

Analysis of Barriers for Business Start in Latvia

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Entrepreneurship is one of driving forces for economic development, in European Union it has to be paid more attention to keep competitiveness in the world. Various aspects of entrepreneurship including on barriers for business start are covered in research world-wide. The aim of the current paper is to analyse barriers of new business starters in Latvia. The tasks of the current research: analysis of theoretical findings in scientific publications; analysis of new business starters views on barriers for business start; to perform statistical analysis of new business starters evaluations on business barriers. Research methods: scientific literature studies, survey of entrepreneurs in the business start phase in Latvia (survey was conducted in the period between October 2013 and March 2014, the number of respondents 209). In survey for most of questions evaluation scale 1 – 5 is applied. For data processing descriptive statistical indicators, cross tabulations, factor analysis, Mann-Whitney U test, Kruskal Wallis test are applied. The key results: in Latvia entrepreneurs as the serious barriers for business start evaluate – unreliable employees, complex and confusing tax system, weak economy, availability of long-term financial capital. The complex factors – barriers for business start are: infrastructure and unsafe environment; knowledge and skills in management; business environment; lack of financial resources.

KEYWORDS: business starting barriers, entrepreneurship, entrepreneur's views

Successful entrepreneurship is the precondition for country economic growth, employment, well-being of population and is on special importance in the European Union. The statistical data of the Enterprise Register of Latvia (Enterprise Register of Republic of Latvia, 2016) shows that during the last years start-up of companies in the country is decreasing. In 2015 the number of new registered enterprises decreased approximately by 8% in comparison with 2014 but the number of liquidated enterprises increased approximately by 54%.

Various aspects of entrepreneurship including on barriers for business start are covered in research world-wide. The problem is on great importance in the EU as European Union is lacking back in competitiveness rankings. The aim of the current paper is to analyse barriers of new

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Abstract

Introduction



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business starters in Latvia. For deeper analysis the barriers for business start are analysed by age groups of new business starters, previous experience in management and by gender. The tasks of the current research: analysis of theoretical findings in scientific publications; analysis of new business starter's views on barriers for business start; statistical analysis of new business starter's evaluations on business start barriers by help of different statistical analysis methods. Research methods: scientific literature studies, survey of entrepreneurs in the business start phase in Latvia (survey was conducted in the period between October 2013 and March 2014, the number of respondents 209). In survey for most of the questions evaluation scale 1 – 5 is applied. The mentioned scale was selected to make comparisons with results on studies of business start barriers in other countries. For data processing descriptive statistical indicators (indicators of central tendency or location; indicators of variability – range and standard deviation), cross tabulations, factor analysis, Mann–Whitney U test, Kruskal Wallis test are applied for analysis of survey data.

The results of empirical research shows that unreliable employees, complex and confusing tax system, weak economy, availability of long-term financial capital are very important barriers for business start in Latvia.

Theoretical background

Academic research world-wide has paid a lot of attention by researchers of stable business creation influencing factors, on aspects making obstacles for company development in different fields in each of the field having specifics, limitations and risks but also challenges for development including in science business taking into account promises, reality and futures of the respective field development (Friedman, 2006). Different countries and different parts of the world and continents have different experience and different barriers for entrepreneurship start and development (Volery, et al, 1997). Many researchers have stated question: what motivates entrepreneurs to start and develop their business (Kirkwood & Walton, 2010). Barriers for entrepreneurship start in different European countries has been studied by international research team and results indicated that in most of countries biggest barriers for business start-up are institutional barriers as well as lack of skills (Iakovleva, et al, 2014). Differences in barriers for start-up of small and micro size enterprises are noticed in many countries (Sandra, et al, 2000). Each of countries for barriers of business start-up can find their differences and challenges (Gill & Biger, 2012). Researchers have noticed several barriers depending on industry and markets – 25 different barriers have been discovered and analysed (Karakaya, 2002). How experience influence business success is a serious and deeply researched aspects (Kuckertz & Wagner, 2010). From other side academic researchers have paid their research focus also on success of entrepreneurship graduates – what makes them successful and what is lacking for successful entrepreneurship start-up (Smith & Beasley, 2011). Different countries have different approaches to such analysis and different results (Choo & Wong, 2006). Sustainable production development and conditions including experience in past is on researchers agenda (Hall, et al, 2010). Researchers have analysed also study conditions, programs and challenges (Shinnar, et al, 2009). Entrepreneurial scientists and their collaborations are on special interest as it could be successful way for new product development (Oliver, 2004). Technology business incubators are evaluated as important and powerful source to help build an innovation-based economy (Lalkaka, 2002). Technology and equipment in some areas are on great importance and value (Grohn, et al, 2015). Barriers of entrepreneurship start – up for different age groups and education level entrepreneurs are analysed as well (Robertson, et al, 2003). Entrepreneurship educations several aspects are monitored by researchers on regular basis (Pitaway & Cope, 2007). Issues on entrepreneurship start-up, growth as well as classification aspects of problems that make entrepreneur-

