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Abstract

Every country is interested in entrepreneurship development as entrepreneurs form the basis for economic development, so academic researchers are looking for supportive and restrictive factors in business development. In Latvia, the majority of companies are micro and small enterprises. The aim of the paper is to investigate the restrictive factors related to the successful development of the company in Latvia, depending on the number of employees. Tasks of the research - evaluate the limiting factors influencing the development of micro-companies; find the most important factors that limit the involvement of employees and experienced managers in companies in the country, regions; compare the impact on companies by number of employees. Applied research methods: scientific publications and previous research analysis; survey of companies related of different aspects of business development; deeper analysis on factors limiting entrepreneurship development. The general population consists of all active companies registered in the Register of Enterprises of the Republic of Latvia in strategically important sectors. A questionnaire of our survey was developed for companies selected at random and the replies of 2511 companies, of which 1879 were micro-enterprises, were considered valid. The technical fieldwork of the survey was conducted by the Marketing and Public Opinion Research Center (SKDS) (interviewers conducted as CAWI - computerized web interviews). Data analysis was performed by SPSS, the main indicators of descriptive statistics were used for the analysis of survey data: indicators of central tendency or location - arithmetic mean, mode, median; indicators of variability - standard deviation, standard error of mean, range; cross-tabulations by regions and by number of employees, analysis of variance - ANOVA and factor analysis with varimax rotation. The results point to the main restrictions on business growth: increase of expenses on labour or production and unavailability of qualified employees or experienced managers.

KEYWORDS: company growth; micro-company; experienced managers; qualified employees; restrictive factors in company development.

Introduction

Every country is interested in entrepreneurship development as entrepreneurs form the basis for economic development, therefore academic researchers are looking for supportive and restrictive factors in entrepreneurship development. In Latvia, most companies are micro and small enterprises. The aim of the paper is to investigate the limiting factors related to the successful involvement of employees in the development of micro-enterprises in Latvia.

According to the researchers (European Commission, 2019) micro, small and medium-sized enterprises (SMEs) play a particularly important role in the non-financial business economy of Latvia. Although the total value added and employment share of SMEs and large enterprises



increased at similar rates between 2014 and 2018, however the value added of SMEs increased by 29.9% and that of large enterprises by 29.1%. Employment growth for SMEs was significantly lower, rising by only 6.3% for SMEs and by only 5.0% for large companies. It should be emphasized that the main drivers of SME value added growth were small enterprises with an increase of 36.7% in 2014-2018. In terms of employment growth, micro-enterprises showed an increase of 10.8% over the same period. Most recently, in 2017-2018, the total value added of SMEs increased sharply by 14.0%, while the growth of SME employment was much lower - 2.9%.

Experts (European Commission, 2019) predict that the rapid growth of value added will continue, increasing by 14.5% in 2018-2020. Over the same period, employment in SMEs is projected to increase by 4.0%, with most of this increase coming from micro-companies, where employment is projected to increase by 6.1%. As a result, around 20 600 new jobs are likely to be created in SMEs by 2020.

Therefore, the tasks of the research were: to evaluate the limiting factors influencing the development of micro-companies in Latvia; to find the most important factors limiting employees and experienced managers involvement in micro-companies in the country, in the regions and by the number of employees. In our study, we focused on micro-companies (i.e. enterprises with less than 10 employees and a turnover or balance sheet total of less than EUR 2 million) as defined in the European classification system (European Commission, 2003). Applied research methods were used to perform the tasks: scientific publications and previous realized research analysis; survey of micro-companies related of different aspects of the company development; deeper analysis on factors limiting entrepreneurship development.

The general population consists of all active companies registered in the Register of Enterprises of the Republic of Latvia in 11 strategically important sectors that were entitled to receive state aid. A total of 32 308 enterprises were selected by NACE codes. The questionnaire of survey was sent for companies selected at random from publicly available e-mail addresses in January 2018. In order to explore in depth the question of what factors significantly limit the growth of the company, the respondents were asked to answer on a scale of 1-5, where 1-not limiting, 5-limiting. The technical fieldwork of the survey was performed by the Marketing and Public Opinion Research Center (SKDS), the interviewers conducted as CAWI - computerized web interviews. The responds were provided by the managers, board members, directors or accountants of companies representing all regions of Latvia, and, ensuring greater representativeness, the data were weighted according to the share of sectors.

