# EXTERNAL FACTORS DRIVING AND LIMITING START-UPS IN LATVIA

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**Abstract**.
***Purpose and aim of the study:*** *The purpose of the research is to conduct a review of the literature on start-ups in order to identify the driving and limiting factors in the development of start-ups in Latvia.*
***Design / Methodology / Approach:*** *Methods used in the research – the monographic method, the survey method, and the force field analysis method. The main tasks of the study are: to study the main aspects of the activity in the start-up sector in Latvia; identify the driving and limiting factors in start-up activities using the force field analysis approach; and identify appropriate courses of action to promote drivers and reduce constraining forces.*
***Main Findings:*** *The research concluded that the most important element driving development for start-ups in Latvia is the development of technology in the market, and communication with the customer is also a very important factor. The factors that are disturbing the development of start-ups are the intensity of competitors, increase in costs and political instability in the world.*
***Originality:*** *The study provides an insight into the aspects of driving and inhibiting factors for start-ups, and the author created recommendations on development opportunities for start-ups on the Latvian scale.*
***Implications:*** *The results of the research are important for both working start-ups and new entrepreneurs who plan to start their own businesses in the future.*

**Keywords:** entrepreneurship, factors, force field analysis, start-up.

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## Introduction

Entrepreneurship has become an extremely relevant tool for promoting sustainable economic development. It helps in reducing unemployment, creates job opportunities for people and helps the government to increase economic growth. Its financial contribution contributes to social and human well-being, which creates value in society (Mala et al., 2019). A start-up is a new type of business or organization created with a specific purpose, facing high uncertainty with very limited resource support and high growth characteristics, and is short-lived. Many factors affect start-up performance at the macro, organizational, and individual levels (Triono et al., 2021). It is necessary to encourage people to become entrepreneurs, but most business start-ups fail due to incomplete initiatives. The main causes of failure are

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poor planning, complex legal procedures, a lack of financial resources and an inadequate economic sphere (Zahra, 2011).

Latvian start-up ecosystems have the potential to become part of the country's main economic engines. With easy access to Europe, availability of qualified IT talent, a multilingual population and an affordable cost of living, the potential of Latvia's start-up ecosystem is clear. However, it is also clear that Latvia's public sector has not yet caught up with its successful Baltic neighbours. Recently, the government has implemented various policies and initiatives to improve local start-up ecosystems, although the pace has been slow. One example is the innovation vouchers offered by the Investment Development Agency of Latvia as well as reforms to create a regulatory system favourable to start-ups (Startup Blink, 2024). The main tasks set for the research and development system by the Latvian government and society primarily result from the goals, development priorities and objectives set in the National Development Plan 2027 (Likumi.lv, 2020). One of the main objectives set for the research and development system is to develop new technologies for the creation of innovative products and services, promoting resource efficiency of companies, technological transformation and inclusion in value chains of various scales (Izglītības un zinātnes ministrija, 2020). In recent years, Latvian government organizations have focused on the implementation of support measures for new companies. For example, the Investment and Development Agency of Latvia (LIAA) provides many measures in order to help start-ups.

Besides, the country has launched a start-up visa programme aimed at attracting foreign entrepreneurs. More resource allocation will be needed to enable Latvian public sector developers to achieve real change. There are also several private sector organizations in the Latvian ecosystem that contribute to the development of their ecosystem. As a result of these concerted investment and support efforts, Latvia is witnessing the growth of significant start-ups. A critical challenge for Latvia is intellectual labour emigration, especially qualified workers in the ICT sector, emigrating to other EU Member States; the public sector could do more to demonstrate the benefits of staying in Latvia. The government should also continue to cooperate with the private sector in the development of new strategies, such as the stock option policies that were amended in 2020. This type of cooperation could allow Latvian start-up ecosystems to reduce the gap with their more successful Baltic neighbours (Startup Blink, 2024).

