

Project

# INTEGRATED BUSINESS DEVELOPMENT IN SOUTH ESTONIA AND NORTH LATVIA

DELBI

Final report



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# INTRODUCTION

Estonia and Latvia are so close that many in each consider their neighbour's market their own. For foreign investors the Baltic states are a common economic space anyway. When an Estonian company has a product they can make really well in Estonia, then why not offer it to the Latvians? It makes perfect sense, taking into account the number of our inhabitants and their purchasing power.

Over the years, during economic growth and recession, we have witnessed Estonian companies entering and leaving the Latvian market for various reasons. Until now, the number of these companies has always been bigger than Latvian companies entering the Estonian market. Latvian entrepreneurs have found their way to the Estonian market quite recently. Researchers have tried to analyse the reasons, and the most common explanation has been the lack of interest in entering a smaller market or the lack of a common business culture.

The companies entering the neighbouring markets or establishing various co-operation projects very often underestimate the differences in political, economic, financial, and institutional arrangements, and finding partners to do business with is also often difficult, due to the lack of either entrepreneurial or cooperative attitudes. Over the last 7 years, the Estonian Business Chamber (EBCL) has helped Estonian companies to find their way to the Latvian market. Predicting similar interest from Latvia to Estonia, EBCL signed a cooperation project with the Latvian Chamber of Commerce and Industry and the Valga and Tartu City Governments to launch an information contact point with a 2-year activity package to make neighbouring countries more familiar to entrepreneurs. The project was named Integrated Business Development in South Estonia and North Latvia, or DELBI in short form.

With the help of the DELBI project, our aim was to offer good ideas and practical solutions to entrepreneurs, especially supporting the business cooperation of northern Latvia and southern Estonia as a cross-border region. How to be useful to each other, increase the level of knowledge, and win more customers – these are the questions. The general goals for entrepreneurs of both countries are the same.

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## **DELBI'S MISSION AND VISION:**

### **Delbi's mission is to:**

- Make Estonian and Latvian business information exchange more coherent and richer in content;
- Create an economic information exchange environment, support network and partner search database for the two countries in order to help entrepreneurs in(to) the neighbouring market;
- Increase the competitiveness of the cross-border region of northern Latvia and southern Estonia;
- Offer practical knowledge for economic cooperation of the two countries;
- Develop business contacts between Estonian and Latvian entrepreneurs;
- Provide general knowledge about the neighbouring market; and
- Organise conferences and training sessions; perform analyses and research of the economic environment regarding businesses needs and possibilities.

### **Delbi's vision is:**

- To become one of the best served business networks between Estonia and Latvia; and
- To help in creating a beneficial business environment for SME companies.

To be visible and easily recognisable to people the following visual identity logos were made:



Delbi's slogan, *2 countries 1 mission*, was created to support both countries' economic and entrepreneurial targets in SME development. The LatEst logo was created as virtual demo-centre for companies, serving as a showcase and database for companies working in the cross-border areas.

The following websites were established: [www.delbi.eu](http://www.delbi.eu) and [www.latestnetwork.eu](http://www.latestnetwork.eu)  
Social networks such as Twitter were used to tweet the news and events for followers.

The one-stop virtual contact point served over 600 different consultations, which were given during the events, via e-mail requests, or over the phone. Estonian and Latvian companies used the opportunity to learn more and become aware of changes in both countries' economic, business management, financial, or related fields.

The start of the project was in January 2012 and it ended March 2014.

Project partners were: Latvian Chamber of Commerce and Industry (further in the text – LCCI), Estonian Business Chamber in Latvia (further in the text – EBCL), Tartu City Government (further in the text – TCG) and Valga Town Government (further in the text – VTG).

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## **ESTONIA-LATVIA BUSINESS ENVIRONMENT STUDIES**

The survey of Estonian and Latvian companies was carried out within the framework of the DELBI cross-border cooperation project. The objective of the survey was to determine the need for a support network and partnership search for companies, how prepared to cooperate the companies are, and what are the opportunities and deficiencies related to possible cross-border cooperation.

