

OPERATIONAL ASPECTS OF LATVIAN START-UPS REFERRED TO IN STRATEGIC POLICY DOCUMENTS

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Abstract. *The paper is entitled Operational Aspects of Latvian Start-Ups Referred to in Strategic Policy Documents. The present research aims to analyse the operational aspects of start-ups based on the information available in various policy documents. The research examined national, regional and global-scale policy documents. Long-term strategic policy documents, which help to identify obstacles to start-up development, play an important role in the development of start-ups in Latvia. An examination of obstacles to the development of start-ups would help to contribute to the achievement of the goals set by the policy documents analysed. The research examined various kinds of policy documents. The policy documents analysed reveal trends in start-ups and public support mechanisms as well as give recommendations; therefore, the main conclusion is that the documents play an important role in the growth of start-ups because, based on empirical research findings, relevant problems could be easily identified and solved in the long term. The literature review revealed that there were relatively few policy documents specifically for start-ups; therefore, prospects for the development of policy documents in future are wide. The following specific research tasks were set: to analyse long-term policy documents in relation to start-ups; to identify the main operational aspects of start-ups; and to put forward conclusions and proposals. The research employed the monographic and descriptive methods. The author concluded that the research studies conducted in Latvia indicated a high administrative burden, whereas international research studies identified a low administrative burden in Latvia. Because of the different opinions, a repeat research study should be conducted. The further research could examine administrative procedures and their impact on the establishment of companies.*

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Introduction

Strategic planning is the backbone of strategic management (Steiner, 1979). On the one hand, it suggests systematic techniques and contributes to organizational performance in cohesion and, on the other hand, it shapes the future of the organization (Poister, 2010). In order for companies to develop successfully in the future, strategic planning is necessary at various levels. Strategic planning is defined as disciplined efforts to make critical decisions and take actions that guide the organization: what it is, what it does and why it does it (Osborne and Gaebler, 1992). It is a social process through which

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local communities cope with external and internal challenges (Healey and Khakee, 1997). Strategic planning is important to deal with challenges and problems in every business activity, especially it relates to start-ups.

Support for innovative companies is one of the government's priorities, which is also defined in the following national policy documents: The Guidelines for the National Industrial Policy for 2014-2020 (Cabinet of Ministers, 2013) and the Smart Specialization Strategy (Ministry of Education and Science, 2020). Setting such a priority is an essential factor in developing proposals for the Business Environment Improvement Action Plan. A special support mechanism in the form of tax relief has been created to promote the emergence of start-ups. Support as well as access to financing through publicly co-funded acceleration funds and venture capital funds are available for start-ups at a one-stop agency – the Investment and Development Agency of Latvia. At the beginning of 2019, the Ministry of Economics in cooperation with the Latvian Startup Association and Gateway&Partners conducted a study of the start-up ecosystem in Latvia entitled Assessment of the Start-up Ecosystem in Latvia, the Identification of the Current Situation and the Development of Proposals Therefor (Ministry of Economics, 2019). Support for start-ups at the level of national strategic planning is an important factor in the development of the start-up ecosystem.

An increase in innovations and the variety of technological solutions gradually contribute to business productivity. For this reason, the talents of various industries are increasingly concentrated in the business and research environment in the regions of Latvia and especially in the Riga agglomeration, which plays a decisive role in the rapid economic development of the areas and in increasing prosperity (Cross-Sectoral Coordination Centre, 2020).

The present research aims to analyse the operational aspects of start-ups based on the information available in various policy documents. The following specific research tasks were set: to analyse long-term policy documents in relation to start-ups; to identify the main operational aspects of start-ups; and to put forward conclusions and proposals. The research employed the monographic and descriptive methods.

Development of start-ups

Start-ups play an important role in the entire innovation ecosystem, which provide an influx of innovative business ideas and promote a faster shift of the economic paradigm towards the knowledge economy (Ministry of Economics, 2022a). In order to develop the economy in the long term, knowledge of ongoing processes and implementation of business ideas is necessary.

