

ANALYSIS OF COMPETITIVENESS OF LATVIAN ENTERPRISES

Zarina Vita

Business School Turiba, Latvia
Vita.Zarina@turiba.lv

Strele Iveta

Business School Turiba, Latvia
Iveta@lid.lv

Fogelmanis Kaspars

Business School Turiba, Latvia
Kaspars.Fogelmanis@jpplus.lv

Vanags Andris

Business School Turiba, Latvia
andris.vanags@sakret.lv

—Abstract—

Competitiveness of enterprises is one of business and national economic growth factors. Business theories which imply gathered business experience in a range of countries and across different time periods do not make it clear why some enterprise always would be more competitive over some other. Competitiveness of enterprises is exposed to particular factors as much as to combined factors which depend on further range of other factors such as external environment, time, and also luck. Competitiveness is hard to define, yet it is also difficult to measure: as it is known, the know-how having brought success to some company might not be that useful to other companies due to various additional influential aspects. Nevertheless, business researches conducted in different countries have identified a set of factors affecting competitiveness of enterprises.

The objective of the study is to identify the most significant factors to ensure competitiveness of Latvian enterprises, based on survey data of 530 various business managers.

The work task is to analyse theoretical justification of competitiveness; to assess competitiveness in Latvian enterprises; to analyse the obtained results.

The study addresses and analyses availability and usage efficiency of resources including human resources, tangible resources, and financial resources, business strategies, internal and external communication networks, external environment effect on competitiveness, and comparison of financial performance among companies.

The study applies monographic method, survey and graphical methods.

Key Words: *competitiveness, efficiency, external and internal environment, innovations, price leadership.*

JEL Classification: M190

1. INTRODUCTION

Combinations of factors affecting competition, just like business processes on the whole, can be not only complex but also hard to explain logically sometimes.

Competition means dynamics, ability to change and adapt oneself, being versatile and distinct, being flexible and smart. Certainly, there is no universal formula for success of such relatively sophisticated processes like management of business operations or creating a quality business environment. Requirements of quality standards as well as the quality criteria may vary against the background of different contexts and correlation of diverse internal and external factors as well as changes as time passes (Zariņa, 2011). This is why aspect of competitiveness should be considered when assessing business environment quality as a whole.

Considering into account the definitions of the aforementioned term “competitiveness”, the goal of the study is to discover the major factors governing Latvian business competitiveness where the main target audience is Latvian entrepreneurs – those having record of successful achievements on domestic and international markets, in line with those which yet intend to do that. Through a business competitiveness survey, the authors of the study introduced Latvian entrepreneurs with the situation in the country in relation to a range of aspects vital to business activities. This information is expected to help a part of Latvian enterprises leastwise so that they can arrive at, probably, fateful business strategy decisions without investing essential resources of their own, for example, product diversification, orientation to international markets, company enlarging or, vice versa, business reduction.

2. MAJOR FACTORS IMPACTING COMPETITIVENESS OF LATVIAN COMPANIES

Research methodology, including the questionnaire, was developed on the basis of methodology applied by Nordea Bank when conducting the survey in June 2011. The survey was conducted in January 2012, and the key objective of the study was to provide a view on the extent to which Latvian entrepreneurs employ different business tools (including resources available to the entrepreneurs, and strategies to generate new resource – information and profit), each singly thereof being considered weighty in building the general competitiveness of a company.

To complete the research, a questionnaire containing four major sections was used. Section one included several questions aimed at learning about quality of human resources available to a company and the efficiency of using these resources by the company to operate the business.

2.1. Human Resources and efficiency thereof

Quality of human resources and usage efficiency thereof is, definitely, one of the most substantial factors in building competitiveness of any company. For example, a range of studies in various countries (Man et al, 2002; McKelvie & Davidsson, 2009) indicate that competitiveness of business depends directly on productivity, motivation and loyalty of employees available to an enterprise. Generating of new ideas often coming also from the companies' employees is one of the factors improving business competitiveness through providing of innovations (Subramaniam and Youndt, 2005).

Similarly, skills of employees in rendering high-quality service to clients, and personnel's know-how of selling products and services have direct effect on financial performance of the company (Hitt et al., 2001; Rauch, Frese and Utsch, 2005). Moreover, in order to ensure competitive business operations, especially for companies whose success is attributed to time-consuming and major investments in staff training, optimum employee rotation is fundamental (McKelvie and Davidsson, 2009). In the survey, general managers or owners of companies were offered to assess their employees on a 1-to-7 rating scale where "1" implied a very poor situation whereas "7" corresponded to a competitive company in terms of availability of human resources and efficient usage thereof. Managers or owners of the Latvian companies were rather satisfied than unsatisfied. Respectively, such crucial aspects of business competitiveness like

willingness of employees to stay long-term with the company, product and service selling skills, serving to clients, encouraging new ideas, staff productivity, motivation to work as well as loyalty were rated between 5.2 and 5.9 on the 1-to-7 scale. Possibly, one of the most effective ways to improve and sustain comparatively high quality of employees is investing in staff training. Among others, the section one of the questionnaire included a question on staff training in the company. The survey results contained evidence of relative activity demonstrated by Latvian enterprises also on this score, namely, something over a half of the surveyed companies have provided training to their staff over the recent year with a goal to improve their skills in product manufacturing or rendering services.

