

CHANGES AND PROPOSALS TO BOOST BUSINESS PRODUCTIVITY AND COMPETITIVENESS IN RIGA PLANNING REGION

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Abstract. The result of the wider application of new digital skills is an increase in productivity as a basis for the growth of Latvian companies in the global market and an increase in material well-being in the market as a whole. In turn, the growth and competitiveness of companies is based on the ability to create and sell demanded, knowledge-intensive products and services on the basis of science, integrating into increasingly higher value-added global chains.

Many companies are facing economic difficulties during the COVID- 19 crisis and have to suspend or significantly reduce their operations and staff. However, for some companies, the crisis has also given them the opportunity to reorient their operations to the digital environment, both in serving customers and in organizing the company's operations.

The data obtained during the study show that the majority of entrepreneurs predict a decline in customer solvency and the emergence of new digital technologies in the market. Entrepreneurs think they should make more use of the latest technologies (forms of digital sales and communication with customers), new forms of cooperation in company communication (forms of digital communication with employees) and plan to introduce remote and / or semi-remote work. Entrepreneurs expect that the biggest challenges after the crisis caused by the pandemic will be the acquisition of new leadership skills and the acquisition of new digital technologies, as well as attracting investment.

Unfortunately, the data of the study show that the majority of entrepreneurs did not use the support programs of state and local government institutions, but assessed the support measures developed by the government as very fragmented.

The aim of the research: to assess the changes in the planning region at companies in different sectors in Riga planning region and to develop proposals to increase business productivity and competitiveness.

Research methods: statistical data collection, business survey and in-depth interview.

Keywords: digital environment and technologies, business productivity, increasing competitiveness.

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Introduction

Productivity and competitiveness - factors determining business growth - are two interlinked concepts between key priorities of public policy. Especially in the context of the last decade, characterised by instability in relation to one of today's most serious financial and economic crises. Investment in production and technological progress play a key role in productivity growth. The most powerful companies show a greater capacity to take advantage of technological progress and thus play an increasingly dominant role in the market. The weaker companies that fail to take advantage of the opportunities provided by technological progress are lagging behind. This phenomenon also has social consequences, since higher productivity gaps between companies can also lead to greater disparities in wage levels in the economy as a whole, thereby increasing income inequalities in society. Productivity growth is essential because it also directly impacts international competitiveness. External competitiveness and exports are particularly important for Latvia, given the degree of openness of the European economy.

In the Baltic States, two areas – investment and business readiness for change – for technology planning – play an important role in boosting productivity and competitiveness.

Labour productivity increases if added value increases thanks to better use of all production factors, coordination etc. Added value can grow if the workforce works smarter, harder, faster or with better skills. Added value can also increase by using more or better equipment, reducing waste of raw materials or introducing technological innovation.

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Research hypothesis: investment and investment in the development of digital skills for companies are important to increase productivity and competitiveness.

The aim of the study is to assess the changes in the planning region at companies in different sectors in Riga planning region and to develop proposals to increase business productivity and competitiveness.

Study tasks:

- 1) to identify the factors affecting productivity and competitiveness;
- 2) to explore the views of entrepreneurs on the consequences of COVID-19 on business in Riga planning region;
- 3) to develop proposals to increase business productivity and competitiveness.

Study methods: compilation of statistical data, survey of entrepreneurs.

Research results and discussion

Productivity and competitiveness driving factors for business growth

Productivity is a driver of progress and its continued improvement. Productivity is a belief that today one should do as much as possible. Productivity is a new development of life. This clarification of the definition of Mata Bjorkman (*Mata Björkman*) highlights the importance of continued improvement of the business as a result of changes in the company's environment, which makes it smart to survive. Survival means survival of the company and its employees who are able to adapt most effectively.

Productivity can also be defined as the relationship between the results and the time needed to accomplish it. Time is often a universal measurement and is out of human control. The less time it takes to achieve the desired result, the more productive is the system. Productivity is a comparative tool for managers, since it compares production at different levels of the economic system (organisational, sectoral and national) with the resources consumed (*Joseph Prokopenko*).

