

## FACTORS INFLUENCING COMPANY'S SUSTAINABLE PERFORMANCE: CASE FROM LATVIA

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### Abstract

The operations and development of an enterprise as an economic entity depends on various factors, identification and evaluation of which is crucial for any enterprise. In the opinion of the authorss the enterprise's performance is influenced by factors which can be grouped into three blocks: macroeconomic factors, demand factors and structure of industry sector. The authorss present the conceptual model of factors influencing enterprise's performances and analyze factors' interactions and manifestations of their impact. Besides, classification of factors according to the way of their manifestation, as well as according to the environment, which maintains or initiates influence of the factor are offered. In order to study an attitude of entrepreneurs towards influence of external environment factors, the authorss carried out empiric research with an aim to assess influence of sixteen external environment factors on performance of the enterprise. Survey was carried out among enterprises of Latvian mechanical engineering and metalworking industry (53 enterprises). To generalize, group and range data MS Excel PivotTable tools were used.

**Key words:** sustainable performance, model, external factors.

### Introduction

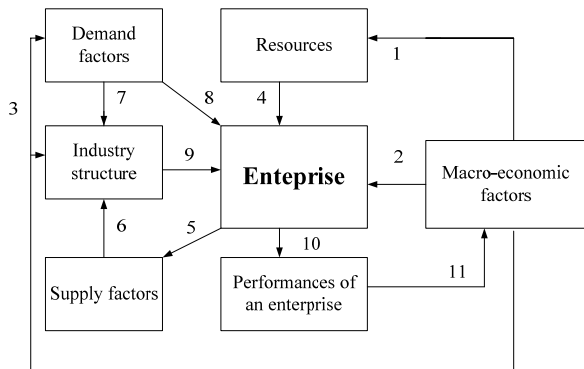
The authors of this article made an analysis of performance of Latvian SMEs which operate in the printing industry sector in the period from 2003 till 2009. The authors consider that low level of productivity, which in the result is reflected in indicators of commercial profitability of enterprises of the particular sector, deserves not only criticism, but also shows a necessity to find a solution for the problem, because, taking into consideration stakeholders' interests, aims of assessment, parameters selected and factors of influence, performance of the particular enterprise won't be unequivocal.

Performance may consist of several levels, and the simplest one can be interpreted as quantitative, where the manufactured final product depends on the amount of invested resources. In this case the goal is to produce bigger amounts of final product without any changes in the amount of investment. Results of the next level reflect changes in decision-making processes that are directed towards simplification of the procedure and improvement of coordination. Results, which characterize improvements, where the enterprise is seen as a system capacity, are more difficult to evaluate. However, they are of the same importance, because results achieved in each previous level determine results of the next level. As the last, but not the least, enterprise value systems and changes in strategy and ideology, which indicate enterprise progress towards the ideal state, shall be mentioned.

### 1. The development of the conceptual model of factors influencing an enterprise's performance

The authors conclude that in difference from M. Porter's model of five forces, which is based on external forces (external competition environment) and according to which internal environment of the enterprise hasn't been revised, exactly resource-based approach (resource-based view on the firm) unites influence of external environment and abilities and resources possessed by the company. Within this theory, an enterprise is being viewed as a collection of unique resources, which unites not only physical and human, but also organizational (abilities) resources. The authors hold a view that the totality of all the resources of enterprise forms factors influencing the offer of the enterprise. In the context of the enterprise effectiveness, the authors summarize factors of external and internal environment in a conceptual model (Fig. 1).

According to the authors' viewpoint, performances of an enterprise are influenced by three important factors blocks: macroeconomic factors, demand factors and structure of the sector. Factors of influence are mutually interactive, and they are affecting the enterprise in the following way: 1 – quality and availability of resources are related to the national economy, its infrastructure and other macroeconomic factors; 2 – macroeconomic factors determine the form, liabilities and duties of formation and organiza-



**Fig. 1. Conceptual model of factors influencing performances of an enterprise**

tion of an enterprise as an economic subject; 3 – structure of the sectors and market orientation depend on the economic policy implemented by the state, as well as on provided support tools for development of the sector, which form requirements of the intermediate and final consumption market, including consumer purchasing power; 4 – for operations of the enterprise, resources, which are mainly found outside the enterprise, are needed; 5 – resources, after arriving to the enterprise and in combination with technologies and other internal factors of the enterprise, form the totality of offer factors, which characterizes, for instance, a certain assortment of products and possible production capacities; 6 – enterprise with its potential and actual amount of products is to be considered as an element belonging to the particular sector, and it influences development of the sector; 7 – basis of demand factors are clients: both legal and physical entities, who create demand for the production manufactured by the enterprise or services provided by the latter. Economic benefits created by the enterprise are classified according to the particular sector; 8 – demand of clients is a basis of enterprise performance. It is based upon the particular amount of products and parameters of price and quality, and it has been completed with expressions of intangible forms; 9 – enterprise depends on transformations and development of the sector, and this expression contains both stimuli and restrictions to the performance of the enterprise; 10 – result of the performance depends on the fact whether an enterprise is able to combine, organize and manage resources, taking into consideration demand, specifics of the sector and macroeconomic factors; 11 – achieved results of the performance return to the

national economy through taxes and duties, thus influencing fulfilment of the state functions and business environment.