The target group of this survey included small and medium companies with 1–99 employees in 6 regions of South Estonia (Pärnu-, Tartu-, Põlva-, Valga-, Viljandi-, and Võrumaa) and 11 regions in the northern part of Latvia (Alūksnes, Cēsu, Gulbenes, Limbažu, Madonas, Ogre, Saulkrastu, Siguldas and Valkas area, Jūrmala, Valmiera). The universe is comprised of 9 783 Estonian companies and 5 479 Latvian companies. The sample size was 304 companies: 150 in Estonia and 154 in Latvia. To compile the sample base, extracts following the principle of random sampling were requested from national commercial registers. The sample is distributed between regions and sectors according to proportional division of the universe. To achieve accuracy of the sample, the data has been weighted.

Interviews were carried out using the CATI method (Computer-Assisted Telephone Interviewing) and the interviews were conducted at the TNS Emor call centre. In Latvia, data collection was carried out by our partner TNS Latvia. The questionnaire consisted of 17 questions and the respondent could answer in Estonian, Latvian, or Russian. Fieldwork was carried out during the second half of August in 2012. Data analysis was carried out using data-processing programs SPSS and Galileo.

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## **Main conclusions**

Latvian companies market their products/services in Estonia somewhat more but the general level of cooperation with companies from the neighbouring country is similar. Approximately every tenth Estonian company markets in Latvia (11%), and approximately every fifth Latvian company markets in Estonia (19%). Approximately every fifth Estonian and Latvian company cooperates with companies from the neighbouring country in one way or another (20% and 22%, respectively). In terms of manner of cooperation, import and export of goods dominate. For companies that had previously cooperated but have now terminated such cooperation (6% of Estonian and 11% of Latvian companies), non-profitability was the most frequent reason given for terminating cooperation.

Latvian companies' interest in initiating cross-border cooperation is higher than in Estonian companies. Estonian companies explain this lack of cooperation most frequently by stating the fact that they have not thought about this opportunity; Latvian companies mention most frequently that their products/services are not suitable for the Estonian market, and there is a lack of information about the Estonian market and language barriers. 19% of Estonian and 39% of Latvian companies not cooperating today would be interested in expanding their activities to the neighbouring market.

Latvian companies are more interested in information on the neighbouring market than Estonian companies, and they are also better informed on this issue. One-quarter (23%) of Estonian companies have looked for/received information about marketing opportunities in Latvia and less than half (41%) note that they would need this kind of information. Latvian companies are more active – half (51%) have received information and more than three-quarters of companies (79%) need it. Approximately every fourth Estonian company (23%) and every third Latvian company (35%) would say they have good knowledge of the marketing opportunities for their products/services in the neighbouring country.

Information about marketing opportunities has most frequently been obtained through business partners/acquaintances or Internet. Companies from both countries need the most information about the market situation of a specific field and cooperation

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opportunities with companies from the neighbouring country. In addition to this, Latvian companies are also interested in information on Estonian legislation and the tax system and about seminars/trade fairs and other events taking place in Estonia. The majority of Estonian as well as Latvian companies would prefer an online database to search for partners. Latvian companies also mention an information hotline somewhat more frequently.

In conclusion, we can say that the general level of activity and interest towards cross-border cooperation is noticeably higher among North Latvian companies with less than a hundred employees than among South Estonian companies. Latvian companies also plan their future development more specifically: half of the Latvian (48%) and one-quarter of Estonian (26%) companies have a development plan for future years. Thus, in Estonia's case the first necessary actions could be those that increase companies' general interest in the potential of the Latvian market and would make companies think more about cross-border cooperation opportunities. Latvian companies are already more prepared for actions associated with finding specific cooperation partners and initiating cooperation in their field.

## **Entrepreneurial study 2014**

The survey aimed to describe the reasons and ways in which small enterprises expand across the borders to the neighbouring countries, i.e. Estonia or Latvia, and included questions about entrepreneurs' experiences in the expansion process, launching operations, and the specificities of the local business environment. In so far as people use their knowledge and previous experience in making decisions, then how many and which activities were planned in advance, prior to launching cross-border activities?

