberate manipulation in the sense of “influencing the will of others”, in order to achieve specific corporate goals; it is more a matter of “positively guiding” workers. In the context of uncertain or dynamic structures, it is important to motivate, inspire and support employees individually. Especially through an emotional attachment/bonding, it is possible to increase job satisfaction (Hüttermann 2015:18) in order to support as much as possible the preservation, respectively the promotion of employee health.

### *Health relevance of different leadership concepts*

Gregersen et al. (2011:3–12 & 2013:28–39) also devoted their research work to the scientifically established leadership concepts. They showed that transformational leadership, an employee-oriented leadership style, some aspects of transactional leadership, and the Leader Member Exchange Theory (LMX) are positively related to employee health. The goal of transformational leadership is the stimulation of emotions and ratio of the guided. This requires leadership skills that go far beyond the usual problem-solving capabilities. Supervisors act as role models, conveying the meaningfulness of everyday work, promoting creativity and ideas. Transformational leadership is in some ways an ability to achieve goals, less the systematic manipulation of employees. The main focus of this leadership style is the stimulation of self-interests and tasks of employees, in order to foster the results of the organisation. Jenewein et al. (2010:28) name four dimensions of transformational leadership: personal aura, inspiration, mental stimulation, and individual treatment of employees. According to Gregersen et al. (2011:3–12 & 2013:28–39), a transformational leadership style has a positive impact on job satisfaction, which also affects the mental health of workers.

The basic assumption of a transactional leadership style is based on the classic market principle: If the leader receives what he desires, the executive also gives what employees expect from him. Transaction is therefore to be understood as an “exchange” in this management concept. The supervisor intervenes when necessary and can, if the benefits are below his expectations, punish employees, impose sanctions, or support and reward them for good work results (Hammann 2009:112). Nyberg et al. (2005:23) described the performance-based reward as a health-promoting component within this leadership concept. The dimension of active control by the executive, however, has a negative impact on the stress perception of the workforce. A solely transactional leadership style is therefore not recommended.

In the management concept of task-/employee orientation, a positive correlation between employee-oriented leadership and low health complaints, burnout and stress was shown (Gregersen et al., 2011:3–12). Employee orientation expresses the extent to which the supervisor takes account of the employee’s personal needs or shows respect, recognition and esteem (Oechsler 2015:297). Burnout-supporting effects were recognised by Gregersen et al. (2011:3–11) in a task-oriented management style, in combination with low employee orientation. Task orientation is characterised by task definition, regulations and suggestions for task completion in order to achieve predominantly corporate goals (Oechsler 2015:297).

The laissez-faire leadership style offers employees the greatest possible freedom in task assignment and can be described as apathetic. This is raising the question of whether this behaviour can even be described as leadership. There is no control by the supervisor. Likewise, this leadership concept relinquishes rules, regulations, and activities that promote the working environment and employees. There is no motivation to perform and a gradual loss of self-initiative occurs as there is no feedback and no clear decisions are made (Hammann 2009:112). According to Gregersen et al. (2011), this style of leadership has a negative impact on employees' health and stress.

The LMX theory sheds light on leadership from the perspective of relationships and aims to develop a partnership between employees and supervisors. This concept is understood as an offer of trusting cooperation and not as the control and transmission of orders of a disciplinary power. Executives have a unique relationship with their employees, which is different in their nature and quality from others (Vollmann et al., 2015:22.4.2). In a systematic comparison of the different leadership concepts, Gregersen et al. (2011:3–12 & 2013:28–39) concluded that LMX is the most statistically relevant in the context of health indicators. According to their views, this could be due to the fact that LMX is not a general management style, but rather an individual relationship building with the respective employees (Gregersen 2014).

## **So do women lead healthier than men do?**

Since in the debate whether women have a different or better leadership style than men, especially the transformational leadership style is considered (Eagly 2003:569–591). Moreover, since it is proven that, the transformational leadership style is beneficial to health; this question could first be answered with “yes”. However, if women are generally the healthier leader has been researched very little empirically so far.

Vincent (2012) notes that a gender stereotypical female leadership style is characterised by high levels of social skills, interest in people, caring, empathy, cooperation, and support, which also reflects the characteristics described above. In the further course of her work, Vincent (2012) proceeds from the hypothesis, that a health and development-promoting leadership behaviour is more in line with a female leadership style. Not only has the gender of the leader played a decisive role, but also the gender of the employees. The research has shown that women treat each other friendlier, more communicative and caring than men have. Likewise, the results of this analysis show that female employees of a female executive tend more attesting a transformational leadership style than male colleagues a male

superior. Furthermore, Vincent (2012) assumes that women evaluate the leadership style of both, a female and a male executive, healthier than men do. In addition, the relationships between the health of the workforce and leader were examined gender-specific. There are, among other studies, in which both, male and female employees with a female superior, have a better mental health. All assumptions were reviewed in the study. Although the effect was relatively small, Vincent (2012) confirmed in their analysis, that female leaders are rated to lead more healthier and more supportive than men are. What remains open is the question of whether there are real differences in leadership behaviour or whether the results are due to perceptual distortions or stereotypes (Vincent 2012:61–89).

Surprising was the finding, that male managers lead their male employees significantly healthier and more development promoting than their female employees. The reason could be the following: since women are demonstrably more empathic than men are, female executives are better able to empathise with male and female employees. Men may only manage this with their male employees – this could result in a lower extend of the health and development-promoting leadership style focused towards female employees. Another reason could be based on implicit leadership theories<sup>7</sup> of the employees. Such theories assume that workers have some idea of an ideal leader – this influences the personal assessment of leadership behaviour. A health and development-promoting leadership style may be an ideal, especially for female employees, so they may have higher expectations of the leader or be more critical in their evaluation. Due to the high proportion of men in management positions, however, “men’s societies” could also come into effect. Through communion and membership, a specific solidarity, loyalty and co-operation, as well as a demarcation towards non-members arise. Members have special opportunities and resources that non-members do not have. The superior can also see health and development-promoting leadership as a positive influence on the resources of the employees in order to sustainably promote the health and potential development of the employees. Seeing the concept of the “men’s societies” in this context, it could be explained why male executives lead their male employees significantly healthier and development promoting than their female subordinates (Vincent 2012:61–89).

With regard to the mental well-being of the workforce, this analysis focused less on the gender of the leader than on the perception of leadership behaviour. Female employees with a female supervisor showed better health status than male colleagues with a female executive. Conversely, male employees with a male executive showed better mental

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<sup>7</sup> More information on this see Schyns et al. 2014:155–166.

health than female employees with a male executive. From the results of the study, it can be deduced that in future research of leadership and health stronger gender-specific effects and the interaction of different leadership behaviours should be analysed. In doing so, it is important to consider the gender of the leader as well as the gender of the employees in order to reveal gender-typical effects (Vincent 2012:61–89).

## Discussion and Summary

This article tries to answer the question whether a female leadership style differs fundamentally from the male. An attempt is made to define the female leadership style, to better understand it, and finally to confront the aforementioned prejudices. The article also discusses what makes a health-oriented leadership and what conditions have to be met for a healthy leadership style to develop. The final question is whether women have a healthier leadership style than their male counterparts.

In the previous sections, it can be noted that the empirical validations for the statements “women lead better” and “women lead differently” vary strongly and are contradictory. In spite of the diversity of these assumptions, there are also similarities: Firstly, the common formulation points to the fact that in both statements men’s leadership is set as a standard. Secondly, both statements assume that men lead “masculine” and women “feminine”. In contrast, representatives of the androgyny concept assume that women can also be “masculine”, men also “feminine” and both “androgynous” (in the sense of “masculine” and “feminine”).<sup>8</sup>

In addition, there are sources that prejudice female executives, for being “petty” or showing “unobjective behaviour” (Preuss 1987:387)<sup>9</sup>, in more recent studies for being “too emotional” and “unpredictable” (Bischoff 2005:267). These prejudices relate only to a minority of the interviewees. Kanter (1977:202) emphasises that the picture drawn in connection with the statement “women lead worse” is one of people with relatively little power. Kanter provided another explanation of the prejudice that “women perform worse” in 1977, when describing the situation of the few women by the term “tokenism” based on the case study in a 300-person multinational organisation. According to Kanter (1977) minorities (tokens) – for example women in male-dominated organisations – are not perceived individually (up to a proportion of 15 percent), but as representatives of their group.

Due to this constellation, the majority of male executives overemphasise the differences between their behaviour and that of their female colleague.

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<sup>8</sup> More information on this see Krell 1999; 2003.

<sup>9</sup> See 4.

Due to their increased “visibility”, female executives are under particular pressure to show exceptional performance.<sup>10</sup> In the eyes of the majority, if female superiors should fail, it is not the person who fails, but the entire group. At the same time, it is said that the token status of female leaders is associated with significant stress and reinforces a stereotypical perception of their behaviour. These explanations on the token status and its effects also apply to the statement “women perform better”. Negative attributions such as “too emotional” also testify to how interwoven feelings and gender discourses and how ambiguous the evaluations associated with them are.<sup>11</sup>

Even more obscure and contradictory is the gender discussion on the question of whether women “lead differently”. As discussed, in some cases no gender differences can be identified at all. A look at the US since the 1970s, investigations confirmed this.<sup>12</sup> Nevertheless, even in recent studies from the European area, the majority of interviewees stated that they do not perceive differences between women and men in terms of leadership behaviour and quality (Snaebjornsson & Edvardsson 2013; Autenrieth et al. 1993:141, 190; Wunderer/Dick 1997:241–266; Bischoff 2005:257, 278; Hadler 1995).

Nevertheless, it is argued that women in general perform better. The statements that there are “typical female” leadership qualities and “natural abilities of female managers” (Loden 1988:69, Helgesen 1991:39, 205, 215), are associated with an appreciation of “femininity”. This statement can be classified as very questionable. For example, Helgesens (1991) views are based on the observation of four female executives for one working day each. The results are compared to those of Mintzberg (1973), who observed five male executives. Apart from the narrow empirical basis, this approach raises the question to what extent the differences found are due to the gender or time difference – Helgesen addresses this herself (Helgesen 1991:31). Loden (1988) has a much broader empirical basis in her research, but the description of the approach raises the suspicion that an interest-based selection of interviewees has taken place to confirm Loden’s hypothesis that there exists a “masculine” and “feminine” model of leadership. The questioning of women initially does not lead to the desired result. In the first week of testing, some of the interviewed women insisted on their view that the differences they identified did not exist. Only after the analysis, Loden met female managers who shared many of their opinions and experiences. In other words, it seems the sample of female interviewees has been expanded to achieve the desired result. Due

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<sup>10</sup> In detail see Laws 1975.

<sup>11</sup> In detail see Krell & Weiskopf 2006:73; Sieben & Krell 2007: 235–255.

<sup>12</sup> A summary is provided by Friedel-Howe (1990) and Powell (1996).

to these serious methodological shortcomings, the results of the studies are extremely questionable.

The statements about the different female attributes or characteristics by Höhler (2001) are in Krells (2002) viewed as simply wrong, because such an attribute-oriented view leads to a fixation on gender stereotypes, which does not fulfil the diversity within the group of women and men (Krell 2002:113). Höhler's (and in this context also those of other authors) representations are therefore to be viewed critically, even if they seem attractive and understandable.

Since the statements, "women lead better" and "women lead differently" appear to be contradictory and due to the very few research in the field of health-oriented, leadership among female supervisors, only very limited statements can be made if women lead healthier than men. Only assuming a female relationship-oriented leadership, as well as the typical feminine characteristics seen from the viewpoint of the theory of difference, it seems there is evidence that women are also the healthier leaders. In order to understand this complex interplay even better, personal, task-related and organisational context factors have to be included in future analyses. Salutogenic leadership is characterised by health-promoting aspects, by esteem and recognition, as well as by the role-model-effect of the executive. In particular, mindfulness is given high priority in the work context. One main focus is on the holistic nature of leadership behaviour. All of these leadership qualities are reflected in the transformational leadership style and LMX.

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# HUMAN CAPITAL AND SOCIAL CAPITAL AS IMPORTANT COMPONENTS OF INNOVATION ECOSYSTEMS AND ECONOMIC DEVELOPMENT<sup>1</sup>

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## Abstract

There has been a long debate on the factors and conditions that are affecting economic development and progress. It is clear that multiple components from various domains are interplaying and creating unique circumstances, which are impossible to copy and imply one by one in a different context. Moreover, none of development processes is appearing in a linear mode and past performance does not predict future success, even though it does create some pre-conditions and path dependency, which affects socio-economic development of each country and region. In this article, the authors are integrating several major aspects of economic development – namely, human capital, social capital and innovation ecosystems. The authors propose a novel framework to study economic development through the lenses of 'soft' components and argue that sustainable development is possible only when human and social capital intervene and result in innovation ecosystems, which, on their turn are supported by active and genuine collaboration of the government, academic and business sectors. To illustrate this framework, the authors focus on several cases in developing countries, which appeared as more successful or less successful and explain that through development of social and human capital.

**Keywords:** India, China, economic development, innovation ecosystems, social capital, human capital.

## Introduction

Economic development is an interdisciplinary domain, which gained its importance and has been recognised as a separate field of study not that

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long ago (Todaro, Smith, 2006, McKinnon, 2010). However, importance of social and political values in the processes that nowadays are studied under the realm of development economics, have been recognised by the philosophers and leading thinkers of humanity (Aristotle, Erasmus of Rotterdam, Kant, Nietzsche to name just a few) for long centuries. The social context of the economic science is reflected in works of most notable political economists, such as Adam Smith, David Ricardo, Robert Malthus, Karl Marx and John Stuart Mill.

Although initially economic development focused more on issues related to economic structure and employment, later the scope widened and currently economies are perceived as social systems including both economic, so called 'hard' and noneconomic, so called 'soft' factors.

Hoff and Stiglitz (2001) suggest that development is no longer seen primarily as a process of capital accumulation, but rather as process of organisational change. According to them, the main research programs or schools of thought that should be integrated in modern economic development and thus affect the definition of research questions and future research path, are economics of information, the theory of coordination problems, and institutional economics. In these lines, the authors propose a novel framework for studying economic development with greater emphasis on human capital, social capital and innovation ecosystems, which are reinforced by the former factors. The article is structured as follows: first, theoretical background of the main concepts is presented, then a new theoretical framework is proposed and finally cases from China and India are presented where aspects of human and social capital, as well as their impact on innovation ecosystems are discussed.