In Latvia, start-ups began emerging intensively since 2016 when the Law on Aid for the Activities of Start-up Companies came into force. The purpose of the law is to promote the emergence of start-ups in Latvia, thereby promoting research as well as the introduction of innovative ideas, products or processes in economic activity (commercialization of research products) (Saeima, 2016). After 2016, the emergence and activity of start-ups increased not only in Latvia but also throughout Europe. Trends in start-ups were analysed by the European Commission's annual report on European SMEs (European Commission, 2021).

According to a study Assessment of the Start-up Ecosystem in Latvia and the Identification of the Current Situation conducted by Oxford Research Baltics Ltd in 2022, 512 companies that were defined as start-ups and were up to 7 years old, i.e. founded in the period 2015-2021, were identified in Latvia in national and international databases. The fastest increase in the emergence of start-ups was reported in 2019 (104 companies). Totally, the share of start-ups (up to 3 years old) reached 46%, which could be viewed positively (Ministry of Economics, 2022b).

In surveys, start-ups (76%) said they planned to increase their employment in the coming years and then increase their outputs (62%). The start-ups were more likely to set higher growth targets than other SMEs did, with 38% start-ups planning to increase their turnover over the next few years. Almost all the environmental and social sustainability activities the surveys asked about were more frequently performed by start-ups, the only exception was recycling or reuse of materials – there was no difference between start-ups, scale-ups and other SMEs regarding the activities (European Commission, 2021). Besides, support for innovative start-ups and businesses, including the self-employed, was actually suspended, as governments implemented emergency measures and the support beneficiaries were affected by lockdown measures. Initial Covid-19 measures focused on protecting and maintaining the current economic capacity. However, little attention has been paid to cooperation, as well as to starting up a business or innovation at existing businesses. However, the number of start-ups would be expected to decrease during the crisis due to increased market uncertainty (OECD, 2021b). Environmental and social sustainability is important for start-ups; therefore, the start-ups are motivated to operate in the long term.

Analysis, problems

An assessment of public support based on the opinions obtained by the start-up surveys has been performed by the Ministry of Economics in its report Assessment of the Start-up Ecosystem in Latvia, the Identification of

the Current Situation and the Development of Proposals Therefor (Ministry of Economics, 2019). Besides, a SWOT analysis done in the Strategy for Start-up Ecosystem Development for 2022-2025 mentions a high administrative burden for professional investors in start-ups – private and venture capital funds – as a weakness (Ministry of Economics, 2022).

The innovation ecosystem is underdeveloped. In Latvia, businesses are mostly represented by micro-enterprises and SMEs with limited capacity to invest in research and development. The businesses lack knowledge and skills about the role of innovation in business development and competitiveness. In Latvia, the share of innovative small and medium enterprises is one of the lowest in the EU at 30.3% (Cross-Sectoral Coordination Centre, 2020). A lack of knowledge and skills is an obstacle to the development of any enterprise, especially start-ups.

Start-up managers rated themselves as equal to other entrepreneurs, although their businesses had an opportunity to grow faster and expand in a shorter period, thereby reaching the peaks of their professional development. At the same time, the public sector indicated that it wanted to provide additional support to potentially the fastest-growing companies, which provided proportionally the highest return to the government over a short period. Besides, the start-ups indicated that obtaining support from the public sector is not an end in itself for their development. After the Law on Aid for the Activities of Start-up Companies was adopted in 2016, the government has also been actively involved in developing the start-up ecosystem, and the law has also helped to design other support mechanisms for the development of start-ups. At the same time, the goal of public support is for “Latvia to become choice No. 1 for start-ups in the Baltic States” is outdated and unattainable now and also does not allow focusing on the strengths of the ecosystem. The opinions of start-ups about the public support system indicated that it was based on the process, not on the result, as only four companies had already received support. This was also confirmed by the results of a survey of start-ups, as only 14% of them could theoretically be classified as start-ups according to the restrictive criteria of the law, which were contrary to the culture and values of start-ups. In addition, the start-ups indicated that public support involved several problems: a high administrative burden, a too-small amount of financial support, the need to make prepayments, as well as a long application processing period. The intensity of additional support was viewed from the grant perspective, not from the perspectives of the client and total cost, as start-ups needed to make value added tax payments and also pay expenses related to the administrative burden, which required hiring an additional administrative employee. For these reasons, the start-ups called for optimizing the application procedures, specifying the expected number of

hours of administrative work, avoiding prepayments, shortening the deadline for processing applications and optimizing the application and reporting process. Although there were improvements in the public sector, they still did not meet the level expected by the start-ups (Ministry of Economics, 2019). The results of research studies conducted in Latvia contradicted the data published by an OECD study, see Fig.1.

