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The managers' view

ACRE report 6.9

European Commission
CITIZENS AND GOVERNANCE IN A KNOWLEDGE-BASED SOCIETY

Anders Paalzow
Arnis Sauka
Diana Pauna
Roberts Kilis
Vjacheslav Dombrovsky

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Accommodating Creative Knowledge – Competitiveness of European Metropolitan Regions within the Enlarged Union

Amsterdam 2008
AMIDSt, University of Amsterdam

ACRE

ACRE is an acronym of the international research project 'Accommodating Creative Knowledge – Competitiveness of European Metropolitan Regions within the Enlarged Union'.

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EXECUTIVE SUMMARY

This report is part of a pan-European project aiming at exploring the impact and potential of the emerging creative and knowledge-based economic activities on the economic development and hence the competitiveness of several metropolitan regions in the European Union. The ACRE (Accommodating Creative Knowledge – Competitiveness of European Metropolitan Regions within the Enlarged Union) project involves 13 metropolitan areas in the 'old' as well as the 'new' EU countries. Riga is, through the participation of the Stockholm School of Economics in Riga, one of the metropolitan areas in the project.

The ACRE project recognises creativity as one of the important factors for economic and urban development of metropolitan areas. Hence, in addition to 'traditional factors' (such as, e.g. geographic location, economic structure, specialisation, mode of production and scale), creativity as such and a creative environment are supposed to play an important role for the economic development and competitiveness of metropolitan areas as well as for the metropolitan area's potential to become a centre of creativity, knowledge and innovation.

This is the third report on Riga written within the ACRE project. The objective of this study is to gain an understanding of the factors that play an important role when it comes to the choice where to locate the business. The underlying hypothesis of this report, as well as the two previous ones, is the notion of soft factors playing an important role for people as well as businesses when deciding where to locate. This idea, put forward by in particular Richard Florida (see e.g. Florida, 2002a, 2002b), implies that a city which has a good combination of hard (e.g. infrastructure, taxes and presence of skilled labour) and soft factors (e.g. atmosphere of a location and tolerance) will attract creative and knowledge-based industries, i.e. industries with in general high economic value added. This applies across cities or metropolitan regions as well as within a certain city or metropolitan region. In this context, attention is also paid to the role of the municipal and/or regional government when it comes to developing specific strategies or policies to stimulate or to create clusters of creative and/or knowledge-intensive activities.

The research of this report it qualitative in its nature and based on 24 in-depth interviews with managers representing selected knowledge intensive and creative industries located in Riga. The following four sectors were chosen for the study:

- Business and management consultancy activities;
- Research and development;
- Motion pictures and video activities, radio and TV activities;
- Computer games and electronic publishing.

The first two being referred to as knowledge-based industries, whereas the latter two as creative industries.

The companies interviewed where characterised along three dimensions:

- Industry (as discussed above);
- Size (micro company/self employed, small – 2-5 employees, big – 6-200 employees);
- Location (Riga city centre, Riga suburbs).

The interviews comprised open-ended questions structured around the following themes:

- The company's business model and markets;
- Choice of location;
- Labour processes and recruitment;
- Networks (formal and informal) and their importance;
- Public support;
- Prospects at the current location.

The first aspect to be considered is the factor(s) behind the choice of location. The analysis of the answers to the question: "Why is the company located in Riga?" generated following three different typologies:

- The owner/founder was born/lived/has studied in Riga;
- The city as such, being the biggest city in Latvia (and the Baltic countries);
- It does not really matter where the company is located.

The typologies were not mutually exclusive, i.e. one respondent could provide answers belonging to more than one of the typologies. Out of the three typologies, the first one was the most commonly one observed in the interviews. This should be no surprise, since Riga roughly counts for one third of the population in Latvia and that its share of the overall Latvian economic activity is considerably higher. Furthermore, the fact that Riga is the educational centre of Latvia plays an important role as well – young people from the regions leave for Riga to study at the university level and once they graduated many of them stay in the city working in the knowledge based or creative industries.

The second typology was almost as frequently mentioned as the first one. The responses belonging to the second typology list a number of reasons for why the companies are located in Riga:

- The size of the market – in terms of demand (customers/clients) as well as in terms of labour market, i.e. through the availability of highly qualified labour force.
- That the city by Latvian standards is international in terms of business opportunities.
- The city's geographical location, in the centre of the Baltics (defined as Estonia, Latvia and Lithuania) and also in between 'East' and 'West'.
- The fact that Riga is the biggest of the three Baltic capitals.
- The access to networking opportunities.

Out of the reasons the size of the market and the presence of the clients were by far the most quoted among the respondents. Out of the six reasons listed, three are directly related to the size of Riga. This could be interpreted in such a way that Riga benefits tremendously from being the biggest city not only in Latvia, but in all three Baltic countries.

The next issue addressed is the location within the city, i.e. city centre versus the suburbs. The following six typologies were generated in the interviews:

- Proximity to clients.
- The cost of commercial office space.
- The size of the space needed.
- Infrastructure.
- Proximity to network partners.
- Various soft factors.

Out of the reasons above, the first one is the dominating one among the companies that are located in the city centre, whereas the second and third ones are dominating among the companies located in the suburbs.

When it came to the future location of the company, most of the companies located in the suburbs did not express a wish to move into the city centre. Among the arguments against a move where the high rents and the fairly poor infrastructure in the centre of Riga. The companies located were in general happy with their location, but expressed a concern about the high cost of office space in the centre and/or the poor infrastructure – some of them thought that sooner or later this might force them to leave the very centre of Riga.

In terms of labour and recruitment processes, two different typologies were identified:

- The ‘streamlined’ processes.
- The ‘ad hoc’ processes.

Generally speaking the bigger the company, the more streamlined the labour and recruitment processes. In terms of requirements when recruiting, the creative sector seemed to value creativity and an ‘open mind’. On the other hand, managers representing the knowledge-based sectors seemed to put more emphasis on the formal education. In terms of recruitment, most of the companies cooperate close with the universities and other institutions of higher education in Riga. The use of freelancers employed on a project basis is quite common among the smaller companies, in particular those in the creative sectors.

There seemed to be almost consensus on the view that networking is important for the business to develop. This finding seems to be independent of company sector, size, and geographical location.

In terms of public support, very few companies in the sample had had direct financial support from the public sector. When the issue of the role of the public sector was brought up, these were the main concerns of the interviewees:

- Facilitate the tax administration.
- The taxes as such.
- Corruption.
- Facilitate the administration of EU projects.
- The inability of the educational system to provide graduates suitable for work in the sector.
- The overall Latvian macroeconomic development.

These aspects were brought up by several companies of different sizes and from different sectors. In addition industry specific issues were brought up. It is worth noting that very few companies brought up the need for support from the local government, i.e. the Riga City Council.