## **Theoretical background and evolvement of the main concepts**

### **Human Capital**

The concept of human capital was first discussed in modern economic theories in the work of Adam Smith. He discussed four types of capital: i) machines for production and instruments in use for the trade; ii) buildings for revenue; iii) land for use and iv) human capital. After Smith, throughout the 1900s, the term 'human capital' was not discussed much more in literature until it was mentioned by Arthur Cecil Pigou, when defined human capital as an investment in human beings, as well as investment in material capital (Howitt, 2005). Pigou likewise discussed the relationship between economic growth, the production function, and the productivity of the workforce in regards to the per capita monetary returns. His works in general looked at the relation between the employment and the human capital of the labour force.

Following this, Jacob Mincer in 1958 was among the first to argue that differences in training caused an effect on income at the micro, or individual, level. Then, just six years later, Gary Becker (1967) began to publish his research on the subject, which was so influential that it is still commonly referred to in discussion of human capital today. He argued first of all that human capital bears a similarity to physical capital. Therefore, like, as with physical capital, the output of workers is at least partially dependent on the rate of returns of their capital. Put another way, workers who possess the requisite education, training, and skills for the needs of the economy are more productive. Given this belief, Becker ultimately recommended increased training for the labour force, for example through on the job training, general training programs, and standardisation of educational quality in formal education institutions.

All of this goes to indicate that non-physical human capital has an effective role in the growth process of a nation and that states must initially start with investing in people in order to improve economically and socially. In short, the human capital of a nation is its wealth. As will be seen below, this is especially true in populous developing states such as India and the PRC.

Initially, human capital was perceived as something that could be invested in and was analogous with the educational level of the individuals, but then in later analysis it was divided into several categories (Spiegel, 1994). Nowadays, human capital is regarded as the combination of health status of individuals, education, training, cognitive functioning, and other personal capabilities. It is commonly accepted that without considering these factors, it is impossible to explain long-term economic growth.

Traditionally, then, investing in human capital meant building more schools and making education, at all levels, both formal and informal, more available. However, as Eric Hanushuk observed in a 2013 paper, difference in economic growth among states has a close relation to cognitive skills, and that once this variable is accounted for, school attainment has no independent impact on growth. Essentially this means that it is not access to education that matters, but the quality of the education that is provided. Furthermore, as will be discussed below, today there are even further debates on what constitutes the education or training necessary for human capital development, and about how closely one should consider cultural contexts.

As it is still evolving, today, the concept of human capital can be broken down into types: general, firm specific, occupational and industry specific, and task specific. The first two were proposed already in Becker's seminal 1975 book, and the last are concepts that are more novel. General human capital, the broadest term, is comprised of education and training

that is valued by all employers, regardless of company and even more generally regardless of sector. In contrast, firm-specific human capital is that which has value at only one specific company, and is generally not transferable from one company to another. More recent has also been the idea of industry and occupational specific human capital, in which workers acquire skills specific to a certain industry, that are transferable within companies in the same industry (Gibbons, Waldman, 2004). Most specific and most recent is task specific human capital. In this conceptualisation, skills towards completing certain tasks can be learned on-the-job through practical experience, instead of through formal training. Competence in these tasks increases real wages as employees move through their careers to other companies, or advance through promotions within the same company.

The implications of this on the creation of education and training programmes cannot be understated. Often a paradox in work training programmes can exist between general and firm specific human capital, since employers are unlikely to want to provide training in general human capital, as employees can transfer it between firms, and at the same time employees are unlikely to invest in firm specific training because of its limited potential scope. This is why the novel idea of task-specific human capital is an important development, because it allows for the accumulation of skills in an experiential way, without the need for investment in formal training by either employer or employee.

## **Social Capital**

Social capital is a proceeding concept, which acquired wide recognition among scholars of different disciplines – sociology, political sciences and economy. Although there are many studies about diverse aspects of social capital, there is no shared agreement on the meaning of this concept (Nguyen, Rieger, 2017, Hoyman et al., 2016). In sociology, the term “social capital” arose in community studies, emphasising an importance of networks providing trust and mutual co-operation in such communities (Jacobs, Tillie, 2004). Later the concept has been exploited to explain a wide range of social and economical phenomena. For instance, different valuable studies have been conducted indicating an influence of social capital on the development of human capital (Coleman, 1999), on the economic performance of firms (Nahapiet, Ghoshal, 1998, Kostova, Roth, 2003) geographic regions (Putnam, 1993, Putnam, 2000), and nations (Fukuyama, 1995).

Social capital is created in the context of society and depends on a history, development peculiarities and unique experiences of the members of any particular community (Bourdieu, 1986, Putnam, 2000, Fukuyama,

1995). If social capital is discussed from the point of view persistent in political sciences emphasising societal level of analysis and defined as “features of social organization, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinating actions” (Aberg, 2000, p. 297.); it may be argued that there are some societies with low level or no social capital. However, there is a growing consensus among the authors that social capital is an ability of persons to gain benefits from specific social structures they are involved in on the basis of trust, shared norms and values (Tsai, Ghoshal, 1998, Adler, Kwon, 2002, Kwon, Adler, 2014, Ivy et al., 2018). Thus, social capital is present in every society where both formal and informal networks exist. On the other hand, it means that social structures people use for their own purposes may be destructive for the society as a whole; in the literature, such obstructive outcomes of social capital are sometimes called risks (Adler, Kwon, 2000) or dark side of social capital (Gargiulo, Benassi, 1999) or negative social capital (Portes, Landolt, 1996).

To acquire a deeper understanding of both positive and negative aspects of social capital, it is useful to analyse its different dimensions. It has been accepted among the leading scholars in the field that social capital has three main forms or clusters (Coleman, 1988, Putnam, 1993, Nahapiet, Ghoshal, 1998, Tsai, Ghoshal, 1998): structural, relational and cognitive.

Structural social capital refers to the pattern of connections between people: here the main facets are network ties and configuration (Granovetter, 2005, Burt, 2000, Oh et al., 2004). This dimension is conventionally used referring to the general model of connections between actors, meaning who is reached and how they are achieved. The most important benefit associated with this dimension is information. A classic example provided by Coleman (1988) is about a scientist who does not have time to read a huge amount of articles in related fields, but, nevertheless, is informed about the latest research trends by the means of everyday interactions with colleagues providing him with the relevant information. There is a broad scope of analysis indicating that network ties help their members to acquire information about job opportunities (Seibert et al., 2001, Gandini, 2016), innovations (Dakhli, De Clercq, 2004, Molina-Morales, Martínez-Fernández, 2010), as well as assists organizations to obtain new skills and knowledge (Yli-Renko, 2001, Inkpen, Tsang, 2005).

Relational dimension of social capital focuses on personal attitudes people have toward each other affecting their interpersonal relations, such as friendship, respect, trust, norms and sanctions, obligations and expectation. Through these personal relationships, people fulfil their social motives such as sociability, approval and prestige (Nahapiet, Ghoshal, 1998).

There are several important benefits described in a literature regarding this dimension. For example, in Putnam's model of social capital interpersonal trust (direct involvement in exchange relationships) transforms into accumulated trust in impersonal institutional arrangements (Putnam et al., 1994). Moreover, some important advantages associated with this dimension are influence, control and power. Here again, Coleman gives a hypothetical example of "Senate Club" where some senators are more influential because of being embedded in a system of relationships other colleagues do not have access to (Coleman, 1988, p.103–104). However, some other scholars are pointing out that sometimes power benefits of social capital trade off against its information benefit (Kwon, Adler, 2014). For instance, an actor gaining information benefits from many various contacts who themselves have many ties with lot of other connections will have less influence upon these contacts.

The last form of social capital is cognitive dimension, which refers to shared vision, representations, interpretations and systems of meaning among parties (Nahapiet, Goshal, 1998, Bolino et al., 2002). Although this dimension is not always discussed in a mainstream literature on social capital, the authors consider it to be significant for the analysis of undeclared work as it is closely connected with the main factors affecting involvement in informal economy. The main benefit associated with this dimension is solidarity. According to Adler and Kwon (2002, p.29) shared vision and systems of meanings "encourage compliance with local rules and customs and reduce the need for formal controls". At the societal level solidarity include civic engagement (Putnam, 2000) and at the organizational level – corporate citizenship behaviour (Adler, Kwon, 2002).

### **Innovation ecosystems**

In recent times, the concept of innovation ecosystems has become ever increasingly popular and central in the world of economics and business. In the quest to survive and improve, businesses, industries and economies can either increase the amount of input or find more efficient and sustainable ways of utilising the same or less input to achieve more. Given the depletion of resources available on earth and the negative impacts resulting from the reckless and uncontrolled exploitation of resources on the ecosystem, it has become increasingly clear that the second option is the best and optimal resort. This is the essence and purpose of innovation ecosystems. Innovation is believed to be the fundamental source of wealth creation in an economy.

Traditionally, three main actors/sectors have emerged as the main elements of innovation ecosystems: the academia (universities), industry and government. The interaction of these three elements and the resulting

network has come to be branded as the Triple Helix Model of innovation. The adaptive collaboration of the above mentioned can be said to be the driver of innovation ecosystems.

In this model, the government plays the role of regulating industry and the market. The manner and level of interaction and regulation depends on the kind of economy and the power of the government. The government can also interact with academia in how it encourages or funds education and research and its educational policy (Etzkowitz, Zhou, 2017). The role of the government or government regulation in the structure of innovation ecosystem vis-a-vis the two other proponents has especially been subject to scrutiny, but the very essence of the triple helix posits an argument for government involvement. According to a study examining the role of the public sector in five different business networks in Norway (Larsen et al., 2018), such involvement can range from minimum low (*laissez-faire*) to the public sector assuming the role of an equal triple helix sector partner, depending on the stage of growth of the innovation ecosystems and the public sector's placement in the value chain. Many studies have been carried out using the triple helix model and have increasingly demonstrated the increasing importance of the role the government or public sector can and should play in the operations of an innovation ecosystems and many national, regional and international public sectors and governments have actively sought to, and positively influenced innovation ecosystems. Industry's role is that of mobilising resources to produce goods and services for consumers, thus the implementer and producer of the innovation ecosystems. The interactions of this sector with the others can be functional: between science and markets; and is essentially the driving force with the other two providing support.

The third actor of the triple helix model, academia, has often been attributed the role of training workers for the industry and government sector. However, universities take the pro-active stance of putting knowledge to use and creating new knowledge. The central role of knowledge creation in post-industrial times and the ever-increasing dependence on scientific, technological and social innovation to tackle current and future challenges sustainably have left universities in a challenging and new position, which is central to the functioning of the triple helix. This new centrality gives the universities the role of orchestrating multi actor innovation (Markkula, Kune, 2015).

## **Human Capital and Social capital as engines for accumulation of Innovation networks and enhancement of economic development**

Although concepts of social capital and human capital initially developed in separated domains, latest studies and theories advocate the notion that both concepts are highly interconnected and reinforcing each other. Moreover, as the authors would argue in this article, human capital and social capital act as necessary elements to activate innovation ecosystems and bring countries to the path of sustainable economic development.

According to Marthur (1999), human capital is the “accumulated stock of skills and talents and manifests itself in the educated and skilled workers of the region”. It is sometimes measured in terms of the formation of person-years and can be increased through formal or informal education or training (Marthur, 1999). In this sense, human capital is not limited to formal education. It includes experience: practical on-the-job learning and non-traditional technical training programs to improve competence development (Davidsson, Honig, 2003). Human capital at the macroeconomic level can have many positive effects on economic development. Nevertheless, contrary to what proponents of human capital say, in both developed and developing countries, in addition to training and education, social, cultural and historical background also matter. Social capital or ties and connections between individuals and organisations on both micro and macro levels of analysis are working as the catalysis of human capital. That is why education and training are not the only or ultimate way to succeed or to achieve development of human capital in one country. Contrary to the theory of human capital, a sociological theory of participation in education and training tries to take into account all the factors – historical, geographical, cultural and social – that influence the provisions of various groups to education and training.

Indeed, analysis of human capital has usually been conducted in the field of economics, especially when discussing the Solow model. However, the sociological theory of participation, which is closely related to the social capital, draws from different fields and includes historical, geographical, cultural and social factors that affect different disposition groups. To show how these factors were neglected in traditional thinking one should note that the current orthodoxy of the human capital theory is at the same time historical and assumes that people are rational egoists who make decisions based on instrumental reasoning. This is a widely accepted version of the theory of human capital popularised by Becker and as well by famous economist Schultz (1961) who also tried to understand how individuals make decisions that lead them to undergo education and training. According to this theory, people invest in themselves to prosper

in the labour market. They weigh the costs of the current investment in education and training against the future benefits of higher income that they will earn when they stop being educated or trained and enter the job market. At the moment, they will be self-investing to be recognised by employers who realise that the education and training they have undertaken has made more productive employees, and as a result are willing to pay for them more wages.

Sociologists believe that the sociological theory of participation in education and training should consider all social and cultural entities that affect decisions in the real world. They attempt to challenge the hypothesis that human capital theory development is based on standardised rationality. According to a study by Ashton and Green, investments in human capital should not be taken for granted, but rather, explored empirically to find the circumstances in which human behaviour is built in this way. According to this theory, the usefulness of education and training on which human capital theory depends only exists when there are specific social combinations and cultural influences that cause it to be present, and conversely, this view is mostly absent in other times and in other places. Where such influences are absent, people do not benefit from education and training. The theory also argues that the creation of a human capital, no less than social capital, requires that people recognise moral authority social and social virtues, not individual ones (Fukuyama, 1995). The interpretation of this argument is that in certain circumstances, the acquisition of human capital may depend on the earlier acquisition of social capital, but it also leads to a more fundamental criticism of the idea of investing in human capital itself (Coleman, 1988). The theoretical predecessors of this idea rest, as in the writings about social capital, in the sociology of Durkheim.

As touched on previously, the theory of human capital conceptualises individuals as economic enterprises, and on the other hand, sociological theories focus much more heavily on people's social roles. This can be considered problematic because policies are designed that aim to increase our investment in human capital without the knowledge of a sociological theory can in fact only enhance the credibility of the instrument and do nothing to improve one's chances of developing a highly skilled and high-wage economy. Furthermore, it leads to problems such as ignoring community context, which then snowballs and contributes to the existence of weak institutions, inefficient inter-institutional communication, lack of requisite expertise, and inability to integrate social and cultural values in education and training system. A valid argument can be made that the policies which are not centred on social values and open for

foreign intervention have not proven to be, and may not in the future, be successful.