The purpose of the research is to conduct a review of the literature on start-ups in order to identify the driving and limiting factors in the development of start-ups in Latvia. Methods used in the research: the monographic method, the survey method, and the force field analysis method. The main tasks of the study are: to study the main aspects of the

activity in the start-up sector in Latvia; identify the driving and limiting factors of start-up activities using the force field analysis approach; and identify appropriate courses of action to promote drivers and reduce constraining forces.

## Methods

Globalization and the ever-changing business environment force organizations to adopt technological innovations to gain competitive advantage. Today's companies are turning to new technologies to transform and improve their business processes. Technological innovation is recognized as an essential factor for survival in the ever-changing business world with increasing globalization. Therefore, modern companies tend to use new technologies in their business processes (Kişi & Özer, 2024).

According to Capatina, driving forces in human capital are defined by the rapid integration of newcomers, the ability of developers to translate customer needs into software architecture, many opportunities for developers to attend team building activities, as well as project management training programmes, the increasing number of certified technical architects and the desire of employees to learn and work on the job. The driving forces in relational capital are defined by: customer-oriented culture; the responsiveness of the company to the changing needs of the customer, the tendency of customers to regularly improve the solutions offered by the company, the desire of customers to test the solutions before the final delivery in most cases, creating a positive image in the media (Capatina et al., 2017). There is also a tendency to generalize findings across different types of start-ups and industries, potentially obscuring important contextual differences. Moreover, the interplay between internal organizational factors such as leadership, culture and team dynamics and external influences on innovation is often understudied (Kartika, 2024).

Analysing the available literature, technological development, innovations, trends, communication with the customer, competitive advantages in the market, human resource management and cooperation with the customer - reviews, etc. can be put forward as driving factors.

These challenges are compounded by the inherent risks associated with new ventures, where the potential for failure is high and the margin for error is small. One of the main barriers to innovation in start-ups is limited financial resources. Start-ups typically operate with tight budgets and limited access to capital, which can severely limit their ability to invest in research and development. Lack of adequate funding makes it difficult for start-ups to explore new ideas, develop prototypes and bring innovative products to market. This financial constraint often forces start-ups to

prioritize short-term survival over long-term innovation, as immediate operating expenses outweigh strategic investment in innovation. High levels of uncertainty also pose a significant challenge to innovation in start-ups. The start-up environment is inherently volatile, with unpredictable market conditions, rapidly changing customer preferences, and changing technological landscapes. This uncertainty can make it difficult for start-ups to commit resources to innovative projects that may not yield immediate returns (Kartika, 2024).

Despite the recognized importance of innovation, start-ups often face significant challenges and barriers that hinder their innovation efforts. Limited financial resources, high levels of uncertainty, and the need for rapid market entry can limit a start-up's ability to invest in and sustain innovation (Freeman & Engel, 2007). Political instability refers to a situation where the governing structures of a country are in a state of turmoil or unpredictability, often characterized by frequent leadership collapses, changes in government, major policy changes, or widespread civil unrest. This instability can arise from a variety of factors, including political violence, corruption, weak governance, and external interference. The presence of political instability undermines the functioning of state institutions, erodes public trust, and creates an unstable environment that hinders effective governance and policy implementation (Alesina & Perotti, 2012). Innovation is widely recognized as a critical driver of success in today's business environment, especially for start-ups. In an era characterized by rapid technological development and fierce market competition, start-ups must continuously innovate to differentiate themselves, capture market share, and achieve sustainable growth. Despite its recognized importance, the specific mechanisms by which innovation affects start-up success remain understudied. This lack of understanding creates both practical and theoretical challenges, as entrepreneurs and researchers seek to identify the factors that contribute to the effective implementation and management of innovation in emerging firms (Kartika, 2024).