The analysis of Riga's Long-Term Development Plan in the context of the findings of this report, suggested that the Riga City Council has to play a more active role when it comes to develop the business environment needed for the realisation of the visions outlined in the Plan. These measures involve hard as well as soft factors. Furthermore, the policy measures undertaken by the local government have to be accompanied by measures taken by the central government in particular in the field of reducing the administrative burden facing the businesses.

1 INTRODUCTION

This report is the third report on Riga written within the ACRE project. The first report focussed on the pathways to a creative and knowledge-based metropolitan area analysing the city's historical development paths as well as providing an analysis of Riga as a creative and knowledge-based metropolitan area using aggregated statistical data. The second report was built around a survey of around 250 persons in the creative and knowledge-based sectors focussing on Riga's potential as an attractive metropolitan area where to live and work. Unlike the first two reports, which used aggregated data, this report focuses on the individual decision maker within the creative and knowledge-based industries (i.e. the managers).

The objective of this study is to gain an understanding of the factors playing an important role when it comes to the choice where to locate the business within the Riga metropolitan area. The underlying hypothesis of this report, as well as the two previous ones, is the notion of soft factors playing an important role for people as well as businesses when deciding where to locate. This idea, put forward by in particular Richard Florida (see e.g. Florida, 2002a, 2002b), implies that a city which has a good combination of hard (e.g. infrastructure, taxes and presence of skilled labour) and soft factors (e.g. atmosphere of a location and tolerance) will attract creative and knowledge-based industries, i.e. industries with in general high economic value added. This applies across cities or metropolitan regions as well as within a certain city or metropolitan region. In this context, attention is also paid to the role of the municipal and/or regional government when it comes to developing specific strategies or policies to stimulate or to create clusters of cultural and/or knowledge-intensive activities.

The empirical part of this report draws on interviews with managers representing creative as well as knowledge-based industries of different sizes within the Riga metropolitan area. In line with the overall guidelines of the ACRE project, we will focus on the following industries:

- Computer games, software and electronic publishing (NACE 722);
- Motion picture and video activities, radio and TV activities (NACE 921 and 922);
- Business and management consultancy (a subset of NACE 741).

In addition we consider:

- Research and development (NACE 73)

The latter being of particular interest since the field of research and development recently has gained considerable attention from Latvian policy makers both at the national and local level. In various policy documents research and development activities are highlighted as one of the most important factors when it comes to the development of the Latvian economy into an economy with high value added economic activities.

The rest of the report is organised as follows. The next chapter presents an overview of the sectors of this study – the employment, the turnover and the dynamics. The third chapter addresses issues related to the methodology of the research undertaken in this report. The findings from the interviews are presented in the fourth chapter, which is the central chapter of this report. The fifth and last chapter provides conclusions and a discussion of the findings of the study.

2 SECTORS IN THE METROPOLITAN REGION

2.1 Introduction

The purpose of this section is provide an overview of the sectors of creative and knowledge-based industries in metropolitan Riga that are the subject of this study, i.e. computer games and electronic publishing; motion pictures, video, radio and TV; business and management consultancy; research and development. However, prior to the discussion of these sectors and their development in the Riga metropolitan area, a brief introduction to Riga and Riga's role in the Latvian economy will be provided.

Riga, the capital of Latvia, has a population of around 730,000, i.e. approximately one third of Latvia's population. Being the capital and the by far biggest city not only in Latvia but in the region (defined as the Baltic countries, i.e. Estonia, Latvia and Lithuania), Riga is Latvia's main attractor of both investment (including foreign investment) and employment. It is the administrative. Due to its favourable geographical location it serves as transportation hub as well as a centre for trade and commerce – both domestic and international. Furthermore, Riga is the main educational and scientific centre of Latvia. Out of Latvia's 32 universities and institutions of higher education, 26 are located in Riga. Several of them having separate research institutes.

If compared to Latvia as a whole, Riga is specialised in the tertiary sector, i.e. the service sector. The main activities are real estate, renting and business activities; financial intermediation; logistics; and telecommunication. Due to Riga's position in the Latvian (and Baltic) economic networks and hierarchies, Riga is, as will be discussed in the empirical part of this report, the preferred and in many cases the only possible location for the creative and knowledge-based industries investigated in this study. As regards the different sectors' location within Riga, there is unfortunately no data available.

The creative and knowledge-based sectors in Riga employ in total somewhat more than 110,000 persons. This means that roughly one third of the employees in Riga work in these sectors. Out of these 11,000 are employed in the software, motion pictures and advertising sectors, whereas approximately 50,000 persons are employed in the sectors of business consultancy, finance, research and higher education. However, referring to the number of employees in the creative and knowledge-based sectors is a bit misleading since the statistics do not distinguish between highly qualified, innovative activities on the one hand and low-skilled, low-wage activities on the other. In addition, these number do not include self-employed – a form of employment that due to lower taxes is fairly popular in Latvia. Hence, one can argue that the numbers discussed above actually underestimate the actual level of activity within the sectors considered. A more detailed description of the state of the creative and knowledge-based sectors in Riga is given in ACRE Report 2.9, *Riga: From a Hanseatic City to a Modern Metropolis*[1].

2.2 The target sectors

In ACRE Work Package 6 the following three sectors were identified as particularly interesting and will be the focus of this study (the number of employees refer to 2005):

- Computer games, software and electronic publishing (NACE 722): 5,389 employees;
- Motion picture and video activities, radio and TV activities (NACE 921 and 922): 2,177 employees;
- Business and management consultancy (a subset of NACE 741): 8,229 employees[2].

In addition to the sectors defined by ACRE Work Package 6, we consider the research and development sector – a sector that recently has gained considerable attention both at the national and local level as one of the most important sectors when it comes to the development of Latvia's as well as Riga's economy into an economy with high value added activities.

- Research and development (NACE 73): 2,054 employees.

Henceforth, the computer games and motion picture sectors are referred to as creative industries/sectors whereas business and management consultancy, and research and development are referred to as knowledge based industries/sectors.

2.3 Sector dynamics

The dynamics of the sectors being the focus of this study are given in terms of number of companies, turnover and number of employees over the period 2001-2005. This is done in Tables 2.1, 2.2 and 2.3, respectively. To illustrate Riga's relative importance Table 2.3 shows not only the number of employees in Riga but also the number of employees in Latvia.

[1] Available at: http://www2.fmg.uva.nl/acre.
[2] The number of employees refers to the entire NACE 741. Data disaggregated at a lower level does not exist.

