The Lithuania Companies Working Efficiency Before and After the Economic Crisis

By

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Research Article

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ABSTRACT

This article focuses on the analysis of productivity and their relations in East Europe, primarily in Lithuania. The objective of this article is to analyse the working efficiency, or labour productivity of Lithuania companies, and to compare them on the Baltic Tiger (Baltic States) and European Union (EU) level. Industry, construction, trade and transport in Lithuania have been viewed separately. On labour productivity the company and its relationship to labour costs is directly dependent on the country’s competitiveness. Wages make up the main part of labour costs. Labour market problems in Baltic and Eastern European countries have become more and more important. When the EU labour markets opened, some EU countries were forced to face the problem of partial workforce drain to richer countries with higher wages. In Eastern European countries - the new EU member states - the labour movement into the old EU member states, where salaries are higher, has become a serious problem. Labour productivity analysis showed that both Lithuania and the other Baltic States have successfully come out of recession. A number of proposals to increase labour productivity for both workers and entrepreneurs have been listed in the summary.

Keywords: Lithuania, Baltic States, workforce, working efficiency, labour productivity, recession, suggestions.

INTRODUCTION

The term Baltic Tiger is used by one of the three Baltic States of Lithuania, Latvia and Estonia applied during a period of economic boom, which began after 2000 and lasted until 2006-2007. The Baltic countries had the highest growth rates in Europe between 2000 and 2007. Due to the global economic crisis, Baltic economies in 2008 was fragile and the previous fast growth has declined in Estonia and Latvia by the end of 2008, after Lithuania joined in 2009. Working efficiency in Baltic countries (Lithuania, Latvia and Estonia) has been analysed. The main branches of the Baltic States national economy in connection to the economic crisis have been analysed. Four major sectors of the economy with the greatest gross domestic product and largest number of employees will be observed: industry, construction, trade and transportation. The situations before the crisis, during the crisis and after the crisis will be viewed.

The growth of the entire economy, measured using gross domestic product (GDP) will be viewed as background. The main emphasis is still on the three Baltic States, and on Lithuanian business in more detail. Baltic countries labour productivity, wages, and other economic indicators are lagging behind Western European operators. Why?

For an introduction, see the background for the Eastern European countries that were part of the Soviet bloc. This will help them to better understand the economic backwardness of Western Europe, the countries of the Western civilization.

METHODOLOGY

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

Productivity is measured by output per worker or per hour. Labour productivity is defined as GDP per hour worked. The measures of labour productivity are presented as indices and as rates of change.

Labour productivity per hour worked is calculated as real output per unit of labour input (measured by the total number of hours worked). Measuring labour productivity per hour worked provides a better picture of productivity developments in the economy than labour productivity per person employed, as it eliminates differences in the full time/part time composition of the workforce across countries and years. [Code: tsdec310]
Labour productivity per person employed (on the basis of value added) – indicates how much value added is generated on average per person employed (is calculated as value added divided by the number of persons employed). [Formulas]

**Formulas of productivity measures** [Formulas]

<table>
<thead>
<tr>
<th>Productivity measures by net sales</th>
<th>Productivity measures by value added</th>
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</thead>
<tbody>
<tr>
<td>Productivity of labour (thousand euro)</td>
<td>net sales + subsidies</td>
</tr>
<tr>
<td></td>
<td>number of persons employed</td>
</tr>
<tr>
<td>Productivity per hour (euro)</td>
<td>net sales + subsidies</td>
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<tr>
<td></td>
<td>number of hours worked by employees</td>
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</tbody>
</table>

Workforce productivity measurement in more detail the theoretical basis are given of the authors’ earliest publications. [Tanning 2012 b, c, d]

**Eastern European Countries – The Background**

For an introduction, see the background for the Eastern European countries that were part of the Soviet bloc. This will help them to better understand the economic backwardness of Western Europe, the countries of the Western civilization.

The Soviet Union existed between 1922 and 1991; the government and economy of the 15 multinational Soviet Republics were highly centralized. The Soviet Union established the Eastern Bloc (Soviet satellite states) in much of Central and Eastern Europe and emerged as one of the world's two superpowers after the war.