People who are self-motivated and supported by their families, peers, and institutions have characteristic personality traits (entrepreneurial skills, risk-taking, and innovativeness) that can take advantage of future opportunities and become successful entrepreneurs (Raza et al., 2020). The need for rapid market entry further complicates the innovation landscape for start-ups. In highly competitive markets, opportunities to introduce new products or services are often limited. Start-ups need to move quickly to capture market share and establish their presence before competitors can react. This urgency can lead to a focus on speed and execution at the expense of thorough innovation processes. The pressure to achieve results quickly

can lead to shortcuts and compromises in the innovation process, which can compromise the quality and sustainability of innovative solutions (Kartika, 2024).

Analysing the available literature, the following factors can be put forward as limiting factors: cost growth, business risks, psychological factors, economic cyclicality, political instability in the world and competitors' prices.

Force field analysis was introduced by Kurt Lewin (Lewin, 1951), based on his earlier advances in field theory, as a framework for studying the forces that affect individuals and their situations. Lewin described the "field" as an individual's construct that contains their motives, values, needs, goals, concerns, and ideals. He theorized that an individual's interaction (experience) with an external stimulus is important in their development or regression. Lewin used these principles to analyse the behaviour of groups in society in several areas to determine whether there would be a movement forward or a retreat from progress (Walker, 2023).

Thomas explained that while force field analysis was used in a variety of contexts, it was rarely used for strategy; but he suggested that the method could provide new insights into the evaluation and implementation of change. Force field analysis is applicable to a variety of fields, including organizational development, strategic management, environmental strategy adoption, and intellectual capital management (Thomas, 1985).

Shurville and Owens (Shurville & Owens, 2002) applied force field analysis to flexible learning in higher education and emphasized the ongoing commitment to change and innovation management. Toves (Toves et al., 2016) addresses effective technology change management through force field analysis and uncovers the importance of communication issues, training misconceptions, and false assumptions about computer literacy.

Capatina (Capatina et al., 2017) introduces a conceptual framework based on force field analysis for the management of intellectual capital assets in software development companies. Maslen and Platts (Maslen & Platts, 1994) introduced a direct application of force field analysis to manufacturing strategy and organizational change. Today, force field analysis is widely used to inform decision-making, especially when managing and planning change in organizations. Force field analysis is a powerful method for gaining a comprehensive view of the various forces acting on a potential change problem and for assessing the source and strength of these influential influences. Force field analysis can now also be performed by entering quantitative and qualitative data into computer software.

## Results

The start-up survey was conducted in September 2023 and repeated in September 2024 by sending questionnaires to start-ups registered in the Latvian Start-Up Register, a total of 51 valid responses were obtained, for details see Figure 1.

Force field analysis is primarily a qualitative tool, it is possible to obtain quantitative results by assigning stakeholders numerical scores, interests, and influence powers for each planned activity or initiative (Pavloudakis et al., 2023). The research was carried out as follows: the factors leading to and limiting change were identified, a survey was conducted, where the start-up companies evaluated the proposed factors on a scale from 1 to 5, the obtained results were summarized and conclusions were drawn.

In the questionnaire, it was asked to note the factors leading to change in the operation of start-ups: technological development, innovation, trends, communication with the customer, competitive advantages in the market, human resource management and customer feedback. In addition, the survey questionnaire asked to note the limiting/disturbing factors in the operation of start-ups: cost increase, business risks, psychological factors, the economic cycle, political instability in the world, competitors' prices.