Table 2.1 - Number of companies in Riga in selected NACE categories for the period 2001-2005

NACE Code	2001	2002	2003	2004	2005
7220 Software consultancy and supply: computer games etc.	198	223	N/A	N/A.	N/A
9210 Motion pictures and video	48	47	51	69	77
9220 Radio and TV	47	48	48	50	50
7410 Legal, accounting and book-keeping and auditing activities	825	980	1225	1602	1848
7310 Research and experimental development on natural sciences and engineering	67	56	60	60	60
7320 Research and experimental development on social sciences and humanities	19	15	13	14	14

Source: ACRE Report 2.9

Table 2.2 - Turnover in 1,000 LVL discounted with PPI 2000 for Riga companies in selected NACE categories[3]

NACE Code	2001	2002	2003	2004	2005
7220 Software consultancy and supply: computer games etc.	N/A	N/A	N/A	N/A	N/A
9210 Motion pictures and video	4 941	4 432	4 431	7 797	11 453
9220 Radio and TV	22 703	24 965	29 231	30 062	36 576
7410 Legal, accounting and book-keeping and auditing activities	34 841	N/A	N/A.	N/A	114 420
7310 Research and experimental development on natural sciences and engineering	N/A	N/A	N/A	N/A	N/A
7320 Research and experimental development on social sciences and humanities	N/A	N/A	N/A	N/A	N/A

Source: ACRE Report 2.9.

Table 2.3 - Employment according to NACE code in Latvia and in Riga (due to lack of data the levels of aggregation differ in this table in comparison to the previous tables)

NACE code		2001	2002	2003	2004	2005
72 Computer and related actitvities	Latvia	1050	2090	4829	5508	6240
	Riga	801	1711	4225	5021	5398
73 Research & Development	Latvia	2795	3029	2894	2829	2758
	Riga	2126	2339	2183	2115	2054
7413 Market research etc	Latvia	523	804	1049	1075	1545
	Riga	521	758	718	953	1452
741 excl 7413 Other business activities	Latvia	2929	5471	6020	7864	9035
	Riga	2356	4218	4735	6203	6777
9211+ 9212 Motion picture and video	Latvia	258	214	234	386	329
	Riga	246	195	229	371	306
9220 Radio and TV	Latvia	1859	1786	1819	1805	1932
	Riga	1605	1556	1559	1521	1702

Source: ACRE Report 2.9.

[3] LVL 1 approximately EUR 1.40.

A quick inspection of Tables 2.1-2.3 reveals that more or less all sectors considered have grown in all three dimensions (where data available). Furthermore, the findings in Table 2.3 supports the discussion in the first part of this section – that relative to the rest of Latvia most of the activities in the sectors considered take place in Riga.

2.4 Computer games, software and electronic publishing

This sector has expended rapidly in terms of employees during the recent years. Although there are not statistics available specifically for Riga, it is however reasonable to assume that the sector has expanded also in terms of the number of companies. Unlike most of the other creative and knowledge based sectors, a vast majority of the employees in this sector consist of high skilled creative employees.

The link between this sector and the other creative sector considered in this study, motion picture, video activities etc., is interesting and the following case involving one of the interviewed companies, DD Studio, can serve as an example[4]:

> *In addition, with the advent and inevitability of digital content in audiovisual production, Latvia – being one of the major IT hubs in Eastern Europe – has great IT potential and capacity to support creative industries seeking professional solutions. For example, DD Studio (www.dd.lv) is a digital design company creating visualisations of digital information using innovative ideas, various types of media and most recent technology. Their award-winning projects (the prestigious FIAMP2006 award for the best cd/dvd-rom) combine multimedia design and excellent functionality. In developing projects, DD studio collaborates with DD Laboratory, a professional creative company that cultivates the cultural development and profession growth of the digital environment, creating high-quality examples of digital culture in Latvia and elsewhere.*

2.5 Motion pictures, radio and TV

The roots of the film industry in Latvia date back to the early 1920s and Latvia's first period of independence. The film industry continued to develop during the close to 50 years of Soviet occupation more than 200 feature films were produced in Latvia. The heydays in terms of film production were the 1970s and 1980s when there were on average 7-8 feature releases a year. They were mainly distributed in the Soviet Union. After the restored Latvian independence, the film industry was disrupted. However, it managed to survive by adapting to the new realities that came with market economy. During 2005 Latvian films were screened in 52 countries, took part in 245 world-wide events, and received over 30 awards. Today the industry is on its way back to the previous production levels. The production consists of feature films, documentaries as well as animation. There are also, as discussed above, links to the computer games and animation industry. Although the salaries in the Latvian film industry still are lower than in Western Europe, an increasing fraction of the services provided by the

[4] Quote from *Audiovisual Production in Latvia, A Nordic Context*, National Film Centre of Latvia, the Nordic Council of Ministers, Riga, 2007.

Latvian film industry is based on production know-how, i.e. not only on cheap labour and good locations. Northern Europe's largest film studios are located in Riga and just outside Riga a studio pavilion was recently built.

Latvia has more than 10 TV channels, public as well as private. Most of them having their studios in Riga. A few of them, like Latvian National TV, LNT, which is the mostly watched TV channel in Latvia, have their own productions. In addition to the TV channels there are a number of companies specialising in productions for TV. The situation is somewhat similar for radio. There are a number of public and private radio stations in Latvia and most of them are located in Riga.

2.6 Business and management consulting

The number of employees within the law, legal, accounting, book keeping and auditing sectors was roughly three times higher in 2005 compared to the situation five years earlier. This development mimics to a large extent the growth of the Latvian economic – an increasing number of businesses and hence an increased the demand for the sector's services. Although located in Riga, many of the companies in this sector serve the entire Latvia. The majority of the bigger companies in business and management consulting, including the big international ones, are located in the city centre or its immediate vicinity, whereas the smaller ones seem to be scattered through the central parts of the city, i.e. neither in the very centre nor in the suburbs.

2.7 Research and development

As seen from Table 2.3 Riga is the centre for research and development in Latvia. To a large extent this reflects the fact that Riga is the main educational and scientific centre of Latvia. Most of the research centres are institutes associated with the public academic institutions and hence located at the universities whose faculties are spread throughout the city. In terms of commercialising research and developing relationships with industry/businesses there has so far been limited success.

2.8 Sectorial policy

In the Riga Long Term Strategy as manifested by the Long-Term Development Plan till 2025[5] Riga sees itself as a city which aims at:

- Developing a well-educated, skilful, and culture respecting society.
- Promoting the development of an economy based on the East-to-West link.
- Promoting high-quality living urban neighbourhoods.
- Facilitating the development of high added value industries.
- Facilitating the development of creative industries.

[5] Riga City Council: Long-Term Development Strategy of Riga City till 2025, Riga, 2005.

The latter two aims have a direct bearing on the sectors considered in this report. Although discussed, there are not yet any direct policy measures implemented to support the development of the creative and knowledge-based sectors. The Plan recognises the fact that Riga with its large educational sector has "all the preconditions necessary to become a centre of at least Baltic scale in the field of biotechnologies, pharmaceutics or in the field of specific physics, for example".