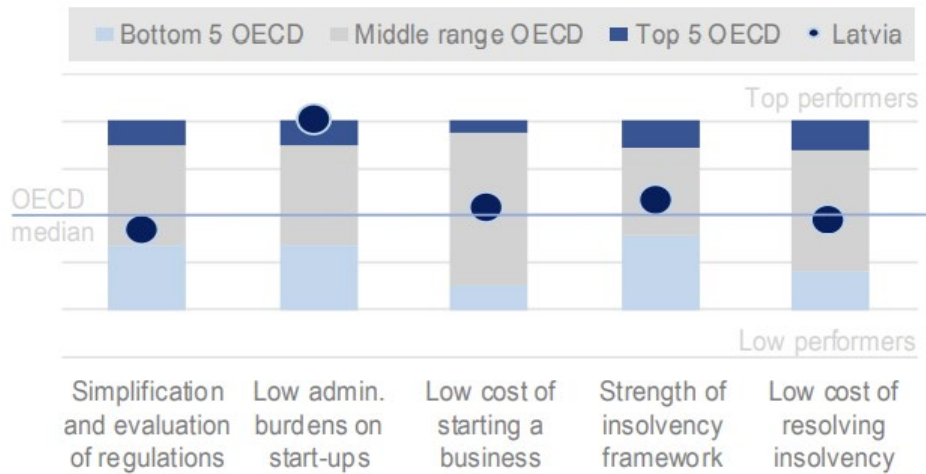


Fig.1. Legal framework for business (OECD, 2021a)

As shown in Fig.1, the indicators examined: simplification and evaluation of regulations, administrative procedures, cost of starting a business, strength of the insolvency framework and cost of resolving insolvency were close to the median, and the only indicator that stood out was the low administrative burden for start-ups. According to the results of the OECD study, there were low administrative procedures for start-ups in Latvia, yet the start-ups surveyed in Latvia claimed that there was a high administrative burden.

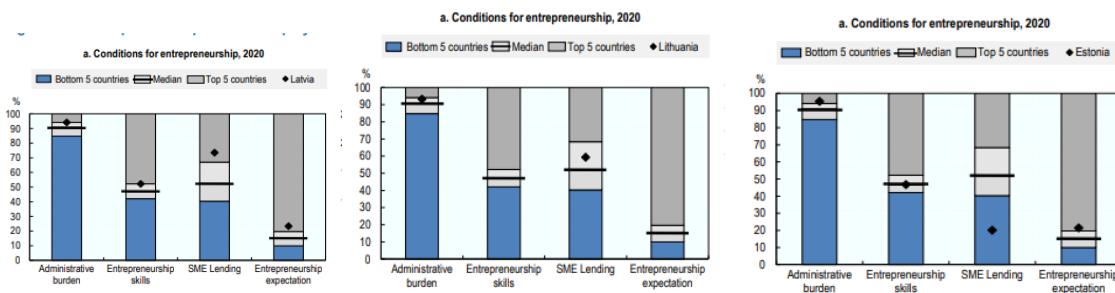


Fig. 2, 3, 4. Conditions for doing business in Latvia, Lithuania and Estonia (OECD, 2021a)

Another OECD study on conditions for doing business revealed that the administrative burden was high in all the Baltic States. Because of the different opinions, a repeat research study should be conducted. The further research could examine administrative procedures and their impact on the establishment of companies.

