

Main Development Problems of Latvian Small Enterprises

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Abstract

The study targets at development possibilities for small enterprises in Latvian rural areas where specific obstacles and development problems are faced.

In order to identify the factors and problems impacting the development of Latvian small enterprises, 200 small enterprises, the determining criterion for which was a number of employees, were surveyed during the study.

Enterprises were randomly selected, but representing all the four Latvian planning regions: the regions of Kurzeme, Zemgale, Vidzeme and Latgale.

The main factors promoting and hindering the development of Latvian small enterprises were identified in the study.

According to the managers/representatives of enterprises, the experience and education of entrepreneurs, the management of enterprises and work organisation etc. are the determining endogenous factors promoting the development of enterprises. However, the European Union funds and government support are the main exogenous factors promoting the development of enterprises.

According to the managers/representatives of enterprises, the consumers' purchasing power, government policy, inflation and lack of labour force are the main factors hindering the development of small enterprises in Latvia.

Within the scope of the study, the opinion of entrepreneurs was ascertained about the future development possibilities for their enterprises. 56% of entrepreneurs believe that their business will expand and develop by attracting the European Union funds. However, 53% of them think that small enterprises will be pushed out of the business environment as the competition among enterprises becomes tougher.

Key words: impacting factors, perspectives for small enterprises

Introduction

So far there are few studies related to factors that promote or hinder the development of small enterprises, their problems and perspectives, especially in relation to small enterprises in Latvian rural areas. Until now the researchers have made studies on bread producing enterprises and enterprises offering tourism services, which was a basis for the further study.

Small enterprises are the most significant elements in a market economy, and the most dynamic and flexible form of entrepreneurship. In developed countries, small and medium size enterprises compose a basis for the market economy and provide economic growth and regional development, operate in industries like manufacturing, services, tourism and commerce.

The **hypothesis of the study**: successful performance and development of Latvian small rural enterprises depend on various factors.

The **aim of the study** is to investigate the development possibilities, problems and perspectives for small enterprises in Latvian rural areas.

The following **tasks** were accomplished within the framework of the study:

- 1) identification of the factors impacting (promoting, hindering) the development of small enterprises;
- 2) ascertainment of the opinion of small enterprise managers/representatives on the development possibilities, problems and perspectives for small enterprises in Latvian rural areas.

Research methods:

Monographic and descriptive, inductive and deductive methods. The sociological research method of surveying was used to collect information. The data were analysed by using SPSS 11.0 (Statistical Package for the Social Science) Production Facility application.

Results and discussion

1. Factors impacting the development of Latvian small enterprises

In accordance with the nature of impact, all the factors were divided into two groups: the first group includes the factors promoting development, the second group – those hindering development, i.e., development problems.

The factors promoting enterprise development are those ensuring the development of an enterprise and its successful performance under competition. The factors promoting enterprise development can be divided into two groups: endogenous and exogenous.

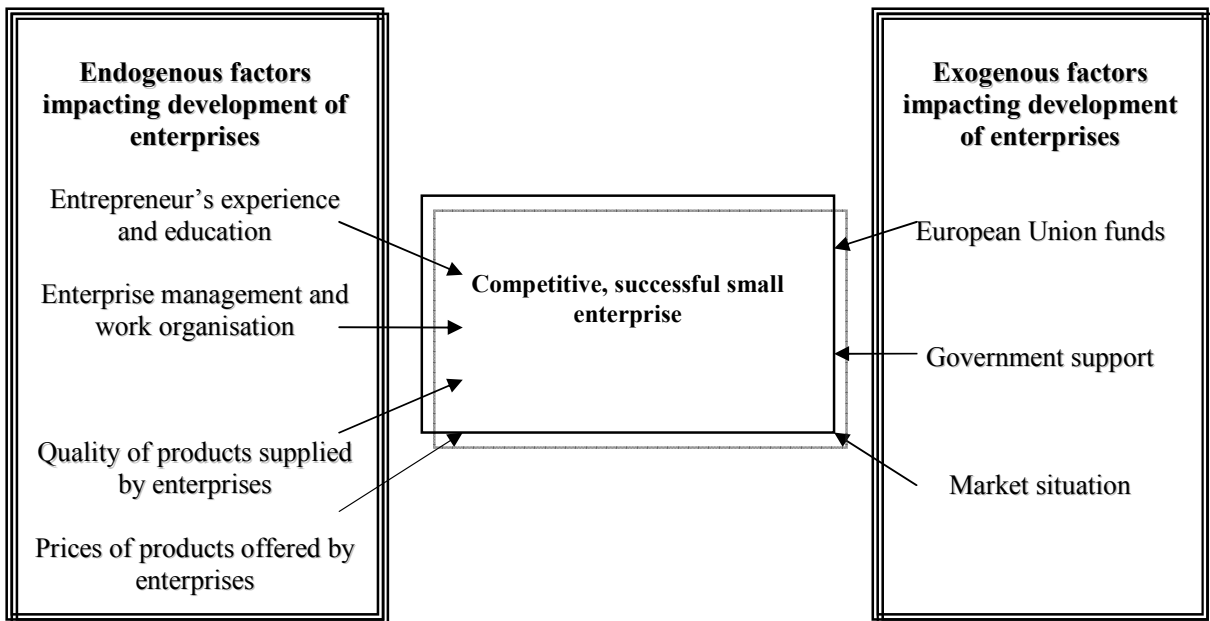
The factors hindering enterprise development or development problems are those delaying the development of an enterprise and reducing its competitiveness (Zvaigzne A., 2005).