Data analysis of survey was performed by SPSS, the main indicators of descriptive statistics were used for the analysis of survey data: indicators of central tendency or location - arithmetic mean, mode, median; indicators of variability - standard deviation, standard error of mean, range; cross-tabulations by regions and by number of employees, analysis of variance - ANOVA and factor analysis with *varimax* rotation.

Researchers in many countries are looking for the best possible conditions for the company's development - several aspects are mentioned, including the size of the company, employees, innovation, intellectual capital, local regulations (Block *et al.*, 2012; Bolen *et al.*, 2016; Corvino *et al.*, 2019; Daugeliene & Liepinyte, 2012; Ferraro & Veltri, 2011; Gherhes *et al.*, 2016; Hanley & O'Gorman, 2004; Tu *et al.*, 2014). Different countries have diverse and specific approach (Long Kweth *et al.*, 2014). Co-operation with educational institutions, including universities and SME are on researchers agenda (Cantù *et al.*, 2015; Matlay, 1999; Zekos, 2003). In many cases labour force, clever and experienced managers are on key importance for success of the company (Maurer *et al.*, 2011, McQueen & Yin, 2014). In different regions, it could be different results even if the managers are well experienced, employees are trying their best and innovative entrepreneurship is taking place (Andreeva *et al.*, 2016, Daugeliene, 2016). The authors (Andreejeva *et al.*, 2016) have

Theoretical findings

proposed and tested the hypothesis that, in this environment, the economic growth in the country and the region is increasingly determined not so much by large businesses, but by many small innovative companies. The study (Andreeva *et al.*, 2016) confirms that the most justified strategy for the development of innovative entrepreneurship in the region is the strategy of cooperation between different types of companies in order to overcome their weaknesses, enhance existing opportunities and activate the innovation and entrepreneurial capacity. Access to financing by enterprises are on regular evaluation agenda (Kwaak *et al.*, 2019) preparing also comparisons of performance by different countries.

The researchers (Lussier & Sonfield, 2015) were examining six significant differences were: “small” firms are more likely to employ non-family member managers, are more likely to engage in the formulation of succession plans, are more likely to utilize outside advisory services, make greater use of sophisticated financial management methods, and have a more formal management style than “micro” firms; but the influence of the founder is greater in “micro” firms. Interest of academic researchers (Paoloni & Dumay, 2015) was devoted to the relational capital of micro-enterprises run by women in the startup phase. They have developed the CAOS model of micro-entrepreneurship consisting of the following components: examining the personal characteristics of the female entrepreneur (C); the environment in which the micro-enterprise operates (A); organizational and managerial aspects (O); and the motivations for starting a new business (S). Using this model, the authors are able to link these factors and classify different types of connections, as a result, it is possible to identify the kind of existing relations. The analysis revealed that networks with informal and permanent relationships are predominant, which support the need to reconcile work with family and involve relatives and friends in the network. The authors' study highlights the lack of strategy in women-run micro-enterprises (Paoloni & Dumay, 2015). Women in microenterprise management is on importance (Sandberg, 2003), and they pointed to the need for government support for networking activities and other programs that promote collaboration and pooling of resources. Different technical and IT solutions (Arendt, 2008; Flynn, 2017; Roberts & Wood, 2002; Teague, 1994) influence good organisation of microenterprises. Researchers world-wide (Budhwar *et al.*, 2002; Fielden *et al.*, 2000; Keen & Etemad, 2012; Matlay *et al.*, 2005; Prijadi *et al.*, 2020) have found that financing is one of the most important driving forces of microenterprise development.

Situation analysis

According to experts (European Commission, 2019) SMEs policy priorities for Latvia lies in the area of “skills & innovation”. They point out that, despite significant progress since 2008, Latvia is still well below the EU average in terms of skills and innovation. This is Latvia's weakest performance in the area implementing the Small Business Act for Europe. However, little progress has been made here: although the percentage of SMEs innovating is well below the EU average, the figure shows a slight improvement (15.2% in 2016 compared to 10.2% in 2014). Unfortunately, Latvia lags behind most of the EU in terms of the integration of companies' digital technologies. Researchers have found that one of the factors hindering this development is the shortage of qualified specialists and the still low proportion of ICT specialists. More than half of all Latvian companies wishing to hire ICT specialists report difficulties in filling vacancies. According to this development, Latvia is characterized by a high percentage of companies that prepare their own employees, and their indicators are well above the EU average. The percentage of companies that provide ICT skills training to their employees improved, reaching 9.6% in 2018 (8.6% in 2017). Among other things, new and nascent entrepreneurs who claim that their product or service is new to customers are in line with the EU average (European Commission, 2019).

