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# Analysis of Push and Pull Factors for Starting a Business in Latvia

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**Summary:** Entrepreneurship related research has developed rapidly during the recent decades. It is of interest for every country in the European Union to foster increase of newly created enterprises and thus employment and economic dynamism. The main goal of this paper is centred on motivational factors that contribute to people's involvement in business in Latvia. At first, the article looks at the development of factors that influence entrepreneurial motivation in context of *push* and *pull* theoretical framework. Subsequently, the analysis of an empirical study is carried out. The study analyzes factors that promote or hinder starting a business in context of *push* and pull framework. The results offer important conclusions regarding the main motivators for starting a business. Majority of the existing and potential entrepreneurs are motivated by the *pull* factors (i.e., appropriate character, skills and knowledge, willingness to support their family members or earn more). The motivation can be further triggered by the *push* factors, such as tax benefits or favourable business legislation. Nevertheless, the *push* factors alone cannot boost creation of new enterprises as operate in tandem with the *pull* factors.

**Keywords:** entrepreneurial motivation, Latvia, push factors, pull factors, starting a business.

## 1. Introduction and theoretical Framework

Entrepreneurship plays a vital role in national economy not only by creating employments, but also by developing new technologies and innovations, stimulating

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competition and competitiveness and promoting export. It is an important cause of economic growth that helps increasing a standard of living and balancing regional development. The research proves a positive link between establishing smaller ventures and the various leadership and entrepreneurial skills as being crucial to lead economic growth.[1] Research, furthermore, proves that entrepreneurship contributes to economic growth by serving as a means for increasing competition and thus the variety of businesses.[2]

However, such entrepreneurial intention depends on the overall evaluation of and outcomes of an entrepreneurial drive on certain opportunities. Entrepreneurial intention can be described as self-acknowledged conviction to set up a new business.[3] To specify extent to which individuals are interested to get involved in entrepreneurship it is significant to identify the factors affecting individuals' entrepreneurial or business intention.

Factors of entrepreneurial intentions can be examined from the perspective of push and pull theory. Negative factors that drive entrepreneurs to start a venture are considered "push" factors. That would be a situation when an individual is forced into entrepreneurship by adverse circumstances.[4] Among others, those factors could be: dissatisfaction with existing income, dissatisfaction with human resource management at existing workplace, inflexible working hours at existing workplace or lack of growth potential at existing workplace. Pull factors on the other hand are positive factors that motivate individuals to start a venture. In general, among others those factors could be: personal traits of individual, appropriate education and experience, savings, willingness to give employment to relatives and conductive business environment that include favourable tax policy, state guarantees for obtaining loans, availability of credit in banks and availability of business information. Factors that motivate and pull individuals into business

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[2] ACS, Z. J., Audretsch, D. B., Braunerhielm, P. & Carlsson, B. *Growth and Entrepreneurship: An Empirical Assessment.* London: Centre for Economic Policy Research, 2005.

[3] Thompson, E. R. Individual Entrepreneurial Intent: Construct Clarification and Development of an Internationally Reliable Metric. *Entrepreneurship, Theory and Practice,* 2009, vol. 33, no.3, pp. 66–-694.

[4] Mikubukeli, Z. & Cronje, J. C. Pull and Push Elements of Entrepreneurship in South Africa: A Small-Scale Mining Perspective. *Journal of Entrepreneurship & Organization Management,* 2018, vol.7, no.3, pp. 1–7.

differ among individuals.[5] That is a reason why there is no universal division of factors used in the theory to describe entrepreneurial intention.

There are a significant amount of literature defining the factors in general affecting an intention to start up a business, but there is no universal theory established. For example, a research showed that individuals with entrepreneurial intention were constrained to start a new business, because of individual characteristics and the surrounding environment.[6] Mostly we can agree that factors influencing entrepreneurial intention can be divided in two categories. Psychological factors that include behaviour of the individuals, could be defined as internal factors and environmental factors that affect business intention, could be defined as external factors.[7] Those factors further may be divided according to Push and Pull theory. The interconnection between internal and external categories is proven by Boudreaux, Nikolaev and Klein who state that entrepreneurial mindset can only be cultivated in individuals, if the environment surrounding them or external factors promotes such behaviour. [8] Similar conclusions were made also earlier by Gnyawali and Fogel who provided that there exists an interdependency between the entrepreneurial activity and the environmental conditions.[9] That provides the importance in analyses of both environmental and psychological factors in the context of intention of entrepreneurship.