In order to identify the factors and problems that impact the development of Latvian small enterprises, 200 small enterprises were surveyed during the study, where the determining criterion was a number of employees.

The enterprises were randomly selected, but representing all the four Latvian planning regions: the regions of Kurzeme, Zemgale, Vidzeme and Latgale.

Most enterprises were surveyed in Latgale region, where 78 enterprises provided information, accounting for 40% of all respondents. The rest of enterprises are located in other regions: 29% in Vidzeme, 17% in Kurzeme and 14% in Zemgale.

The breakdown of respondents by type of entrepreneurship was as follows: 49% farms, 42% limited liability companies and the rest 9% were various enterprises like, for instance, joint stock companies, sole proprietors and others.



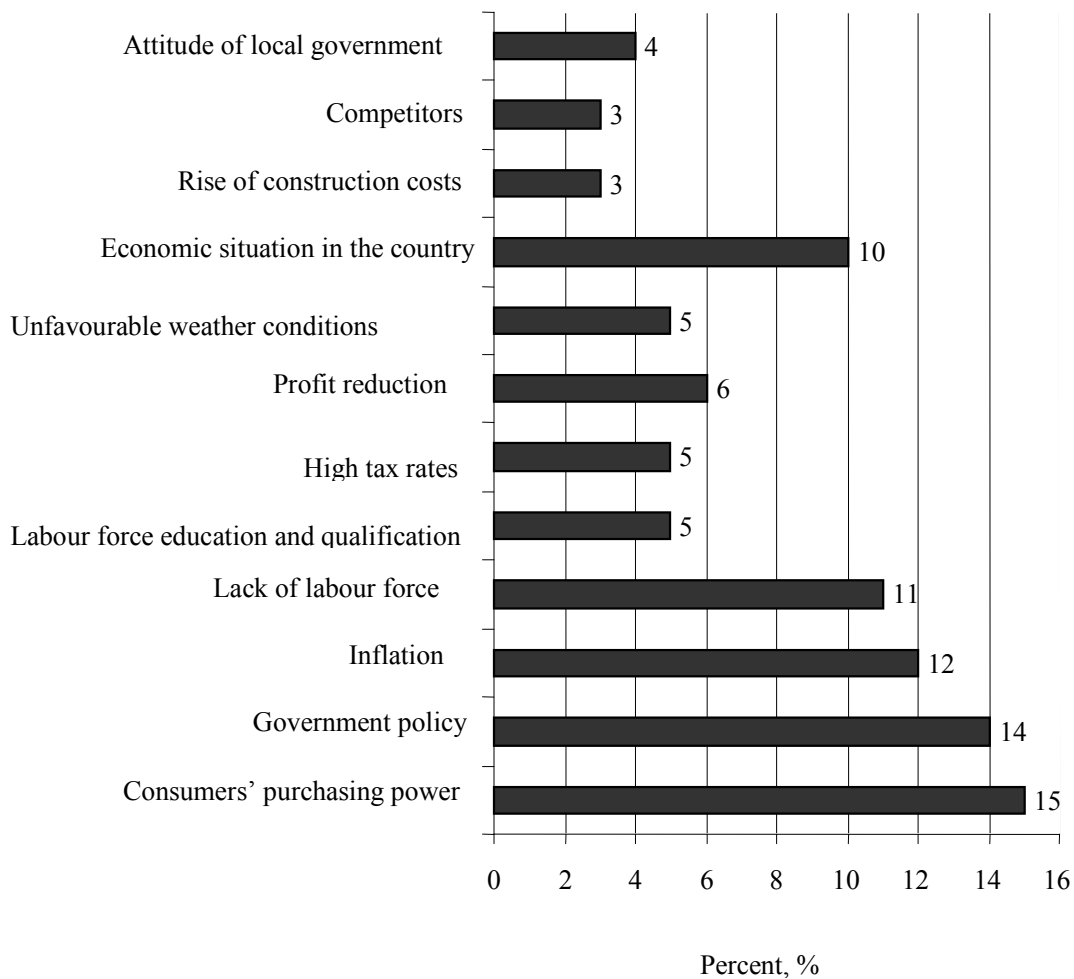
Source: figure developed by the authors according to the study data