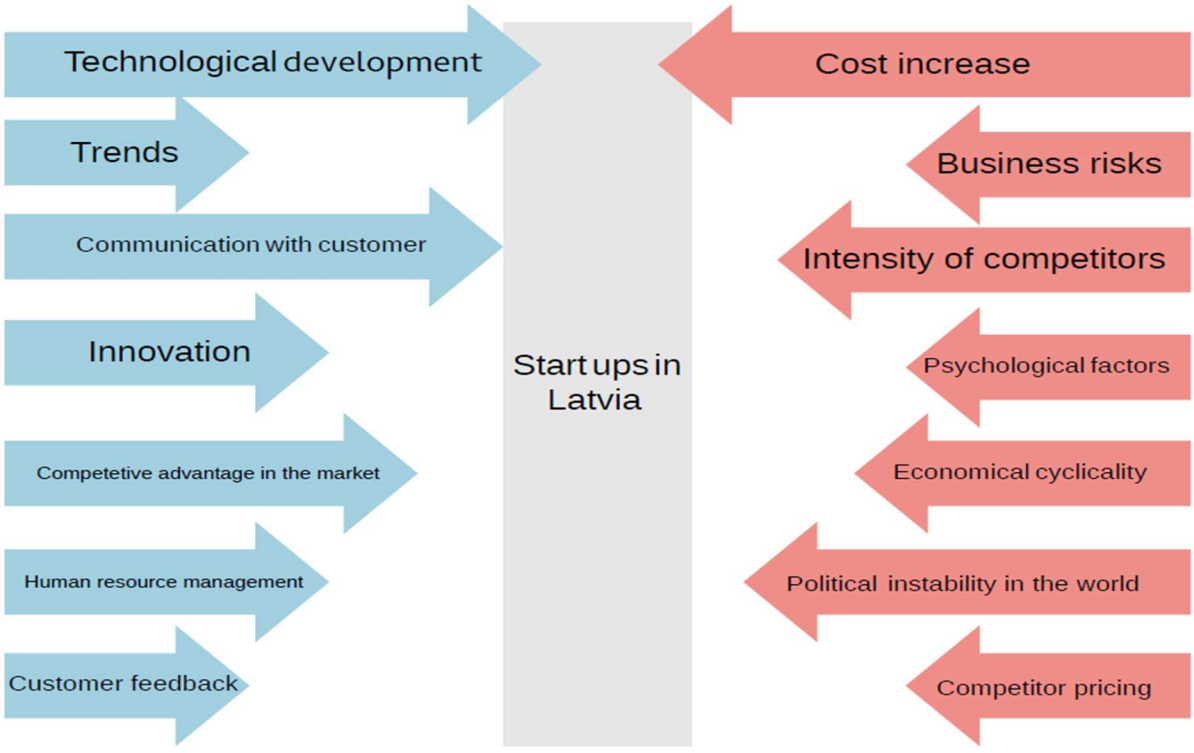


**Fig. 1 Force field analysis of start-ups in Latvia** (created by the author based on survey results)

An analysis of the data obtained by the survey revealed the following driving factors (percentage): technology development -22%, innovations - 12%, trends - 11%, communication with the customer - 20%, competitive advantages in the market - 12%, human resource management - 12% and cooperation with the customer, reviews -9%. The analysis revealed the following limiting factors: cost increase -18%, business risks - 14%, psychological factors - 7%, economic cyclicality - 12%, political instability in the world -18% and competitors' prices - 6%.

## Conclusions and proposals

The survey conducted in the research concluded that for start-ups, the most important element driving their growth was the development of technology in the market, while the second most important factor was communication with the customer. The factors that were the most disturbing ones for the development of start-ups were the intensity of competitors and the increase in costs.

The author of the study recommends founders of new companies, as well as already existing start-ups to evaluate the support tools provided by LIAA. LIAA provides a wide range of support activities for idea development, business start-ups, market research and expansion, as well as implements training, seminars and supports the organization of various activities and networking events. The mentioned support programmes provide support for the reduction of financial constraints and development of start-ups in general.

The author suggests that start-ups choose the most suitable directions of activity in order to promote their driving forces - to evaluate the existing technological possibilities and to plan the development and integration of technologies in daily work, with the aim of reducing expenses and speeding up business processes. In addition, the author suggests that start-ups choose appropriate directions of action in order to reduce the limiting forces - to evaluate the competitors' offers and marketing measures in order to be able to effectively develop an action plan in the future. Besides, start-ups would be advised to evaluate the financial aspects to avoid unnecessary expenses and cost increases, which is one of the main reasons for reorganizing business operations.

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