Furthermore, the plan discusses the links between urban development and high value added industries[6]:

The present trends of urban development show that special attention should be paid to the efforts aimed at increase of added value of industry since, contrary to the service industries mainly aimed at satisfaction of internal demand, as mentioned above, export of industrial products with high added value would have multiplicative effect on the development of the urban economy. Apart from ensuring high income to those employed in such industries, it would also stimulate the development of various branches of the service sector (logistics, retail sale, financial services) as well as increase the city and municipal portion of tax income. This is a ground to recognition of industrial branches as a very essential factor in the context of economical development of Riga and in strengthening its competiveness, since the present development trend already show certain saturation of the service market.

To achieve this, the Development Plan identifies a number of tasks[7]:

- Facilitate the development of high added value industries.
- Facilitate the cooperation between science-consuming institutions and entrepreneurs.
- Facilitate the development of creative industries.
- Develop science and technology parks and facilitate communication at the intersection level.

Needless to say, the tasks are fairly vague and what will come out of them of policy measures and ultimately in terms of actual results remains to be seen.

[6] Long Term Development Strategy of Riga till 2005, section "Strategic Goals (G) in the Field of Economy, G10 High Added Value Economy", pp 39-40.
[7] *Ibid*, pp 39-40.

3 RESEARCH DESIGN AND METHODOLOGY

3.1 Methodology

The research undertaken in this report is qualitative in its nature and built around interviews with managers of companies representing the following sectors:

- Business and management consultancy;
- Computer games and electronic publishing;
- Motion picture and video activities, radio and TV activities;
- Research and development.

The interview guidelines employed in this study were developed by the ACRE project partner at the Department of Geography at the Ludwig-Maximilian Universität in Munich. The guidelines were prepared and discussed at the ACRE meeting in Munich in late autumn 2007. The discussion resulted in slightly revised guidelines that were circulated to the ACRE partners for feedback, which was taken into account when developing the final version of the guidelines.

The interview guidelines are presented in the Appendix. The guidelines served as basis for the semi-structured interviews undertaken. Following the guidelines, the interview comprised open-ended questions structured around the following themes:

- The company's business model and markets;
- Labour processes and recruitment;
- Networks (formal and informal) and their importance;
- Choice of location;
- Public support;
- Prospects at the current location.

3.2 Implementation

In total 24 interviews were undertaken in spring 2008 (late February – early April). All interviews were in depth face-to-face interviews lasting for about one hour. The interviews were, depending on the preferences of the interviewee, either conducted in Latvian or English language. Since the interviewees might feel a bit uncomfortable having the interview recorded, the interviews were run by two persons – one being the interviewer whereas the other was taking notes. Each interview started with a brief introduction to the ACRE project and was followed by an open-ended question on the company's history and activities.

The method of snowball sampling was used to select respondents. The respondents were all "managers" – where "manager" was defined as the person being the leading decision maker of the company. Snowball sampling is a non-probability sampling technique in which an initial group is selected. These respondents identify others belonging to the target population of interest who then are interviewed. In other words, subsequent respondents are chosen based on referrals.

3.3 The sample

The companies being represented in the survey were characterised along three dimensions as defined in the ACRE Work Package 6 guidelines:

- Industry (creative industries, knowledge-based industries, and research and development);
- Size (self employed, small – 2-5 employees, big – 6-200 employees);
- Location (Riga city centre, Riga suburbs).

The sample is described in Table 3.1 below.

Table 3.1 - Description of sample

	Self employed	Small firms (2-5 employees)	Big firms (6-200 employees)
	Location: Riga City Centre		
3 interviews	**Creative industries**: Computer games and electronic publishing (722)	**Creative industries:** Computer games and electronic publishing (722)	**Creative industries:** Computer games and electronic publishing (722)
3 interviews	**Creative industries**: Motion pictures and video activities, radio and TV activities (921 and 922)	**Creative industries**: Motion pictures and video activities, radio and TV activities (921 and 922)	**Creative industries**: Motion pictures and video activities, radio and TV activities (921 and 922)
3 interviews	**Knowledge intensive sectors**: Business and management consultancy activities (74.14)	**Knowledge intensive sectors**: Business and management consultancy activities (74.14)	**Knowledge intensive sectors**: Business and management consultancy activities (74.14)
	Location: Riga City Suburbs		
3 interviews	**Creative industries**: Computer games and electronic publishing (722)	**Creative industries**: Computer games and electronic publishing (722)	**Creative industries**: Computer games and electronic publishing (722)
3 interviews	**Creative industries**: Motion pictures and video activities, radio and TV activities (921 and 922)	**Creative industries**: Motion pictures and video activities, radio and TV activities (921 and 922)	**Creative industries**: Motion pictures and video activities, radio and TV activities (921 and 922)
3 interviews	**Knowledge intensive sectors**: Business and management consultancy activities (74.14)	**Knowledge intensive sectors**: Business and management consultancy activities (74.14)	**Knowledge intensive sectors**: Business and management consultancy activities (74.14)
	Location: both Riga City Centre and Suburbs		
3 interviews	**Knowledge intensive sectors**: Research and development (73)	**Knowledge intensive sectors**: Research and development (73)	**Knowledge intensive sectors**: Research and development (73)

As seen from the last row of Table 3.1, referring to the companies active in the Research and Development sector, only what is labelled big companies were interviewed. The main reason for this is that these companies require substantial human resources in terms of number of employees. Furthermore, due to the high number of employees and the need for laboratories etc. most of the companies in this sector are located outside the city centre. Hence, for this sub-group of the sample, the location factor, i.e. city versus suburb, is not considered.

In addition to the industry interviews, there were three interviews undertaken with "network partners". In this context, a network partner was defined as company with whom the interviewed firm has a strong cooperation link when undertaking their daily activities.

4 RESULTS

4.1 Introduction

This chapter presents the findings from the interviews with the managers of the selected companies. It is divided into subsections dealing with a specific industry starting with Business and Management Consulting activities, followed by Motion Picture, Video, Radio and Television activities; Computer Games and Electronic Publishing activities; and finally Research and Development activities. The last subsection briefly present the results from the interviews with the so called network companies.

Each subsection starts with an overview of the respective companies and their business models, and then continues with an analysis of:

- Labour processes and recruitment;
- Networking;
- Location factors (hard and soft) and prospects at the current location; and
- Public support.

4.2 Business and management consultancy activities

4.2.1 Business and management consultancy activities located in the Riga city centre

An overview of the companies located in the Riga city centre and being active in business and management consultancy is provided in Table 4.1.

Table 4.1 Overview of companies interviewed in Riga city centre: business and management consultancy activities[8].

Micro company	
Name and position in the company	Morten Hansen, self-employed, Director
Name of the company	NMS Consulting
Sector of the company	Business consultancy
Number of employees	2
Location of the company	Rūpniecības iela 11, Riga centre
Turnover	40000 LVL

[8] 1 LVL approximately 1.43 EUR.

