



Lessons From The Economic Crisis of Europe - the Baltic States Companies Working Efficiency before and After the Crisis

* Dr. Lembo Tanning ** MSc. Toivo Tanning

* TTK University of Applied Sciences, Tallinn, Estonia.

** Tallinn School of Economics, Tallinn, Estonia.

ABSTRACT

The objective of this article is to analyse the labour productivity, or working efficiency of Baltic States before and after the economic crisis; and to compare them on the European Union (EU) level. Focus is Estonia as one of the most successful countries in the European Union. A number of proposals to increase labour productivity for both workers and entrepreneurs have been listed in the summary. The Baltic States (Estonia, Latvia, and Lithuania) is region of Northern Europe. They country are the eastern shore of the Baltic Sea.

Keywords : labour productivity, Baltic States, Estonia

1. INTRODUCTION

Estonia, Latvia and Lithuania have been members of the EU and the NATO since 2004. They country are a member of Council of Europe, IMF and WTO. Estonia is a member of the OECD. The UN lists Baltic States as a country with a "Very High" HDI. [The World Factbook]

In EU, in 2012 one the lowest government deficits in percentage of gross domestic product (GDP) were recorded in Estonia (-0.3%) [2011=+1.2%], and Latvia (-1.2%). At the end of 2012, the lowest ratios of government debt to GDP were recorded in Estonia (10.1%) [2011=6.2%], Latvia and Lithuania (both 40.7%). [Eurostat news]

Working efficiency in Baltic countries has been analysed the situations before the crisis, during the crisis and after the crisis will be viewed.

Methodology. The techniques and labour market survey definitions used by the authors have been specified in Eurostat [Methodology].

The theoretical basis of workforce productivity measurement in more detail are given of the authors' earliest publications. This is discussed in the following analysis on the basis of Estonian companies. [Tanning & Tanning (2012) a, b, c; (2013) a, b, c]

How has the economic crisis affected business, and what are the lessons learned?

2. ANALYSIS

For an introduction, see the development of the economy (GDP) of the Baltic States.

In addition to the economic decline during the years 2008 – 2009, there was also a decline in 1999 (Estonia and Lithuania). In 2009, real GDP fell by 14.8% in Lithuania, by 17.7% in Latvia and 14.1% in Estonia. [Code: tec00115]

If an annual real GDP increment of more than 10% can be considered excellent, then the result in 2003 - 2007 was GDP growth rate were one of the largest in the world.

The development of the Baltic countries economy before and after the crisis was one of the fastest in the EU. Yet, the crisis led to a very deep recession, which was one of the greatest in

the world, as well as in the EU.

Before and after (2011 – 2012) the economic depression, the Baltic States were successful. Hence, these countries were called the Baltic Tigers.

Table 1. Labour productivity per employed person (EU-27 = 100). [Code: tec00116]

	1995	1999	2001	2003	2005	2006	2007	2008	2009	2010	2011
Estonia	34.1	43.5	48.4	55.0	60.8	62.4	66.7	65.8	65.1	68.4	67.6
Latvia	33.4	38.3	41.6	44.2	47.8	48.9	51.5	51.7	52.9	53.8	62.7
Lithuania	36.2	40.6	47.4	52.6	55.1	56.9	59.6	62.1	58.1	62.6	64.9

In Estonia yield per worker, i.e. productivity grew 2.0 times during the period under examination; however, it came to a pause during the economic crisis.

In contrast, in 2010 in Latvia, yield per one worker was 54.6% and 62.3% in Lithuania, similar to the EU-27 average. Productivity in Estonia only amounts to 61.0%.

However, the prevailing trend is that regardless of growth in productivity elsewhere, the indicator rises noticeably quicker in Estonia and also other new EU accessions, than in veteran and wealthy EU-15 countries.

When analysing productivity in EU-27 (added value produced by one worker) by sectors of the economy and the size of companies, one cannot draw an equipollent (equal in force or effect) conclusion regarding productivity and the number of workers engaged in the company.

In Estonia, productivity differs little for companies in the size of up to 249 workers. In 2003 and 2007 firms with 50 –99 workers boasted the largest productivity; in 2005 it was companies with up to 9 workers and for the rest of the surveyed period, companies with 100 – 249 workers dominated. Invariably, large companies with smaller productivity had 250 and more workers. This can be accounted for by the fact that smaller companies have larger flexibility in management, a smaller number of ancillary personnel and also because the workers of small companies are more likely to be "jacks of all trades" than in big companies. In big firms productivity is sapped, as a general rule, by large overheads.

Estonian labour productivity growth in 2010 was 4.6% and -1.7% in 2011.

Table 2. Labour productivity. Euro per hour worked [Code: tsdec310]

	2000	2002	2004	2006	2007	2008	2009	2010	2011	2012
Estonia	7.0	7.7	8.7	9.7	10.3	10.0	10.3	10.9	10.8	11.1
Latvia	4.2	4.7	5.5	6.3	6.7	6.7	6.6	6.9	7.8	8.1
Lithuania	5.6	6.5	7.5	8.2	8.7	8.8	8.3	8.7	9.2	10.2

After the crisis, productivity recovered quicker in reference to sales revenue than in reference to added value, which is an indicator of the runaway selling prices after the crisis.

Based on sales revenue, labour productivity per employed person grew steadily for all companies until 2008, as did hourly productivity based on sales revenue, then a great decline of 13.2% and 10.0% respectively followed, which, on the other hand, is much smaller than the decline of total business output or real GDP. However, already in 2010, both indicators reached record levels.

A similar comment also holds for labour productivity and hourly productivity based on added value.