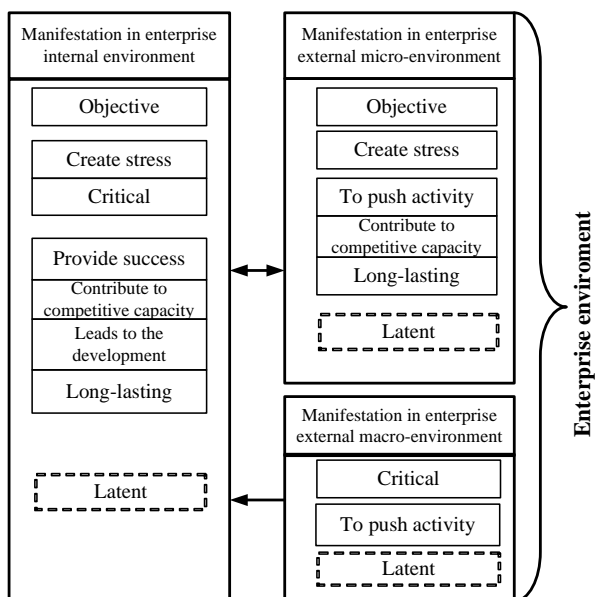
Conceptual model of factors influencing performances of an enterprise gives an opportunity to view interconnections of influence as: 1) influence of macroeconomic factors through laws, taxes and duties policy implemented by the state, as well as through implemented incentives for starting up business, provided support and infrastructure services; 2) influence of demand factors, which results from the level of market development, according to which „minimum set of requirements“ for the performance of the enterprise in the particular sector is being formed; 3) offer factor, influence of the sector’s structure and influence of its transformations on results of the enterprise performance.

## 2. Classification of factors

After analyzing works of different authors [1 - 20], the authors of the research conclude that several approaches in classification of factors influencing performance of the enterprise exist: 1) traditional classification of factors: factors of internal and external environment; 2) external environment factors with direct influence (external micro-environment) and with indirect influence (external macro-environment); 3) by carrying out research in the particular field, factors are classified within that particular research work. For instance, factors of influence for assessing e-commerce investment are classified as follows: strategic factors, structural factors, enterprise governance factors.

Using content analysis of the literature sources, the authors classify factors according to their way of manifestation (Fig. 2), as well as according to the environment, which maintains or initiates influence of the factor in a way that it could be connected with achieved results.

Manifestation of factors may be as follows: 1) objective, based on facts – possessed exactly by small enterprises; 2) it may create stress conditions (pull); 3) critical, because it may influence existence of the enterprise; 4) it may serve as encouragement or push to activity (push); 5) it may drive the enterprise towards development 6) it may form competitiveness of the enterprise; 7) it may ensure success; 8) it may work in long-term – connection with the length of enterprise life cycle; 9) difficult to identify, it may stay hidden (latent).



**Fig. 2. Ways of manifestation of factors influencing performance and development of the enterprise in content of environment, based on content analysis**

In order to study attitude of entrepreneurs towards influence of external environment factors, the authors carried out empirical research with an aim to assess influence of sixteen external environment factors on performance of the enterprise, using survey conducted among entrepreneurs from mechanical engineering and metal working sub-sector of the Latvian manufacturing industry (53 enterprises). The split of respondents was as follows: 52% - Riga and Riga region; 13% - Kurzeme; 13% - Zemgale; 13% - Vidzeme; 9% - Latgale. Respondents confirmed significance of the factor's influence by the following choices: high influence; medium influence; small influence; insignificant influence. To estimate obtained answers the following evaluation system was used: high influence – 3 points; medium influence – 2 points; little influence – 1 point; insignificant influence – 0 points. MS Excel PivotTable tools were used to generalize, group and range data. Taking into consideration the foundation years of the enterprises, respondents were united in groups: 1<sup>st</sup> group - 11 enterprises (21%), which have been registered till 1991 (older than 14 years); 2<sup>nd</sup> group - 19 enterprises (36%), which have been registered during the period from 1991 till 1997 (8 till 14 years old); 3<sup>rd</sup> group - 23 enterprises (43%), which have been registered after 1997 (less than 8 years old).

In data processing, a range for a particular factor was created. It was done using the average evaluation and additional analysis of how respondents estimate external environment factors according to significance of their influence, as well as taking into consideration regional affiliation of respondents. Further ranging was made according to the enterprises age group, where an average index for each factor of the entrepreneurship environment was determined. In this analysis the classification offered by authors was used.

### Conclusions

In the result of the study, the authors come to the following conclusions:

1. the longer the enterprise operates, the bigger significance it assigns to all factors of external environment;
2. despite different age groups, factors creating stress conditions and critical impact on the enterprise performance are considered more important;
3. as enterprise gets older, evaluation of importance of positive and driving factors that promote competition significantly increase;
4. among three age groups, the lowest evaluation of critical factors is presented by the group of the youngest enterprises.

Simultaneously with constantly changing external factors of influence, also the enterprise faces constant process of changes, because its performance and development is cyclic, and it indicates that:

1. influence of external environment factors on the performance and development of the enterprise is not the same during the whole period of enterprise existence (start-up, activation and development of business);
2. age of enterprises and their operational experience differ, and this may be connected with different needs during the enterprise development cycle;
3. influence of the factor may be strengthened or weakened by other factors, or new factors, existence or significance of which haven't been evaluated before, form according to the actual economic situation.

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