Productivity growth is one of the most effective ways of boosting the overall wellbeing of the population and real convergence (in the context of economic growth, real convergence sets the convergence of living standards of the poorest countries with the living standards of the richest countries, usually measured using GDP per capita) between the Member States of the European Union. Over the past decade, Latvia, like the other Baltic States, has shown one of the highest productivity growth rates, which are also reflected in real convergence (Raising productivity: trends and future challenges, 2019),

Latvia's economic growth reached 4.6 % in 2017, driven by growing external demand and a recovery in investment flows, and similar rapid economic growth remained in 2018, when GDP increased by 4.8 % at comparable prices. The rapid economic growth in 2018 was driven by both strong growth in investment volumes and still fast-growing private consumption, while the growth rate of exports declined, both by slowing global economic growth and by a number of one-off factors. The largest contribution to economic growth in 2018 was investment, which increased by 16.4 % compared to 2017, showing an even steeper rise than in 2017, when gross core capital formation increased by 13.1 % (Latvian Stability Programme 2019-2022). In 2019, the economy's rise had become more moderate. GDP grew by 2.1 %. The slowdown in growth rates was driven by both internal factors (EU fund investment peaks, developments in the financial sector, changes in port management etc.) and external factors (review of global trade relations, Brexit, slower growth in EU countries) (Ministry of Economy Latvia's economic development report, 2020).

However, economic development in 2020 is mainly driven by the negative effects of COVID-19. GDP fell by 4.3 % in the three quarters of 2020, the steepest drop in the past decade. The biggest impact on GDP declines was the fall in private consumption, which was affected by rising unemployment and falling

incomes. In the three quarters of 2020, COVID-19 restrictions on Latvian export markets and delays in raw material supply chains have affected exports of goods and services. A relatively moderate decline was seen in investment. Government consumption, on the other hand, continued to grow, based on government support measures to mitigate the negative effects of COVID-19 (Ministry of Economy Latvia's economic development report, 2020).

The dynamics of the sectors will be largely influenced by the ability to restore growth following the removal of COVID-19 restrictions. Like in wave 1 of the crisis, commodity exporting industries, mainly the manufacturing industry, will reach pre-crisis levels. In the manufacturing industry, production volumes are projected to rise by 4 % in 2021. In 2021, relatively good growth rates are expected in the IT sector as well as retail and commercial services sectors, including the agricultural and forestry sectors, as well as in the construction sector, albeit more moderate than in previous years. In view of the significant drop in volumes in 2020, 2021 also started with a drop in the most heavily affected sectors – trade, accommodation and catering, transport services, arts, entertainment and recreation. In some areas, it is expected that achieving pre-crisis levels may take several years, particularly in the aviation and tourism sectors (Ministry of Economy Latvia's economic development report, 2020).

In times of high uncertainty, it is difficult to fully assess the impact of the COVID-19 pandemic on the future dynamics of productivity. In the short term, productivity fluctuations lead to adjustments in product, labour and capital markets, in response to measures to combat the pandemic and to stabilise the economy. In turn, the impact of the COVID-19 pandemic on long-term productivity trends will largely determine changing business models and consumer behaviour. It is clear that changes are taking place, for example, by significantly increasing the degree of digitisation (e-services, remote work etc.), but there is still great uncertainty about the resilience of these changes and the impact on long-term productivity trends. Structural changes in Latvia's economy towards higher value-added activities and knowledge-intensive industries will also greatly determine the positive dynamics of productivity (Ministry of Economy Latvia's economic development report, 2020).

In order to maintain high productivity growth and consequently real convergence rates, Latvia should pay particular attention to citizens' skills, investment in research and innovation, and structural reforms that contribute to productivity and competitiveness at both national and business levels. Increasing productivity: the basis for sustainable economic growth and further increases in population welfare (Raising productivity: trends and future challenges, 2019).