Figure 1. Main factors promoting the development of Latvian small enterprises

Agricultural goods are produced by 101 enterprises engaged in the survey, accounting for 51% of all surveyed enterprises. Among these enterprises, 8% gain additional income by offering tourism, transport and logging services as well as other kinds of economic activity. 18% of surveyed enterprises provide tourism

services, including catering and lodging services. Most guest houses, located in rural areas, employ less than 9 employees, which explain the large number of micro enterprises. As the enterprises were randomly selected for the survey, some enterprises turned out to be engaged in the processing industry. They are bread producing enterprises, as well as ones producing cobble-stones, drinks, and underwear for women, metallic constructions and agricultural product processors – 16 enterprises in total, accounting for 8% of all the enterprises. The rest of enterprises are engaged in various industries – construction, retail sales, real estate, professional services and other industries.

Being based on the experience of previous researchers, the survey included a question about additional businesses of enterprises, since small enterprises, engaged in production of agricultural goods, make no profit. Additional businesses help the enterprises stay in business. According to the survey results, 49 enterprises already offer additional services. 19 enterprises are engaged in retail and wholesale trade, 5 enterprises offer entertainment, 4 enterprises – transport services, including digging, while the rest of them offer professional services. For nine enterprises, agricultural activity has become an additional business, showing that only a small part of enterprises has found a niche for sales.



Source: figure developed by the authors according to the compiled data

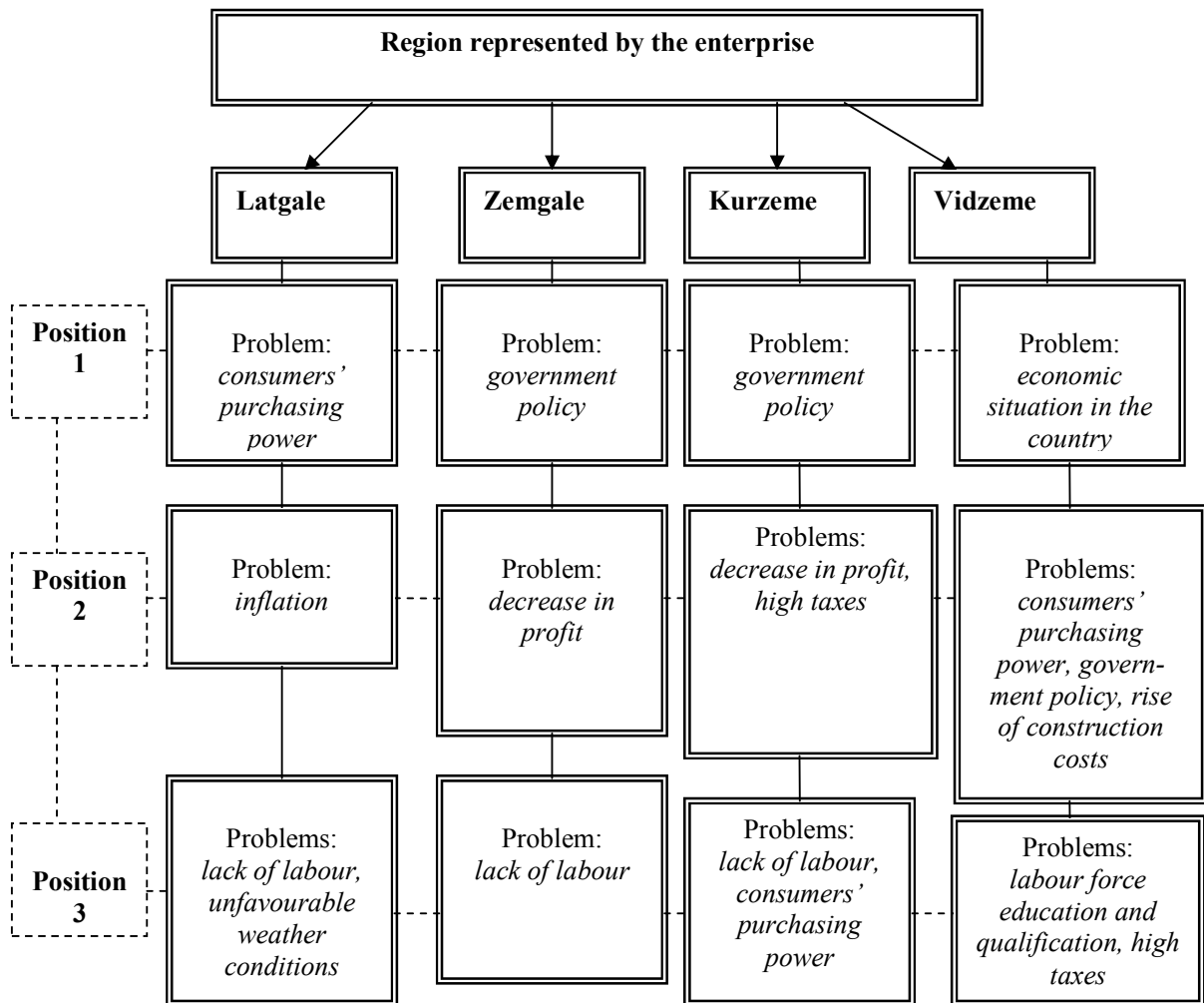
Figure 2. Main factors hindering the development of Latvian small enterprises, in per cent