No doubt that a great role in ensuring business competitiveness is played by the people administrating the company: owners or managers (Alvarez and Busenitz, 2001) Therefore, to better measure competitiveness of enterprises with regards to this aspect of human resources, a range of questions was included in the questionnaire to assess “quality” of owners or managers: degree of education, and previous business experience. Earlier studies have shown that both higher degree of education and richer business experience (Helfat and Lieberman, 2002; King and Tucci, 2002) of owners and managers have substantial and good influence on the company’s performance and general competitiveness of the company (Davidsson, 2006). Latvian business competitiveness study indicates a high education level of business managers. Almost 63% of the surveyed owners or managers of Latvian companies have bachelor’s degree while 28% thereof – master’s degree. As to experience of the Latvian managers or owners, the survey results indicate that nearly 45% of the respondents have been engaged in business or in business administration also before starting the particular business. Given the fact that such experiences - both positive and negative, particularly if those lead to market research, "rules of the game", maybe even get financial capital and contacts, usually serve as the foundation for the success of the next business (Helfat and Lieberman, 2002), we may conclude that the Latvian entrepreneurs have sufficient training so that to hope for the existing business.

2.2. Business strategies

Section two of the questionnaire addresses - in comparatively more detail – business processes highly important in ensuring of business competitiveness: business strategies. According to M. Porter's competitive business theory, the questionnaire asked business managers or owners to evaluate the company's

strategy with regard to price leadership, being different and focusing on specific target markets. A 1-to-7 rating scale was used. The companies assessing the current business strategy closer to the grade “7” should be more competitive than the companies assessed closer to the grade „1”, according to business theories (Knight and Cavusgil, 2005; Mudambi and Zahra, 2007; Hamermesh et al., 2002). Questions of the questionnaire facilitate analysis of business strategies from the viewpoint of “business orientation” often widely employed as a research tool in literature to assess three business strategy elements essential to business competitiveness: innovations, taking a risk, and pro-activity (regarding activities with competitors) (Covin and Slevin, 1989). According to previous studies made in different countries (Baker and Sinkula, 2009; Huges and Morgan 2007; Kreiser et al., 2002; Moreno and Casillas, 2008; Rauch, et al, 2009), companies having higher business orientation (innovations, risk-taking and pro-activity) are more competitive. Results of the survey on Latvian business competitiveness show common innovations rate of Latvian enterprises on the 1-to-7 rating scale, fluctuate within the range starting with 3.5 - regarding companies’ ability to create new, unique production processes and methods as well as to make serious changes in products or services – up to 3.8: introduction of new products and services. Thus – in view of the survey results (the average rate) – general innovation degree of Latvian entrepreneurs may be ranked slightly below the average rate. According to this survey, average rates similar to those in case of business innovations are shown also in terms of business orientation risk-taking aspect ranged between 3.3 and 3.7 on the 1-to-7 scale.

The questionnaire included questions asking respondents to assess the company's priorities in implementation of various processes significant to business competitiveness, including the company's exports volumes, in order to explore the extent to which companies focus on domestic or foreign markets, which is another very important aspect of business competitiveness (Roper, 1998; Ibeh, 2003). The replies to this question in the survey show that 13-14% of Latvian companies surveyed exported 7-26% and, just as much a part, 28-52% of total sales. By contrast, about 6% of companies exported up to 51-75% (6.1%) and 76 - 96% (6.4%). This is likely to be a very good and promising trend for companies’ competitiveness. This is why, according to the Latvian business competitiveness study for the other elements of business strategy – both focus on price leadership or being different, and risk-taking and pro-activity - it would be particularly useful for some of the Latvian companies to review these strategies, thus increasing the opportunities of successful competing in export markets.

In addition to assessment of the current strategy, business managers or owners were also asked about the key priorities, which - to the opinion of the entrepreneurs - should be introduced in order to make a more successful competitor in the market. According to results of the aggregated responses, the Latvian entrepreneurs believe that the most important priority is to increase profits (5.8 out of 7), to increase sales in the Latvian market (5.2 out of 7), to reduce costs (5.0 out of 7), to improve the product or service quality (4.8 out of 7) .