Entrepreneurial activity is restricted by the entrepreneurship environment. External factors include entrepreneurial environment that affects entrepreneurship – politics, economy and culture, commercial and legal infrastructure.[10] The impact of environmental condition varies among different countries. Governmental support has a significant role in external factors and determines the extent to which entrepreneurial ventures can succeed.[11] Commercial and legal infrastructure includes all the assessment services that potential entrepreneurs should appoint in order to initiate and manage the entrepreneurial procedure. Government policies, such as taxation and labour markets legislation are foundation of

[5] Islam, S. Pull and push factors towards small entrepreneurship development in Bangladesh. *Journal of Research in International Business Management,* 2012, vol.2, no.3, pp. 65–72.

[6] Liu, X. Y. & Lin, S. Social context, occupational status and entrepreneurial intentions for social individuals. *Manager Review,* 2015, vol. 10, pp. 138–149.

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action to start a business as they influence the planning process of entrepreneurial ventures[12] and they can prove helpful for the improvement of entrepreneurship along with financial support.[13] That means that the government is responsible to implement regulations that positively motivates, or according to Push and Pull theory, pulls entrepreneurs to perform. It is concluded that high corporate tax rates may affect the selection of starting a business.[14] Later in the research of European countries it was found that higher taxation reduces the level of profit opportunities (incentive effect), thus reducing the entrepreneurship.[15] That includes intention to start a business.

Not only external factors affect entrepreneurial intention but also internal which concern psychology of individual. There is a research that proves that entrepreneurial motivation or intention is influenced by individual psychological characteristics, social characteristics and cognitive characteristics.[16]

According to the study, entrepreneurs with high psychological capital are more predisposed to seek solutions to overcome obstacles and they can take failure as an opportunity to learn and further develop to achieve their entrepreneurial goals.[17] For example, fear of failure weakened the relationship between entrepreneurial intention and action.[18]That means that individuals with greater fear of failure are most likely have weaker intention to start a business.

Recent research indicates a positive correlation between emotional intelligence and entrepreneurial intention.[19]It is also confirmed that individuals with higher emotional intelligence are more creative thus having more enterprising attitudes and having more significant role in starting up a business.[20] It is also

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12 Acs, Z. J., Scerb, L. & Lloyd, A. *Global Entrepreneurship and Development Index 2017. First edition.* Washington, DC: Springer International Publishing, 2017.

13 Glaeser, E. L., Kerr, S. P. & Kerr, W. R. Trepreneurship and urban growth: An empirical assessment with historical mines. *Review of Economics and Statistics,* 2015, vol. 97, no. 2, pp. 498–520.

14 de Mooij, R. A. & Gaetan, N. *Corporate Tax Policy and Incorporation in the EU.* Bruxelles: Universite Libre de Bruxelles, 2007.

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18 Kong, Z., Zhao, L. & Tsai, C.-H. The Relationship Between Entrepreneurial Intention and Action: The Effect of Fear of Failure and Role Model. *Frontiers in Psychology,* 2020, vol. 11, p. 229.

19 Tiwari, P., Bhat, A. K. & Tikoria, J. The Role of Emotional Intelligence and Self-Efficacy on Social Entrepreneurial Attitudes and social entrepreneurial intentions. *Journal of Social Entrepreneurship,* 2017, pp. 1–21.

20 Bilgiseven, E. B. & Kasimoglu, M. Analysis of Factors Leading to Entrepreneurial Intention. *Procedia Computer Science,* 2019, vol. 158, pp. 885–890.

applicable to high risks takers who also have a greater entrepreneurial intent.[21] Some research refer to entrepreneurial attitude as the most important and direct factor in entrepreneurial intention.[22]

## 2. Methodology

**Goal** – to identify possible differences between the *pro-business* and *contra-business* groups and explore the *push* and *pull* factors that influence a person's choice to start a business.