For this study, the qualitative method of data collection was used to conduct sixteen semi-structured interviews with the owners and CEOs of Estonian and Latvian small- and medium-sized enterprises, as well as four focus group interviews where 10 companies participated. Thematic analysis was used as a method for data analysis.

The interviews revealed that decisions to expand were adopted in the presence of knowledge, skills, experience, and favourable environmental impacts. The specificities of

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the business environment were not addressed in advance, and potential target groups were not studied. Experience in one area does not automatically give the advantage of operating in another area. The survey showed that despite the infinity and easy accessibility of information, entrepreneurs continue to make classical mistakes when expanding to a neighbouring country. Entrepreneurs believe that Latvia and Estonia are similar, and this obviously prevents recognition of the neighbour as a foreign country. There is more belief in the similarities than in the differences of the business environment.

The success of small enterprises depends, apart from the owner's initiative, on tangible and intangible capabilities, and, as the analysis showed, companies undertook cross-border expansion only if they had funds for this. The state, together with various support associations, must find funds to make injections for internationalisation in the capital of small enterprises, especially in Estonia, product development, and product expansion. An active enterprise environment between Latvia and Estonian should benefit South-Estonian and North-Latvian communities. Communication, exchange of information, and information channels between business organisations should aim to broaden the knowledge and horizons of entrepreneurs.

The analysis carried out revealed several other more general effects, which do not directly describe the Latvian and Estonian enterprise landscape, but provide an opportunity to describe the current situation of Estonian and Latvian small businesses. It transpired from the analysis that almost all entrepreneurs encountered problems and misunderstandings with hired staff in the early years of operation. The situation was different with Latvian companies, who are only now entering the Estonian market. Teamwork within the group plays an important part in the management process. Cultural differences should be noticed in another country, they should be tolerated, and ways should be found to achieve one's goals. Executives make decisions according to their social skills and capabilities. As described in the interviews, managers strongly lacked tolerance and understanding of national specificities in management and human resource matters. More surveys must be conducted in Estonia based on the human resources, management, and recruitment thematics of small and family businesses. The European Union removed the borders between Latvia and Estonia a long time ago; however, these

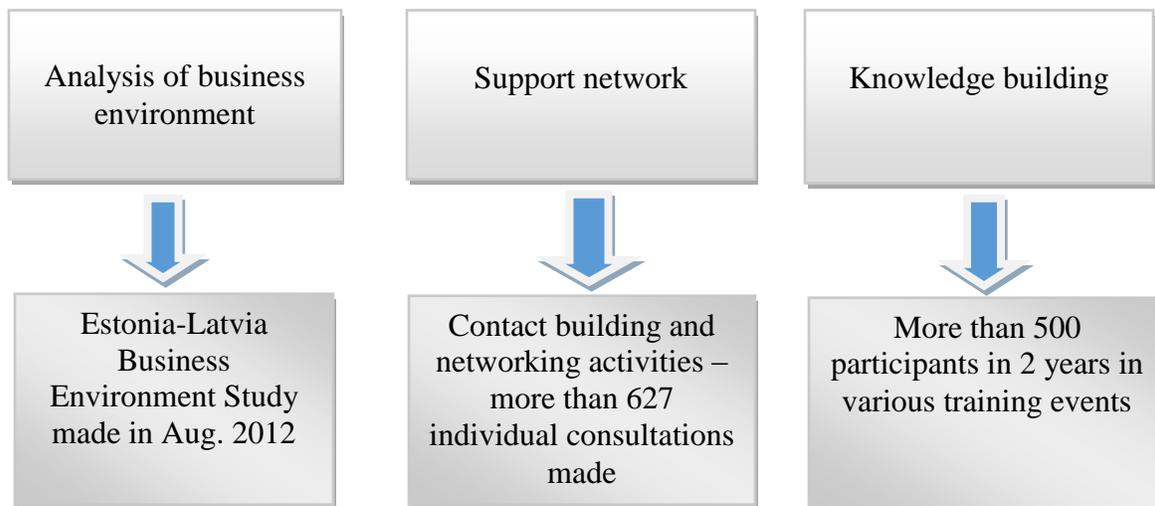
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boundaries continue to live inside the people and are a major obstacle to successful cooperation between Latvian and Estonian entrepreneurs.