In the late 1980s, the constituent republics of the Soviet Union started legal movements towards potentially declaring sovereignty over their territories. On April 7, 1990, a law was passed allowing a republic to secede if more than two-thirds of its residents voted for it in a referendum. Lithuania, Latvia and Estonia immediately declared the restoration of their full independence, while the other twelve republics continued discussing new, increasingly looser, models of the Union. The remaining republics were recognized as independent with the Soviet Union’s final dissolution on December 26, 1991.

The dissolution of the Soviet Union was a process of systematic disintegration, which occurred in economy, social structure and political structure.

On 11 March 1990, a year before the collapse of the Soviet Union, Lithuania became the first Soviet republic to declare independence. The independence of Latvia and Estonia was restored on August 1991.

Lithuania, Latvia and Estonia have been members of both the European Union and the NATO since 2004. Now, most of the former Eastern European Bloc countries are members of the EU and NATO (Lane, 1992; Tanning, 2010).

**Analysis of the Economy of the Former ussr**

Next, we will analyse the development of the economy of the former USSR (The Union of Soviet Socialist Republics) using UNdata source data. GDP per capita at current prices in U.S. dollars has been brought below. [GDP per capita, 2012]

![Figure 1: GDP per capita at current prices - USD, 1990](Source: the authors’ illustration)
In 1990, GDP per capita in Estonia and Latvia was respectively 1.31 and 1.17 times greater than in the USSR, but still slightly below the GDP per capita in Russia. Compared to the GDP of Ukraine and Belarus, Estonia was 1.5 times better. Russia’s GDP was high because of its powerful concentrated heavy industry, mainly in the war industry.

Figure 1 indicates that in 1990 the USSR had a backward economy in comparison to Western countries, when measured by GDP per capita, which is 8 to 11 times higher there. The lag of the Baltic States was also very high: 6 to 8 times.

![Figure 2: GDP per capita for Germany, Sweden, the USA and Finland at current prices - USD, 1983 – 1990](image)

**Source:** the authors' illustration

While in the years 1983 - 1990 the economy of the developed economies of the Western countries grew up to 1.53 to 2.69 times, the economy of the USSR simultaneously fell by nearly a quarter (22.3%).

This analysis shows the economic reasons behind the disintegration of the USSR. Their economy did not only stop, but went back.

**Analysis Working Efficiency**

**GDP** is an indicator for a national economic situation and a measure of the economic activity. It reflects the total value of all goods and services produced. Expressing GDP in PPS (purchasing power standards) eliminates differences in price levels between countries, and calculations on a per head basis allows for the comparison of economies significantly different in absolute size. [Methodology]

**Gross domestic product growth rate**

Economic growth is defined as a production increase of an output of a production process. In order to calculate GDP growth rate in constant prices, GDP in current prices is converted to the prices of the previous year and changes in volume are determined based on the level of the reference year. The calculation of the annual
The growth rate of GDP volume is intended to allow comparisons of the dynamics of economic development both over time and between economies of different sizes. For measuring the growth rate of GDP in terms of volumes, the GDP at current prices are valued in the prices of the previous year and the thus computed volume changes are imposed on the level of a reference year. Price changes therefore do not affect the growth rate of GDP. Accordingly, price movements will not inflate the growth rate. [Code: tec00115]

Real GDP growth rate, percentage change during the previous year in 2011: EU 27 = 1.5%; USA = 1.8%; Germany = 3.0%, and Sweden = 3.9%. [Code: tec00115]

The trend line shows the cyclical development of the Estonian economy (GDP). In addition to the economic decline during the years 2008 – 2009, there was also a decline in 1999. If an annual real GDP increment of more than 10% can be considered excellent, then the result in 2009 (14.1%) was one of the largest in the world.

The development of the Estonian economy before and after the crisis was one of the fastest in the EC. Yet, the crisis led to a very deep recession, which was one of the greatest in the world, as well as in the EC, and lasted for nine quarters. Thus, the country covered two extremes. On the other hand, it also shows that the reforms carried out in the past were successful and established a base that enabled exiting the crisis successfully. In particular, this meant creating favourable conditions for business. Again, GDP growth in 2011 and also 2012 are highest in the EC.

The source data of Latvia is attached Lithuania IVQ 2012 data. Their raw data the authors have made a summary figure. The figure shows that the Baltic countries are from 2010th end successfully outgoing from economic crisis. Quarterly analysis provides a more accurate picture. In 2011th was Estonia and in 2012th Latvian economy
(GDP) fastest development in the Baltic countries as well as among all EU-27 countries. Below we analyze the main causes.