After analysing all the factors promoting business development, it was determined that this development was mostly fostered by funding from the EU Structural Funds – 92 respondents mentioned it. But 85 representatives of enterprises believe that their businesses are fostered by the government support – they are the recipients of government subsidies. As the selection comprised 86 farms, one can assume that 99% of farms receive subsidies. One has to conclude that the Regional Development Programme has not functioned as a factor promoting business development, since no one has mentioned funding of the Regional

Fund. After approbating the endogenous factors of business development, it was found that 140 (70%) representatives of enterprises believe that the experience and education for entrepreneurs are significant. 80 (40%) representatives of enterprises are convinced that product quality fosters business development. But 75 (38%) representatives of enterprises believe that much depends on enterprise management and work organisation, while 74 (37%) respondents are sure that product prices are a factor fostering enterprise development.

The main factors fostering small enterprise development are shown in Figure 1.

According to the enterprise managers/representatives, the main problems and factors hindering the development of small enterprises in Latvia are as follows: 15% of enterprise managers/representatives believe it is the consumer purchasing power, 14% - government policy, 12% - inflation and 9% - lack of labour (Figure 2).



Source: figure developed by the authors according to the compiled data

Figure 3. Arrangement of problems in positions by the number of respondents from the regions represented by enterprises

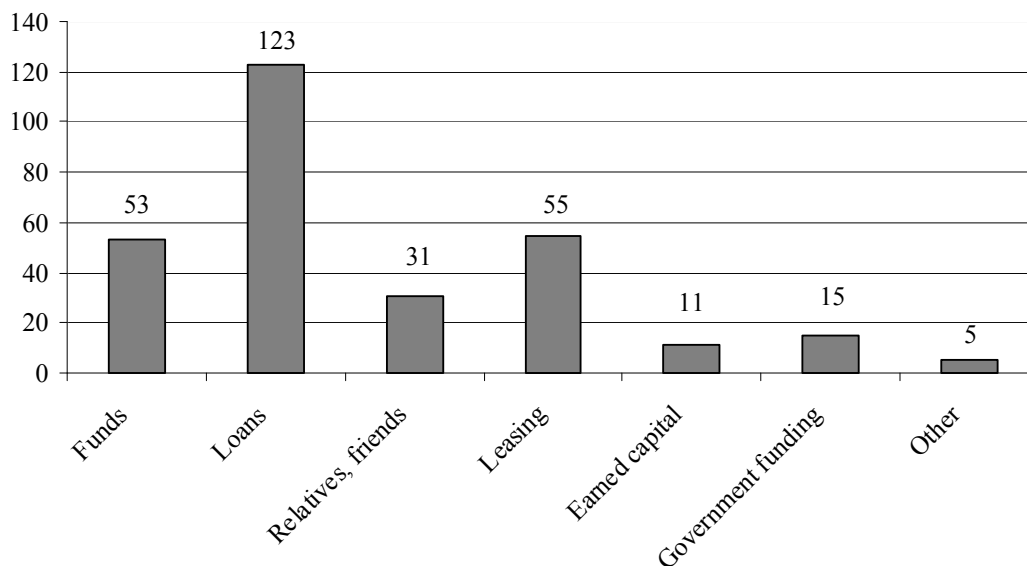
One can see differences in opinions when analysing the responses of surveyed enterprise managers/representatives regarding the main problems and factors that hinder enterprise development. The opinions depend on the region where an enterprise is located (Figure 3).