Experts have pointed to other factors that need to be overcome in SME policy in Latvia and prac-

tical realisation of entrepreneurship. The lack of private investment in research and development, as well as the recent difficulties faced by SMEs in accessing bank finance, limit economic development in all sectors. Focusing on increasing productivity and expanding export opportunities, especially in the field of cross-border e-commerce, will be crucial for the development of the Latvian economy (European Commission, 2019).

In a survey aimed at identifying the problem that is most pressing to the company, respondents were asked to assign a degree rating to each of the problems given. The ranking is calculated (Kwaak *et al.*, 2019) based on grades by survey respondents. Given the highest problem identified, they were ranked as follows:

- 1 the availability of skilled staff;
- 2 finding customers for their products or services;
- 3 the costs of production or labour (Labour costs include wages, employee benefits and payroll taxes paid by an employer);
- 4 regulations (European and national laws and industrial regulations);
- 5 competitions;
- 6 the access to finance.

Most pressing problem	In the EU28	In Latvia
availability of skilled staff	26	25
finding customers	22	10
costs of production or labour	12	16
regulations	12	10
competitions	12	19
access to finance	7	10
other	8	10

Source: Based on data from Kwaak *et al.*, 2019.

The results of the survey (Kwaak *et al.*, 2019) showed that in 2019, the availability of qualified staff and experienced managers, which has become an increasingly important issue over the years, is the most pressing problem facing EU28 SMEs. According to 26% of SMEs, this is the most urgent problem. Small (10-49 employees) and medium-sized (50-249 employees) companies are most likely to express shortages of qualified staff or experienced managers (29% and 30%, respectively), large companies (with 250 or more employees) consider this problem to be important to a lesser extent (26%), while micro-enterprises (with no more than 9 employees) express this problem the most urgency are the least (22%) compared to other size-classes.

The survey found that the cost of inputs for the production process deteriorated more often than improved in the six months from April to September 2019. From 2014 onwards, a net deterioration of costs has been observed in each survey year. In terms of the proportion of SMEs reporting them, these deteriorations in costs outweigh the improvements in turnover.

An important restrictive factor on growth is the deterioration in labour costs (including social contributions). This is reported by 58% of all SMEs in the EU-28, but only 5% have experienced an improvement in labour costs. There are no reports of net improvements from SMEs in any EU Member State. There is a clear link between changes in company size and changes in labour

Table 1

Most pressing problems during April to September 2019 for SMEs in the EU28 and in Latvia. Percentages in the table indicate the percentage of SMEs that consider a specific problem to be the most urgent problem

Empirical research results

costs. The largest deterioration in labour costs was experienced by large companies (net 62%), the least by micro- companies (net 45%).

However, there is not always a relation between the size of the enterprise and changes in other costs (consisting, inter alia, of material and energy costs). Small and medium-sized companies have experienced the most deteriorations in other costs (net 57%), micro-companies (net 53%) and large companies (net 52%) experienced deteriorations in other costs less often (Kwaak et al., 2019). Such aspects are mentioned also in other publications.

Empirical research results

In this paper, the empirical research is based on the survey of companies in Latvia on their limiting factors for company development. The main statistical indicators of the factors limiting the development of company in Latvia are included in [Table 2](#) and [Table 3](#). Thirteen key restrictive factors were used in the business questionnaire which was used in survey of entrepreneurs in Latvia identified in the various studies of researchers in many countries and recommended by local experts.

Table 2

Main statistical indicators of limiting factors for company development in Latvia (part 1)

Statistical indicators		Market for products/ service realisation	Competition	Access to finance	Increase of expenses on labour or production	Unavailability of qualified employees or experienced managers	Changes in laws and regulation
N	Valid	2511	2511	2511	2511	2511	2511
	Missing	0	0	0	0	0	0
Mean		2,84	2,99	2,93	3,45	3,34	3,49
Std. Error of Mean		0,029	0,025	0,028	0,025	0,027	0,026
Median		3	3	3	4	3	4,00
Mode		1	3	3	3	5	5
Std. Deviation		1,437	1,266	1,384	1,254	1,377	1,315
Variance	2,066	1,603	1,914	1,572	1,897	1,730	
Range	4	4	4	4	4	4	
Minimum	1	1	1	1	1	1	
Maximum	5	5	5	5	5	5	

Source: Authors' calculations based on the survey of companies in Latvia, n=2511. Evaluation scale 1-5, where 1-not limiting, 5-limiting.