The business card of Riga planning region (RPR)

RPR is the region of the capital city of Latvia. Geographical location in the centre of Baltic States on the border of European and eastern cultures has carved Riga region as a bridge between different countries and their people. The region is characterised by the dynamic capital city of Riga, organically including influences from different nations. Other cities of the region – Jurmala, Limbazi, Tukums, Ogre and Sigulda, as well as the pure countryside, are important as well. Riga Gulf of the Baltic Sea and the long coastline as well as the inner waters are of special value to the region. (see Fig. 1)



Source: RPR

Fig. 1. Administrative division of Riga planning region (RPR)

Socio-economic, technological, and scientific development is defined by the centre of national, international, and European importance – Riga city and Riga Metropolitan area. The functional space of the region significantly exceeds the physical borders of the region. Strategically significant geographical location of the region, high ability of inhabitant attraction and comparatively large market capacity form the economic potential of the region and promote national development. The most important elements of cultural, educational, scientific, sport, healthcare, and transport infrastructure of the state are concentrated in the Riga Metropolitan region. RPR economic indicators are shown in table 1 (Action plan for the development of the Riga metropolitan area, 2018).

Table 1

Economic profile of Riga planning region

Territory	Area: 10 437 km ²	Local governments: 30	Republic cities: Riga, Jurmala
	Coastline: 185 km		Regional centres: Tukums, Ogre, Sigulda, Limbaži
Inhabitants	Population (2018): 1 096 411		Net population change (2017): -3,9 %
	Population density: 105 ppl/km ²		in Riga: 165 ppl/km ²
Economic	GDP (2018): 25 820 EUR per capita.		Income tax (2018): 777 EUR/pers.
	Number of businesses (2018): 104 656		Average wage (2018): 949 EUR

Source: author's calculations based on statistics (CSP, RPR, 2018)

RPR economy is dominated by service businesses with the associated areas – sales, professional services, property market. Each of these areas individually make up more than 10 % of the total economy of Riga planning region. Sales come close to a quarter. Significant portions in the total economy are taken up by agriculture, construction, transport and storage businesses. Processing manufacturing takes up 6 % of the total economy of Riga planning region (Action plan for the development of the Riga metropolitan area, 2018).

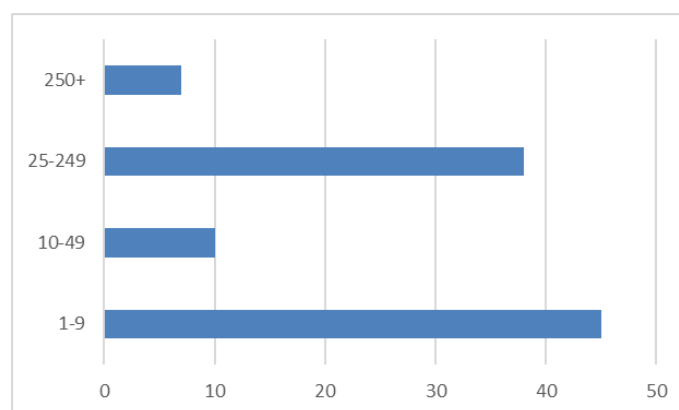
Analysis of the results of the study

A survey of experts was conducted at www.visidati.lv. The aim of the expert survey was to assess the consequences of COVID-19. In order to develop proposals to increase business productivity and competitiveness, it is necessary to clarify the views of entrepreneurs, which have changed since the first wave of the pandemic, what future trends are expected and planned in the company, which will be the biggest challenges following the pandemic crisis, as well as comparing the results of the study, depending on the number of employees in the company and the economic sector.

The survey of experts was represented by 76 respondents to the Latvian Chamber of Commerce and Industry (LCCI) all of whom are businessmen who run a manufacturing, manufacturing and services company. Some of the experts are members of the Board of Governors of Riga Regional Entrepreneurship Associations, as well as some deputies of local municipalities.

Of all respondents, 90 % represented services, while only 10 % of production. The respondents were divided as follow – 72 % were from Riga, while 28 % from Pieriga planning region.