**Gross domestic product per capita and per person employed**

**GDP per capita** in constant prices, GDP is found and the ratio of the average population. Often used in constant prices GDP as an indicator of the wealth of nations, as it reflects the average real income in this country. However, the tool does not provide a complete overview of economic well-being. For example, GDP does not reflect much of the unpaid work in households, nor does it take into account negative effects of economic activities, such as damage to the environment. GDP per capita in constant prices is based on rounded figures. [Code: tsdec100]

GDP per capita (PPP) is an important indicator of a state’s standard of living, which takes into account price level differences. The figure shows that the economy was the highest during the years 2007 - 2008. A larger or smaller recession took place in 2009, which is called the crisis year. In the following years economy grew.

![Figure 6: Real GDP per capita, EUR per inhabitant, 1995 – 2011](Code: tsdec100)

Source: the authors’ illustration

Between 1995 and 2007, GDP per capita in constant prices in Estonia increased by 2.48 times, by 2.31 times in Lithuania and 2.67 in Latvia. The economic crisis significantly brought down the levels and in 2011, Lithuania was the only country that managed to exceed pre-crisis levels, in fact, Estonia and Latvia were also short of the level of the year 2006.

![Figure 7: GDP at current prices per capita of Lithuania, thousand](Code: M2010202)

Source: the authors’ illustration
As a rule, an increase of over 6%, in 2003 and 2007 = 11.2%. In 1999 was small (-0.3%) and in 2009 a large decline (-14.0%). 2012th GDP per capita grew by 4.85%, it is, more than the total GDP (3.6%). GDP of Lithuania per capita rose from 1995 to 2012 in euro 7.6 and in U.S. dollars 7.5 times. In 1995 was GDP per capita 1434 EUR or 1854 USD; in 2008 was the dollar record level: 14 888 and in 2012 the euro 10 875 and LTL 37 551 record level.

**GDP per person employed** is intended to give an overall impression of the productivity of national economies expressed in relation to the EU-27 average. The volume index of GDP per capita in PPS is expressed in relation to the EU-27 average set to equal 100. If the index of a country is higher than 100, this country's level of GDP per head is higher than the EU average and vice versa. Basic figures are expressed in PPS, i.e. a common currency that eliminates the differences in price levels between countries allowing meaningful volume comparisons of GDP between countries. The index, calculated from PPS figures and expressed with respect to EU27 = 100, is intended for cross-country comparisons rather than for temporal comparisons.” [Code: tec00114]

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<tbody>
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<td>40.0</td>
<td>48.4</td>
<td>55.0</td>
<td>57.7</td>
<td>60.8</td>
<td>62.4</td>
<td>66.7</td>
<td>65.8</td>
<td>65.5</td>
<td>69.3</td>
<td>67.6</td>
</tr>
<tr>
<td>Latvia</td>
<td>33.4</td>
<td>35.7</td>
<td>41.6</td>
<td>44.2</td>
<td>45.9</td>
<td>47.8</td>
<td>48.9</td>
<td>51.4</td>
<td>51.6</td>
<td>52.8</td>
<td>54.8</td>
<td>62.7</td>
</tr>
<tr>
<td>Lithuania</td>
<td>36.2</td>
<td>38.6</td>
<td>47.4</td>
<td>52.6</td>
<td>53.9</td>
<td>55.0</td>
<td>56.8</td>
<td>59.6</td>
<td>62.1</td>
<td>57.6</td>
<td>62.5</td>
<td>64.9</td>
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</table>

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. The indicator was highest among EU member states in Luxembourg (169.9), Ireland (136.9) and France (115.8) and lowest in Bulgaria (41.3) and Romania (48.8). Productivity was 1.5 times higher than the EU average in Norway (150.7) and the USA (143.5).

One working hour productivity displays a similar trend, having been highest in Luxembourg 187.1. 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 equivalent (equal in force or effect) conclusion regarding productivity and the number of workers engaged in the company. It is conditioned by the particular sector of the economy. For instance, productivity among energy and water management companies is highest in small firms with up to 9 persons on payroll. On the other hand, for companies active in the lease of movable property, accommodation (housing) companies, and among all the sectors of the economy taken together as an entity, productivity is highest in big firms that employ 250 or more workers. Highest productivity among textile and habiliment (articles of clothing) firms can be noted in companies with 10 - 49 workers; the same can be said for timber companies with 50 – 249 workers [Code: tin00054].