Table 3

Main statistical indicators of limiting factors for company development in Latvia (part 2)

Statistical indicators		Tax burden	Unstable company cash-flow	Bureaucracy in public institutions	Changing rules of regulation	Shadow economy	Political situation	Lack of innovations
N	Valid	2511	2511	2511	2511	2511	2511	2511
	Missing	0	0	0	0	0	0	0
Mean		3,96	3,10	3,22	3,65	2,74	2,49	2,29
Std. Error of Mean		0,023	0,026	0,027	0,027	0,028	0,027	0,024
Median		4	3	3	4	3	2	2
Mode		5	3	5	5	1	1	1
Std. Deviation		1,161	1,319	1,365	1,328	1,384	1,339	1,196
Variance	1,349	1,739	1,864	1,764	1,916	1,792	1,429	

Statistical indicators	Tax burden	Unstable company cash-flow	Bureaucracy in public institutions	Changing rules of regulation	Shadow economy	Political situation	Lack of innovations
Range	4	4	4	4	4	4	
Minimum	1	1	1	1	1	1	
Maximum	5	5	5	5	5	5	

Source: Authors' calculations based on the survey of companies in Latvia, n=2511.
Evaluation scale 1-5, 1 - not limiting, 5 - limiting.

Data indicate that the most limiting factors for company development are *changes in laws, increase of expenses on labour or production, unavailability of qualified employees or experienced managers*. To find common aspects of analysed 13 factors which were selected as limiting company development. As thirteen factors are a lot and it can make difficulties in decision-making it was decided to apply dimension reduction with keeping all information using one of the most commonly used methods of multivariate analysis - factor analysis with *varimax* rotation which was concluded in six iterations. Results of the factor analysis are included in [Table 4](#).

Initial limiting factors for micro-cpompany development	Component			
	1	2	3	4
Market for products/service realisation	0,063	0,175	0,026	,794
Competition	0,040	0,090	0,190	,795
Access to finance	0,039	0,656	0,319	-0,254
Increase of expenses on labour or production	0,316	0,133	0,725	0,222
Unavailability of qualified employees or experienced managers	0,131	0,197	0,753	0,049
Changes in laws and regulation	0,837	0,013	0,196	0,087
Tax burden	0,700	0,053	0,374	0,102
Unstable company cash-flow	0,027	0,580	0,304	0,118
Byrocracy in public institutions	0,768	0,293	0,053	-0,018
Changig rules of regulation during the process	0,861	0,140	0,099	0,006
Shadow economy	0,251	0,548	0,127	0,188
Political situation	0,506	0,558	-0,148	0,136
Lack of innovations	0,100	0,660	-0,017	0,241

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

Source: Authors' calculations based on the survey of companies in Latvia, n=2511.
Evaluation scale 1-5, where 1 - not limiting, 5 - limiting.

The authors have named four complex factors, and they are:

- 1 Legislation determined conditions
- 2 Financing conditions
- 3 Labour market restrictions
- 4 Production realisation conditions.

Table 4

Complex factors of limiting factors for micro-company development in Latvia (rotated component matrix)

Table 5

Main statistical indicators of labour market restricting factors for micro-company development in regions of Latvia

Region where company is located		Increase of expenses on labour or production	Unavailability of qualified employees or experienced managers
Rīga	Mean	3,38	3,29
	N	1238	1238
	Std. Deviation	1,267	1,394
	Median	4	3
Pierīga	Mean	3,51	3,42
	N	330	330
	Std. Deviation	1,248	1,368
	Median	4	4
Vidzeme	Mean	3,42	3,32
	N	318	318
	Std. Deviation	1,243	1,352
	Median	3	3
Kurzeme	Mean	3,45	3,44
	N	275	275
	Std. Deviation	1,259	1,353
	Median	4	4
Zemgale	Mean	3,57	3,32
	N	190	190
	Std. Deviation	1,214	1,352
	Median	4	3
Latgale	Mean	3,76	3,44
	N	160	160
	Std. Deviation	1,168	1,386
	Median	4	4
Total	Mean	3,45	3,34
	N	2511	2511
	Std. Deviation	1,254	1,377
	Median	4	3

Source: Authors' calculations based on the survey of companies in Latvia, n=2511. Evaluation scale 1-5, where 1 - not limiting, 5 - limiting.

More detailed are analysed labour market restricting factor consisting of initial factors: *increase of expenses on labour or production and unavailability of qualified employees or experienced managers*. Main results are included in [Table 5](#).