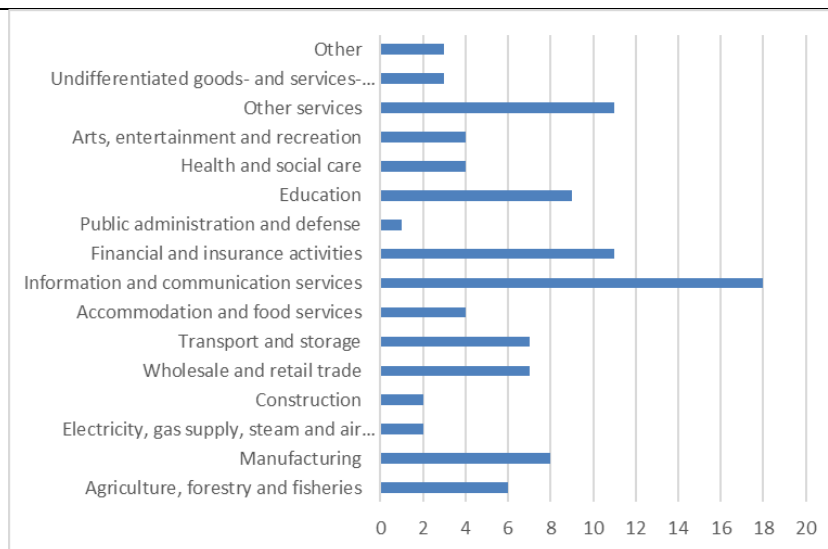
Number of employees in responding companies: the vast majority 45 % represented micro-enterprises (from 1 to 9 employees), 10% - small enterprises (from 10 to 49 employees). Medium-sized companies with 50-249 employees were represented by 38 % of respondents, while large companies with more than 250 employees were represented by only 7 %.



Source: based on author's survey results

Fig. 2. Number of employees in the company

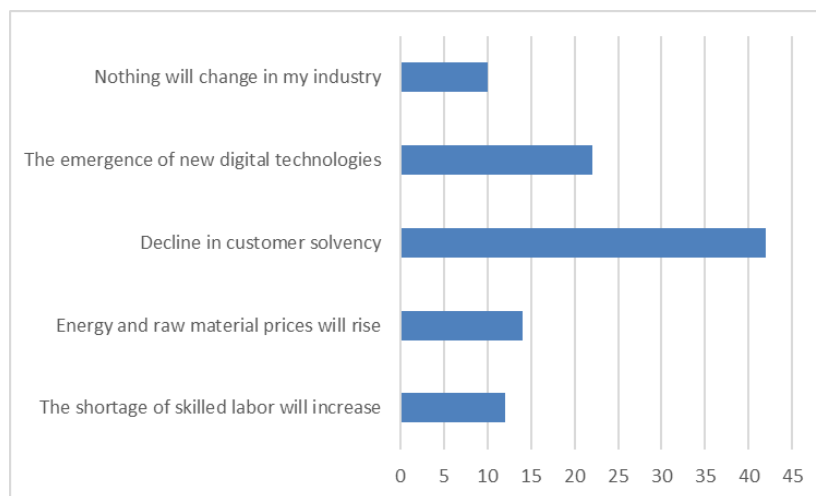
According to the NACE code classification, respondents represented very different sectors of the economy: agricultural, forestry and fisheries companies – 6 %, manufacturing industry – 8 %, electricity, gas supply, heating and air conditioning companies – 2 %, construction companies – 2 %, wholesale and retail businesses – 7 %, transport and storage – 7 %, housing and catering services – 4 %, most were information and communication services – 18 %, financial and insurance activities – 11 %, public administration and defence – 1 %, educational institutions – 9%, health and social services – 4 %, arts, entertainment and recreation businesses – 4 %, other services – 11 % self-consumption production of goods and services in individual households – 3 % and other 3 %.