**Methods** of mathematical statistics that were used for statistical analysis of the obtained data: descriptive statistics, correlation analysis, regression analysis, [comparison of group meanings with the Student's T-criterion for independent samples].

**The sample**: The sample was 1014 residents of Latvia aged 18 to 75. Sampling method was stratified random sample, and stratification feature – administratively territorial. The sample is representative of the population of Latvia in the respective age group. The survey method was direct interviews at respondents' places of residence. Respondents were selected by random route method, first birthday principle.

The survey form consisted of 41 multiple choice and Likert scale type questions in six socio-economic dimension blocks (entrepreneurship, politics and economics, personal experience, experience during crisis, current economic sentiment, activity). It was carried out in November 2019.

For data processing SPSS and Microsoft Excel software were used.

## 3. Findings

In our sample, 4.0% respondents already have an enterprise and 8.7% plan to launch a business, 77.8% do not have and do not plan to be involved in entrepreneurship. 9.5% of the group cannot answer unequivocally. Further on, we will analyse the respondents having or willing to start a business. But at first we would like to find out whether there is any particular difference between the

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*pro-business* (having or willing to have a business) and *contra-business* respondent groups (not having and not willing to have a business).

Table 1 shows the distribution of reasons for and against private business for both groups. The reasons are thematically paired in each row and grouped in two groups – whether it is a *pull* of a *push* factor. For the pro-group, the TOP-5 factors are all *pull* factors. 81.5% of respondents having or willing to have a business are motivated by personal traits, dissatisfaction with the current situation or willing to support their family.

Another study about factors influencing starting up a business in Latvia found that interference of the state (*push* factor) was very essential and the education does not play a significant role in business.[23] Nevertheless, it must be mentioned that the author does secondary analysis of several surveys done in years 2012 and 2013. Also, we have to take into account that it was the period after severe damage to the business environment due to the global financial crisis and government support was crucial for entrepreneurs.

The *contra-group* named factors that are discouraging them to begin entrepreneurship, and the responses are almost evenly split by *pull* and *push* factors – namely, 52.3% and 47.7%. Most often, the reason was also personality-related (*pull*), but business environment factors were also important here.

**Table 1**. Comparison of *pro-business* (N=297) and *contra-business* groups (N=1991) by reasons of starting or avoiding their own business, % of respondents (multiple responses were allowed, therefore sum of N exceeds the sample size)

| Reason | Pro-group, % | Reason | Contra-group, % |
|---|---|---|---|
| *Pull factors* | | | |
| Has experience, knowledge, skills | 14.5 | Lack of experience, knowledge, skills | 14.6 |
| Has appropriate character traits | 18.2 | Lack of appropriate character traits | 14.8 |
| Accumulated equity to form a company | 7.1 | No savings accumulated for business establishment | 15.0 |
| Dissatisfied with the current income level | 15.8 | Satisfied with the current income level | 3.7 |
| Lack of professional growth opportunities | 3.7 | Has opportunities of professional growth | 0.6 |

[23] Spruksts, E. Factors Influencing Starting Up a Business in Latvia. *Economic Science for Rural Development,* 2014, vol. 36, pp. 147–154.

| | | | |
|---|---|---|---|
| Inefficient HR management | 2.7 | Efficient current HR management | 0.7 |
| Inflexible current working hours | 6.7 | Flexible current working hours | 1.2 |
| Desire to provide work for family members | 12.8 | Plan to leave Latvia | 1.7 |
| *Push factors* | | | |
| Availability of credit in banks | 2.4 | Unavailability of business loans in banks | 2.2 |
| Existence of state lending programs | 1.0 | Lack of a national lending program | 2.5 |
| State guarantees for obtaining loans | 1.7 | No / insufficient state guarantees for obtaining loans | 2.8 |
| Availability of business information | 3.4 | Business information is missing | 2.8 |
| | | Overwhelming business control and bureaucracy | 7.9 |
| Promoting business environment in Latvia | 2.3 | Business-unfriendly environment in Latvia | 10.6 |
| Favourable tax policy | 3.0 | Unfavourable tax policy | 11.0 |
| Other reason | 4.7 | Other reason (4.6% consider themselves too old for business) | 7.9 |