ship start-up problematic have been on researcher's agenda already many decades (Terpstra, et al, 1993). Entrepreneurship environment as well as industry life cycle makes influence on entrepreneur's performance and results (Lumpkin & Dess, 2001). Problems and brakes of entrepreneurship are studied by different approaches (Morrison, 2000). Innovation evaluation aspects are on great importance and have different experience (Daugeliene & Jucepute 2011). Cultural background makes influence on entrepreneurial activities and results (Moriano, et al, 2012). Can everybody even having solid academic background be a entrepreneur – those issues are on importance for academic researchers (Lüthje & Franke, (2003). Can entrepreneurs rely on theory and expected behaviour of possible customers are the issues analysed by scientists (Lien, et al, 2002). Relationships among the research organisations and ways of their interaction is on great researchers interest (Musajeva, 2015). Differences among entrepreneurs on their motivation and barriers for business start and development are different in different continents and countries (Giacomin, et al, 2011). Availability of venture capital is mentioned as success for sustainable start – up as venture capitalists provide triple bottom line business advice and network support (Bocken, 2015). The role of SMEs in improving the competitive position of the European Union are covered in various researches and scientific publications, including researchers from United Kingdom (Floyd, McManus, 2005). Normal entrepreneurship development in EU is on special interest to have not so big gap in the competitiveness with developed countries in other continents, like Switzerland, Japan, USA, Indonesia and other) *World Economic Forum, 2016). The analysis of business barriers are going on as those aspects are on great importance for practical applications in business of the academic research findings and developed suggestions.

Taking into account theoretical findings of barriers for business start-up it was selected most mentioned barriers. For current research 16 barriers for business start were measured with a five-point Likert scale. The evaluation 1 would rate as unimportant, 2 – not very important, 3 – mildly important, 4 – very important and 5 – extremely important. The indicators of central tendency or location (arithmetic mean, mode and median) showed that the most important barriers for business start were unreliable employees (arithmetic mean – 4, mode – 5 and median – 4, in evaluation scale 1 – 5), complex and confusing tax system (arithmetic mean – 3.8, mode – 5, median – 4), state interference/bureaucracy (arithmetic mean – 3.7, mode – 5, median – 4), weak economy (arithmetic mean – 3.7, mode – 4, median – 4), availability of financial capital (arithmetic mean – 3.7, mode – 4, median – 4). The new business starters evaluated listed barriers as very important. The evaluations of new business starters on barriers for business start were quite heterogeneous (standard deviation). The main statistical indicators (indicators of central tendency or location and indicators of variability) of new business starter's evaluations on barriers for business start are reflected in Table 1.

The full range of evaluation scale was covered by respondents for all analysed aspects but most variability was indicated for barriers *problems with electric power supply* as well as *complex enterprise registration process* as the indicators of variability – standard deviations were the biggest. The differences of views by respondents of the survey were the smallest for barrier *too much competition* and barrier *availability of short-term capital*.

For deeper analysis the barriers for business start were analysed by age groups of new business starters, by the previous experience of business starters and by gender.