Source: based on author's survey results

Fig. 3. Economic sector in which the company operates

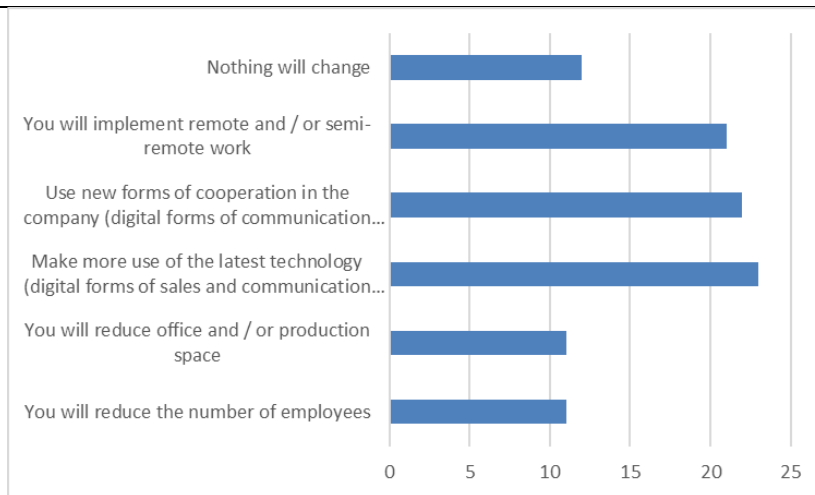
The following issues clarified respondents' assessment of the effects of the pandemic on their business and industry. Regarding the issues that will change due to the pandemic crisis, the most frequent response was expected 42 % drop in customer solvency, a 22 % rise in new digital technologies, a 14 % increase in energy and raw material prices, a 12 % increase in skilled labour shortages, while 10 % of respondents expected no changes in their sector.



Source: based on author's survey results

Fig. 4. Expected changes after pandemic crisis

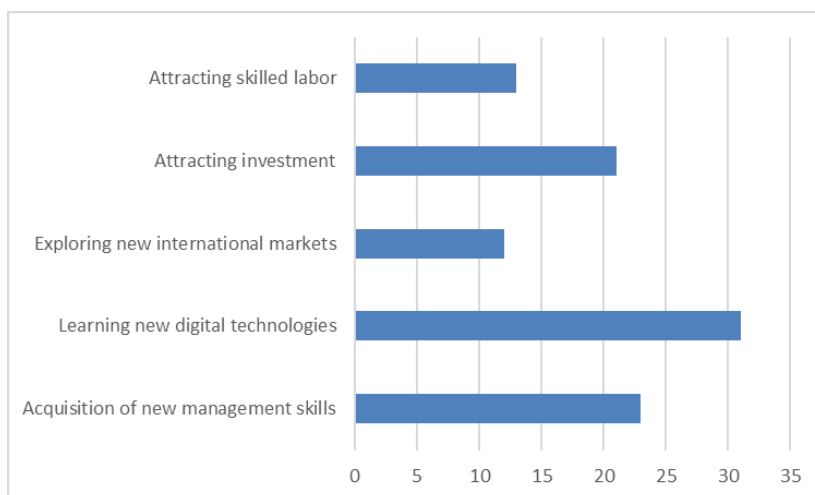
Asked on the issue related with changes in their business following the pandemic crisis, three factors were almost similarly assessed: 1) to make more use of the latest technologies (forms of digital sales and communication with customers) – 23 %; 2) new forms of cooperation in the company (forms of digital communication with employees) – 22 %; 3) to introduce remote and/or semi-remote work – 21 %, while 12 % predicted no changes. Two additional factors, however, were assessed in the same way that 11 % of employees would be reduced and 11 % of office and/or production facilities would be reduced.



Source: based on author's survey results

Fig. 5. Expected changes in the company after pandemic crisis

The most frequent response to the challenges of the pandemic crisis was the absorption of new digital technologies – 31 %, followed by the acquisition of new management/management skills – 23 % and the attraction of investment – 21 %. And 13 % attracting skilled labour and 12 % mastering the international market