The results of other studies in Eastern European countries reveal that pull factors are dominant there as well. For example, Yurchynska and Serdiuk found that in Ukraine internal (*pull*) factors completely dominate and having a private business is viewed as a status position associated with freedom and independence.[24] A survey analysing entrepreneurial engagement factors in the USA and Europe concluded that in post-communist countries (including Latvia) necessity-driven factors are dominant. These factors also have a *pull* origin.[25]

Carbunaru[26] found that the most important business starting factors for female entrepreneurs in Romania are from the *pull* list as well – obtaining flexibility, greater satisfaction and superior financial situation.

[24] Yurchynska H., Serdiuk O. Psychological Factors of Starting Entrepreneurs' Business Success. *Social Welfare: Interdisciplinary Approach,* 2017, vol. 2, no. 7, pp. 86–94.

[25] Verheul I., Thurik R., Hessels J., van der Zwan P. Factors Influencing the Entrepreneurial Engagement of Opportunity and Necessity Entrepreneurs. *Eurasian Economic Review.* 2010, vol. 6, pp. 1–26

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Differences of the two groups are further analysed by descriptive statistics measures with most significant differences revealed in Table 2. Descriptive statistics. Social and demographic profile of both groups.

**Table 2.** Descriptive statistics of *pro-business* (N=129) and *contra-business* groups (N=789)

| Statistic Std. Err. | | | Pro-business group | | *Counter-business* group | |
|---|---|---|---|---|---|---|
| | | | Statistic | Std. Err. | | |
| Age group | Mean | | 2.87 | 0.139 | 3.90 | 0.059 |
| 1 – 18-24<br>2 – 25-36<br>3 – 35-44<br>4 – 45-54<br>5 – 55-63<br>6 – 64-75 | 95% Confidence Interval for Mean | Lower Bound | 2.59 | | 3.78 | |
| | | Upper Bound | 3.14 | | 4.01 | |
| | Median | | 3.00 | | 4.00 | |
| | Variance | | 1.721 | | 2.323 | |
| | Std. Deviation | | 1.312 | | 1.524 | |
| | Skewness | | 0.421 | 0.256 | -0.144 | 0.095 |
| | Kurtosis | | -0.644 | 0.506 | -1.097 | 0.189 |
| Personal monthly income, EUR | Mean | | 661.32 | 37.458 | 555.73 | 12.272 |
| | 95% Confidence Interval for Mean | Lower Bound | 587.20 | | 531.64 | |
| | | Upper Bound | 735.44 | | 579.82 | |
| | Median | | 700.00 | | 505.99 | |
| | Variance | | 180663.908 | | 118846.747 | |
| | Std. Deviation | | 425.046 | | 344.742 | |
| | Skewness | | 2.010 | 0.213 | 2.223 | 0.087 |
| | Kurtosis | | 9.229 | 0.424 | 15.660 | 0.174 |
| To what extent do you agree that Latvia is currently experiencing economic growth?<br>1 – totally agree<br>2 – partially agree<br>3 – partially disagree<br>4 – totally disagree | Mean | | 2.71 | 0.073 | 3.02 | 0.024 |
| | 95% Confidence Interval for Mean | Lower Bound | 2.57 | | 2.97 | |
| | | Upper Bound | 2.86 | | 3.07 | |
| | Median | | 3.00 | | 3.00 | |
| | Variance | | 0.689 | | 0.469 | |
| | Std. Deviation | | 0.830 | | 0.685 | |
| | Skewness | | -0.083 | 0.213 | -0.165 | 0.087 |
| | Kurtosis | | -0.543 | 0.424 | -0.284 | 0.174 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Evaluate your living standard and rate it on a 10-point scale, where ‚1' means ‚completely dissatisfied' and ‚10' means ‚completely satisfied'! | Mean | | 6.80 | 0.161 | 5.96 | 0.075 |
| | 95% Confidence Interval for Mean | Lower Bound | 6.49 | | 5.82 | |
| | | Upper Bound | 7.12 | | 6.11 | |
| | Median | | 7.00 | | 6.00 | |
| | Variance | | 3.335 | | 4.474 | |
| | Std. Deviation | | 1.826 | | 2.115 | |
| | Skewness | | -0.367 | 0.213 | -0.421 | 0.087 |
| | Kurtosis | | 0.001 | 0.424 | -0.304 | 0.174 |