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<tbody>
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<td>:</td>
<td>7.0</td>
<td>7.7</td>
<td>8.7</td>
<td>9.2</td>
<td>9.7</td>
<td>10.3</td>
<td>10.0</td>
<td>10.3</td>
<td>10.9</td>
<td>10.8</td>
<td></td>
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<tr>
<td>Latvia</td>
<td>:</td>
<td>4.2</td>
<td>4.7</td>
<td>5.5</td>
<td>5.9</td>
<td>6.3</td>
<td>6.7</td>
<td>6.7</td>
<td>6.6</td>
<td>6.9</td>
<td>7.8</td>
<td></td>
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<tr>
<td>Lithuania</td>
<td>4.5</td>
<td>5.3</td>
<td>5.6</td>
<td>6.5</td>
<td>7.5</td>
<td>7.7</td>
<td>8.2</td>
<td>8.7</td>
<td>8.8</td>
<td>8.3</td>
<td>8.7</td>
<td>9.2</td>
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In Norway, the indicator for euro per hour worked has grown from 49.3 thousand to 68.9 thousand during the years 1990 – 2011, from 29.8 to 44.4 in Sweden, from 25.7 to 40.0 in Finland, from 37.4 to 48.9 in Denmark, from 33.4 to 45.4 in France, from 31.2 to 42.3 in Germany, from 29.5 to 41.5 in the United States; and during the period from 1995 – 2011 from 25.3 to 31.9 in the EU (27 countries).

In 2011 Norway (68 900 EUR) and Luxembourg (60 000 EUR) have highest productivity, **euro per hour worked**, in Europe and also globally. EU 27 was 31 900 EUR. [Code: tsdec310]
Compared to 2005, labour productivity per hour in all 10 of the new post-socialist EU countries has increased at a more rapid pace than the EU 27 average. Ireland had the greatest increase of the old EU member states (117.3) and Latvia among the new members (133.6). Hungary had the smallest growth (104.6) among new members, which was even lower than the EU 27 average. The level of Estonia among the new member states was average.

Labour productivity grew for all countries until 2008. In 2008 some countries, including Estonia (-2.8), experienced a decline. In 2009, all countries, except Estonia and Poland were experiencing a decline. In 2011 hourly labour productivity only decreased in Estonia compared to the previous year. The greatest productivity growth in 2011 was of Latvia (+13.8%).

Labour productivity in Lithuania by major industries will be considered in more details below.

**Total**  All branches
(C) Manufacturing
(F) Construction
(G) Wholesale and retail trade; repair of motor vehicles and motorcycles
(H) Transportation and storage

### Table 4: Labour productivity per hour worked. Percentage change over previous year [Code: tsdec310]

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<tbody>
<tr>
<td>EU (27 countries)</td>
<td>1.8</td>
<td>1.7</td>
<td>1.5</td>
<td>1.7</td>
<td>1.2</td>
<td>2.1</td>
<td>1.4</td>
<td>-0.5</td>
<td>-1.4</td>
<td>2.1</td>
<td>1.4</td>
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<tr>
<td>Estonia</td>
<td>5.9</td>
<td>5.0</td>
<td>6.1</td>
<td>5.8</td>
<td>6.0</td>
<td>5.0</td>
<td>6.8</td>
<td>-2.8</td>
<td>2.5</td>
<td>5.8</td>
<td>-1.1</td>
</tr>
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<td>Latvia</td>
<td>6.5</td>
<td>6.3</td>
<td>6.2</td>
<td>9.3</td>
<td>6.6</td>
<td>6.9</td>
<td>7.2</td>
<td>0.1</td>
<td>-2.4</td>
<td>4.8</td>
<td>13.8</td>
</tr>
<tr>
<td>Lithuania</td>
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<td>4.8</td>
<td>8.9</td>
<td>6.0</td>
<td>1.7</td>
<td>6.7</td>
<td>5.7</td>
<td>1.9</td>
<td>-6.5</td>
<td>5.9</td>
<td>5.2</td>
</tr>
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**Note:** 1 LTL = 0.2896 EUR = 0.4029 USD (2011)
Table 6: Gross value added per one employed person, at current prices, LTL thousand [Code: M2010301]