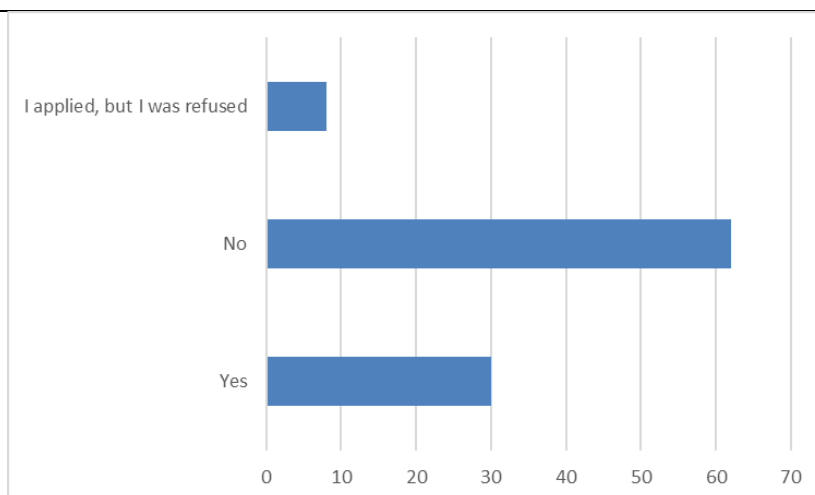


Source: based on author's survey results

Fig. 6. The biggest challenges after the pandemic crisis

A further study examined whether the companies represented by respondents used national and local authorities' support programmes and assessed the policies implemented by the national authorities to address the problems posed by the pandemic.

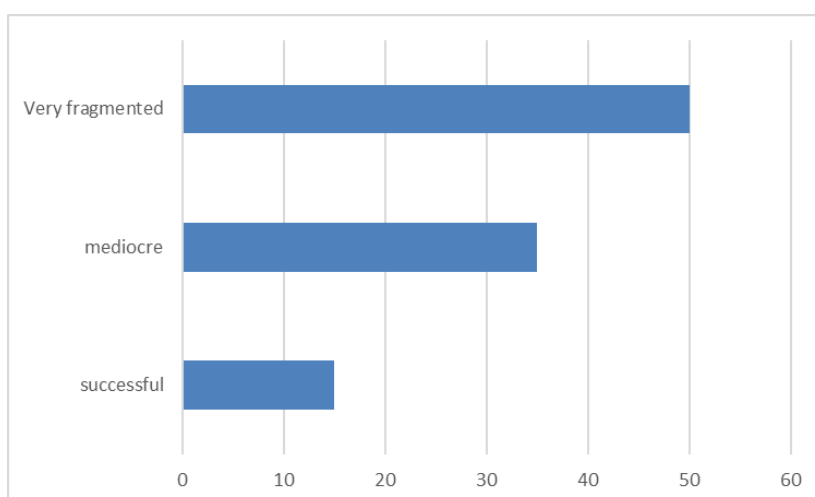
When asked whether the company used national and local government support programmes, 62 % of the respondents denied, 30 % confirmed, and 8 % confirmed applying for aid, but were refused.



Source: based on author's survey results

Fig. 7. Using support programs of state and municipal institutions

As regards the overall assessment of the policies implemented by national authorities to address the problems posed by the pandemic, 50 % of respondents assessed them as highly fragmented, 35 % as mediocre, but only 15 % regarded them as successful.



Source: author based on survey results

Fig. 8. Evaluation of the policy implemented by state institutions to solve the problems caused by the pandemic

A number of important conclusions can be drawn after compiling the data from the study. Activities were not interrupted and support programmes offered by state and local authorities were not used by undertakings operating in the manufacturing industry, electricity, gas supply, heating and air conditioning, construction companies, bulk trading and retail businesses, transport and storage companies. It was noted that both manufacturing and services companies are planning to make more use of the latest technology in the future - forms of digital sales and communication with customers. Service companies plan to introduce new forms of cooperation within the company: forms of digital communication with employees and remote and/or semi-remote work. Companies in all sectors of the economy acknowledge that the biggest challenges following the pandemic crisis will be the acquisition of new digital technologies, the acquisition of new management/management skills and the attraction of investment.