The low purchasing power of customers is the main problem for enterprises located in the region of Latgale, in other regions it is the government policy or the economic situation in the country that hinders development.

2. Development possibilities for small enterprises in rural areas

As most of the managers of small enterprises are also their owners, they were asked to reveal the reason for starting up a business. The respondents regard their own initiative as the main reason – 150 (75%) representatives of enterprises have emphasised it. Only 42 enterprises have based their businesses on ideas, accounting for only 21% of the surveyed enterprises. 16 (8%) enterprises have continued the business started by their parents, which is a relatively low rate relative to other countries. It has both political and social reasons. Only every seventh respondent has foreseen opportunities for high profit, which is one of the stimuli for starting a business. However, in order to start a business, an initial capital is required; it was asked in the questionnaire, too. According to the survey results, 147 (74%) enterprises were established by using their own savings.

55 (28%) enterprises have taken bank loans for starting a business. 30 (15%) have borrowed money from their friends and relatives. Only 12 (6%) owners of enterprises have inherited a property which was used for financing their business start-up. Funds are necessary not only after an enterprise has started functioning, but during the whole period of activity of an enterprise. Therefore, other questions have been raised: how long the enterprise functions, what additional funds are attracted for fostering business, how the business is protected from emergencies. Most of the surveyed enterprises have been functioning for 11-16 years; they were established right after Latvia regained its independence. It implies that 42% of the surveyed enterprises have got through periods of business crises and managed to stay in business for a long period. 20% of the surveyed enterprises have reached a stage of maturity, i.e., they have been functioning for 6-10 years.



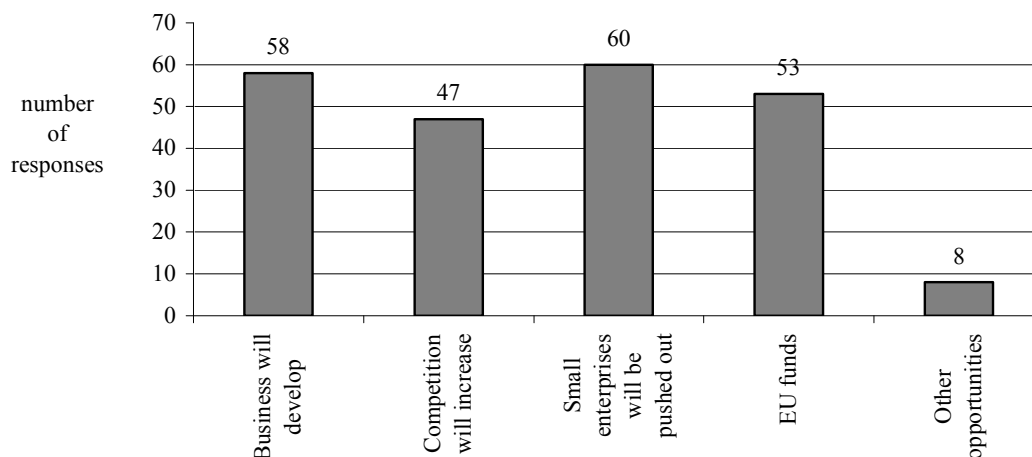
Source: figure developed by the authors according to the compiled data

Figure 4. Funding attracted for developing enterprises by type, number of responses

There were 52 enterprises which had just started their businesses and were not older than 5 years, accounting for 30% of the surveyed enterprises. It is remarkable that the number of employees has increased in 32% of enterprises regardless of unfavourable indications in the economic situation in Latvia. The number of employees has decreased only in 12% of enterprises; no changes were reported in the majority of enterprises (56%) over the last three years.

According to the survey, 123 enterprises have borrowed additional funds from a bank (Figure 4).