The effectiveness of public administration is low and responses to the needs of the business environment are insufficiently quick. In view of fast changes in the external environment, the ability of public administration to respond promptly, thereby providing appropriate conditions for the business environment, is insufficient. In recent years, the negative impact of the legal framework and administrative obstacles on businesses increased, as evidenced by the deteriorating indicators of international competitiveness of Latvia and the other economic rankings as well as the results of surveys of businesses in Latvia. The effectiveness of internal and external administrative burden reduction activities was hindered by their fragmentation, as well as a lack of practical applicability and capacity of the methods developed. The institutional environment has long been mentioned as a weakness in national competitiveness, that is why economic growth based on increases in productivity, as stated in the National Development Plan of Latvia for 2021-2027, requires reforms, as well as investments are needed in this field. In Latvia, businesses pointed to inefficient government bureaucracy, unstable (short-sighted) policy-making practices and an inefficient judicial system as the most significant shortcomings of the institutional environment that limited their competitiveness (Cross-Sectoral Coordination Centre, 2020).

Support mechanisms for start-ups

In 2021, according to the global start-up ecosystem index created by the international start-up ecosystem map and research centre StartupBlink, Latvia was ranked 42nd among 150 countries, losing 6 positions compared with 2020. The index indicated that the start-up ecosystem of Latvia had the potential to become a technological centre with access to the European market and relatively low living costs. Public support systems available to start-ups, such as innovation vouchers, start-up-friendly regulations and start-up visas, were rated positively. At the same time, compared with Estonia and Lithuania, Latvia needed to continue rapidly expanding the available support and investment attraction activities, as the growth of Latvia in these fields should be particularly strong in order to not only reach but also exceed the indicators (Ministry of Economics, 2022). A comparison of the start-up ecosystem of Latvia with those of the neighbouring countries reveals that it is necessary to work on improving support mechanisms in Latvia, as start-ups need help to start their economic activity.

Start-ups are nominated as the main target group in a programme of the European Union Cohesion Policy 2021-2027 (Esfondi.lv, 2021). Programme goal No. 1 – a more competitive and smarter Europe – places a focus of support directly on start-ups, thereby promoting innovative and smart

economic changes and regional ICT connectivity with specific support objectives. The main target groups of specific support objective 1.2.2 Using the advantages of digitalization for business development are as follows: society and economic operators: small and medium enterprises, universities, the public sector, planning regions and municipalities, persons who are going to start economic activity, start-ups, associations and foundations, as well as small- and mid-capitalization companies in the case of financial instruments. The activities supported by specific support objective 1.2.3 Promoting sustainable growth, competitiveness and job creation for SMEs, including through productive investments include support for innovation and entrepreneurial motivation. The purpose of the support activities is to motivate individuals to start up a business and to focus on the development and use of innovative solutions, thereby increasing the share of innovative companies in the economy. The support is provided in a non-financial form, thus supporting events, marketing activities and creativity in the innovation and business start-up segment, including awarding prizes. The support is focused on business beginners, start-ups, SMEs, especially in RIS3 specializations. The support is provided for companies to enter new markets and increase their exports – a support mechanism has been created so that they can promote their goods/services in the global market –, while also focusing the support on increasing the export capacity of knowledge-intensive, including technology intensive, start-ups and SMEs as well as on tourism. The support is provided in the form of grants, thereby contributing to the participation of companies and start-ups in international exhibitions and industry events, product adaptation to foreign markets, certification, building all-level cooperation and capacity build-up, as well as participation in digital platforms (Esfondi.lv, 2021). It is important that start-ups are the main target group in the EU Cohesion Policy programme, as it helps to carry out various support activities and develop the environment for start-ups.

The following financial instruments are used: venture capital, seed and growth stage venture capital and mezzanine investments, multi-level venture capital funds, including investments for SME participation in the capital market, loans for increasing productivity and start-up loans, which include co-financing investments in start-ups in cooperation with qualified venture capital investors, as well as portfolio and individual guarantees. An acceleration fund is envisaged for the development of innovative ideas and companies. Seed capital, start-up capital and growth capital investment, as well as a mezzanine fund will be available for the development of existing companies with growth potential. Loans will be provided for the establishment of new companies and the development of existing economic operators for the purposes of investment and working capital. Loans will be provided for investment projects and industries with a higher degree of risk,

as well as for financing start-ups between venture capital investment cycles. Loan guarantees are planned to be granted for loans for investment, including for starting a business and increasing productivity, as well as for current assets, financial leasing and bank guarantees. It is envisaged to provide support to economic operators in the form of export credit guarantees. The need for financial instrument services is substantiated by an analysis of market imperfections in the field of financial access (Esfondi.lv, 2021). The process of formation of companies is supported and promoted by granting loans to start-ups.