The role of innovations in economic development has been widely accepted since seminal works of Joseph Schumpeter. More and more evidence has been gathered illustrating inevitable need to innovate in order to reach sufficient levels of economic development ever since (Rosenberg, 1972, Huang, Xu, 1999, Wonglimpiyarat, 2006, Metcalfe, 2018, Acemoglu, 2015). Both human capital and social capital are of the utmost importance in the creation of innovation ecosystems as there is a need of a genuine and effective collaboration between the actors from various sectors and industries. Recent studies have proved importance of social capital in development of entrepreneurial and innovation ecosystems (Theodoraki et al., 2018, Russel et al., 2015). Such collaboration in innovation ecosystems is not orchestrated or regulated from above, but depends on a self-regulation methods, which imply special efforts and high motivation of each player as low commitment from any part can lead to the collapse of the whole ecosystem. This requires not only sufficient education level, but also ability to envision opportunities and benefits of collaboration which might not be comprehended without high levels of both social and human capital in a given country or region. As described in the previous section, for innovation ecosystems, as well as for national innovation systems, it is very important to have bonds and connections between governmental, business and academic sectors, which would result

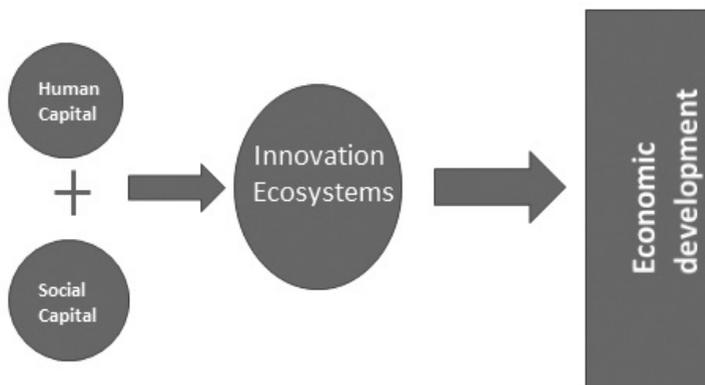


Figure 1. Necessary elements for formation of innovation ecosystems and leading to economic development

in successful institutional, as well as individual collaboration. This requires high levels of both – social and human capital. In Figure 1 below, the authors visualise the integration of human and social capital as leading factors for formation of innovation ecosystems and then creating necessary preconditions for economic development.

## **Case Studies: Formation of human capital, social capital and innovation ecosystems in China and India**

This section examines two case studies of developing states, which have managed to effectively increase their human and social capital, as well as developed innovation ecosystems in the past several decades. China and India were chosen for analysis for their size and rapid economic development. China, with a population of almost 1.4 billion, and India with a population of almost 1.3 billion, together contain about 27% of the world's population. Their GDPs, of 12.01 trillion dollars for China and 2.60 trillion dollars for India combine to a total 14.61 trillion dollars, and even more when PPP is taken into account (CIA World Factbook, 2018a, 2018b). With populations this large, it is clear how the biggest assets these states contain in terms of economic development is their human capital. As well, it is easy to tell why, with large GDPs, and over a quarter of the world's population, human capital development in these states is important not just for their domestic economies, but for the global economy as well.

These states were likewise chosen for their success in developing human and social capital rapidly over the past several decades, as well as successful creation of innovation ecosystems and for the example their experiences can lend to other developing states in the future. Therefore the case studies continue by discussing the details of the human and social capital development policies that each state ultimately enacted and their results, as well as the reasons for the given policies' successes. They conclude by looking at room for further improvement in the development of human and social capital in each of the two states and, most importantly, the lessons that can be taken away and applied to developing states, which still lag behind.

### **China**

The People's Republic of China (PRC) is the quintessential example of a state, which managed to so efficiently develop its human capital as to lead to significant and sustained economic growth. As late as the middle of the 20th century, the PRC remained a largely agricultural society. As a result it was underdeveloped both in terms of economic growth and in many

metrics that can be taken as indicators of economic development, among them human capital (Asian Development Bank Institute, 2015).

In the year 1962, 82% of the Chinese labour force was still employed in the low productivity agricultural sector (Dacuycuy, Lanzafame, 2014). In 1990, the first year that the human development index was released, the PRC had a score of only .502, putting it in 103 place globally (UNDP). That same year the percentage of students enrolled in secondary school was only 37%. Concurrently, and partially as a result, in 1960 the GDP of the PRC was only 59.72 billion, making it underdeveloped relative to its size and potential output (World Bank).

In 2017, just several decades later as mentioned above, the PRC had a GDP of 12.01 trillion, marking a growth of 20,000% since 1960. This makes it the biggest economy in the world today. Examining the multifaceted policies for advancing human capital that the PRC implemented at this time can help one not only to explain its rapid rise, but also help to provide a framework and policy guidance for developing state whose economies are still held back by underdeveloped human capital.

For the past two decades, the development of human capital has been central to Chinese government policy, as evidenced by the slogan “man is the root of everything.” (Ardichvili, Minia & Zavyalova, 2012). In fact, at the 2001 APEC conference, hosted by the PRC, President Jiang Zemin highlighted the need for human capital development and even laid out five concrete measures in pursuit of this goal:

- “(1) establishing a new perspective of development and strengthening human capacity building;
- (2) building a lifelong learning system and learning society;
- (3) utilising new learning technology;
- (4) promoting innovation and educating a new generation; and
- (5) strengthening international communication and collaboration.”

Furthermore, human capital development also figured prominently in the 10th 5-year plan and subsequent 11th 5-year guidelines, which shaped overarching policy goals in the PRC throughout the early 2000s. In practice these goals, because of the central focus placed upon them, were translated into concrete policies and initiatives that led to human capital growth (Yang, Wang, 2009).

In consequence, when Chinese GDP rose as a result of these efforts, so, too, did the percentage of GDP invested in education. A policy of compulsory education existed already from the 1980s, with the mandatory years of schooling rising still recently in 2010 from 8.5 to 9. This is currently coupled with an increased provision, promotion, and popularisation of tertiary education. In this respect, the PRC has for some

years already surpassed all other states, including those developed ones, in providing tertiary education (Yang and Wang, 2009). As well, this push towards increased enrolment has been coupled with a focus on monitoring and quality checks, which help to ensure standardization of educational standards (Asian Development Bank Institute, 2015). Finally, this is complemented by a system of vocational training programs, which, although waning in popularity from their heydays in the 1980s and 1990s, allow for training expansion aimed at the better matching of employee competences to labour market demands (Ardichvili, Minia & Zavyalova, 2012).

In recent years, the efforts and policies put forth by the PRC have had very tangible results. By 2013, the number of students enrolled in secondary education rose to 95%, with 48.4% of eligible students enrolled in tertiary schools (World Bank). As the transfer of workers out of the low productivity, agricultural sector was a fundamental pillar of development aspirations, in 2017, that number had dropped to only 27% (Dacuycuy, Lanzafame, 2014).

Other than the above documented radical GDP growth, the PRC managed to grow substantially in other measures of economic health and development as well. GDP per capita reached 16,700 dollars in 2017. The 2016 Gini Coefficient for the PRC, a measure of equality, was 46.5, which puts it in 31st place globally (CIA World Factbook, 2018a). Most tellingly, Chinese HDI as of 2018 was .752. While this number is still fairly low, and only slightly above the global average, it is a drastic improvement from just three decades ago.

Most, generally, human capital policies were successful in the PRC because of the central importance placed on them by the state (Asian Development Bank Institute, 2015). Since the economic reform and modernisation was launched in late 1970s, the Chinese government has paid particular attention to education, science and technology. Improving national skill level has become a national strategy integrated with China's overall strategy in economic development and modernisation.

The necessity of human capital development has been accepted likewise by firms, meaning that there was an integration of human capital development efforts between the public and private sectors, as well as even among individual families. This happened in tandem with broader structural reforms, such as the establishment of a solid labour intensive industrial base, as well as labour market reforms and an expansion of the manufacturing industry. As growth in these two areas happened at the same time, the PRC did a good job of matching vocational training to skills that were in demand and necessary for the industrialising labour market.

Later on, the PRC did a good job of re-adjusting the focus and priorities of their vocational programs when a shift to a knowledge-based economy seemed necessary.

Furthermore, and perhaps most importantly there was a focus on inclusivity and inclusive development of human capital, in an attempt to lessen inequality and bridge the development gap between richer urban and poorer rural regions of the country (Ardichvili, Minia & Zavyalova, 2012). In this regard, universal education, as discussed above, made a large impact.

This in turn also allowed eventual surplus workers to move from the agricultural to the manufacturing sector, and thus increased economic efficiency and pre-emptively dealt with the possibility of structural unemployment. As well, and specifically, one cannot leave out the impact of the one child policy, as secondary and tertiary enrolments in schools were found to be negatively correlated with fertility rates, possibly because when parents have fewer children, they can afford to invest more in each individual child's education (Asian Development Bank Institute, 2015).

Although, as evidenced above, the PRC has seen large gains in the development of human capital, some areas for further improvement still remain. Perhaps the largest challenge remains equality and inclusivity. For example, the educational gap between rural and urban areas, while shrinking, persists. As well, opportunities for educational and vocational development are often unavailable to migrant workers and their children, perpetuating poverty in this demographic group. Looking towards the future, the PRC's shrinking population may also pose a larger problem (Ardichvili, Minia & Zavyalova, 2012).

In contrast to human capital, social capital has historically been well developed within the PRC. This is due largely to the concept of *Guanxi*, or interpersonal connections, which has existed within Chinese society for centuries and which gained new importance in the second half of the 20<sup>th</sup> century (Hwang, 1987). In fact, it was commonly accepted at this time that a well-developed *guanxi* network was essential for doing business in China (Tsang, 1998). In various studies, *guanxi* was shown as crucial in obtaining a job, a promotion, or a pay raise (Knight and Yueh, 2008).

As the PRC continued its transition to a market based system at the beginning of the 21st century, some scholars predicted the role of *guanxi*, or social capital, in the labour market would decrease in importance (Fan, 2002). However, an empirical study done in the early 21st century showed that at this time social capital still played a role in Chinese urban labour markets and that indeed, social capital may even have functioned as a prerequisite and pathway for the effective building of human capital (Knight, Yueh, 2008).

Examining the importance and status of social capital in the PRC in recent years also yields some interesting trends. To examine this the authors looked at broad themes that were deemed by the OECD to be indicative of the strength of social capital within a society (OECD). The authors then examined questions from the most recent World Values Survey, conducted in 2012, that could be used as indicators of each category (World Values Survey, 2013). Namely, the broad themes the authors used to assess social capital were personal relationships, trust and co-operative norms, and civic engagement.

In the category of personal relationships, in response to the WVS question on the importance of family, 85.7% of respondents indicated that family was very important to them, while 12% indicated that family was rather important. Over half of respondents up to the age of 29 still lived with their parents (58.2%), and over a quarter of respondents from the ages of 30–49 still lived with their parents (28%). Looking at personal relationships at a level broader in response on whether respondents viewed themselves as part of their local communities, 23.3% strongly agreed, while 58.7% agreed. Finally, pertaining to the sources from which respondents got their news, about a quarter (24.2%) obtained information daily by talking to friends or colleagues. This was greater than the percentage of people who obtained information daily from the internet, email, radio, daily newspapers, and printed magazines. Furthermore, it was similar to the percentage of people (25.8%) who obtained information daily from their mobile phones.

As it pertains to trust and cooperative norms, there were several questions on the WVS that measured these metrics. There was a high degree of trust in personal relationships. 85.5% of respondents indicated that they trusted their families completely. 19% of respondents indicated that they trusted people in their neighbourhood completely and 59.4% trusted them somewhat. 13.3% indicated that they trusted people they knew personally completely, while 58.6% trusted them somewhat. Likewise, in all questions where respondents were asked about their confidence in institutions, a high level seemed to have existed. For example respondents placed a great deal or quite a lot of trust in the press (60.2%), labour unions (40.8%), the police (66.6%), the courts (71.1%), the national government (84.6%), political parties (74.5%), banks (75.3%), and environmental (56.7%) and women organisations (54.5%). As well, responses to questions on attitudes towards others showed high levels of trust. In response to a question on whether participants viewed themselves as generally trusting, only 8.6% disagreed strongly or disagreed a little, 12.5% neither agreed nor disagreed, and 60.8% either agreed a little or agreed strongly. Likewise, in response to question “do you think most people would try to take advantage of you if

they got a chance or would they be fair?” – the mean response was 6.88 on a scale 1 to 10, with 10 indicating that people would try to be fair. In response to the question on whether most people can be trusted, 60.3% of respondents indicated that they believed this to be true.

Finally, in regards to civic engagement, active membership in civil society groups, including sports and recreational organisations (2.2%), art, musical or educational organisations (1.3%), labour unions (.8%), environmental organisations (.5%), professional organisations (.3%), and humane or charitable organisations (.4%) remained low. In fact, in many instances these numbers marked a decrease from those in the 1990 WVS. When respondents were asked about other aspects of civic engagement, such as voting at the national level, numbers were also low, with 74.7% of respondents claiming they never voted. However, there was a difference when examining voting at the local level, with 47.8% of respondents claiming that they always or usually voted, and 40.9% claiming that they never did. Likewise, in response to whether they identified with the statement “it is important to help people living nearby; to care for their needs” 92.3% of respondents, said that this characteristic was at least little like them.

The PRC's current strong record in developing innovation ecosystem can be attributed to the significant reforms in key areas, including research and education reforms, protection of the intellectual property and legal environment. Regarding one of the most crucial component of the healthy innovation ecosystem, it has to be noticed that co-operation between academia and industry, has been possible thanks to the pro-active role of companies that are the main vehicle in driving and facilitating such cooperation. One of the substantial obstacles to the reinvigoration of Chinese ecosystem was the traditionally rooted gap between academic field and industry (World Economic Forum, 2016, p. 5). Today, however, co-operation between universities and enterprises has been growing thanks to the multiplication of technology parks and incubators pointing to the fact that fruitful results of this collaboration are yet to be observed. Moreover, it should be noted that successful development of the PRC's innovation ecosystem has its roots in the reforms related to the legal framework including Intellectual Property Rights that, as a matter of fact, could be deemed one of the most controversial aspects of the Chinese policy environment. Protection of technology and innovation by issuing patents is crucial for any innovation to take place insofar as it creates incentives, and encourages a rather enthusiastic environment among actors that participate in the Research and Design activities. At the core of the reforms that aimed at increased number of patents and protection of technology was the establishment of the IPR courts in 2014

in the largest, technology-oriented cities such as Beijing, Shanghai and Guangzhou (World Economic Forum, 2016, p. 10). Although, the reforms aiming at creation of the more innovation-conducive environment should not be diminished, it needs to be noticed that this area still remains as one of the most fragile and problematic. Recent strategies that are centred on developing strong intellectual property protection, as well as enhancing operating conditions for high-technology enterprises, by tax and fiscal policy reform and reduction of corporate tax and Value Added Tax should not be perceived as the guarantors of ongoing innovation success (World Economic Forum, 2016, p. 10). In order to safeguard the future of innovation in the PRC, it is necessary to reassure the accurate implementation and execution of the aforementioned initiatives, as well as to work on its expansion while removing the remaining barriers. Future challenges are related to the SME's, which despite the reduced regulations are still facing impediments that prevent them from entering the market. Although the forecasts for the innovation ecosystem seem to be rather positive, one of the pertaining problems with country's innovation performance is the actual lack of sufficient innovation. While the prevailing strategy that has been embraced by the Chinese companies consists of creating of the new versions of the pre-existing technologies, the country has very little to offer in terms of novel products. As the legacy of manufacturing excellence alone will be not sufficient in order for the Chinese companies to compete globally, it is crucial to overcome the infancy stage of innovation in the country (Frenkel, Maital, 2014, p. 189). In doing so, the role of the Government in promoting innovation, creating incentives, as well as implementing more innovation-oriented regulations will be vital.