As the data in [Table 5](#) show, there are differences in the assessments of these factors in the regions of Latvia. To assess the significance of the evaluations by entrepreneurs in different regions, the testing of significance of the average estimates in the regions using analysis of variance ANOVA was applied. The ANOVA results are shown in [Table 6](#). As data of the [Table 6](#) indicate there are differences in evaluations of those fac-

Table 6

ANOVA on evaluations of labour market restricting factors for micro-company development in regions of Latvia

Labour market restricting factors	Sum of Squares	Sum of Squares (values)	df	Mean Square	F	Sig.
Increase of expenses on labour or production	Between Groups	26,522	5	5,304	3,391	0,005
	Within Groups	3918,023	2505	1,564		
	Total	3944,546	2510			
Unavailability of qualified employees or experienced managers	Between Groups	9,519	5	1,904	1,004	0,414
	Within Groups	4751,392	2505	1,897		
	Total	4760,910	2510			

Source: Authors' calculations based on the survey of companies in Latvia, n=2511. Evaluation scale 1-5, where 1 - not limiting, 5 - limiting.

tors in the regions of Latvia. To assess the significance of the evaluations by entrepreneurs in different regions, the testing of significance of average evaluations of companies by number of employees using analysis of variance ANOVA was applied. Results of ANOVA are included in [Table 7](#).

As data of the [Table 7](#) indicate there are differences in evaluations of those factors in companies depending from their size in of Latvia. To assess the significance of the evaluations by entrepreneurs in different regions, the testing of significance of average evaluations in companies by their size using analysis of variance ANOVA was applied. Results of ANOVA are included in [Table 8](#).

Number of employees in the company		Increase of expenses on labour or production	Unavailability of qualified employees or experienced managers
1–4 employees	Mean	3,31	3,11
	N	1413	1413
	Std. Deviation	1,318	1,430
	Median	3	3
5–9 employees	Mean	3,56	3,61
	N	466	466
	Std. Deviation	1,210	1,313
10–49 employees	Mean	3,69	3,66
	N	477	477
	Std. Deviation	1,094	1,205
	Median	4	4
50–249 employees	Mean	3,67	3,71
	N	136	136
	Std. Deviation	1,068	1,155
250–499 employees	Mean	3,33	3,33
	N	15	15
	Std. Deviation	1,047	1,291
	Median	3,00	3,00
500 employees and more	Mean	3,25	2,75
	N	4	4
	Std. Deviation	0,957	1,258
	Median	3,5	3
Total	Mean	3,45	3,34
	N	2511	2511
	Std. Deviation	1,254	1,377
	Median	4	3

Source: Authors' calculations based on the survey of companies in Latvia, n=2511. Evaluation scale 1-5, where 1 - not limiting, 5 - limiting.

Table 7

Main statistical indicators of labour market restricting factors for company development by number of employees in Latvia

Labour market restricting factors	Sum of Squares	Sum of Squares (values)	df	Mean Square	F	Sig.
Increase of expenses on labour or production	Between Groups	70,810	5	14,162	9,158	0,000
	Within Groups	3873,736	2505	1,546		
	Total	3944,546	2510			
Unavailability of qualified employees or experienced managers	Between Groups	174,074	5	34,815	19,013	0,000
	Within Groups	4586,836	2505	1,831		
	Total	4760,910	2510			

Source: Authors' calculations based on the survey of companies in Latvia, n=2511. Evaluation scale 1-5, where 1 - not limiting, 5 - limiting.

Table 8

ANOVA on evaluations of labour market restricting factors for company development by number of employees in Latvia

As data of the [table 8](#) indicate there are no significant differences in evaluations of those factors in companies by their size as it indicates significance level.

A survey of companies on the most important factors limiting business activity in recent years indicates that they, especially micro-enterprises, were most affected by two labour market restrictions: *increase of expenses on labour or production* and *unavailability of qualified employees or experienced managers*.

Conclusions

As result of factor analysis the authors have named four complex factors, and they are:

- 1 Legislation determined conditions;
- 2 Financing conditions;
- 3 Labour market restrictions;
- 4 Production realisation conditions.

The overall conclusion is that, despite the fact that in the review of Latvia (European Commission, 2019) admits that „Skills & innovation has been the Latvian government’s priority for the past few years, giving SMEs opportunities to fund creation of new products and services, up-skill and re-skill the labour force and transfer knowledge and technologies from scientific institutions to SMEs”, the results of our study point to the inadequacy of the measures taken by business policy makers.

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