Table 4.1 continued

Small company	
Name and position in the company	Inese Andersone, Director
Name of the company	Gateway Baltic
Sector of the company	Business consultancy
Number of employees	5
Location of the company	Zaļā iela 7, Riga centre
Turnover	70000 LVL
Medium sized company	
Name and position in the company	Aleksands Lobakovs, Associate Director, Member of the Board
Name of the company	Prudentia
Sector of the company	Business consultancy
Number of employees	15
Location of the company	Ausekļa iela 1, Riga centre
Turnover	1050000 LVL

4.2.1.1 NMS Consulting

NMS Consulting is consulting company focussing on the new EU member states and the transition economies. The company's was founded by its current two owners. The two owners are the only permanent employees of the company. Both of them having the status as self-employed. When needed the company hires persons on a project basis. Both owners are highly experienced economists with an extensive experience from region.

According to Morten Hansen, the owner interviewed, the activities of NMS rests on two legs: consulting and educational services. The consulting activities involve various projects (including policy oriented projects) for the public and private sector as well as EU financed projects. The educational activities covers the full range from academic lecturing to tailor made educational programmes for the business sector.

Being a micro company, the company has approximately 6-10 clients per year. Most of the clients come from the Riga, although there is an increasing number of clients from abroad.

4.2.1.2 Gateway Baltic

The second company representing this sector is Gateway Baltic, which focuses on doing market research and consultations for companies considering going international, e.g. through export consultations for Latvian companies planning to go international and consultations on the Latvian (and also Baltic) market for foreign companies planning to enter the Latvian (Baltic) market. The interviewed person, Inese Andersone, who founded the company in 2004, is mainly responsible for the project coordination and human resource management within Gateway Baltic. Currently there are 5 employees. The intention is to increase the number of employees in the nearest future.

The main customers of Gateway Baltic are Latvian manufacturers – the company has approximately 20 clients a year of this type. Among the other clients are international companies ordering market research on the Baltic countries with the aim to expand into the region.

4.2.1.3 Prudentia

Prudentia, which was founded in 1999 is one the leading investment banks on the Latvian market. Prudentia provides services related to the field of corporate finance. According to Aleksandrs Lobakovs, Prudentia focuses on evaluating companies prior to merger or acquisition. It also provides overall merger and acquisition services as well as advice companies before they go public. Most of the clients are from Latvia and the majority of them come from Riga. In general the clients are fairly big companies such as investment funds and commercial banks.

Considering the scope of the activity, it is difficult to say how many clients the company has per year; the number differs considerably from year to year. Overall, the company has completed more than 50 deals during its nine years of existence.

4.2.2 Business and management consultancy activities located in the Riga suburbs

An overview of the companies in the sample that are involved in business and management consultancy activities and with a location in the suburbs of Riga is provided in Table 4.2.

Table 4.2 - Overview of companies interviewed in Riga city suburbs: business and management consultancy activities

Micro company	
Name and position in the company	Andris Tevišs, self employed
Name of the company	Raiand
Sector of the company	Business consulting
Number of employees	3
Location of the company	Dainas, p/n Mārupe, Mārupes pag., Rīgas raj., LV-2167
Turnover	15000 LVL
Small company	
Name and position in the company	Aigars Ribušs, credit broker
Name of the company	Hanzasfinanses
Sector of the company	Business consultancy
Number of employees	3
Location of the company	Dārzaugļu iela 1, Riga
Turnover	39000
Medium sized company	
Name and position in the company	Ramil Kadyrov, marketing manager
Name of the company	Re&Solution
Sector of the company	Business consultancy
Number of employees	16
Location of the company	Duntes iela 6, Riga
Turnover	3000000 LVL

4.2.2.1 Raiand

Self employed Andris Teivišs, started Raiand two years ago together with his course mates from the university. The major focus of the company is to advice on the opportunities to obtain EU funds to both nascent and well-established companies. Andris Teivišs himself mainly deals with development of the clients' business plans as well as issues related to registration and development of the clients' companies. A majority of the clients are small companies from the trade and services sectors, many of them dealing with imports. According to Andris, 75% of clients are from Riga. However, he is considering to work more actively to attract clients from other parts of Latvia as well as companies from abroad. At the moment, Andris Teivišs has four clients.

4.2.2.2 Hanzafinanses

The second company located in the Riga suburbs representing business and management consultancy activities is Hanzasfinanses, which was established in 2004. According to Aigars Ribušs, credit broker and one of the company's three employees, the core business of the company is to help it customers, companies as well as private persons, to obtain financial resources either for the establishment and development of their business or to acquire real estate. Hanzafinanses has a rather big number of clients – approximately 200-300 per month. Although Hanzafinanses have clients from all over the country, a majority of them come from Riga.

4.2.2.3 Re&Solution

Re&Solutions, International Property Advisers, is a leading regional provider of real estate, financial and investment management services in the region. It provides a wide range of comprehensive consulting services to a clients involved in all property sectors – international and local real estate developers, investors and high net worth individuals. The company started its activities with an office in Lithuania five years ago. Today it is represented in Estonia, Latvia, Lithuania, Ukraine and Denmark. Ramil Kadyrov, the interviewee representing Re&Solution, is marketing manager and his responsibilities also include positioning of the company.

4.2.3 Labour process, recruitment and networking

Overall, the interviews revealed that the labour processes, recruitment and networking patterns of the interviewed companies do not depend on their location, but rather on the size of the company. The general observation is that smaller companies usually tend to work in the fields of the owners' competencies, recruiting personnel through own networks without introducing much staff selection criteria, whereas bigger companies employ a more formal and complex approach. Although both micro, small and medium companies tend to rely on informal networks to attract new customers, again, this patter is more observed in smaller companies and tend to decrease with the size of the company.

These patterns could be illustrated by the following examples from the interviews. For instance, according Morten Hansen, representative of the micro company from the Riga City centre, recruitment in the company is usually done through personal networking, i.e. by employing people known by the owners. In terms of recruitment, no advertisements or other procedures are used – potential employees are simply approached with a certain offer which in many cases relates to a certain project. A mix of informal and formal approaches in recruitment can however be observed among the respondents of the sector. Hanzafinanses, for instance, recruits employees with the help of Internet tools as well as through informal networks. According to the representative of Hanzafinanses, the main criteria to select employees is their ability to work efficiently within the organisation.

With relation to the organisation of the labour process, again as a rule, micro and smaller companies follow a very simple pattern. On the other hand, bigger firms, such as Prudentia, has quite complex procedures. More specifically, the labour processes in the Prudentia are organised along the following two dimensions: *functional* – when personal characteristics and background (education) of employees are taken into account in order to assign tasks, and *industrial* – when experience in particular industry is of great matter in order to accomplish a job. On the other hand, smaller firms usually operates on much more simplified basis.