On the other side of the spectrum of factors that weaken innovation ecosystem is the insufficient IPR protection. This area seems particularly vulnerable, as it might be one of the main causes of low level of innovation. In order for the PRC to move forward, it is important that it shift from being a manufacturing hub to becoming an innovation centre. For the latter to be achieved, it is necessary to pursue sufficient levels of Intellectual Property protection as the essential prerequisite for success of many other reforms. All the forward-looking measures should be calibrated to protect the Chinese enterprises and the people working in R&D in the first place.

## **India**

Human capital development was initially pursued in India because, like the PRC, it had a large population, and its human potential was its greatest resource. However, in 1960, the GDP of India was only 36.54 billion dollars. By 2017, this number was 2.60 trillion (World Bank). The secondary school

enrolment rate was 78.92%, which, in a populous state has a large impact. Labour force distribution at this time is hard to document, because of lack of adequate data, however, it is generally acknowledged that at this time many people were self-employed, or employed in the informal economy (Srinivasan, 2006). Life expectancy was only 41 years (World Bank). Consequently, by 1990, India's HDI was only .427, putting it in 114<sup>th</sup> place globally (UNDP).

Throughout the 21<sup>st</sup> century, India has been making efforts towards reform of its education system, with a focus on several broad areas. This includes increasing investment in education, increasing the number of educational institutions, increasing the number of vocational institutions, and a focus on quality and access (Asian Development Bank Institute, 2015).

In regards to primary and secondary education, in terms of legislation, first came the Sarva Shiksha Abhiyan (SSA), with its goal of achieving "learning for all," (Ardichvili, Minia & Zavyalova, 2012). There was a focus on increasing the quality of education, especially in STEM fields, and on reducing gender disparity. This was followed by The Right of Children to Free and Compulsory Education Act, which mandated free elementary education for children up to the age of 14, was enacted in 2009. This act included free uniforms, textbooks, supplies and indirect costs for qualifying low-income families (Asian Development Bank Institute, 2015). This act as well tried to ensure quality controls on education provided.

In addition, educational development programs are supported by further legislation meant to keep children in school, such a mid-day meal program for children in schools, and free school supplies for qualifying low-income children under the SSA. As well, in 2006 a law was passed that prohibited children under 18 from engaging in low paid work instead of attending school. In line with its efforts towards financial investment, from 2002–2006, the SSA budget was .3% of India's total GDP (Ardichvili, Minia & Zavyalova, 2012).

Despite efforts to the contrary, the Indian economy did not experience much structural reform. All sectors experienced an absolute increase in employment, but as of 2012, agriculture still accounted for about half of total employment, In addition, only about 12% of nonfarm jobs were in manufacturing, with 40% in low skilled construction. Nonfarm jobs only increased so much as to remain steady with the rest of the labour force. As a result, the number of farm workers up to had 2010 remained steady, while the number of available jobs in agriculture decreased, and these workers were unable to shift into more productive sectors, underutilising their human capital (Asian Development Bank Institute, 2015).

However, the biggest gains were made in the educational sector, with the opening of new universities and vocational and technological programs. At the primary level, the SSA program was successful in increasing school enrolment, and in decreasing inequality in access to education due to gender and income.

Overall, Indian economic reforms, did spur increased development (Asian Development Bank Institute, 2015). In 2017, as mentioned above, GDP had risen to 2.6 trillion dollars, making India the world's third largest economy. Income per capita for the same year was at this time was 7,200 dollars (CIA World Factbook India, 2018). The primary school enrolment rate was 114%, and life expectancy increased by almost 30 years from 41 to 69 (World Bank). There was also a substantial decline in the total fertility rates or the average number of births per woman from 5.5 in 1970 to 2.6. Already in 2011 India's Gini coefficient was .35, lower than that of the PRC (CIA World Factbook, 2018). This contradiction between increased human capital development in terms of education on one hand, and persistent inequality on the other is reflected in India's 2018 HDI ranking, at just 130th place globally, with a score of .64. While this is low, it still however marks nearly a 50% increase since 1990 (UNDP).

To the extent that human capital development has been successful in India, this has been a result of recognition and utilisation of intellectual potential. (Ardichvili, Minia & Zavyalova, 2012). At the primary level, policies that not only mandate, but also support, school attendance have had a positive impact on attendance rates. That is to say, the efficacy comes not just from making attendance mandatory, but providing policies and support, such as free lunches and supplies, that allows children to complete their schooling. This is combined with a focus on the technology sector, which is a relevant and profitable field and makes both Indian workers and companies competitive globally.

Although India has made significant gains in the development of human capital, much room for improvement still remains, especially given the potential of the large population. The inability of the above listed policies to induce structural change continues to contribute to relatively high levels of poverty and inequality. Among existing divides in equality are religious, regional, gender, and class. As well, these structural problems contribute to a mismatch between the skills possessed by graduates of vocational programs and those needed by emerging sectors in the economy, which is evident in the high number of people still employed in the agricultural sector. Furthermore, while there are now a large and varied number of educational institutions in India at all levels, their quality varies widely, at the university level especially.

Compared to the PRC, articles on the history of social capital in India are relatively hard to come by. This may be because, relative to Chinese society, Indian society is more fragmented and diverse with different regions having vastly different histories, cultures, traditions, and precedents. Indeed, even recent articles on social capital in India largely focus on case studies within specific regions, and not on the Indian state as a whole. However, the authors likewise examined answers on to the same questions used for the above case study of the PRC. The data came from the World Values Survey conducted in India in 2012.

In the category of personal relationships, in response to the WVS question on the importance of family, 94.9% of respondents indicated that family was very important to them, while 49.6% and 40.4% indicated that friends were very important. 73.1% of respondents under the age of 29 still lived with their parents, as did 53.5% of those aged 30–49. On a broader level, 53.9% of respondents strongly agreed that they viewed themselves as part of their local communities, while 33.3% agreed. Furthermore, V74 – importance of good in society. Finally, in regards to the sources from which respondents obtained new information, 34.7% received it through talking with friends or colleagues daily. This is less than the amount of respondents who received daily news from each the TV (54%), daily newspapers (47.3%) and mobile phones (44.9%).

When discussing co-operation and norms, trust at the individual level was high. 91.3% of respondents indicated that they trusted their families completely. 34.1% indicated that they trusted people in their neighbourhood completely and 52.6% trusted those in their neighbourhood somewhat. In regards to people known personally, 30.1% of respondents claimed that they trust them completely, and 47.7% that they trust them somewhat. When examining trust and confidence in institutions, there was a high level of trust in civil society press (65.9%) labour unions (54.7%) the police (49.1%) the courts (61.3%) the national government (45.7%), political parties (34.3%) major companies (43.4%) banks (80.4%), environmental organisations (58.2%) women's organisations (64.5%). In response to the question “do you think most people would try to take advantage of you if they got a chance or would they be fair?” the mean response was 4.97 on a scale 1 to 10, with 10 indicating that people would try to be fair. In response to a question on whether most people can be trusted, only 16.7% of respondents believed this to be true. A question about whether respondents viewed themselves as trusting was not asked on the Indian WVS, so no data exist for this metric.

Finally, on measures of civic engagement, active membership was higher than in the PRC in all categories, including sports and recreational organisations (7.8%), art, musical, or educational organisations (7.5%),

labour unions (6.3%), environmental organisations (4.8%) professional association (5.7%) , and humane and charitable organisations (5.1). It is also worth noting that 14% of respondents were associated in church or religious organisations. When asked about national level voting, 83.1% of respondents indicated that they always vote, while 11.2% said that they usually do so. At the local election level, responses were similar, with 83.1% of respondents again indicating that they always vote, and 9.5% indicating that they usually do so. The question measuring on whether respondents identified with the phrase “It is important to help people living nearby; to care for their needs” was not asked on the Indian WVS, so no data exist for this metric.

The roots of the current innovation ecosystem in India are closely tied with the demographic profile of the country and its large population. As a matter of fact, the origins of the innovation scene in India can be traced back to the social problems that country has been facing such as pertaining unemployment among the youngest groups. While the government’s focus in the past years has been on creating job opportunities with the goal of leveraging educated youth, the new opportunities emerged that could effectively facilitate the achievement of this goal. Entrepreneurship began to be perceived in India as an essential window of opportunity that could lead to the job creation while creating economic growth (Abhyankar, 2014, p. 11). By envisaging multiple benefits stemming from promotion of entrepreneurship, government of India has been putting innovation at the centre of its efforts in the recent years. At the core of its strategy was the support for innovation that would lead to the multiplication of the entrepreneurial activities, which in turn will pave the way for the economic growth. The implications of this logic can be reflected in the numerous initiatives that were undertaken by the Indian government in the past years.

In addition to the fiscal incentives that were offered towards the R&D activities performed by the universities and public research institutes, the government of India has announced its official commitment by declaring the period of 2010–2020 to be the “Decade of Innovation,” and by establishing National Innovation Council as the main body responsible for scientific, technological and innovation enhancing developments. The establishment of the centralized council whose mandate is to coordinate the standalone activities seems to be of paramount importance for India. As the current national innovation ecosystem has been fragmented with no uniform policy regarding innovation and entrepreneurship, it will be an essential step for the country to start the reform by establishing the proper policy framework (Abhyankar, 2014, p. 13). Despite the aforementioned factors that impede realisation of the innovative potential of the country, it

seems that entrepreneurship-oriented reforms will be necessary to address the deeper roots of the problem.

As it occurs, in the similar way as it has been the case in China, the innovation ecosystem in India has been suffering from the inadequate intellectual property protection (Abhyankar, 2014, p. 14). In India, however, the lack of sufficient protection regime is rooted in the structural and legal problems. The fact that entrepreneurs in India are rather lukewarm in demanding the protection for their work owes to the perplexing reality of costly and time-consuming process of patent issuing. Such structural problems can severely disincentive present, as well as potential entrepreneurs and impede their open access to innovation. Drawing back on the Indian experience, that future trajectory of the innovation that is expected to expand is to a large extent dependent on the amount of legal protection that the government of India is willing to yield to enhance the innovation processes.

## Conclusions

Taking the differing cases of China and India, some broad general conclusion can be drawn. The PRC and India have managed to successfully develop their human capital in large part because they invested not only in creating more educational opportunities or in matching the education offered with the needs of the economy, but mainly because they focused on the quality of education offered.

Despite the inequalities that still exists in terms of standards of education in these two states, they have both successfully managed to systematise their education systems to the extent that they ended up having large segments of their population, which are well educated and well trained. Furthermore, the importance of the role of government and the coherency of policy in the two successful cases cannot be understated. In these cases, standardisation of educational systems occurred through generally cohesive and centralised policy efforts. Furthermore, supplementary policies that addressed local barriers to school attendance, such as free lunches and supplies in India, played an important role. In this way, one can also see support for sociological theories of education, human and social capital accumulation, which emphasise the fact that human capital growth is not possible without considering local contexts.

Finally, and perhaps most importantly, the PRC and India, when they saw initial GDP growth after experiencing development in human capital, invested money back into human capital development. This is especially significant when one remembers the Solow model with added human capital, wherein human capital, like physical capital, depreciates and must

be invested in. The PRC and India understood that investing in education and training is not a one-time thing, but rather a cycle of growth, and reinvestment, and further growth.

Therefore, in conclusion, there is little debate that human capital development is of paramount importance to broader economic development and growth, especially in developing states, where the stakes and potential benefits are high. The biggest debate today rests in how to best actually develop human capital. Whether through classical education and training, or through more constructive sociological methods, taking into account the important of social capital development in the local communities, as well as focus on the quality of education, coherent government policy, and reinvestment back into training and education.

When examining the differences between indicators of social capital in the PRC and in India, several things stand out. The first being that initially, India appears to have higher levels of social capital, as measured through trust and connections between individuals. In India, there is higher participation in civil society than in the PRC, both in terms of participation in civil society groups and in election participation. Likewise, it seems that respondents from India trusted those in their families, in their communities, and among their personal acquaintances, more than respondents from the PRC did.

However, in India this trust seems to be reserved solely for those close to an individual. It does not extend to perception of people in general, as indicated by the low response on whether people can be trusted (16.7%), or trust in institutions, which remains largely lower than in the PRC. In contrast, in the PRC there appeared to be trust that extended past an individuals family and immediate acquaintances, as indicated by the high response on whether people can be trusted (60.3%). This may be significant because of the importance of bridging social capital in a state's economic development. Increased trust in society in general could potentially lead to further bridging social capital with people outside of an individual's social circle, which would lead to better employment prospects for the individual. Conversely, in India, the high level of trust for those in one's social circle, and the relative mistrust of outsiders, could lead to the maintenance of bonding social capital over the creation of bridging social capital, which may limit individuals opportunities and on the social level lead to suboptimal growth.

Likewise, the higher levels of institutional confidence in the PRC could lead to individuals being more likely to trust institutions, and therefore being more likely to participate within them and ultimately benefit from them. Finally, the fact that many Chinese respondents obtained new information daily from friends and colleagues shows a higher level of

informal information sharing within Chinese society than within Indian. As discussed above, this can be an important indicator of the extent of social capital within a society.

As evident from both cases, gradual development of human and social capital has led to the evolvement of innovation ecosystems, which are playing an important role for the current economic development of both countries.