The empirical research results showed that barriers *too much competition*, and *lack of marketing trainings*, and barrier *unsafe surroundings/environments* which were a bit higher evaluated by older new business starters (aged 60 years or more). Young new business starters (aged 20–39)

Empirical research results and discussion

lightly higher have evaluated barrier *availability of long-term financial capital*. Other business barriers were evaluated similarly by new business starters in all age groups of business starters. Statistical analysis of new business starters evaluations by age groups showed that the evaluations did not differ statistically significant by ages groups (Kruskal Wallis test, $p>0.975$). The distribution of the average values of new business starter's evaluations on barriers for business start by age groups is reflected in Table 2.

Table 1

Main statistical indicators of new business starters evaluations on business barriers

Barriers for business start	Arithmetic mean	Median	Mode	Standard deviation	Minimum	Maximum
Unreliable employees	4.0	4	5	1.18	1	5
Complex and confusing tax system	3.8	4	5	1.21	1	5
Too much state interference/bureaucracy	3.7	4	5	1.16	1	5
Weak economy	3.7	4	4	1.05	1	5
Availability of long-term financial capital	3.7	4	4	1.04	1	5
Availability of short-term capital	3.6	4	4	0.97	1	5
Too much competition	3.4	3	3	0.96	1	5
Failure to maintain accurate accounting records	3.4	4	4	1.25	1	5
Lack of marketing training	3.1	3	3	1.11	1	5
Unsafe surroundings/environments	3.1	3	3	1.24	1	5
Lack of training in management skills	3.0	3	3	1.11	1	5
Bad roads and transportation possibilities	3.0	3	3	1.33	1	5
Problems with electric power supply	3.0	3	1	1.44	1	5
Complex enterprise registration process	2.6	2	1	1.30	1	5
Foreign currency exchange restrictions	2.4	2	1	1.24	1	5
Limited parking	2.2	2	1	1.16	1	5

Source: Authors' calculations based on entrepreneurs survey conducted in October 2013 – March 2014, n=209. Evaluation scale 1 – 5, where 1 – unimportant, 2 – not very important, 3 – mildly important, 4 – very important, 5 – extremely important.

Business barriers	Ages groups									
	20–29 (n=60)		30–39 (n=56)		40–49 (n=41)		50–59 (n=33)		>=60 (n=15)	
	Median	Mode	Median	Mode	Median	Mode	Median	Mode	Median	Mode
Unreliable employees	4	5	4	5	5	5	4	5	4	4
Too much competition	3	4	3	3	3	3	3	3	4	5
Availability of short-term capital	3	3	4	4	3.5	4	3	3	4	4
Availability of long-term financial capital	4	4	4	4	4	3	3	3	4	4
Too much state interference/ bureaucracy	4	5	4	2	4	4	4	5	3	3
Weak economy	4	4	4	5	4	4	4	3	3	3
Limited parking	2	1	2	1	3	1	2	3	2	2
Lack of training in management skills	3	3	3	3	3	4	3	3	3	4
Lack of marketing training	3	3	3	3	3	4	3	3	4	4
Failure to maintain accurate accounting records	4	4	3	3	4	4	3	3	4	3
Complex and confusing tax system	4	5	4	5	4	5	4	5	4	4
Unsafe surroundings/ environments	3	3	3	3	3	5	3	3	5	5
Complex enterprise registration process	2	2	2	1	3	1	3	3	2	2
Foreign currency exchange restrictions	2	1	2	1	2	1	2	2	2	2
Bad roads and transportation possibilities	3	3	3	3	3	3	4	4	4	4
Problems with electric power supply	3	5	3	1	3	1	3	4	3.5	4

Table 2

Distribution of average values of evaluations on new business starters of business barriers by ages groups

Source: Authors' calculations based on entrepreneurs survey conducted in October 2013 – March 2014, n=209. Evaluation scale 1 – 5, where 1 – unimportant, 2 – not very important, 3 – mildly important, 4 – very important, 5 – extremely important.

The evaluations of only one barrier – *weak economy* differed statistically significant between new business starters without experience in management and with experience 1–5 years in management (Mann–Whitney test, $z=-2,952$, $p=0.003$).