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<tbody>
<tr>
<td>Total</td>
<td>29,2</td>
<td>32,3</td>
<td>33,4</td>
<td>35,9</td>
<td>40,0</td>
<td>44,8</td>
<td>50,5</td>
<td>58,2</td>
<td>61,5</td>
<td>61,8</td>
<td>78,0</td>
<td>92,8</td>
</tr>
<tr>
<td>C</td>
<td>31,8</td>
<td>36,7</td>
<td>34,5</td>
<td>37,9</td>
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<td>51,5</td>
<td>56,9</td>
<td>61,5</td>
<td>67,6</td>
<td>61,8</td>
<td>78,0</td>
<td>92,8</td>
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<tr>
<td>F</td>
<td>29,2</td>
<td>30,8</td>
<td>32,2</td>
<td>33,9</td>
<td>35,8</td>
<td>38,7</td>
<td>47,7</td>
<td>58,0</td>
<td>67,8</td>
<td>44,9</td>
<td>54,2</td>
<td>66,9</td>
</tr>
<tr>
<td>G</td>
<td>34,1</td>
<td>37,0</td>
<td>39,6</td>
<td>42,4</td>
<td>44,5</td>
<td>49,4</td>
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<td>64,9</td>
<td>58,4</td>
<td>62,9</td>
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<td>H</td>
<td>41,0</td>
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<td>71,1</td>
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<td>99,6</td>
<td>97,7</td>
<td>113,8</td>
<td>111,4</td>
</tr>
</tbody>
</table>

Figure 9: Gross value added per actual hour worked of Lithuania, LTL. [Code: M2010301]
Source: the authors’ illustration

Table 7: Real unit labour cost - annual data. Index, 2005=100 [Code: nama_aux_ulc]

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<tr>
<td>EU (27)</td>
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<td>102,6</td>
<td>102,5</td>
<td>98,8</td>
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<td>99,0</td>
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<td>116,7</td>
<td>105,3</td>
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<td>105,4</td>
<td>114,6</td>
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<td>109,7</td>
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<td>106,0</td>
</tr>
<tr>
<td>Latvia</td>
<td>107,9</td>
<td>109,0</td>
<td>94,7</td>
<td>104,6</td>
<td>110,7</td>
<td>118,3</td>
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<td>99,6</td>
<td>96,8</td>
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<td>95,1</td>
<td>90,1</td>
<td>88,4</td>
<td>86,0</td>
</tr>
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Note: f – forecast
Having a base of 1995 = 100, the 1995th ratio had the highest labour costs in Estonia (116.7) and Lithuania was lowest (93.5), Latvia was between them (107.9). Estonian labour cost declined steadily until year 2002 (100.2) and were stable and the years 2007 - 2009 (117.8) saw a sudden increase. Latvian labour costs declined steadily from 1997 (114.5) to 2002. (94.7), had two years of steady growth and the 2008th year (118.3), but was followed by a gradual decrease to a level below 2005th level. Labour costs of Lithuania was the most stable and declined sharply after the economic crisis of the 2011th was 90.1. Lithuanian Labour cost has been the most stable and after recession declined sharply, reaching the 2011th was 90.1. According to the forecast, Latvia and Lithuanian labour cost decline will continue in the years 2012 and 2013, but Estonia is a small increment.

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

CONCLUSIONS

In conclusion, the Baltic States, including Lithuania of labour productivity, the structural problems in the labour market should be solved by supporting efforts to obtain higher qualifications based on the requirements of the labour market and improve regional and occupational mobility of labour.

The ongoing transition to a sustainable economic model of the economy is the Baltic States, where exports are a key driver of growth and competitiveness in the domestic and foreign markets, and the ability to be competitive in attracting capital to increase the production capacity of the Baltic countries.

RECOMMENDATIONS

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 new (supplemented) Employment Contracts Act of Estonia also had a positive effect.

To increase labour productivity the following should be taken into account

1. To contractors.

Objective factors: (different innate abilities, talents, working and living conditions). 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. **To employers** (the company).

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].

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 and 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.

Economic growth, including the growth of labour productivity in Europe must achieve the sustainable use of the environment.

**REFERENCES**