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# THEORETICAL AND EMPIRICAL RESEARCH ON GENDER AND LEADERSHIP

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## Abstract

The aim of this article is to shed light on theoretical and empirical research on gender and leadership. The article shows that the topics leadership and gender underlie a vivid debate about differences and similarities between female and male leaders in management science. In general, women are still facing substantial barriers and thus are underrepresented in senior leadership positions. From the human capital perspective, women are at least or even better educated than their male counterparts. In fact, women do have less work experience, which can be traced back to childcare and domestic duties. Moreover, research shows that women deal with stress differently and have more problems in establishing informal networks than men. From the leadership effectiveness perspective, female leaders tend to use more participative, democratic, or transformational leadership styles and a higher individualised consideration towards employees than men do. Besides, women are more effective in leadership roles that are congruent with their gender, are more attentive to interpersonal relations, and try to establish an atmosphere of harmony compared to male managers. Furthermore, the article deals with the glass cliff effect that describes that women are more likely to be appointed to senior leadership positions under precarious financial situations than men. Moreover, studies that researched the impact of women in CEO positions affecting the financial performance offer mixed support and are partly contradicting. In addition, this article also discusses Schein's think manager-think male paradigm and Heilman's lack of fit model and offers explanations for stereotyped behaviours against women.

**Keywords:** gender and leadership, leadership styles, gender differences, leader personality traits, leadership role, leadership competence.

## Introduction

To begin with, the topic of leadership has been part of human experience since people formed groups to cope with threats from the environment, dangerous animals, or other individuals. In particular, most discussions about leadership range from antiquity through the 1970s primarily focusing on men, with very little emphasis on women as leaders or gender and leadership.<sup>1</sup> Now, at the beginning of the 21<sup>st</sup> century, the

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<sup>1</sup> Eklund, K. E., Barry, E. S., Grunberg, N. E. (2017), Gender and Leadership. *Intech open science open minds*, pp. 129–130.

topic of women and leadership is gaining significant attention<sup>2</sup>, which can be traced back to changing conditions in work organisations.<sup>3</sup> Scholars started out questioning how women lead and if differences between men and women exist and referred to highly effective female leaders such as Chancellor Angela Merkel of Germany or President Dilma Rousseff of Brazil.<sup>4</sup> Considering the employment in the USA, women are still underrepresented in leadership positions in companies, institutions of higher education, and in politics.<sup>5</sup> In particular, the Catalyst (2019) reports that 44.7% of the total S&P 500 labour force are women. Moreover, women account for 36% in first- or mid-level positions and only 4.8% Chief Executives Officers are female.<sup>6 7</sup> The Centre for Women and Politics (2016) further highlights that women are also underrepresented in elective offices. In detail, women hold 105 seats (19.6%) of the 535 seats in the 114<sup>th</sup> U.S. congress and 20 (20%) of the 100 seats in the Senate. In addition, in 2016 only 75 women hold state-wide elective offices in the United States of America.<sup>8</sup> According to the business report from Grant Thornton (2016), women hold only 24% of senior roles and 33% of businesses have no women in senior management positions.<sup>9</sup> Carli/Eagly (2011) and Paustian-Underdahl/Walker/Woehr (2014) further stress that although the proportion of women improved in the last years women did not reach parity with men<sup>10 11</sup> and remain disproportionately

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<sup>2</sup> Wright, P. (2011), Women and leadership style. *Group*, Vol. 35, Issue 3, p. 248.

<sup>3</sup> Yukl, G. (2013), *Leadership in Organizations*. England, Eighth Edition, Pearson, p. 359.

<sup>4</sup> Hoyt, C. L., Simon, S. (2016), Gender and Leadership. In: Northouse, P. G.: *Leadership. Theory and Practice*. Seventh Edition, United Kingdom, Sage Publications, p. 397.

<sup>5</sup> Chin, J. L. (2014), Women and Leadership. In: Day, D. V.: *The Oxford Handbook of Leadership and Organizations*. New York, Oxford University Press, pp. 733–734.

<sup>6</sup> Catalyst (2018), *Pyramid: Women in S&P 500 companies*. <https://www.catalyst.org/research/women-in-sp-500-companies> (accessed on 22. February 2019).

<sup>7</sup> Warner, J., Corley, D. (2017), *The Women's Leadership Gap. Women's Leadership by the Numbers*. Center for American Progress, p. 1, <https://cdn.americanprogress.org/content/uploads/2017/05/21145352/WomenLeadershipGap2017-factsheet1.pdf> (accessed on 22. February 2019).

<sup>8</sup> Center for American Women and Politics (2016), *Women in Elective Office 2016*. <http://www.cawp.rutgers.edu/women-elective-office-2016> (accessed on 23. February 2019).

<sup>9</sup> Grant Thornton (2016), *Women in business. Turning promise into practice – Grand Thornton International Business Report 2016*. [https://www.grantthornton.global/globalassets/wib\\_turning\\_promise\\_into\\_practice.pdf](https://www.grantthornton.global/globalassets/wib_turning_promise_into_practice.pdf) (accessed on 23. February 2019).

<sup>10</sup> Carli, L. L., Eagly, A. H. (2011), Gender and Leadership. In: Bryman, A., Collinson, D., Grint, K., Jackson, B., Uhl-Bien, M. *The Sage Handbook of Leadership*, London, Sage Publications, pp. 103–104.

<sup>11</sup> Paustian-Underdahl, S. C., Walker, L. S., Woehr, D. J. (2014), Gender and Perceptions of Leadership Effectiveness: A Meta-Analysis of Contextual Moderators. *Journal of Applied Psychology*, Vol. 99, Issue 6, p. 1129.



Source: Hoyt/Simon, 2016, p. 400.

**Figure 1. Understanding the Leadership Labyrinth**

concentrated in lower-level hierarchies.<sup>12</sup> Thus, statistics show selection rates for leadership positions vary between men and women, both in the USA, as well as around the world.<sup>13</sup>

According to Hoyt, Simon (2016), Gipson et al. (2017) and Yukl (2013), the discussion of women's underrepresentation in high-level relationships can be traced back to three major types of explanations. Differences between men and women are based on human capital investments followed by gender differences and finally prejudice and discrimination against

<sup>12</sup> Powell, G. N., Graves, L. M. (2003), *Women and Men in Management*. 3rd Edition, California, Sage Publications, p. 3.

<sup>13</sup> Gipson, A. N., Pfaff, D. L., Mendelsohn, D. B., Catenacci, L. T., Burke, W. W. (2017), Women and Leadership. Selection, Development, Leadership Style, and Performance. *The Journal of Applied Behavioral Science*, Vol. 53, Issue 1, p. 34.

female leaders.<sup>14 15 16</sup> The following Figure 1 illustrates and summarizes the three main types of explanations.

## Differences in Human Capital

First and foremost, one prominent explanation for leadership differences is based on the perception that women have less human capital in education, training, and work experience compared to men. In particular, women obtain undergraduate degrees at a higher rate than men do. Similarly, women earn professional and doctoral degrees at a rate greater or nearly equal to that of men.<sup>17</sup> According to a survey of the American Bar Association (2013), women, for example, obtain 47.3% of law degrees, but are significantly underrepresented in Federal Court positions with 24.1% and receive less salary than men.<sup>18</sup> In fact, women often have less work experience than men do, which is caused by childcare and domestic duties.<sup>19 20</sup>

Furthermore, Carli, Eagly (2007) argue that domestic responsibilities cause substantial time pressure and women compensate time by giving up leisure time activities.<sup>21</sup> However, given the fact that about 50% of all middle managers are female, this may provide evidence that women are being given the essential possibilities to receive the crucial management experience before being appointed for senior leadership positions. In contrast, other researches have emphasised the scarcity of highly trained female leaders as a contributing factor to the gender gap in the leader selection process, which is defined as a pipeline problem in the literature. There is a significant lack on women with adequate education and work

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<sup>14</sup> Hoyt, C. L., Simon, S. (2016), Gender and Leadership. In: Northouse, P. G.: *Leadership. Theory and Practice*. Seventh Edition, United Kingdom, Sage Publications, p. 399.

<sup>15</sup> Gipson, A. N., Pfaff, D. L., Mendelsohn, D. B., Catenacci, L. T., Burke, W. W. (2017), Women and Leadership. Selection, Development, Leadership Style, and Performance. *The Journal of Applied Behavioral Science*, Vol. 53, Issue 1, p. 35.

<sup>16</sup> Yukl, G. (2013), *Leadership in Organizations*. England, Eighth Edition, Pearson, p. 358.

<sup>17</sup> Hoyt, C. L., Simon, S. (2016), Gender and Leadership. In: Northouse, P. G.: *Leadership. Theory and Practice*. Seventh Edition, United Kingdom, Sage Publications, p. 399.

<sup>18</sup> American Bar Association (2013), *A current glance at women in the Law*. [https://www.americanbar.org/content/dam/aba/marketing/women/current\\_glance\\_statistics\\_feb2013.authcheckdam.pdf](https://www.americanbar.org/content/dam/aba/marketing/women/current_glance_statistics_feb2013.authcheckdam.pdf) (accessed on 25. February 2019).

<sup>19</sup> Hoyt, C. L., Simon, S. (2016), Gender and Leadership. In: Northouse, P. G.: *Leadership. Theory and Practice*. Seventh Edition, United Kingdom, Sage Publications, p. 400.

<sup>20</sup> Suter, L. E., Miller, H. P. (1973), Income Differences Between Men and Career Women. *American Journal of Sociology*, Vol. 78, Issue 4, pp. 962–963.

<sup>21</sup> Carli, L. L., Eagly, A. H. (2007), *Through the Labyrinth. The truth about how women become leaders*. Boston, Harvard Business School Publishing, p. 55.

experience to choose from for senior leadership positions.<sup>22</sup> Iwasaki, MacKay, Ristock (2004) explored the experiences of stress among both female and male managers. It could be researched that men and women experience stress differently. Although there were some similarities between men and women (e.g. a lack of sleep or financial stressors), female managers highlight that emotional stress was very draining, mostly because of the pressure to meet expectations and being responsible for others individuals compared to men. Female managers feel responsible for work both inside and outside their homes. Iwasaki, MacKay, Ristock (2004) further report that male managers were primarily focused on themselves and regarded other affairs as beyond their control and responsibility. Moreover, the study found that female leaders tend to talk more extensively and emotionally how their family-home lives became a source of stress compared to male managers. Following that, female managers experience a greater amount of stress from their family-home lives than male managers. One explanation for this phenomenon is based on the argument that female managers are expected to perform substantial family and home responsibilities.<sup>23</sup>

In addition, McGuire (2002) performed an empirical research with more than 1,000 financial service employees and could identify that women are facing significant barriers in establishing informal networks. The study revealed that women tend to have jobs that limit their ability to form resourceful networks. Moreover, women were less likely than their male counterparts to have positions in which they make final decisions and interact with staff members outside of their work groups. Following that, male network members were more likely to control company resources than women were.<sup>24</sup> Similarly, Lyness, Heilman (2006) conducted a study and showed that the relationship between performance ratings and promotions was weaker for men than for women. The authors argue that male managers take more advantage of informal means than women for

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<sup>22</sup> Gipson, A. N., Pfaff, D. L., Mendelsohn, D. B., Catenacci, L. T., Burke, W. W. (2017), Women and Leadership. Selection, Development, Leadership Style, and Performance. *The Journal of Applied Behavioral Science*, Vol. 53, Issue 1, p. 36.

<sup>23</sup> Iwasaki, Y., MacKay, K. J., Ristock, J. (2004), Gender-Based Analyses of Stress Among Professional Managers: An Exploratory Qualitative Study. *International Journal of Stress Management*. Vol. 11, Issue 1, p. 75.

<sup>24</sup> McGuire, G. M. (2002), Gender, Race, and the Shadow Structure: A Study of Informal Networks and Inequality in a Work Organization. *Gender and Society*, Vol. 16, Issue 3, p. 315.

career advancement do.<sup>25</sup> Taken together these findings, women are still facing significant hurdles from accessing top leadership positions.<sup>26</sup>

#### Gender and leadership effectiveness

After having briefly discussed the leadership gap from human capital perspective, the author puts emphasis on gender differences in leadership and its effectiveness in more detail substantiating with empirical research.

To begin with, Eagly, Johnson (1990) performed a meta-analysis to identify leadership style differences between men and women. Results show that against stereotypic expectations that women do not generally lead in a more interpersonal and men in more task-oriented manner.<sup>27 28</sup> Surprisingly, research revealed that women tend to apply more democratic or participative leadership styles.<sup>29 30</sup>

Further research work conducted by Eagly, Johannesen-Schmidt, van Engen (2003) focusing on transformational, transactional, and laissez-faire leadership indicated that women tend to apply more transformational leadership than men. Similarly, the same is valid for transactional leadership. Women are more prone to offer rewards for appropriate performance to subordinates than men are. Besides, Eagly, Johannesen-Schmidt, van Engen (2003) suppose that less effective leadership styles such as laissez-faire behaviour were more common in men. Moreover, it could be researched that female leaders possess a wider range of different leadership behaviours than male leaders. In particular, this refers to transformational and contingent reward behaviours.<sup>31</sup> Chin (2014) highlights that although

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<sup>25</sup> Lyness, K. S., Heilman, M. E. (2006), When Fit Is Fundamental: Performance Evaluations and Promotions of Upper-Level Female and Male Managers. *Journal of Applied Psychology*, Vol. 91, Issue 4, p. 784.

<sup>26</sup> Gipson, A. N., Pfaff, D. L., Mendelsohn, D. B., Catenacci, L. T., Burke, W. W. (2017), Women and Leadership. Selection, Development, Leadership Style, and Performance. *The Journal of Applied Behavioral Science*, Vol. 53, Issue 1, p. 37.

<sup>27</sup> Eagly, A. H., Johnson, B. T. (1990), Gender and Leadership Style: A Meta-Analysis. *Psychological Bulletin*, Vol. 108, Issue 2, pp. 247–249.

<sup>28</sup> Hoyt, C. L., Simon, S. (2016), Gender and Leadership. In: Northouse, P. G.: *Leadership. Theory and Practice*. Seventh Edition, United Kingdom, Sage Publications, p. 402.

<sup>29</sup> Chin, J. L. (2014), Women and Leadership. In: Day, D. V.: *The Oxford Handbook of Leadership and Organizations*. New York, Oxford University Press, p. 738.

<sup>30</sup> Trinidad, C., Normore, A. H. (2005), Leadership and gender: a dangerous liaison? *Leadership & Organization Development Journal*, Vol. 26, Issue 7, p. 583.