## **DELBI PROJECT ACTIVITIES**

The project was planned in three different parts. The first aim was to research the cross-border business environment, to understand and explain what the main motives and obstacles for companies to start cross-border business are, and also to help plan future activities according to the results of the survey. The networking support part was made due to companies' need to search for partners, to learn and know what companies are doing on both sides of the boarder. The aim of the knowledge building part was to give entrepreneurs different seminars, trainings, wider-scale conferences, opportunities to meet other partners and colleagues, and to be aware of the newest trends in business and raise personal knowledge levels.

Project Delbi's aims and results are described in following table:



Analysis of the business environment was very important throughout the project activity period, in order to provide a basis for the knowledge regarding the requirements of entrepreneurs, and their motivation and willingness to make business in the neighbouring

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country. Due to the everyday work routine made between LCCI to operate the virtual contact point together, EBCL and LCCI soon noticed that the interest towards actual and knowledge-based consultations by the companies did not go according to the initial plans. A Business Environment Survey was planned so that one of the objectives was to find out the process of obtaining information. Based on the "Estonian-Latvian Business Environment Study" made within the framework of the DELBI project, the necessity of knowledge-raising opportunities by the companies are in reality very modest. Interest in doing business with neighbours expressed by the total target group (9783 SME companies from EE/5479 companies from LV) compared with the sample comprised only 19% of EE companies and 39% of LV companies, which makes the potential total figure 3099 companies who could plan to enter the neighbouring market in the next 2–5 years. If we add here a note that from those companies 59% in EE and 21% in LV do not need any information at all or e.g. consultation, we get a total figure of 849 companies who could request additional knowledge-based diversification info (e.g. tax environment, laws, employment issues, etc.). If we compare this figure with the results to the survey question, "Which sources of information would be suitable for your company in finding cooperation partners in Latvia/Estonia?", almost 84% and 86% of companies would like to avoid personal contact and reach to the necessary information via Internet or web access, and we see that companies actually interested in personal consultations will drop to the total amount to 110. Therefore, the conclusions received from the survey helped partners to form and modify their activities during the next years. The project also received valuable statistical facts to understand that the initial figures of participants involved were far too optimistic and that to achieve such large numbers of interested entrepreneurs it is not enough for one regional project lobby undertaking. By the end of the project, the main objectives and results were achieved via personal contact with all companies who participated in our events, many of whom were "lobbied" to take part also during the consultation process, meanwhile companies who came to our events also asked questions and received information on the spot and in face-to-face meetings.

Thanks to the involvement and support from both countries' embassies, the DELBI project was a stakeholder in many events and conferences dedicated to Estonian and Latvian cooperation. Initiated by the cooperation memorandum signed by A. Ansip

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and V. Dombrovskis in 2011, the Estonian Chamber of Commerce and Industry called a special discussion seminar to improve economic cooperation and the DELBI project was one of the main cooperation partners. Since both countries are small, it is important to use all cooperation opportunities regardless of the borders set by the programme.

## **SUPPORT NETWORK FOR COMPANIES**

One of the main ideas for the project was to set up a special one-stop-shop contact point for the companies to request the necessary information for doing business with neighbours. Project Delbi opened a direct phone number, webpage, and contact e-mail, and was linked to different social networks like Twitter. At the end of the project a virtual demo-centre and database of cross-border companies was launched. The main objectives were to offer companies a showroom for potential cooperation partners and clients.

During the 2 years of activity, ca. 620 personal consultations were made by phone, e-mail, and face-to-face meetings. The topics discussed varied from starting the business to, particularly, cluster needs.

Various organised events gave companies a perfect opportunity to come together for match-making and exchanging ideas, news, and knowledge. The project was dedicated to raising the awareness of Estonian and Latvian businesses about opportunities provided by cross-border business activity and cooperation. The idea to facilitate cross-border networking and contact-building for regional entrepreneurs was fulfilled by numerous events organised with regional support networks. The aim of the project was also to offer wider public understanding of the shape of cross-border business by making TV documentaries and telling the story of the project and companies working every day in the programme area. These two-by-two documentaries, two to the Latvian audience and two to the Estonian audience, were aired from 2013 until 2014 on Regional TV and ETV. The targets for those documentaries were to shape the business environment to enhance Estonian-Latvian business contacts and cooperation, the results of which can be

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evaluated in the future. Market needs and similar kinds of informative projects are to be continued in the next call of the Estlat programme.