Furthermore, as the following examples show networking is not only important when it comes to hiring people. According to NMS Consulting informal networks are also very important in terms of attracting clients. A similar view is shared by Gateway Baltic, Raiand, Prudentia as well as the other interviewed companies. As in the case of Prudentia, which is a relatively large company in the sample, networking is also seen as a way of building trust-based relationships with the customers (through 'word of mouth advertising'). According to the representative of Prudentia:

> *After all, clients can share the knowledge with their friends, who also need our services. As a consequence, due to positive references the company gets more clients, which in turn contributes to the result.*

There is a variety of cooperation partners within the networks of the interviewed companies. Being a rather small company, GatewayBaltic uses its membership in the Swedish Chamber of Commerce to acquire new clients. It should, however, be noted, that in general it is not typical for small firms in Latvia to be involved in international organisations, since usually most of them are aiming at the local market. On the other hand, the situation is rather different for the bigger firms. Prudentia, for instance, is a member of one of the world's leading partnerships of independent merger and acquisition houses – the Global M&A network. Re&Solution collaborates only with its global partner Jones Lang LaSalle. According to Ramil Kadyrov, marketing manager of Re&Solutions, this partnership began in September 2007. It very much stimulates the recognition of Re&Solution in the local market as well as fosters the exchange of expertise. Furthermore, bigger companies, such as Prudentia also frequently collaborates with its competitors. According to the representative of the company:

> *"You can be on the „buy side" and the competitor on the „sell side" that is how it works. However the mutual competence should never be forgotten.*

Furthermore, Andris Teivišs, representative of the micro company Raiand mentions that, although the company usually does not collaborate with the companies from the business consulting industry and actually does not plan to do it in the future, there has been a case when he has asked for help from one of the universities in Riga. This cooperation, in turn helped him to develop a good project. Furthermore, Raiand has considered applying for membership in the Latvian Consultancy Association – however, according to the representative of the firm they do not see real benefits for doing so yet.

To conclude, overall many the interviewed companies mainly seem collaborate with firms of the same industry and with universities. When asked about further possibilities in terms of such cooperation some respondents, including Inese Andersone from GatewayBaltic highlighted that the help from universities would be if they could provide an adequate education preparing students for work in the business world.

As regards subcontracting, being a micro company, MNS Consulting uses subcontracts for projects. A similar set up, i.e. subcontracting/use of freelancers, is used by the other interviewed micro and small companies in the field of business and management consulting. Gateway Baltic, for instance, has a special data base consisting of 20-30 people who work on a freelance basis. According to Inese Andersone, the company exploits this opportunity when it needs competence that it does not have in-house. Freelancers also play an important role in Hanzasfinanses, since more than 50% of the employees in the company are freelancers.

As expected, contrary to micro and small companies, subcontracting/use of freelancers does not play an important role in the larger companies. In this context Prudentia highlights the importance of permanent labour contracts. This is of particular importance since the company focuses on creating loyalty among employees and building long term relationships with employees as well as clients. In Re&Solutions the labour processes are mainly organised according to expertise. According to the representative of the company:

> *In the past Re&Solution looked for knowledge and didn't require any specific experience. Currently, however, the recruitment is mainly based on hiring people who possess certain expertise, experience and skills. We are using informal networking as well as cooperate with the Stockholm School of Economics in Riga to recruit our people and have not had any major problems in finding employees so far.*

Given the activities of the companies in the sample, good education combined with strong communication skills are usually prerequisites for employment. In this light, it is interesting to note that the bigger companies interviewed more often highlighted the role of previous work experience rather than formal education as the most important factor in the employment decision. The representative of micro the company Raiand, Andris Teivišs, however, highlights the aim of working only with professionals, who undoubtedly should have higher education. According to him:

> *The character of the employee is also important as the person should be good at working within the team. Being small, it is, however, quite difficult to attract well qualified workforce, since in most cases small firms cannot offer competitive salaries. At the same time, the work usually requires a lot of effort, and it is not likely that many people would be willing to work a lot for a small salary. One way to avoid this problem and to ensure*

> *good quality of service, is to divide the labour process into competences – my competences and the competences of my colleagues, each of whom is taking on only those projects, which they are able to implement on the appropriate level.*

This point of view was generally shared by the other smaller firms, NMS Consulting being an exception.

4.2.4 Location factors and public support

The interviewees provided a wide range of answers to the question: "Why was the company founded in the city of Riga?". Morten Hansen, representing NMS Consulting responded:

> *The location was chosen mainly due to the living place: it was just the easiest place. Riga is important in terms of clients. Moreover, I do not have enough expertise on the regions. Riga is also important in an international context.*

Similar points of view were also expressed by Gateway Baltic, highlighting that the company founders are from Riga and that Riga is the commercial centre of Latvia – it is a good meeting point, and the biggest companies and the best infrastructure is concentrated to Riga. In addition to these arguments, the representative of Prudentia added that Riga is very important to the business consulting industry nationally as well as internationally, because most of the companies, the commercial banks and investment banks are located here.

It is also important to observe, as put forward by Gateway Baltic, that Riga is more known in the world in comparison to the other two capitals of the Baltic countries Vilnius and Tallinn. To Gateway Baltic this played a significant role in choosing the location of the company. In this context, another interesting example is provided by Re&Solution, which was first founded in Vilnius (again, since the first owners were from Vilnius). However, the company expanded to Riga mainly to be closer to the clients and to expand internationally.

As discussed in the introduction to this chapter, the survey covers companies in the Riga city centre as well as companies located in the suburbs of Riga. This gives us an opportunity to investigate the major reasons behind the choice of location. Firstly, consider the suburban companies. In general, all interviewed persons, regardless of whether they represented smaller or bigger companies put forward the same view – the office is located in suburb, due to the fact that the cost of office space is too high in the centre of Riga. In addition bigger companies mentioned that it is quite difficult to expand of located in the city centre, since additional square metres cost much more in the centre than in the suburbs. Furthermore it was mentioned that car parking is hardly available in the centre of Riga. Nevertheless, all admitted that being located in the centre of the city might provide additional advantages, especially for consulting companies since it means being closer to the clients. On the whole, the companies were all quite satisfied with the suburban location of the firm.

Let us now consider the companies located in the centre of Riga. According to the representatives of these companies, there are no major problems or disadvantages with the location. The exception being Prudentia, which is currently located in Riga centre, but about to go suburban in the near future. According the representative of the company:

It is not so important for the company where office is located. Quality matters. Clients will find Prudentia regardless of its location, since the company is well-known for its talented employees not for nice parking.

As regards the importance of various soft and hard factors, the companies provide us with a variety of insights. Andris Teivišs, representative of the micro company Raiand, considers that the role of government institutions as very important for his business. According to him:

It is very crucial to us that for instance state agencies do their job, since it directly influences our clients.

He also points out that the overall Latvian macroeconomic development is of importance to his business. In bad times, people might be afraid of undertaking business ventures, which in turn affects the activity level of Raiand negatively.