<sup>31</sup> Eagly, A. H., Johannesen-Schmidt, M. C., van Engen, M. L. (2003), Transformational, Transactional, and Laissez-Faire Leadership Styles: A Meta-Analysis Comparing Women and Men. *Psychological Bulletin*, Vol. 129, Issue 4, pp. 586–587.

these differences are small; the implications are encouraging because it identifies areas of strengths of female leaders.<sup>32</sup>

Regarding leadership effectiveness, Eagly, Karau, Makhijani (1995) found that female and male leaders do not distinguish in leadership effectiveness in general. Surprisingly, research revealed one robust gender difference in such a way that women and men were more effective in leadership roles that were congruent with their gender. For example, female leaders were less effective than men in military positions, but more effective than men in education, government, and social service organisations, as well as in positions where communal interpersonal skills are appreciated. Furthermore, women were less effective than their male counterparts when they supervised a higher number of male subordinates.

Taking these findings together, Eagly, Karau, Makhijani (1995) highlight that being “out of role” in gender-defined terms may cause a decline in leaders’ perceived effectiveness.<sup>33 34</sup>

Research also focused on the presumed gender difference that women allocate less effort to work than men do with the argument that women have greater family responsibilities. The study by Bielby, Bielby (1988) showed that women tend to work at jobs that require slightly more effort. Compared to men with comparable domestic responsibilities market human capital, income, promotion possibilities, and job responsibilities women allocate significantly more effort to work activities compared to men. Despite greater household responsibilities, women must be able to draw on reserve of energy that is either not available to the typical male or, more realistically, that their male counterparts choose not to drawn upon.<sup>35</sup>

Moreover, Eagly, Karau (1991) performed a meta-analytic review on leader emergence and found out that men were more likely to emerge as leaders in groups than women were. Women were more attentive to interpersonal relationships and group harmony than men were. Besides, women were more likely to serve as social facilitators instead of leaders. The authors assume that women apparently have a greater chance of receiving a leadership position under certain circumstances that include,

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<sup>32</sup> Chin, J. L. (2014), Women and Leadership. In: Day, D. V.: *The Oxford Handbook of Leadership and Organizations*. New York, Oxford University Press, p. 738.

<sup>33</sup> Hoyt, C. L., Simon, S. (2016), Gender and Leadership. In: Northouse, P. G.: *Leadership. Theory and Practice*. Seventh Edition, United Kingdom, Sage Publications, pp. 402–403.

<sup>34</sup> Eagly, A. H., Karau, S. J., Makhijani, M. G. (1995), Gender and the Effectiveness of Leaders: A Meta-Analysis. *Psychological Bulletin*, Vol. 117, Issue 1, pp. 137–141.

<sup>35</sup> Bielby, D. D., Bielby, W. T. (1988), She Works Hard for the Money: Household Responsibilities and the Allocation of Work Effort. *American Journal of Sociology*, Vol. 93, Issue 5, pp. 1055–1056.

for example, social tasks.<sup>36</sup> In contrast, Kent, Moss (1994) performed an empirical study and found that women were slightly more likely to emerge as leaders than men were.<sup>37</sup> A further gender difference researched by Babcock, Laschever (2003) indicated that women are much less likely to see benefits and necessity for asking for what they really want.<sup>38</sup>

Furthermore, research by Ryan, Haslam (2005) showed that women were more likely to be appointed to leadership positions in circumstances of general financial downturns.<sup>39</sup> In particular, Haslam, Ryan (2008) investigated the circumstances surrounding the appointment of directors in companies in Britain and could reveal that women are overrepresented in precarious leadership positions. This phenomenon is called “the glass cliff”. In particular, for companies that placed men to their company boards, share price performance remained stable, both before and after the appointment. In contrast, in times of stock market downturns, companies that appointed female leaders had experienced poor financial performance. Derived from that, men and women were positioned to directorships under very different conditions.<sup>40</sup>

In addition, the study by Nielsen, Huse (2010) makes several contributions to current discussions about the role of female directors on corporate boards. To begin with, the authors found that the impact of women on corporate boards depends on the nature of task executed. In general, no overall differences were detected between the behaviour of female and male managers, but it could be researched that women directors’ leadership varies slightly compared to men in specific circumstances. In particular, the ratio of female directors has a positive direct relationship with board strategic control but no direct relationship with board operational control. Thus, these findings indicate that female directors do not carry out operational control tasks better or worse compared to male managers, they contribute certain benefits to the board decision-making when it comes to strategic tasks. It is further argued that women

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<sup>36</sup> Eagly, A. H., Karau, S. J. (1991), Gender and the Emergence of Leaders – A Meta-Analysis. *Journal of Personality and Social Psychology*, Vol. 60, Issue 5, p. 705.

<sup>37</sup> Kent, R. L., Moss, S. E. (1994), Effects of sex and gender role on leader emergence. *Academy of Management Journal*, Vol. 37, Issue 5, p. 1343.

<sup>38</sup> Babcock, L., Laschever, S. (2003), *Women don’t ask. Negotiation and the Gender Divide*. Princeton, Princeton University Press, p. 20.

<sup>39</sup> Ryan, M. K., Haslam, A. S. (2005), The Glass Cliff: Evidence that Women are Over-Represented in Precarious Leadership Positions. *British Journal of Management*, Vol. 16, Issue 2, pp. 86–87.

<sup>40</sup> Haslam, A. S., Ryan, M. K. (2008), The road to the glass cliff: Differences in the perceived suitability of men and women for leadership positions in succeeding and failing organizations. *The Leadership Quarterly*, Vol. 19, Issue 5, pp. 530–531.

have a wider sensitivity towards colleagues and their consideration of the interests and perspectives of all included parties increases board oversight of company strategy. These findings contribute the understanding why it is tricky to establish a direct relationship between board gender composition and company performance.<sup>41</sup>

Similarly, Adams, Ferreira (2009) conducted a research to identify whether governance characteristics of boards that are more diverse are different from those that are less diverse. It was revealed that women attend more meetings and are more likely to be assigned to monitoring-related committees compared to their male counterparts. In case women also participated actively at board and monitoring committee meetings, the monitoring intensity of the total board increased.<sup>42 43</sup> However, Melero (2011) conducted further research to reveal how workplace management teams with a higher proportion of women tend to use different people-management practices. The study found that women tend to show more individualised consideration of employees than men do. The findings further suggest that these management teams seem to develop more interpersonal communication channels with staff members and foster their participation in decision-making processes. From the theoretical framework perspective, the findings highlight the assumption that the influence of women in the overall selection of workplace management practices raises with their relative presence in the management team.<sup>44</sup>

In addition, Post (2015) performed an empirical research to understand to what extend and in what contexts female leaders may be beneficial for teams. In particular, the study explored how team leader gender relates to team cohesion, cooperative learning, and participative communication. Results show that teams may benefit from female group leaders to develop cohesion, cooperative learning, and participative communication when team coordination requirements are higher, such as when teams are more functionally diverse, larger, or geographically dispersed. As diversity raises, teams led by women show a higher cohesion compared with teams led by men. In case team size enhances, female-led teams respond with more

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<sup>41</sup> Nielsen, S., Huse, M. (2010), The Contribution of Women on Boards of Directors. Going beyond the Surface. *Corporate Governance: An International Review*, Vol. 18, Issue 2, p. 143.

<sup>42</sup> Adams, R., Ferreira, D. (2009), Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics*, Vol. 94, Issue 2, pp. 295; 301.

<sup>43</sup> Gipson, A. N., Pfaff, D. L., Mendelsohn, D. B., Catenacci, L. T., Burke, W. W. (2017), Women and Leadership. Selection, Development, Leadership Style, and Performance. *The Journal of Applied Behavioral Science*, Vol. 53, Issue 1, pp. 53–54.

<sup>44</sup> Melero, E. (2011), Are workplaces with many women in management run differently? *Journal of Business Research*. Vol. 64, Issue 4, pp. 390–391.

cohesion, co-operative learning, and participative learning compared with similar teams with male superiors. Finally, among geographically dispersed teams, those teams with female leaders show more cooperative learning and participative communication than those with male managers.<sup>45</sup>

Considering leadership effectiveness from the financial outcome perspective, Jalbert, Jalbert, Furumo (2013) conducted a study to determine if gender affects financial company performance. In this respect, the authors collected data from Forbes magazine and Compustat including 6,305 firm year observations covering a time period from 1997 until 2006. The results indicate that gender has significantly explanatory power for the Return on Investment, Price to Earnings Ratio, Return on Assets, Sales Growth and Institutional Ownership. The results highlight that female Chief Executives Officers lead companies differently and are recognised differently by financial markets.<sup>46</sup> Besides, Davis et al. (2010) performed a very similar study but with focus on CEO gender on market orientation and performance among small and medium-sized companies. According to the results, no significant relationship was found between CEO genders and financial and market performance in small and medium-sized companies. Although there are some indications for a marginal higher performance among female-led companies, the research results are not significant, indicating that gender does not affect company performance. Furthermore, it could be researched that female leaders put much more emphasis on market orientation compared to men.<sup>47</sup>

A further stream of scholars researched how board diversity affects firm value. Results show that women or minorities on the board positively and significantly affect the firm value.<sup>48</sup> In contrast, Darmadi (2013) performed a similar research in Indonesia to examine the relationship between gender diversity on the management board and the financial performance of listed companies. The author applied a cross-sectional regression analysis and found that the representation of women on management boards negatively and significantly affects firm performance. Based on

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<sup>45</sup> Post, C. (2015), When is female leadership an advantage? Coordination requirements, team cohesion, and team interaction norms. *Journal of Organizational Behavior*, Vol. 36, Issue 8, pp. 1153; 1166–1167.

<sup>46</sup> Jalbert, T., Jalbert, M., Furumo, K. (2013), The Relationship Between CEO Gender, Financial Performance, And Financial Management. *Journal of Business & Economics Research*, Vol. 11, Issue 1, p. 32.

<sup>47</sup> Davis, P. S., Babakus, E., Englis, P. D., Pett, T. (2010), The Influence of CEO Gender on Market Orientation and Performance in Service Small and Medium-Sized Service Businesses. *Journal of Small Business Management*, Vol. 48, Issue 4, p. 488.

<sup>48</sup> Carter, D. A., Simkins, B. J., Simpson, G. W. (2003), Corporate Governance, Board Diversity, and Firm Value. *The Financial Review*, Vol. 38, Issue 1, p. 51.

that, a higher proportion of female leaders tends to lower the company performance. The authors further stress that a higher proportion of women on management boards is more likely to occur in small companies, which are often family-controlled.<sup>49</sup> Thus, it can be concluded that research offers mixed results how women on corporate boards increase the financial performance of companies.<sup>50</sup>

Next, research started examining the impact of female leaders throughout the organisation and firm financial performance. In this respect, Dwyer, Richard, Chadwick (2003) could identify a positive relationship between gender diversity, growth orientation and performance. This is argued that potential benefits of gender diversity such as new insights, perspectives, creativity, and experience seem to boost expansion into new markets.<sup>51</sup>

## Gender and stereotypes

Moreover, one further explanation of leadership gaps is grounded on stereotyped expectations (prejudice).<sup>52</sup> Biased beliefs about certain skills and behaviours essential for being an effective leader are prominent reasons for sex-based discrimination.<sup>53</sup> Stroebe, Chester (1989) define a stereotype as a set of beliefs about the personal attributes of a group of individuals.<sup>54</sup> Eagly, Karau (2002) describe stereotypes as consensual beliefs about the attributes of men and women.<sup>55</sup> Thus, stereotypes are at the heart of numerous theories and frameworks trying to explore gender

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<sup>49</sup> Darmadi, S. (2013): Do women in top management affect firm performance? Evidence from Indonesia. *Corporate Governance: The international journal of business in society*, Vol. 13, Issue 3, p. 300.

<sup>50</sup> Gipson, A. N., Pfaff, D. L., Mendelsohn, D. B., Catenacci, L. T., Burke, W. W. (2017), Women and Leadership. Selection, Development, Leadership Style, and Performance. *The Journal of Applied Behavioral Science*, Vol. 53, Issue 1, p. 53.

<sup>51</sup> Dwyer, S., Richard, O. C., Chadwick, K. (2003), Gender diversity in management and firm performance: the influence of growth orientation and organizational culture. *Journal of Business Research*, Vol. 56, Issue 12, p. 1016.

<sup>52</sup> Hoyt, C. L., Simon, S. (2016), Gender and Leadership. In: Northouse, P. G.: *Leadership. Theory and Practice*. Seventh Edition, United Kingdom, Sage Publications, p. 404.

<sup>53</sup> Yukl, G. (2013), *Leadership in Organizations*. Eighth Edition, England, Pearson Publications, p. 359.

<sup>54</sup> Stroebe, W., Chester, I. A. (1989), Stereotype, Prejudice, and Discrimination. In: Bar-Tal, D., Graumann, C. E., Stroebe, W. (Ed.), *Stereotyping and Prejudice. Changing Concepts*. New York, Springer Science+Business Media, p. 5.

<sup>55</sup> Eagly, A. H., Karau, S. J. (2002), Role Congruity Theory of Prejudice Toward Female Leaders. *Psychological Review*, Vol. 109, Issue 3, p. 574.

gaps in leadership selection rates.<sup>56</sup> According to the role congruity theory, women are positively associated with roles that correspond to typical social roles. In this respect, Eagly, Karau (2002) highlight some disadvantages for women. It assumes that women have less leadership qualities than men do in particular situations.<sup>57</sup> Moreover, women are confronted with cross-pressures as leaders should be masculine but as woman, they should not be too manly. This causes the perception that women seem to be less qualified for higher leadership positions than men do.<sup>58</sup> In particular, Burgess, Borgida (1999) distinguish between descriptive and prescriptive components of gender stereotypes. Descriptive aspects of gender stereotypes lead to perceptions that women are not suitable for male-dominated tasks and jobs, which results in biases against hiring women for certain types of occupations. In contrast, prescriptive components of gender stereotypes may cause devaluations or even harassments of women who violate gender role prescriptions. The authors further stress that women who behave, for example in an autocratic manner or who occupy traditional male occupations are likely to be negatively sanctioned. These negative evaluations usually occur on communal or on interpersonal levels rather than on competency dimensions.<sup>59</sup>

Similarly, Heilman's lack of fit model postulates that results that come from discriminatory against women are grounded on a mismatch between the attributes that women are thought to possess and the attributes seen as essential for success in male-dominated positions and fields. This incongruity embodies the basis of negative expectations about women's performance to bias the processing of information and, consequently, facilitates discriminatory behaviour. Again, central to this theory is a consideration of gender stereotypes – in particular, preconceptions in view of what men and women ought to be.<sup>60</sup>

In addition, a study conducted by Forsyth, Heiney, Wright (1997) researched role-incongruence in small groups led by women who applied

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<sup>56</sup> Gipson, A. N., Pfaff, D. L., Mendelsohn, D. B., Catenacci, L. T., Burke, W. W. (2017), Women and Leadership. Selection, Development, Leadership Style, and Performance. *The Journal of Applied Behavioral Science*, Vol. 53, Issue 1, p. 35.