2.3. Communication networks

Resources enhancing competitiveness of enterprises include information that companies can get from suppliers, clients and competitors; cooperation with organizations advancing business, for instance, generating new contacts or markets, co-operation with universities and research institutes to develop new, innovative products and services, etc. (Hoang and Antoncic, 2003; Greve and Salaff 2003). Therefore, in order to ascertain the extent to which Latvian companies use various channels of communication, in turn, possibly resulting in access to different competitiveness-enhancing resources, section three was incorporated in the questionnaire. Successful growth companies in various countries including Latvia have proven that useful and often free information on the probable market trends, salable or unmarketable goods in certain markets, the "fresh winds" with regards to products, services, etc. – can be obtained from suppliers, customers and competitors, as well (Simon, 2009; Sauka and Welter, 2008; Sauka, 2011). As the aggregated data of the survey on competitiveness of Latvian companies show, Latvian businesses are not highly active at present (average rate 3.7-4.5 out of 7) in using this or any other communication networks.

According to this survey, especially inactive Latvian companies are: in cooperation with business laboratories (1.3 out of 7), universities and scientific institutes (1.5 out of 7) which potentially might be engaged as a resource for introduction of innovative, competitive product or service; in cooperation with organizations advancing business – both public organizations (such as Latvian Investments and Development Agency) (1.8 out of 7), and non-governmental organizations (such as Latvian Chamber of Commerce and Industry) (1.6 out of 7)- which – in their turn – might be useful not only to influence business policy processes in the country but also to develop on foreign markets. To attract free or cheap resources, Latvian companies had remarkably little co-operation with local governments (1.8), banks and other financial institutions (2.9 out of 7), as well as friends and family (2.7 out of 7). Relatively more frequent, like in the case of

customers, competitors, and suppliers, Latvian companies used the business press (4.6 out of 7) and the Internet (5.9 out of 7) to obtain information vital to business.

2.4. Financial Resources

When emphasizing the importance of human resources, business strategy and communications networks, one should keep in mind the other, one of the most important aspects to ensure almost every business activity and competitiveness - the availability of funds and efficient use thereof (Bechetti and Trovatto 2002; Bougheas 2002). More detailed analysis of this business competitiveness factor is conducted in section four of the questionnaire. According to the Latvian business competitiveness study, Latvian entrepreneurs rank availability of funds slightly above average rate (4.5 out of 7). Nevertheless, looking at the responses broken down by business groups, it may be concluded that a slightly higher proportion of surveyed Latvian entrepreneurs, however, are satisfied with access to financial capital. According to this survey, about 50% of the surveyed companies range access to financial capital at the rate of 5-7 (where "7" means fully sufficient access to financial resources). In its turn, the assessment at the rate of 1 - 3 applies to just over 30% of the companies. Although in general this is, certainly, not a good index and we cannot speak of Latvia as a business environment where companies would have good availability of the necessary financial resources, it should be acknowledged that due to the general Latvian economic situation, this result also cannot be regarded as negative. The survey on Latvian business competitiveness also included a question aimed at finding out whether Latvian enterprises are able to efficiently use the available financial capital (plus human resources, physical resources, strategies, etc.) to gain profit. It was also asked how the profit is treated. For these indicators, the study results are relatively encouraging. A slightly over 75% of the surveyed entrepreneurs admitted that they made profit in the previous year. Furthermore, nearly 69% of these companies have re-invested the entire profit back in business that, undoubtedly, is indicative of long-term growth.

3. CONCLUSIONS

No matter whether it is a large company or a very small enterprise – those make the overall driving force of economic growth. Therefore, European policy builders (including Latvian counterparts) just like their counterparts outside Europe, make remarkable investments in creating a favourable business environment. There is a belief that business talent, creativity, capabilities and

skills of people that might be useful in business are typical of any nationality in the world. However, whether there will be small or large numbers and type of service or industrial companies be them domestic market-oriented or international market-oriented companies that might start and be capable of successful development of business in the respective country and period of time – this will primarily depend on abilities, creativity, skills and talent of individuals, largely. No less important are the external factors such as, among other things, business law, availability of funds and simplicity of bankruptcy procedures, and the different levels of corruption - what is commonly referred to as the quality of business infrastructure. Through assessment of these factors as a body: the individuals' (existing and prospective entrepreneurs) knowledge, skills and ability to use them in business, and business infrastructure quality, quality of the overall business environment in the respective country of the world can be judged.

On the whole, after assessing the results of the study on Latvian companies' competitiveness, a conclusion can be drawn that Latvian entrepreneurs have enough potential to more actively and efficiently employ various tools to boost the competitiveness of business: separate business strategies and communications networks. Considering that the majority of Latvian entrepreneurs are able to make profit (it is proven by the results of the study) as well as focus on export markets and relatively efficient employment of staff and use of physical resources, it is evident that the Latvian businesses are able to compete efficiently on the European and world markets.