The representative of Hanzasfinanses, Aigars Rubušs, highlights the importance of the infrastructure. According to him it is important that it is quite easy for clients to get to the company, even though it is located in the suburbs. The importance of infrastructure is also brought up by Morten Hansen, one of the owners of NMS Consulting, who also highlights the importance of quality of life, and that people in general are wealthier in Riga than in the other regions of Latvia. The quality of life aspect seems to be of less importance to Gateway Baltic and Prudentia.

Prudentia points out the importance of (economic) policy and the tax climate as factors directly influencing the businesses in Latvia:

The lower the corporate income tax is, and the lower the costs to register company, the more companies will be.

The Gateway Baltic representative also highlighted the Latvian macroeconomic development (e.g. the high Latvian inflation, and the need for tax cuts). A stable macroeconomic development will boost export industries, which in turn will positively affect the business of Gateway Baltic. Morten Hansen, on the other hand, claims that factors such as tax climate and city administration are of no importance to NMS Consulting.
In terms of public support, with the exception of Gateway Baltic (who cooperates with the Latvian Development and Investment Agency and the State Revenue Service), the interviewed companies do not have much collaboration with the public sector. The smaller companies in the sample expressed the opinion that they are not looking for such cooperation, whereas the bigger companies (Prudentia and Re&Solution) claim that they are open to cooperation with the public sector and that they would like to see the public sector among its clients.

When discussing the government's role, Morten Hansen of NMS Consulting suggests that it should make tax administration simpler in order to support entrepreneurship:

Although it is quite easy to start business in Latvia, it is quite difficult to maintain it, often because of too strict regulations.

Furthermore, Gateway Baltic suggests promotion of export via subsidies and that the government should run a sustainable macroeconomic policy, which in turn would foster economic growth. According to the representative of Raiand, the government has to pay much more attention to the development of the Latvian manufacturing industry. This would bring value added, which in turn would be beneficial for the entire Latvian economy. Finally, Ramil Kadyrov of “Re&Solution” concludes that:

> *The public sector could help by developing the region (particularly Riga) into a region favourable for business, as a business centre, and as a tourism centre. Moreover, simplifying the tax system, reducing the corruption level, and fostering new projects would lead to the development of the industry and would make running a business easier.*

4.3 Motion pictures, video, radio and television activities

4.3.1 Motion pictures, video, radio and television activities located in the Riga City centre

An overview of the interviewed companies that are located in the Riga city centre and being involved in motion pictures, video, radio and television activities is provided in Table 4.3.

Table 4.3 - Overview of companies interviewed in Riga city centre: motion picture, video, radio and television activities

Micro company	
Name and the position in company	Ilona – self-employed
Name of the company	Not registered company
Sector of the company	Motion pictures and video activities
Number of employees	1
Location	Elizabetes iela 31
Turnover	
Small company	
Name and the position in the company	Irina – co-owner
Name of the company	Rakurss Video
Sector of the company	Motion pictures and video activities
Number of employees	3
Location	K. Valdemara iela 149
Turnover	
Medium sized company	
Name and the position in the company	Andrey, founder
Name of the company	Device
Sector of the company	Motion pictures and video activities
Number of employees	Around 15
Location	Lacplesa iela 36
Turnover	

4.3.1.1 "Ilona's company"

Ilona is a professional in taking pictures and shooting short video clips. According to Ilona, what differentiates the services provided by her company from those of the competitors is that her company add more creativity to the process of filming focussing on the "client's psychology". She works closely with the client and according to her:

> *To get to know the person the photo session starts not in the studio but in the café, where I have a long conversation with the client. We may spend several days working with one person just to get the perfect outcome.*

The clients of this micro business are more or less only from Riga. According to the owner, the main reason for this is that the studio itself is situated in the centre of Riga. Hence, it would be quite difficult for people, for instance from Daugavpils to come for a photo-session. Furthermore, when asked about her clients, Ilona tells us:

> *I cannot answer this question unambiguously, since I personally do not aim at any particular segment of people. I have been working with business organisations and private orders almost in equal proportions. They want to me to show their true personality in the video clip or a picture, and you will agree, that this willingness is independent of age. It is not quantity, but indeed quality that matters...*

4.3.1.2 Rakurss Video

Rakurss Video has just started to provide its services of filming private events and making theme photo sessions. The company does not edit the client's material and do no plan to broaden the range of services provided. The company has three employees and could be considered as fairly 'conservative'. According to the representative of the firm:

> *...we do not even aim for clients from outside Riga.*

For the same reason, Rakurss Video mostly deals with private clients, since they consider themselves to be too small to be competitive enough to attract business clients.

4.3.1.3 Device

In comparison with Rakurss Video, the company Device deals with a wider range of clients and offers a wider range of services. It records and edits videos from personal events as well as promotional material for business clients. The relatively large number of employees could be explained by the fact that the company uses many freelancers employed on a project basis.

Being located in the centre of Riga, the company does not plan for any geographical expansion. Most of its clients are located in Riga or very close to the city. However, many of the projects undertaken take place outside the city – in particular when it comes to various private events such as weddings, birthdays and anniversaries. However, the number of corporate clients are increasing as pointed out by the owner of Device:

In recent time, more and more organisations are inquiring about our services starting from filming a company's promotional materials to simple corporate parties. The number of clients varies a lot over the year. For example, people mostly tend to get married in the end of spring or in the beginning of summer. Another example is that the number of business clients increase before Christmas time.

4.3.2 Motion pictures, video, radio and television activities located in the Riga suburbs

An overview of the companies in the sample that are involved in motion pictures, video, radio and television activities and with a location in the suburbs of Riga is provided in Table 4.4.

Table 4.4 - Overview of companies interviewed in Riga city suburbs: motion pictures, video, radio and television activities

Micro company	
Name and the position in the company	Egils, filmmaker
Name of the company	Self-employed
Sector of the company	Motion pictures and video activities: directing short films
Number of employees	1
Location	Riga, Marupe region
Turnover	---
Small company	
Name and the position in the company	Aleksandrs, owner
Name of the company	Furors Dizains
Sector of the company	Design, Advertising (on TV also): Motion pictures and video activities
Number of employees	3
Location	Riga, Jugla region
Turnover	40 000 EUR
Medium sized company	
Name and the position in the company	Aigars Liepiņš
Name of the company	Agency "X-Ray"
Sector of the company	TV commercials, advertising, design: Motion pictures and video activities
Number of employees	16
Location	Riga, Kengarags district
Turnover	240 000 EUR

4.3.2.1 "Egils's company"

Filmmaker Egils**,** is a free lancing director of short movies working as a self-employed person. According to Egils:

I have been interested in short movies since I was a teenager. I started shooting own short movies from 1999, and I started doing it professionally in 2003 while I was studying at the Latvian Academy of Art. This is a specific business where you actually cannot count on a stable income. On the other hand, I can enjoy the life and consider myself a free person without any obligations. I should say that my work is my hobby.