<sup>57</sup> Eagly, A. H., Karau, S. J. (2002), Role Congruity Theory of Prejudice Toward Female Leaders. *Psychological Review*, Vol. 109, Issue 3, pp. 588–591.

<sup>58</sup> Hoyt, C. L., Simon, S. (2016), Gender and Leadership. In: Northouse, Peter G.: *Leadership. Theory and Practice*. Seventh Edition, p. 405.

<sup>59</sup> Burgess, D., Borgida, E. (1999), Who women are, who women should be. Descriptive and Prescriptive Gender Stereotyping in Sex Discrimination. *Psychology, Public Policy, and Law*, Vol. 5, Issue 3, pp. 676–677.

<sup>60</sup> Heilman, M. E., Caleo, S. (2018), Combatting gender discrimination. A lack of fit framework. *Group Processes & Intergroup Relations*, Vol. 21, Issue 5, p. 726.

relationship- or task-oriented leadership styles. It was revealed that conservative group participants reacted more negatively to female task-oriented leaders and rated the female leader lower regarding collegiality. In contrast, group participants with a liberal attitude towards women responded positively to both leadership styles.<sup>61</sup>

Moreover, the think-manager – think-male paradigm fostered sex role stereotypes. In particular, Schein's et al. (1996) research revealed that females and males perceive that successful middle managers possess characteristics and attitudes more commonly ascribed by men in general than to women. The study was repeated several times with Chinese and Japanese, as well as with British, German and US students. Although the participants had different historical, political and cultural backgrounds, the view of women as less likely than men to possess requisite management characteristics is a commonly held belief among male students around the globe.<sup>62</sup>

Together these theories have significantly affected the work that has been carried out so far in order to improve the understanding how gender bias and prejudice influence the perception and evaluation of female individuals aspiring to leadership positions.<sup>63</sup>

In general, the number of female leaders who successfully navigate this leadership labyrinth is improving. For Hoyt, Simon (2016), changes in the organisation are taking place and making it easier for women to hold top leadership positions. The company cultures are changing as several companies value flexible working and diversity in their top management levels. Moreover, assigning more female leaders to high-visibility positions and developing effective and supportive mentoring relationships for women are key approaches for lowering the leadership gap.<sup>64 65</sup> The following Figure 2 summarises and illustrates different strategies how women can promote leadership effectiveness.

<sup>61</sup> Forsyth, D., Heiney, M. M., Wright, S. S. (1997), Biases in Appraisals of Women Leaders. *Group Dynamics: Theory, Research, and Practice*, Vol. 1, Issue 1, pp. 98; 101.

<sup>62</sup> Schein, V. E., Mueller, R., Lituchy, T., Liu, J. (1996), Think Manager – Think Male: A Global Phenomenon? *Journal of Organizational Behavior*, Vol. 17, Issue 1, pp. 33–34; 39.

<sup>63</sup> Gipson, A. N., Pfaff, D. L., Mendelsohn, D. B., Catenacci, L. T., Burke, W. W. (2017), Women and Leadership. Selection, Development, Leadership Style, and Performance. *The Journal of Applied Behavioral Science*, Vol. 53, Issue 1, p. 35.

<sup>64</sup> Hoyt, C. L., Simon, S. (2016), Gender and Leadership. In: Northouse, Peter G.: *Leadership. Theory and Practice*. Seventh Edition, pp. 406–407.

<sup>65</sup> Ragins, B. R., Townsend, B., Mattis, M. (1998), Gender gap in the executive suite: CEOs and female executives report on breaking the glass ceiling. *Academy of Management Executives*, Vol. 12, Issue 1, p. 40.



Source: Hoyt, Simon, 2016, p. 407.

Figure 2. Promoting Leadership Effectiveness

## Conclusion

To conclude, the understanding for leadership and gender is crucial in several ways. To begin with, scholars started to explore if differences between men and women exist in terms of human capital. In general, figures show that women tend to be more educated than men are. In fact, women have less work experience than men, which can be traced back to domestic duties, as well as to childcare responsibilities. However, given the fact that about half of the middle managers are women this may provide evidence that women collect sufficient work experience before being appointed for senior leadership positions.

To improve the understanding of gender and leadership effectiveness substantial research has been performed. In general, research showed that leadership between men and women varies slightly. In particular, women tend to apply more democratic, participative, as well as transformational leadership styles compared to men. Furthermore, female CEO's contribute significantly to decision-making and show more cohesion, co-operative learning and participative communication compared to men. Evaluating leadership and gender from the financial point of view, research results vary significantly in terms of company size and market performance and

offer mixed support for management science. Research showed that women are more likely to be selected for leadership positions in times of company crises. This phenomenon is called the glass cliff. Surprisingly, research found a gender difference in such a way that women and men were more effective in leadership roles that were congruent with their gender. For example, female leaders were less effective than men in military positions were, but more effective than men in education were, or social service organisations were. Moreover, the think-manager – think-male paradigm from Schein contributed to sex role stereotypes. In particular, research revealed that men and women perceive that successful middle managers possess characteristics, attitudes and temperaments more commonly ascribed by men than to women. The studies from Schein et al. were repeated several times, but showed a coherent result. Furthermore, Heilman's lack of fit model also deals with discriminatory against women, which is grounded on a mismatch between the attributes that women are perceived to possess and the attributes seen as essential for success in male-dominated positions and fields.

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## MANAGEMENT CLOSENESS FACTOR IMPACT ON BANCASSURANCE DEVELOPMENT IN LATVIA

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### Abstract

Banks and insurers as part of financial service industry engage in partnership under the concept of Bancassurance. On the path to success, both parts are permanently looking for increased income possibilities and higher level of customer's satisfaction. Those aspects are on researchers agenda in many countries. Academics are providing academic society, as well as business society with the research results on a topic – What are the key factors influencing the development of Bancassurance. The researchers in many countries analyse market-based and operational-based factors determining more successful or less successful performance within the chosen Bancassurance model. Operational-based factors cover corporate closeness, management initiative and corporate governance issues. These factors role becomes critical for Bancassurance implementation especially in the companies with different business cultures. Such companies' transformation takes uneven path from diversity to harmony in banks and insurance company's corporate governance and management excellence. It includes the top level of companies, as well as sales staff philosophy and work with common clients' database. General solution is deeper integration of banks' and insurance companies' top management and main operational processes to be able to sell combined banking-insurance products to their common clients.

Aim of this research paper is to investigate the role of management team in development of Bancassurance in Latvia. Research tasks are:

1. analyse scientific findings in scientific publications and previous conducted research on the Bancassurance development factors;
2. investigate Company Strategic factor influence on Bancassurance development in Latvia;
3. compare differences of representatives of financial market experts and representatives of banks on factors influencing Bancassurance in Latvia; and
4. test proposition: "Management closeness determines successful partnership and enlarges integration possibility of banks and insurance companies in Bancassurance".

Research methods used: analysis of scientific publications, analysis of previous conducted research, expert survey, case studies analysis. To test the proposition two types of units have been analysed: total system units – financial institutions,

regulatory agencies, financial market experts; and intermediate units – management representatives of three largest banks in Latvia. The primary data collection type was semi-structured interviews to collect qualitative information on management involvement, partnership nature and integration initiative issues. Experts confirmed that for Bancassurance to work successfully and for the insurer to deliver the best fitting solution, the insurer had to understand very well the processes of the bank and how to successfully integrate insurance in these processes, subordinating them to the strategy and chosen customer segment of the bank. Partner companies' management's common decision and closeness are the core elements to determine insurance implementation in the banking routine. Experts emphasise the factor of mutual interdependence and interest in the common results. The key is the overall goal and results to be achieved. The success of incorporation of insurance products depends on a character of partnership between the bank and the insurer carried out by teams. Effective teamwork depends on management style, types of personalities, interpersonal relationship and gender diversity. Therefore, the significance of Bancassurance partners' management closeness in successful partnership, which also enlarges integration possibility between the companies, has been approved. For Bancassurers this finding highlights the importance of interpersonal relationship in business success. It provides the necessity to create the cooperation management framework between the bank and insurance company and maintain on every level of companies' structures through all Bancassurance life circles in the company.

**Keywords:** Latvia, management, banks, insurance, Bancassurance, co-operation, gender.

## **Introduction**

Since the late 20<sup>th</sup> century, banks and insurance companies are going through transformation of financial service industry by blending their activities under the business concept of Bancassurance. This type of co-operation allows to service customers more efficiently and functions as a new revenue source for financial institutions. In its simplest form, Bancassurance is described as sales of insurance products and services by a banking institution. Benoist (2002) characterises the concept of Bancassurance as “one-stop shop” approach. For banks, it is the best way to move towards solution based financial offering in meeting their client needs and building strong loyalty in the future. Whereas from insurers perspective, Bancassurance is cost efficient new sales channel with immediate access to a large database of clients.

Bancassurance is a way of synergy where two financial services industries answer to ongoing challenges in order to make a profitable business in a small sized market. Banks are entering into partnership with insurance companies thus creating various modes of co-operation called Bancassurance models. From one side, the choice of model is caused by existing market realities and company strategies, from the other –

the chosen Bancassurance model is the determinant for future success. Therefore, it is important to select the right model relevant to the current situation.

Special attention from the academic researchers has been paid to identification of the factors influencing success of Bancassurance, such as supportive regulatory regime, globalisation, economic growth, demography, technologic changes, and growing customers' expectations, as well as companies' internal strategic and operational frameworks (Ryan, 2001, Staikouras, 2006, Artikis, Mutenga and Staikouras, 2008, Falautano and Marsiglia, 2003, Lymberopoulos, Chaniotakis and Soureli, 2004, Soureli, Lewis and Karantinou, 2008).

This research focuses on the dominating factors dependant from the company strategy affecting development of Bancassurance in Latvia. By conducting a research on Bancassurance at a small Northern European country such as Latvia, a significant contribution to the existing financial services management knowledge would be added.

The aim of the research is to investigate the role of management team of banks and insurance companies in development of Bancassurance in Latvia.

The academic research gives ground for the proposition: "Management closeness determines successful partnership and enlarges integration possibility of banks and insurance companies in Bancassurance."

To test the proposition the following research methods were used: analysis of scientific publications, analysis of previous conducted research, expert survey, case studies analysis. To test the proposition two types of units have been analysed: total system units – financial institutions, regulatory agencies, financial market experts; and intermediate units – management representatives of three largest banks in Latvia. The primary data collection type was semi-structured interviews to collect qualitative information on management involvement, partnership nature and integration initiative issues.

## **Theoretical findings**

### **Development of Concept of Bancassurance**

Johnston (1922) recognised certain features of Bancassurance development in the beginning of 20<sup>th</sup> century when legislature of the state of Massachusetts allowed banks to combine both savings and life insurance. However, a more complete and recognisable form of Bancassurance expanded in early 1980's in France. The term represented the sales of insurance products using banks offices. In the literature, it is also referred to as Assurancebanking or Allfinanz. Over the next 20 years

with rapid growth of financial service industry, this phenomenon became more and more popular in Europe, America, Asia and other regions of the world. In the following years, the concept of Bancassurance has been widely researched to evaluate the benefits for major stakeholders. From the bank perspective, it is additional revenue stream and possibility to establish and gain additional clients loyalty. From the insurers' perspective, Bancassurance is costs efficient new sales channel with immediate access to a large database of clients. Whereas from clients' perspective it is access to financial services at one place. In addition, the definition of Bancassurance became broader in a sense to cover the various forms of different strategies.

Gonulal S. O., Goulder N., Lester R. R. (2012) point out that "Bancassurance is the process of using the bank's customer relationships to sell life and nonlife insurance products and it is emerging as a natural pathway for the effective development of insurance".

Alavudeen and Rosa (2015) have characterised Bancassurance as a new way for banks and insurance companies to cooperate and generate sales of their products and services. In this synergy, banks operate as cooperate agent while insurers service their customers. In Latvia, Ilja Arfejevs (2017) conducted research on Bancassurance aspects for pension fund management (Arefjevs, Sloka, 2016) and other issues. Global aspects and local knowledge are on importance for Bancassurance (Norman, 2007). Large and well-discussed experience is in Ireland (Brophy, 2013) with specific findings.

#### Bancassurance modelling

The academic literature gives a characterisation on historical development, influencing factors, limitations and consequences of Bancassurance models distributed over the world. Benoist (2002) has stated the importance of correct choice of Bancassurance model as the core-influencing factor for future results.

Staikouras S. K. (2006) in distinguishing Bancassurance models or "modes of entry" underlines three main categories: (1) partnership created on horizontal alliance when independent companies come to agreement, (2) vertical venture where insurer belongs to the bank and acts as its subsidiary or (3) by integration where both financial institutions belong to the one holding company and acts on behalf of each other.

This concept gives ground to consider the dependency issue between both financial institutions playing the role in co-operation style and methods.

Jongeneel (2011) in his research has categorised Bancassurance models in four types: (1) insurance products distribution agreement according to which banks can cooperate with several insurers, (2) strategic alliance or

exclusive agreement with one insurance provider, (3) joint venture and (4) insurance as the part of financial holding company.

While Panagiotis (2011) observes all theoretically possible Bancassurance models combined with integration levels of banks and insurers: (1) distribution agreements (exclusive and non-exclusive), (2) strategic alliances (formal and informal), (3) joint ventures, (4) holding company structure, (5) partial integration and (6) complete integration.

The common approach for the academics is to refer to the banks and insurers' level of integration as the main driver for the success. Skipper (2000) has suggested that integration of financial services is reasonable if it leads to increase of revenues and decrease of operating costs.

According to described models for further case study, the authors of this paper specify Bancassurance models relevant to Latvian market in Figure 1.



Source: Evija Dundure construction based on literature review and research

**Figure 1. Bancassurance models in Latvia**

The models combine a legal framework of cooperation, the variety of insurance companies represented by banks and ownership structure.

When Bancassurance models used in Latvia are compared to the ones described by the researchers (Jongeneel, 2011, Panagiotis, 2011, Staikouras, 2006) there is one completely missing – it is a joint venture between bank and insurance company (from the author's knowledge, there is no any joint venture in Bancassurance established in Latvia).

Further literature review gives insight into the main driving factors of Bancassurance development in order to choose the appropriate model.

**Bancassurance development factors**

Every Bancassurance model implementation generates costs for both counterparts therefore, it is important to know their potential revenues and relevance to the given situation.