## **SEMINARS AND TRAININGS**

These were used to create and share valuable and needed knowledge about business opportunities, internationalisation possibilities, and ways to raise thereby the competitiveness of companies. The seminar programme was focused on giving companies practical knowledge and skills that could help them to make their businesses more competitive. Seminars for new companies were planned to satisfy their basic needs, based also on the topics discussed during the consultation processes. Internally they were known as the start-up seminars, and these were conducted from May 2012 until March 2014, for a total of four seminars:

20.06.12 in Valga (EE), *“Investing in Estonia and Latvia, first steps”*, keynote speakers: Hannes Lents and Sanita Laivina

10.10.12 in Tartu (EE), *“Why and how to do business in Latvia”*, keynote speakers: Karin Madisson and Heiki Koitla

17.05.13 in Valmiera (LV), *“Business in Estonia – opportunity for all!”*, keynote speakers: Sulev Alajõe, Kaupo Sempleson, and Andi Liblikman

29.11.13 in Riga (LV), *“Business in Estonia – suitable for all!”*, keynote speakers: Sulev Alajõe, Janis Tauckas, Aigars Kaugars

Companies already active in the Estonian and Latvian markets planned two seminars where labour issues and export market strategy-building were discussed:

05.02.13 *“Challenges and opportunities in the Labour Markets of Estonia & Latvia”*, keynote speakers: CV Markets specialists from Estonia and Latvia

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10.10.13 “*How to get information you need effectively for decision-making in foreign markets*”, keynote speaker: Jakob Saks

Companies experienced in cross-border business were offered training days in February and March 2014 for upgrading skills and knowledge. Three 2-day training events took place in Valmiera and three events in Valga. The main subjects and topics on those training days were how to increase management skills and practical topics of marketing, product promotion, etc. Latvian companies were offered the opportunity to make contacts with the neighbouring country’s entrepreneurs with a visit to Tartu, where they also visited the Tartu City Government and AHAA Science Centre.

## **CONFERENCES AND OTHER EVENTS**

During the project period the First Estonia-Latvia Trade Seminar was created, which took place at the Riga Open Air Museum on 16 August 2013. It had the initial idea to give Estonian and Latvian cross-border companies the opportunity to show their products and services, get to know each other, and build strong business and friendship ties for relationships in the future. On 6 March 2014 the Estonian-Latvian Cross-border Business Development Conference: Practical Experiences, Opportunities, and Challenges took place.

During these two years, the Delbi project received a warm welcome also from both countries’ embassies and foreign and economic ministries, who became major stakeholders and advisors for the project. In conjunction with regional development agencies and other associations, stakeholders meetings and sectoral-value chain events in Estonia and in Latvia were held.

Highlights: On 06.06.2012 the Business Forum for Estonian-Latvian Economic Relations was held during EV President T.H. Ilves’ visit to Latvia; on 05.02.13 the sectoral-value chain event at the Estonian Embassy in Riga for Estonian and Latvian

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Travel and Tourism Trade representatives; and on 26.09.2013 a high-level stakeholders seminar was held in Tallinn in conjunction with the Estonian Chamber of Commerce and Industry, where both countries' economic ministries and ambassadors participated. All events were dedicated to boosting cooperation between the two countries' entrepreneurial communities.

## **DELBI CONTACTS AND OUR TEAM**

The network for Estonian-Latvian entrepreneurs can be found at:

[www.delbi.eu](http://www.delbi.eu)

Tel.:

e-mail: [info@delbi.eu](mailto:info@delbi.eu)

**Partners and people behind this project included:**

**The Estonian Business Chamber in Latvia, the Latvian Chamber of Commerce and Industry, and Tartu and Valga City Governments**