Still, in 2010 labour productivity per employed person based on sales revenue in smaller firms remained below the labour productivity of the pre-crisis years. However, growth was strong in large companies with 250 or more employees, where it grew to 103,500 euros (in comparison, the same indicator was only 64,600 euros in 2005). This also led to the sum of all companies achieving the greatest labour productivity in 2010.

Hourly productivity based on sales revenue in 2010 still remained low for companies with up to 20 employees, while larger companies already reached record levels. Again, large companies with 250 and more workers experienced a particularly large increase, where it grew to 61,150 euros (in comparison, the same indicator was 37,350 euros for such companies in 2005), amounting to an annual growth of 18.1%.

As a whole, labour productivity and hourly productivity based on added value reached record levels for all companies in 2010. Small company still remained below the 2007 level and for companies with 10 to 19 employees, below the 2008 level. On the other hand, companies with more than 20 employees already reached record levels in 2010.

During the years 2002 – 2004, hourly productivity based on net added value in transportation was better than the Estonian average. The construction boom began and in 2008 raised hourly productivity in construction to a higher level than the state's average; the difference was especially great in 2007. The following crisis, on the other hand brought the productivity of builders sharply below the average. Although the builders' productivity grew significantly in 2011 and 2012, it remained lower than in other economic sectors.

While productivity in the processing industry remained lower than the average both before and during the crisis, it was the highest in 2010 and 2011. In 2012 however, productivity in transport slightly exceeded industry. Both one and the other were better by specific quarters in recent years, thus they were equal.

Productivity in the retail and wholesale trade during the years

2005 – 2008 was higher than the average and lower after the crisis.

As a rule, there were no significant differences in the productivity of different sectors of the economy before or after the crisis, excl. construction.

Taking into account this publication and the previous work of the authors [Tanning (2012) a, b, c; (2013) a, b, c] have made the following conclusions and suggestions.

3. CONCLUSIONS AND SUGGESTIONS

Conclusions

1. Companies came out of the economic crisis by a surge of hiring professionals, engineers and customer service staff.
2. Companies were brought out of the economic crisis by the growth of labour productivity.
3. The importance of large companies, especially those with 250 and more employees, was decisive.
4. The Baltic countries were the most higher indicators in labor productivity which has ensured better other key indicators, compared with Latvia and Lithuania.
5. However, the Estonian labor productivity indicators are twice lower than in most developed post-socialist Slovenia.
6. Rich countries of Western Europe to reach a level the Baltic countries should be increased of productivity per worker for two and per hour worked three times.

To increase labour productivity the following should be taken into account:

1. By the employee.

- 1.1 Objective factors (different innate abilities, talents, working and living conditions),
- 1.2 Subjective factors (self-realization, motivation, commitment, a desire to work better, ambition, education, qualification, a variety of mental and physical abilities, laziness, negligence, drunks, the courage to set high goals and the desire to strive for them).

2. By the employer (the company).

- 2.1 Objective factors [better organization of work, using more efficient machinery and equipment, innovation, improving working conditions (lighting, noise, humidity, temperature, air composition, etc.), natural conditions, material possibilities],
- 2.2 Subjective factors [moral (cheering, encouragement, etc.) and material incentives (salary, bonuses, bonus payments, etc.), creating conditions for up-skilling and re-training, the work environment (working collective, i.e. co-workers, etc.), not overly demanding, behaviour with the staff (guaranteeing human integrity, name-calling, etc.), taking internal tensions to the minimum, a desire to develop the company and increase its fame, the educational level and experiences (information capital) of the management leadership, the ambition of the company's management].

3. Several of the factors for raising mental and physical work productivity are different. Typically, an increase in the company's productivity depends more on the employees that do mental work (engineers, economists, etc.). It is important to establish an optimal relationship between the groups. The excellent drawings for a machine designed by an engineer will still usually be finished in metal by workers.

4. Each company, sector of the economy and region has its peculiarities, and taking these into account would increase labour efficiency.

REFERENCES

Code: tec00115. Real GDP growth rate – volume. Percentage change on previous year. Eurostat. 21.03.2013. | <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115> | Code: tec00116. Labour productivity per employed person. Eurostat. Last update: 21.03.2013 <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00116> | Code: tsdec310. Labour productivity per hour worked. Euro per hour worked, index 2005 = 100, % change over previous year. Eurostat. 21.03.2013. <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdec310> | Eurostat news releases 64/2013 - 22 April 2013. Eurostat http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-22042013-AP/EN/2-22042013-AP-EN.PDF | Methodology. Annual accounts. National accounts (including GDP). Eurostat http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/methodology/annual_accounts | Tanning, L.; Tanning, T. (2012). Labour market analysis of East- and Southern-European countries. *The International Journal of Arts and Commerce*, No. 5, pp. 209 - 223. | Tanning, L.; Tanning, T. (2012). Labour Costs and Productivity Analysis of East-European Countries. *International Journal of Business and Social Science*, No. 20, pp. 65 - 78. | Tanning, T; Tanning, L. (2012). European Union labour force competitiveness in the world. *The International Journal of Arts and Commerce*, No. 6, pp. 64 - 79. | Tanning, L.; Tanning, T. (2013). Companies working efficiency before and after the economic crisis of the Latvia example. *Global Advanced Research Journal of Management and Business Studies*, 2(3), pp.126 - 136. | Tanning, L. ; Tanning, T. (2013). An analysis of Eastern European and Baltic countries wages. *The International Journal of Arts and Commerce*, 2(3), pp.125 - 138. | Tanning, T.; Tanning, L. (2013). Why Eastern European wages are several times lower than in Western Europe? *Global Business and Economics Research Journal*, 2 (1), pp. 22 – 38. | *The World Factbook*. CIA. 22.04.2013 <https://www.cia.gov/library/publications/the-world-factbook/geos/en.html> |