The *pro-business* group is approximately a decade younger and has on average by 105.6 EUR higher monthly income. Comparison regarding education level, having young children and marital status did not show a significant difference between the groups. The *pro-business* has somewhat more positive economic sentiment and has a higher standard of living, compared to the other group.

Table 3 (next page) presents Pearson correlation coefficients for the independent variables in our analysis and other variables, such as age group, education, having children under 18 years of age, employment, monthly income, economic sentiment and living standard satisfaction.

Most coefficients show rather weak linkage of the selected variables. The highest absolute value coefficients – two pairs – were fairly close to a significance barrier of 0.3, namely, age and having young children ($r = 0.299, p < 0.01$), and employment and monthly income ($r = 0.286, p < 0.01$). These trends are quite understandable and logical. Inflexible working hour factor is positively correlated with the dissatisfaction with current HR policy factor ($r = 0.243, p < 0.01$). The correlation coefficient for "willingness to give employment to relatives" was negatively associated with " appropriate character, experience, knowledge and skills" ($r = 0.234, p < 0.01$), indicating that these are two groups having separate motivation for launching a business. Correlation analysis reveals positive coefficients for respondent groups motivated by some of the *push factors* – conducive business environment and favourable tax policy ($r = 0.225, p < 0.05$); and state guarantees for loans and the tax policy factor ($r = 0.262, p < 0.01$). Lack of growth potential factor is positively associated with the income variable ($r = 0.223, p < 0.05$) which may indicate that wealthier people seek for more challenging and, obviously, higher paid positions.

**Table 3.** Pearson correlation coefficients of *pro-business* group (N=129)

| | A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Age group (A) | 1 | | | | | | | | | | | | | | | | | | |
| Education (B) | 0.144 | 1 | | | | | | | | | | | | | | | | | |
| Children <18Y (C) | **,299**** | **,255**** | 1 | | | | | | | | | | | | | | | | |
| Employment (D) | **,232**** | 0.110 | 0.012 | 1 | | | | | | | | | | | | | | | |
| Monthly income (E) | 0.005 | **,218*** | 0.021 | **,286**** | 1 | | | | | | | | | | | | | | |
| **char_skills (F)** | -0.034 | 0.103 | 0.008 | 0.111 | 0.109 | 1 | | | | | | | | | | | | | |
| **capital (G)** | -0.026 | 0.030 | -0.113 | 0.099 | -0.095 | 0.107 | 1 | | | | | | | | | | | | |
| **unsat_income (H)** | -0.091 | -0.131 | 0.077 | 0.060 | -0.085 | -0.004 | -0.113 | 1 | | | | | | | | | | | |
| **fam_empl (I)** | 0.038 | 0.104 | 0.048 | 0.050 | -0.012 | **-,234*** | -0.052 | **-,190*** | 1 | | | | | | | | | | |
| **unsat_ HR (J)** | 0.110 | -0.110 | 0.076 | -0.056 | -0.014 | -0.155 | -0.026 | 0.139 | -0.091 | 1 | | | | | | | | | |
| **unsat_schedule (K)** | -0.158 | 0.017 | -0.149 | -0.008 | 0.084 | -0.162 | -0.128 | 0.103 | -0.038 | **,243**** | 1 | | | | | | | | |
| **lack_of_growth (L)** | -0.016 | 0.090 | -0.060 | 0.041 | **,223*** | -0.038 | -0.133 | 0.045 | 0.029 | -0.078 | 0.095 | 1 | | | | | | | |
| **bus_envt (M)** | -0.080 | 0.103 | -0.017 | -0.056 | -0.002 | 0.008 | -0.107 | **-,188*** | 0.144 | -0.063 | 0.111 | -0.075 | 1 | | | | | | |
| **tax_policy (N)** | -0.042 | 0.104 | 0.058 | -0.005 | 0.123 | -0.114 | **,213*** | -0.148 | 0.148 | -0.071 | 0.044 | -0.084 | **,225*** | 1 | | | | | |
| **state_guar (O)** | -0.014 | -0.027 | -0.109 | -0.069 | 0.023 | -0.053 | 0.135 | 0.011 | -0.040 | 0.112 | 0.133 | 0.077 | -0.049 | **,262**** | 1 | | | | |
| **loan_avail (P)** | 0.145 | 0.077 | **,221*** | 0.051 | -0.060 | 0.047 | -0.031 | -0.053 | -0.103 | 0.061 | -0.112 | 0.056 | 0.064 | -0.072 | 0.109 | 1 | | | |
| **info_avail (Q)** | -0.012 | **,201*** | 0.141 | -0.041 | -0.024 | 0.024 | -0.049 | -0.042 | 0.011 | -0.076 | -0.128 | -0.091 | 0.042 | 0.034 | -0.059 | 0.031 | 1 | | |
| Other reason (R) | 0.106 | 0.072 | 0.028 | 0.003 | 0.049 | **-,182*** | -0.020 | **-,218*** | -0.104 | -0.089 | -0.085 | -0.106 | 0.042 | 0.019 | -0.070 | -0.091 | -0.104 | 1 | |
| Economic sentiment: positive (S) | **,179*** | -0.028 | -0.005 | -0.003 | -0.162 | 0.051 | 0.032 | 0.048 | -0.138 | 0.005 | -0.107 | -0.091 | 0.048 | -0.105 | -0.049 | -0.099 | -0.014 | 0.062 | 1 |
| Living standard satisfaction | -0.109 | -0.076 | -0.080 | -0.106 | -0.071 | 0.133 | -0.017 | -0.095 | -0.046 | -0.068 | -0.069 | -0.024 | 0.014 | -0.023 | -0.041 | -0.007 | 0.030 | -0.023 | **0.141** |