Other business barriers of new business starters without experience in management and with experience in management 1–5 years, with experience in management 6–10 years, with experience in management more than 10 years, were evaluated similarly by the respondents.

The distribution of average values on new business starter's evaluations on barriers for business starting by experience are reflected in Table 3.

The results of Mann–Whitney test showed that new business starter's evaluations of barriers *too much competition, availability of short-term capital, lack of marketing training, failure to maintain accurate accounting records, complicated enterprise registration process* differed statistically significant by gender. The distribution of average values of new business starter's evaluations on barriers for business start by gender is reflected in Table 4.

For identifying the key business barriers and determining the mutual statistical relations of the business barriers the factor analysis were used.

As a result of the factor analysis the initial 16 indicators, through 7 iterations (by using the Varimax rotation) were grouped in 4 complex factors (see Table 5).

The interpretation of the identified complex factors with regard to the indicators with which the initial analysed aspects – indicators had relatively high burdens:

- 1 Complex factor F1– infrastructure, unsafe environment. The factor had relatively high burdens on the following indicators: foreign currency exchange restrictions, bad roads and transportation possibilities, problems with electric power supply, unsafe surroundings/environments, complex enterprise registration process.
- 2 Complex factor F2 – knowledge and skills in company management. The factor had relatively high burdens on the following indicators: lack of marketing training, lack of training in management skills, limited parking, failure to maintain accurate accounting records, too much competition.
- 3 Complex factor F3 – business environment. The factor had relatively high burdens on the following indicators: too much state interference/bureaucracy, unreliable employees, complex and confusing tax system, weak economy.
- 4 Complex factor F4 – lack of financial resources. The factor had relatively high burdens on the following indicators: availability of short-term capital, availability of long-term financial capital.

The complex factors – barriers for business start are: infrastructure and unsafe environment; knowledge and skills in management; business environment; lack of financial resources.

Those findings could be useful for policy makers before decision making on changing business environment for entrepreneurship development.

Business barriers	Experience of new business starters (years)							
	0 (n=99)		1–5 (n=47)		6–10 (n=32)		>10 (n=26)	
	Median	Mode	Median	Mode	Median	Mode	Median	Mode
Unreliable employees	4	5	4	5	5	5	5	5
Too much competition	3	3	3	4	3	3	3.5	3
Availability of short-term capital	4	4	4	3	4	3	4	4
Availability of long-term financial capital	4	4	4	4	4	4	4	3
Too much state interference/bureaucracy	4	5	3	3	4	4	4	5
Weak economy	4	4	3	3	4	3	4	4
Limited parking	2	1	2	1	2	2	2	1
Lack of training in management skills	3	3	3	2	3	4	3	4
Lack of marketing training	3	3	3	3	4	4	3	4
Failure to maintain accurate accounting records	3	3	3	3	4	4	4	3
Complex and confusing tax system	4	5	4	5	4	5	4	5
Unsafe surroundings/environments	3	3	3	3	4	4	4	4
Complex enterprise registration process	2	1	2	2	3	3	2	1
Foreign currency exchange restrictions	2	1	2	2	2	2	2	1
Bad roads and transportation possibilities	3	3	2	2	3	3	4	4
Problems with electric power supply	3	1	2	2	3	4	3	4

Source: Authors' calculations based on entrepreneurs survey conducted in October 2013 – March 2014, n=209. Evaluation scale 1 – 5, where 1 – unimportant, 2 – not very important, 3 – mildly important, 4 – very important, 5 – extremely important.