It has to be stressed that 53 enterprises have used funding from various Funds for developing their businesses. There are 14 enterprises which have used only leasing services and 11 enterprises which have invested only their own savings and earned capital. It implies that still there are conservative entrepreneurs wishing to borrow no loans. 31 enterprises have borrowed funding from their friends and relatives to enhance their financial situation. It is a good indicator for establishing enterprises at the initial phase (proving the existence of social capital). However financial problems of enterprises propose not to be a positive sign during the company functioning. It was found out during the survey that 98% of enterprises had bank accounts and used bank services, but 66% of the surveyed enterprises had taken loans from banks, which was 132 enterprises out of their total number. The best cooperation in the field of bank loans they had experienced with 3 commercial banks: Latvijas Hipotēku un zemes banka, SEB Latvijas Unibanka and Hansabanka. 59 enterprises had taken loans from Latvijas Hipotēku un zemes banka, and 50 enterprises had attracted loans from SEB Latvijas Unibanka for their development. However, loans from Hansabanka were taken only by 31 enterprises. A small part of enterprises had used crediting services of the following banks: Latvijas Krājbanka, Aizkraukles banka, Parex banka, DnB NORD Bank, Baltic Trust Bank, and Nordea Bank. It is a positive fact that 41 enterprises had taken loans for financing projects envisaging building of new production units, expansion of the existing ones, and the purchase of equipment and buildings. 27 enterprises had started their businesses with the help of a bank, which is a very positive indicator for economic conditions in Latvia. If we assess the business safety of enterprises, it is very stable as 86% of enterprises use insurance services. In most cases, transport vehicles are insured. Vehicles are insured in 137 (70%) enterprises. Real estate is insured in 108 (54%) enterprises. In case of a fire, the enterprises will receive insurance. A surprising fact is that 50 (25%) managers of enterprises use life insurance that protects the families of their employees. Movable property is insured in 43 (20%) enterprises. In some enterprises, the health of employees is insured, which is a state-level problem as no health check-ups are carried out. This leads to many deaths and serious diseases that could be prevented in case diseases are detected on time. In some cases, agricultural crops are insured, but the insurance companies are reluctant to insure crops, and farmers also have negative attitude towards it.



Source: figure developed by the authors according to the compiled data

Figure 5. Entrepreneurs' opinion on the development possibilities for enterprises

Within the scope of the study, entrepreneurs' opinions on the development possibilities for their enterprises were ascertained (Figure 5). The entrepreneurs had two basic opinions. 58 (29%) entrepreneurs believe their business will expand and develop by attracting the European Union funding. Other entrepreneurs, 60 (30%) in number, are sure that small enterprises will be pushed out of the business environment as the competition among enterprises becomes tougher.

Some entrepreneurs have revealed their visions about the ways enterprises could stay in business while the competition becomes stronger. Some entrepreneurs believe that new original brands have to be

developed, production has to reorient towards other products, and high quality has to be retained for products. Products have to be sold both in the European Union and Russian markets. Some entrepreneurs even do not plan their business development or plan only a very limited development. Some entrepreneurs believe the government policy has to be changed and a qualified labour force is necessary in order to change the situation.

Conclusions

1. According to the managers/representatives of enterprises, the experience and education of entrepreneurs, the management of enterprises and work organisation are the determining endogenous factors promoting the development of enterprises.
2. The main exogenous factors promoting the development of enterprises are the European Union funds and government support.
3. According to the enterprise managers/representatives, the basic factors hindering the development of small enterprises in Latvia are as follows: consumer purchasing power, government policy, inflation and lack of labour.
4. Taking into account the regional representation of enterprises, the low purchasing power of customers, high inflation and unfavourable weather conditions, having a direct impact on enterprise performance, are the main problems for enterprises located in the region of Latgale. In other regions, the government policy and the economic situation in the country, which is an exogenous factor, are the factors that hinder development, followed by the endogenous factors like a decrease in profit, high taxes, insufficient education and qualification of labour.
5. According to the survey, most of enterprises have borrowed additional funds from a bank. However, one fourth of the enterprises has used funding from various Funds for developing their businesses.
6. Within the scope of the study, entrepreneurs' opinions on the development possibilities for their enterprises were ascertained. Approximately half of the entrepreneurs believe their business will expand and develop by attracting the European Union funding. But almost as many entrepreneurs are sure that small enterprises will be pushed out of the business environment as the competition among enterprises becomes tougher.

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