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

# 4. Discussion and conclusions

During the last decade, business demography in the European Union has a positive trend – on average, 1% annual growth. The new enterprise growth pace in Latvia, since the financial crisis, has been even higher – 4.1% per annum. Nevertheless, after 2017 it has stopped. It can partly be explained with the changes in the legislation and tax benefits for new business entities. This factor may indicate that willingness to create an enterprise in Latvia is derived from *push* factors that are partly a responsibility of the government authorities. In this paper, we test this hypothesis.

The main goal of this paper was centred on motivational factors that contribute to people's involvement in business in Latvia. For our study, we grouped the factors according to the *push* and *pull* factor theory. There are various studies regarding starting a business and what factors mostly influence the decision to do it. Some of them separate the motivation factors in *push* and *pull* groups – Carbunaru, 2019; Ahmad et. al., 2018; Ojiaku et. al., 2018; Dawson and Henley, 2012; Eijdenberg and Masurel, 2013; Kirkwood, 2009; Islam, 2012 and others. Nevertheless, the collection of the individual factors in each group may vary among studies. Other studies do not distinguish the factor groups.

Our study reveals that the majority of the existing and potential entrepreneurs are motivated by such factors as – appropriate character, skills and knowledge, willingness to support their family members or earn more– which are all *pull* factors. This is somewhat contrary to the statistics of business demography in Latvia. Our explanation of this antinomy is that the main motivation comes from *pull* factors, and it can be further triggered by the *push* factors, such as tax benefits or favourable business legislation. It means that the *push* factors alone cannot boost creation of new enterprises. They work in tandem with the *pull* factors.

Also, we conclude that businesspeople are more self-centred, and mostly focused on intrinsic issues. Also, they are wealthier and have more positive future economic vision.

On the contrary – if a person is not interested in business, he/she partly switches this responsibility to the external factors – economy, government support, banking policies, and other *push* type issues. We may think that there may be a tendency to blame others for one's reluctance to be proactive. However, about a half of the respondents also admitted having lack of appropriate character traits, education and skills as well as missing financial capital to start entrepreneurship.

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