The EU Cohesion Policy supports the engagement of women in doing business, their (re)integration into the labour market and gender equality in specific sectors traditionally dominated by men. The European Innovation Council will develop targeted measures promoting women's engagement in innovation under the Horizon Europe programme, including a pilot project implemented in 2020 and aimed at promoting women-managed start-ups and innovative small and medium enterprises. The Commission will also promote women in decision-making positions in private equity and venture capital funds and support funds that invest in gender-diverse portfolios through the InvestEU programme to attract private and public investment in Europe for more sustainable, inclusive and innovative growth. In the field of research and innovation, the Commission will introduce new measures to strengthen gender equality under Horizon Europe, such as the possibility to request a gender plan from applicants, as well as an initiative to increase the number of women-managed technology start-ups. Funding for gender and intersectional research will also be available (European Commission, 2020). For example, women in both EU and OECD countries are 75% more likely than men to report that they have skills to start a business. These barriers to starting up a business also affect business ambitions; for example, women expect to be 60-70% more than men in business over the next five years and create 20 or more jobs, as well as improve business survival rates and performance. Increasing financing for start-ups, particularly microfinance for individuals who face barriers in mainstream financial markets, including women, youth and immigrants. It is estimated that the unsatisfied demand for microfinance in the EU is currently EUR 14 billion per year. Governments need to invest more capital in this market, as most of the lenders target customers from underrepresented and disadvantaged groups (OECD, 2021a). Support mechanisms are vital for fostering the growth of the start-up ecosystem in the long term; therefore, it is important that support objectives are defined in the European Union's cohesion policy programmes.

Recommendations for the development of start-ups from state institutions

Constructive recommendations for the development of start-ups have been developed by the Ministry of Economics and included in its report *Assessment of the Start-up Ecosystem in Latvia, the Identification of the Current Situation and the Development of Proposals Therefor* (Ministry of Economics, 2019). The recommendations are as follows: it is required to validate the concepts developed by national programmes in cooperation with clients; expand the criteria set by the Law on Aid for the Activities of Start-up Companies; reduce the administrative burden on public support by granting a one-time start-up status; specify the period necessary for performing administrative procedures, which needs to be stated in informational materials; specify the activities and funds expected from start-ups for granting them funding; design and certify a procedure for recognition of qualified investors by national institutions; specify a period for processing applications and adhere to it; regularly inform the audience and emphasize the improvements and changes made by support programmes; informational materials should be focused and easy to read (Ministry of Economics, 2019). The recommendations developed reveal in detail the need for improvements in various fields: legislation, the administrative burden and communication exchange in order to improve the start-up ecosystem in general and help the start-ups to develop and operate in the long term.

Conclusions and Proposals

Start-ups play an important role both in increasing competition and in fostering the growth of the national economy. The operation and development of start-ups provides high-paid jobs, which also contributes to the influx of innovative business ideas, the development of high value-added goods and services, investment attraction as well as the transition of the national economy to a modern and innovative economy (Ministry of Economics, 2022). Long-term strategic policy documents, which help to identify obstacles to development, play an important role in the development of start-ups in Latvia. In future research studies, an examination of the obstacles to the development of start-ups would help to contribute to the achievement of the goals set by the policy documents analysed.

Public support involves several problems: a high administrative burden, a too-small amount of financial support, the need to make prepayments, as well as a long application processing period. The results of research studies conducted in Latvia contradicted the data published by an OECD study. An analysis of the studies included in long-term policy documents on business

conditions revealed that the studies conducted in Latvia indicated a high administrative burden, whereas international studies identified a low administrative burden in Latvia. Because of the different opinions, a repeat research study should be conducted. The further research could examine administrative procedures and their impact on the establishment of companies.



I E G U L D Ī J U M S T A V Ā N Ā K O T N Ē

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