Table 3

Distribution of average values of evaluations on new business starters of business barriers by experience in management

Table 4

Distribution of average values of evaluation on new business starters of business barriers by gender

	Sign.	Males (n=92)			Females (n=95)		
		Median	Mode	Arithmetic mean	Median	Mode	Arithmetic mean
Unreliable employees	0.865	4	5	4.1	4	5	4.0
Too much competition	0.001	3	3	3.2	4	4	3.6
Availability of short-term capital	0.002	3	3	3.3	4	4	3.7
Availability of long-term financial capital	0.166	4	4	3.6	4	4	3.8
Too much state interference/bureaucracy	0.446	4	5	3.6	4	4	3.7
Weak economy	0.777	4	3	3.8	4	4	3.8
Limited parking	0.209	2	1	2.0	2	1	2.2
Lack of training in management skills	0.602	3	3	3.0	3	3	3.1
Lack of marketing training	0.043	3	3	3.0	3	4	3.3
Failure to maintain accurate accounting records	0.018	3	3	3.2	4	4	3.6
Complex and confusing tax system	0.056	4	5	3.6	4	5	4.0
Unsafe surroundings/environments	0.229	3	2	3.0	3	3	3.2
Complex enterprise registration process	0.016	2	1	2.3	3	3	2.8
Foreign currency exchange restrictions	0.086	2	1	2.2	2	2	2.5
Bad roads and transportation possibilities	0.812	3	5	3.0	3	3	3.1
Problems with electric power supply	0.155	3	2	2.8	3	5	3.1

Source: Authors' calculations based on entrepreneurs survey conducted in October 2013 – March 2014, n=209. Evaluation scale 1 – 5, where 1 – unimportant, 2 – not very important, 3 – mildly important, 4 – very important, 5 – extremely important.

Business barriers (initial indicators)	Factors			
	F1	F2	F3	F4
Foreign currency exchange restrictions	0.782	0.315	-0.076	0.192
Bad roads and transportation possibilities	0.715	-0.034	0.239	0.181
Problems with electric power supply	0.697	0.098	0.412	0.057
Unsafe surroundings/environments	0.602	0.279	0.319	0.102
Complex enterprise registration process	0.585	0.518	0.123	0.070
Lack of marketing training	0.057	0.839	0.203	0.154
Lack of training in management skills	0.108	0.823	0.261	0.056
Limited parking	0.333	0.633	0.001	-0.029
Failure to maintain accurate accounting records	0.400	0.428	0.427	-0.192
Too much competition	0.100	0.366	0.311	0.199
Too much state interference/bureaucracy	0.171	0.179	0.692	0.174
Unreliable employees	0.089	0.244	0.673	0.106
Complex and confusing tax system	0.447	0.176	0.673	-0.066
Weak economy	0.120	-0.017	0.548	0.417
Availability of short-term capital	0.124	0.073	0.109	0.873
Availability of long-term financial capital	0.141	0.114	0.140	0.859

Extraction Method: Principal Component Analysis
 Rotation Method: Varimax with Kaiser Normalization
 Rotation converged in 7 iterations

Source: Authors' calculations based on entrepreneurs survey conducted in October 2013 – March 2014, n=209.
 Evaluation scale 1 – 5, where 1 – unimportant, 2 – not very important, 3 – mildly important, 4 – very important,
 5 – extremely important.

- In Latvia the main serious barriers for business start are: unreliable employees, complex and confusing tax system, too much state interference/bureaucracy, weak economy, availability of financial capital.
- Female entrepreneurs starting enterprise have indicated that there is a very big competition, lack of marketing training, availability of short-term capital, complex enterprise registration process. Those aspects are different statistically significant with male respondents.

Table 5

The business barriers of Latvian entrepreneurs evaluations – factor analysis (complex factor matrix after rotation)

Conclusions

- The entrepreneurs without experience evaluate importance of barrier „weak economy” higher (as very important) than entrepreneurs with experience 1–5 years. The evaluations are different statistically significant.
- The evaluations of entrepreneurs on barriers for business start do not differ statistically significant by entrepreneur’s age groups.
- The complex factors – barriers for business start are: infrastructure and unsafe environment; knowledge and skills in management; business environment; lack of financial resources.
- The research findings could be used for policy development before decision making to improve business environment and consequently increasing global competitiveness and not lack so much with leaders in global competitiveness rankings.

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Fields of research interests

Fields of study are small and medium business, factors influencing business development, employment and its impact on fertility and migration; had been researcher in ESF, ERAF projects and in the projects of University of Latvia; member of Latvian Association of Statisticians

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Fields of research interests

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