Proposals to increase business productivity and competitiveness

The authors emphasize the need to provide productive investment and develop human capital. Latvia's challenge is the desire and capacity to attract productive investment to increase labour market participation, boost business and productivity. Investment in human capital (health, education, skills) needs to be balanced with investment in infrastructure.

The following priority actions need to be promoted in order to be practical in ensuring increased productivity and competitive pay, promoting the creation and commercialisation of high value-added technologies, promoting environmentally friendly technology and business development:

- competitiveness and sustainable use and development of the cost of production resources, which means available production resources (natural, capital, work, business capacity), energy sources and raw materials (electricity, gas, wood) and infrastructure (transport, communications, commerce, energy, water management, apartments, schools, health, culture, sport etc.), efficient and sustainable use and development by developing sustainable business and creating favourable conditions for investment in higher value added industries;
- the preconditions for increasing corporate productivity mean promoting the redeployment of workforce and capital from less productive to more productive businesses and industries, the cooperation of companies with universities and companies from other countries, as well as cross-disciplinary cooperation in the creation and commercialisation of various innovative products; promoting the necessary specialists in the labour market – information and communication technology specialists, highly skilled in the chemical, pharmaceutical, electronics, wood industry and other sectors with information and communication technology skills – accessibility, promoting young people's choice for education in the fields of science, mathematics and engineering (STEM), managing labour market change and acquiring the necessary skills through digitisation, automation and technology.

Conclusions

- 1) In the Baltic States, two areas – investment and business readiness for change – for technology planning – play an important role in boosting productivity and competitiveness.
- 2) The persistent positive dynamics of productivity are determined by structural changes in the Latvian economy towards the development of higher value-added activities and knowledge-intensive industries.
- 3) The impact of the COVID-19 pandemic on long-term productivity trends will be determined by changing business models and consumer behaviour: increasing the degree of digitisation (e-services, remote work etc.), uncertainty about the resilience of changes and the impact on long-term productivity trends.
- 4) Data from the study show that a majority of entrepreneurs are predicting a fall in customer solvency and the emergence of new digital technologies in the market; the problem will make more use of the latest technologies (forms of digital sales and communication with customers), new forms of digital cooperation in the company's communication with employees and introduce remote and/or semi-remote work.
- 5) The survey shows that entrepreneurs associate the biggest challenges following the pandemic crisis by the acquisition of new management/management skills and the up taking of new digital technologies, as well as the attraction of investment.

6) The survey shows that most entrepreneurs did not use national and local government support programmes intended to overcome the pandemic crisis, while assessing the support measures developed by the government as highly fragmented.

7) Promoting the competitiveness and productivity of businesses and the workforce would provide an opportunity for the economy to develop, allowing additional resources to flow into the economy, including from export markets.

Proposals, recommendations

1) **Digital transformation (development).** RPR municipalities, in cooperation with educational institutions, should engage in the development of digital skills, which at the same time would raise productivity and contribute to other objectives, both in terms of reducing inequalities, education, increasing regional GDP and creating well-paid jobs.

2) **Economic transformations (development).** RPR municipalities should support small and medium-sized enterprises and ensure their sustainability in the post-crisis period, support mechanisms to ensure access to finance for the small and medium-sized enterprises sector, promote the operation and development of exporting companies, provide for measures aimed at increasing export capacity, and measures aimed at continuous business and their employment supplementing the knowledge of workers, which would contribute to their export capacity.

3) **Infrastructure transformation (development).** RPR municipalities should invest in upgrading and restoring infrastructure, which would lead to a significant increase in business productivity, enabling them to work more effectively and reduce costs by providing financial means that could be invested in other business development and growth-related areas: promoting long-term green innovation, supporting the "green" initiatives of the transport system, Investment and Development Agency of Latvia (LIAA) business incubators developing start-up ideas and open office spaces.

4) **Mobility and economic growth.** The RPR should provide municipalities with investments in the construction and renewal of regional roads in order to promote regional mobility and economic activity, as well as investments in the construction and development of regional industrial parks in line with market demand and the ability to use investments made for economic growth (On the draft Recovery and Stability Mechanism Plan, 2021)

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