BIBLIOGRAPHY

Alvarez, S. and L. Busenitz (2001), "The entrepreneurship of resource-based theory", *Journal of Management*, No.27, pp. 755-775.

Baker, W. and J. Sinkula (2009), "The complementary effects of market orientation and entrepreneurial orientation on profitability in small businesses", *Journal of Small Business Management*, No.47, pp. 443-464.

Bougheas, S. (2004), "Internal vs external financing of R&D", *Small Business Economics*, No.22, pp. 11-17.

Covin, J. and D. Slevin (1989), "Strategic management of small firms in hostile and benign environments", *Strategic Management Journal*, No.10, pp. 75-87.

Davidsson, P. (2006), "Nascent entrepreneurship: empirical studies and developments", *Foundations and Trends in Entrepreneurship*, No. 2, pp. 1-76.

Greve, A. and J. Salaff (2003), "Social networks and entrepreneurship", *Entrepreneurship Theory and Practice*, Fall 2003.

Hamermesh, R. G., Marshall and T. Pirmohamed (2002). *Note on business model analysis for the entrepreneur*, Retrieved February No.20, 2011, *Harvard Born Globals 38/50 Business Review*,

<http://hbr.org/product/note-on-business-model-analysis-for-the-entreprene/an/802048-PDF-ENG>

Helfat, C. (1997), "Know-how and asset complementarity and dynamic capability accumulation: the case of R&D", *Strategic Management Journal*, No.18, pp. 339-360.

Hitt, M., L. Bierman, K. Shimizu and R. Kochhar (2001), "Direct and moderating effects of human capital on strategy and performance in professional service firms: a resource based perspective", *Academy of Management Journal*, No.44, pp. 13-28.

Hoang, H and B. Antoncic (2003). 'Network-based research in entrepreneurship. A critical review', *Journal of Business Venturing* 18, p. 165-187

Ibeh, K. (2003), "Toward a contingency framework of export entrepreneurship: conceptualisations and empirical evidence", *Small Business Economics*, No. 20, pp. 49-68.

King, A. and C. Tucci (2002), "Incumbent entry into new market niches: the role of experience and managerial choice in the creation of dynamic capabilities", *Management Science*, No.48, pp. 171-186.

Knight, G., and S. Cavusgil (2005), "A taxonomy of born global firms", *Management International Review*, No.45(3), pp. 15-35.

Kreiser, P., M., Marino and K. Weaver (2002), "Assessing the psychometric properties of the entrepreneurial orientation scale: A multi-country analysis", *Entrepreneurship Theory and Practice*, Summer, pp. 71-94.

McKelvie, A. and P. Davidsson (2009), "From resource base to dynamic capabilities: an investigation of new firms", *British Journal of Management*, No.20, pp. 63-80.

Moreno, A. and J. Casillas (2008), "Entrepreneurial orientation and growth of SMEs: A causal model", *Entrepreneurship Theory and Practice*, May, pp.507-528.

Mudambi, R. and S. Zahra (2007). 'The survival of international new ventures', *Journal of International Business Studies*, 38(2), pp. 333-352.

Porter, M. (1990), *The Competitive Advantage of Nations*, New York: Free Press.

Rauch, A., M. Frese and A. Utsch (2005), "Effects of human capital and long-term human resources development and utilization on employment growth of small-scale businesses: a causal analysis", *Entrepreneurship Theory and Practice*, No.29, pp. 681-693.

Rauch, A., J. Wiklund, T. Lumpkin and M. Frese (2009), "Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future", *Entrepreneurship Theory and Practice*, May, pp. 761-787.

Roper, S (1998), "Entrepreneurial characteristics, strategic choice and small business performance", *Small Business Economics*, No.11, pp. 11-24.

Sauka, A. (2008), "Productive, Unproductive and Destructive Entrepreneurship: A Theoretical and Empirical Exploration", Frankfurt am Main: Peter Lang GmbH.

Sauka, A. and T. Putniņš (2011). SSE Riga "Shadow Economy Index" for the Baltic countries. *Riga, Latvia: Stockholm School of Economics in Riga*. <http://www.sseri.ga.edu.lv/shadow-economy-index>

Sauka, A. and F. Welter (2008), *Taking Advantage of Transition: The Case of Safety Ltd. in Latvia*. In Aidis, R.; Welter, F. (Eds.), "The cutting edge: innovation and entrepreneurship in new Europe", Cheltenham: Edward Elgar.

Simon, H. (2009), "Hidden Champions of the 21st Century. Success Strategies of Unknown World Market Leaders", New York: Springer.

Subramaniam, M. and M. Youndt (2005), "The influence of intellectual capabilities on the types of innovative capabilities", *Academy of Management Journal*, No.48, pp. 450-463.

Zariņa V. (2011), *Ilgtērmiņa materiālo aktīvu novērtēšana*, Rīga: Lietišķās informācijas dienests.