Staikouras (2006) in his research speaks about market-based (exogenous) and operational-based (idiosyncratic) factors determining more successful

or less successful performance within the chosen Bancassurance model. Companies should be aware of the risk and they should minimise these risks in a way they carry out their business.

To answer this research question the examination of company operational factors follows.

### **From company dependable factors**

Among company dependable or *idiosyncratic factors* Staikouras (2006) distinguished strategic and operational factor zones. Staikouras in *Strategic factor zones* includes “business culture, corporate closeness, management initiative, corporate governance”. In *Operational factor zones* – “branch environment, customer relations, range of services, financial management and brand awareness”. Later on, Kalotycho and Staikouras (2007) propose Bancassurance success determinants – company operational issues like scope of products, fees and the level of technology development.

The majority of them have been widely researched to identify the nature and level of influence on Bancassurance.

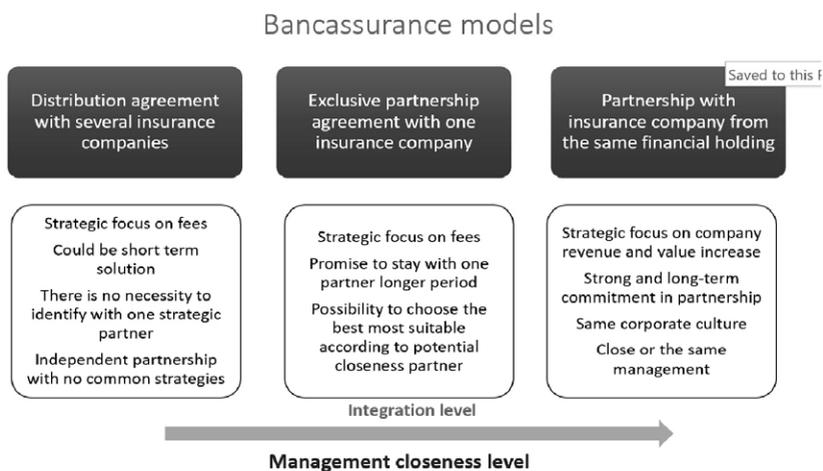
Although strategic factors give ground of co-operation on a high level of the company, not a lot of them have been widely researched.

Oliynyk H., Sabirova A. (2013) in their research about choice of Bancassurance partners has specified significance of similar direction of business such as the criteria in line with company’s reliability, value purpose, image and reputation of the companies. More similar partnership companies are – better cooperation they create.

In their study about Bancassurance of UK and France co-operation in 1990’s Morgan G., Sturdy A., Daniel J. P., Knights D. (1994) identified business culture differences as the main cause of problems. They studied six financial holding companies that had banks and insurance companies under the same umbrella. Their transformation process characterised uneven path from diversity to harmony in banks and insurance company’s corporate governance and management principles. It included the top level of companies, as well as sales staff philosophy and work with common clients’ database. General solution for all described cases became deeper integration of banks’ and insurance companies’ top management and main operational processes to be able to sell combined banking-insurance products to their common clients.

Proposition: Management closeness determines successful partnership and enlarges integration possibility.

Based on the literature review, the authors of this article propose characterisation of each Bancassurance model from the perspective of Strategic factors in Table 1.



Source: Evija Dundure construction, based on literature review and research

Figure 2. Bancassurance models link to company strategy and integration level

The table above gives framework to evaluate the relevance of chosen by Latvia leading banks Bancassurance model.

## Results and Discussion

### Situation overview of Bancassurance models in Latvia

To evaluate Bancassurance models in Latvia, the authors shortlisted the banks corresponding Bancassurers profile: universal banks with diverse scope of products orientated on Latvian market. Further study included the collection of publicly available data of seven Bancassurance banks in Latvia in order to identify the cooperation partners – insurance companies of every bank.

Table 1 gives the summary of Bancassurance models and shows:

- (1) All seven focus banks are operating in non-life insurance: five out of seven banks are working on *Distribution* Bancassurance model while only one has *Financial Holding* model and one bank has *Exclusive* partnership with non-life insurance company.
- (2) Only four out of seven banks are operating in life insurance: three out of four banks are cooperating with life insurance company within *Holding company*, one bank has *Exclusive* partnership and no bank is operating in *Distribution* model.

Table 1. Bancassurance models in Latvia banks as of January 2018

Nr. Insurance type	Distribution agreement with several insurance companies ( <i>Ditribution</i> )		Exclusive partnership agreement with one insurance company ( <i>Exclusive</i> )		Partnership with insurance company from the same financial holding ( <i>FH</i> )	
	Life	Non-life	Life	Non-life	Life	Non-life
1 Life insurance			1		3	
2 Non life insurance		5		1		1
Total	0	5	1	1	3	1

Source: Evija Dundure construction based on research

The majority of banks, together with several non-life insurance companies at the time, has chosen the *Distribution* Bancassurance co-operation model. Only one bank had non-life insurance company within the same financial holding with an execution of pure Bancassurance principle. This bank's shareholders saw beneficial opportunities in life insurance as well. Thus, three largest banks in Latvia in terms of number of clients have their own life insurance companies.

The described situation is not a result of recent development. Case study expert interviews affirmed nature of evolution process of Bancassurance phenomena in non-life insurance of Latvia. "Step by step" was the way how the most developed Bancassurers in Latvia, the largest retail bank in Latvia came to the existing model: in year 2003 bank's owned insurance broker company dealing with several insurers in car insurance segment; in 2008 it started its own insurance company operations in Latvia with the insurance company registered in Estonia and from year 2014 it carried out fully integrated operations within the Baltic region bank structure. This bank's ambition to establish own insurance company was based on necessity to deliver to the clients' outstanding market insurance solution and risk coverage to protect the client and the bank from the losses. During the co-operation with insurers from the market, they did not have full control over all insurance process, for example, pricing strategy and claims adjustment processes had been executed by co-operation partner outside of the bank.

Meanwhile the second largest retail bank in Latvia still had several insurers to collaborate with and the third largest bank recently had come to the next level and selected one strategic partner.

Bancassurance evolution phases identified by experts in interviews correspond to the Bancassurance models presented by the authors: (1) distribution agreement with several insurance companies, (2) exclusive partnership agreement with one insurance company and (3) partnership with insurance company from the same financial holding.

Classically they follow each other, but according to experience in Latvia, they do not necessarily correlate with the banks overall development phase. Experts justify the situation with the bank's necessity to learn to operate in the existing Bancassurance model until its potential is achieved, and only then, it is worth considering the possibility of transforming to the next stage, since it is very important to improve human, financial and service competences to a level that meets the requirements of the next stage.

Looking at the life insurance role for the banks it is important to highlight the similarity of both institutions clients' life cycle aspect, as well as a nature of the products. In non-life insurance, contractual relationships with the clients are short-term, but in the banking and life insurance sector, they are open-ended or long-term. This and the higher bankers' competence level in life insurance have been named as the bases for banks decisions to start their own life insurance operations.

The further analyses were targeted on investigation of definite company related factors influence on Bancassurance development trend in Latvia.

### **Management closeness factor influence on Bancassurance in Latvia**

To test the proposition "*Management closeness determines successful partnership and enlarges integration possibility*" the case study interviews were targeted on management involvement, partnership nature and integration initiative issues.

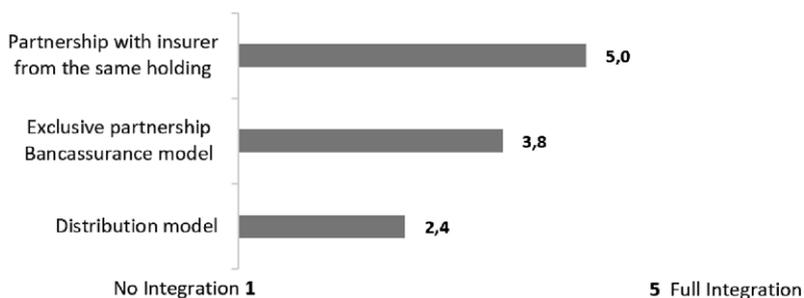
All interviewees agreed that decision to start Bancassurance was done by the banks' management. To drive further success of Bancassurance, bank had to put the insurance in the priority list and invest in this activity as in one of the non-banking services. Despite being part of the financial service industry, banking and insurance differ in a several aspects: nature and life cycle of products requiring specific knowledge and expertise of people. Consequently, these were the main issues to consider.

- **Integration.** Experts confirmed that for Bancassurance to work successfully and for the insurer to deliver the best fitting solution, the insurer had to understand very well the processes of the bank and how to successfully integrate insurance in these processes, subordinating them to the strategy of the bank and chosen customer segment of the bank. Partner companies' management's common decision and

closeness are the core elements to determine successful insurance implementation in the banking routine.

All experts named the necessity of insurance integration in the bank as the core Bancassurance success factor. However, implementation often encounters *human factor* resistance – obstacles that can only be adjusted by the bankers themselves. Besides, being in a bank is much easier to understand what kind of insurance products a customer segment and bank need and what is even more important – how they should be delivered to the client.

Integration is *a magic tool* for success in each Bancassurance model. In the early stage of development, it suggests employees with insurance competence incorporation in banks organisational structure. For one of the observed banks, for example, in their private customer crediting and SME crediting departments there are insurance specialists dealing with insurance issues: providing offers, issuing policies, controlling prolongations of the insurance contracts. The best results for them is fully insured banks' credited portfolio and slowly, but steadily growing number of their own issued policies. There is one serious limitation – each of the departments cope with their daily business tasks and do not see the *big picture* of Bancassurance future. Banks' short-term targets have been achieved and primary insurance needs of the clients have been covered. This is integration level characteristic of *Distribution* Bancassurance model and most typical for Latvian banks. To accelerate Bancassurance development, the upper level of management must be involved. Management is the one creating the company's long-term strategy, putting the priorities and allocating resources accordingly. If on a *Distribution* Bancassurance model



Source: The authors, based on experts interviews and research results

**Figure 3.** Company management factor influence on integration level increase in 3 Bancassurance models in Latvia retail banks, year 2018

major part of initiative and investments have been left on the insurance company's side, transfer to *Exclusive* partnership Bancassurance model engages bank in a much closer cooperation mode.

Analyses of Latvian financial sector experts' opinions represent: company management involvement in the Bancassurance gives ground to increase integration on a much higher level with the *Exclusive* partner (3,8 points from 5) than it is in the *Distribution* Bancassurance model (2,4 points from 5). Only Bancassurance model allowing for full integration figured out a partnership with the company from the same financial holding.

Nevertheless, *Exclusive* partnership is the step ahead towards closer collaboration between two strategic partners choosing each other exclusively. It opens the door one to each other's company much wider and allows understanding each other's products and processes on a deeper level. *Exclusive* partnership is the *Golden medieval* for the banks' not being ready to invest in establishment of their own insurance company while still defining insurance products as an important part of their non-banking services. The integration level in this mode can be reached high enough to promote Bancassurance within banking products bundle. Insurance is assumed to be easy to package with bank products, but it is essential that the bank itself wants to do it and prioritizes it. If this is not a priority, resistance inside the company can occur.

- **Partnership character.** The success of incorporation of insurance products depends on a character of partnership between the bank and the insurer. Experts emphasise the factor of mutual interdependence and interest in the common results. There must be a united and clear target for both partners, if the chosen co-operation model or rules are bad for any party, and then sooner or later it will also affect the bank and its customers. The key is the overall goal and results to be achieved.

In one of the *Exclusive* partnership models, it was agreed between cooperation partners that the most important goals are:

- customer service standard on both sides: speed, attitude, quality, empathy;
- flexible co-operation model on both sides: convenient, fast, efficient, cost-effective and digitally-advised collaboration.

Only after agreeing on this collaborative model it was strengthened by setting the goal to offer a bid for each client of the bank and to raise hit rate.

For the above-described partners the decision to follow definite customer service standards and flexibility in co-operation depends on both parties understanding each other's business nature and processes.

It was highlighted by the interviewed middle management representatives that to succeed in the Bancassurance implementation process there should be responsible persons from the bank and the insurance company appointed. Bancassurance is a specific field not only for bankers, but also for insurance companies. Human competence has been mentioned as the main stumbling block on both sides. Here, the partners' ability to understand the nature of the Bancassurance collaborative model is intended and how both partners should pursue this model. The importance of the insurer's side to have a separate affinity sales channel management system so that it does not come with other sales channels was emphasised.

Therefore, the authors can confirm the significance of Bancassurance partners *Management closeness in successful partnership, which also enlarges integration possibility* between the companies.

## Conclusions

Bancassurance has become a significant component of financial service industry phenomenon all over the world. In Latvia, banks and insurance companies enter into partnerships to take advantage of Bancassurance and make a profitable business in a small sized market. Despite limited number of market players corresponding to the Bancassurance profile in Latvia, the diversity in chosen co-operation models was recognised. In addition, the conducted interviews with all Bancassurance models' representatives provided a valuable insight into the dominating factors influencing the choice of co-operation mode, as well as highlighted the problematic issues in the field.

The main conclusions of the research are:

- 1) As the result of research, the significance of Bancassurance partner's management closeness influence on successful partnership was confirmed.
- 2) To drive success of Bancassurance, bank had to put the insurance in the priority list and invest in this activity as in one of the non-banking services
- 3) Despite being part of financial service industry banking and insurance differ in a several aspects: nature and life cycle of products requiring specific knowledge and expertise of people
- 4) Experts confirmed that for Bancassurance to work successfully and for the insurer to deliver the best fitting solution, the insurer had to understand very well the processes of the bank and how to successfully integrate insurance in these processes, subordinating them to the strategy and chosen customer segment of the bank.

- 5) Partner companies' management's common decision and closeness are the core elements to determine insurance implementation in the banking routine.
- 6) Experts emphasise the factor of mutual interdependence and interest in the common results. The key is the overall goal and results to be achieved.
- 7) The success of incorporation of insurance products depends on a character of partnership between the bank and the insurer carried out by teams.
- 8) Effective teamwork depends on management style, types of personalities, interpersonal relationship and gender diversity.
- 9) To become successful in Bancassurance banks should be ready to invest in integration: technical improvements and human resources. Integration is a *magic tool* for success in each Bancassurance model. In early stage of development, it suggests employees with insurance competence incorporation in banks organisational structure.

For Bancassurers the findings highlight the importance of interpersonal relationship in business success. It provides the necessity to create the co-operation management framework between the bank and insurance company. The co-operation ties should be established and maintained on every level of companies' structures – starting from specialists and middle management up to heads of the companies.

The case study represents that Bancassurance is a top priority for banking sector in Latvia. Nevertheless, to be able to speak about the real results of Bancassurance in a bank, it must become integral part of the bank itself.

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