Furthermore, Egils considers himself being a cultural craftsman, and is therefore not oriented to any specific market segment – he considers himself "simply filming short movies", and continues "Some people like them, and I'm happy. It is an art, and it is for everyone", and continues that:

> *Actually my client is the entire society. I create a cultural heritage of modern times in Latvia. I have no direct clients, as I film what I think will be interesting/ intriguing/ important for other people.*

Egils have presented his work both locally and internationally, participating in various festivals which take place in various countries including Lithuania, Russia, Germany, and Slovakia. Egils' mains income comes from the Latvian Filmmakers' Union, occasionally he also receives money from the Latvian Culture Capital Foundation.

4.3.2.2 Furor Dizains

The second respondent, the interviewee representing Furors Dizains, is the owner of a small company which within the film industry deals with various aspects of design and creative advertising. They also do printing jobs as well design web-pages. The owner founded the company 15 years ago and eight years ago it was transformed into a limited liability company. In terms of customer orientation, the company deals with all types of companies in the local market. According to Aleksandr, the owner of the firm:

> *We do not focus only on big clients, we provide various services: for example, we make advertisements and design product labels for a meat plant, we film corporate events for one medium-sized construction company, and occasionally we design web-pages for firms, I could list different sort of things we do till eternity.*

Furthermore, he points out that Furors Dizains does not differ from other companies in the sector, adding that: "... if there is a demand for our service and we can provide this service – we do it". As was the case with previous companies of the sector, the majority of the clients of Furors Dizans come from Riga. However, the company also has customers from abroad including countries such as Russia and Ukraine as well as several Western European countries, implying that there is at least some international orientation of the company.

4.3.2.3 X-Ray

The sixth company of the sector, and the third one located in the suburbs of Riga is agency X-Ray, dealing with production of various types of advertisements, primarily TV commercials. According to Aigars Liepiņš, art director of the company:

> *We really have a lot of clients representing different businesses and coming from different geographical locations. Consider one business sector and in the past two to three years we have worked with 95 percent of the companies in that industry. We actually do not care about the type of clients and the industry they represent. If they pay*

> *money, we do what they want. 'Cash is king', you know. An interesting attitude which obviously works...*

Most of the clients of X-Ray come from Riga, but occasionally they have big international clients which want to advertise their products or services in Latvia. According to the representative of the company, when working with international clients mobile and Internet connections are the main means of communication.

The company does not focus on any particular type of client – it is open to any kind of client or idea: "We neither concentrate on local clients nor on clients from abroad. If there is a demand, we create a supply; we just do our work", adds the art director of X-Ray.

4.3.3 Labour processes, recruitment and networking

Like in the case with the companies representing the business and management consultancy sectors, labour and recruitment processes very much depends on the size of company. Egils, the self-employed filmmaker, does not employ any additional people although the number of clients is growing – the reason for this is that he wants to maintain the personal approach to his clients in order to differentiate his company from the competitors. On the other hand, the slightly bigger Rakurss is currently looking for some additional employees to be able to expand.

Needless to say, creativity is the key-word for selection of employees for all the companies employing more than one person. According to the representative of the fairly big company X-Ray dealing with advertising, education and/or sophisticated professional skills are not what they are looking for when new people or freelances are recruited:

> *We usually seek to find enthusiastic, open-minded and talented people. This may sound trivial, but it is really so! If we see that person is communicable and looks at the world the way we look, we easily employ him/her and quickly train him/her according to our needs. Our work is about creativity, so what we are looking for in the labour market is talented and communicable (usually young) people,*

To develop realise the potential of their employees some companies, like.e.g. Rakurss Video, put resources into the education of their employees:

> *Since we are just at the early stages of the development of our organisation, we spend a relatively big amount of time on educational seminars especially focussed on entrepreneurship. I think, that for creative people it is one of the main problems: they have skills, but they do not know how to organise their company.*

When it comes to recruitment processes, the company Furors Dizans is exceptional within the sample – the employees of the company have not changed for the last ten years. Hence, it was actually quite difficult for the company representative to answer the question about the qualities required. To accommodate the demand for its services the company has used free lancers when the demand for its services has been high. When recruiting free lancers, the company primarily look at their education and professional skills.

Although a few companies, such as Rakurss do not deal with freelancers, overall freelancers seems to play an important role in particular in the small and medium sized companies of the industry. In the case of Device, for instance, there are almost no permanent workers in the company because they do not have constant flow of orders. As the representative of the company explains:

> *There are some people helping me with the organisation, but their role is not very important. Concerning freelancers, well, again due to the requirements of our industry, this group of workers has the biggest proportion within the organisation. These are operators, directors, make-up artists, gaffers etc. So, I would say that the success of our company depends on how skilled freelancers we employ.*

A similar point of view is expressed by Aleksandr of Furor Disains, whereas the representative of the bigger X-Ray presents a completely different point of view, stating that they do not have any free lancers at all:

> *Either you are with us, or you are against us.*

A different approach of hiring is used by Device, which has close cooperation with other companies in the industry both in terms of sharing 'people' and equipment. Hence, they lend and borrow human resources (freelancers) as well as equipment from companies in their network – companies that could be considered as competitors.

Networking also plays an important role in acquiring clients. Self employed Ilona pointed out that most of her current clients have approached her following someone's advice and most commonly this someone is a former client:

> *As I haven't advertised in the press, I might guess that you (pointing at the interviewer) that you did not come to be accidentally. The industry is full of competitors and the only way how you can stand out is by providing something extraordinary and of high quality to your clients. When they are satisfied – they recommend my studio to their friends, relatives and others.*

The representative of Rakurss video agrees, adding that it is actually very difficult to even open a company in this industry without any connections with, what she calls "mature specialists". Andrey of the somewhat larger company Device shares this opinion, emphasising the role of social networks as very, very important not only for his company, but also for the entire industry. Within the company they label informal links with clients as "investments in the future". Still, when asked to evaluate the importance of informal networks to the larger firms, such as X-Ray, the company representative rated the importance of informal six on a ten-grade scale and continued:

> *Of course, we cannot neglect it. It is always easier to work with people whom you know, or with people with good recommendations. However, informal links are not the main part of our business.*

In general, the Latvian Filmmakers' Union, the Culture Capital Foundation and different production studios, as well as individual actors are the networks considered the most important by a majority of the interviewed companies.

In terms of the collaboration, smaller companies such as the one owned by Ilona mostly do not see the sense in these types of activities:

> *I do not cooperate with any organisations. I'd rather focus on personal approach to every client. This allows me to say "No" to any client no matter whether he/she is a businessman or a student.*

Other firms, for example Rakurss Video mainly cooperates with individuals and other companies from the sector, usually finding this type of collaboration very useful. None of the interviewed companies, however, is cooperating with public sector, and only a few cooperate with universities. The following statement by the Device representative provides a general overview of the situation facing most of the companies interviewed:

> *Unfortunately, there are no such universities that could provide us with employees. The only thing I could wish for is that universities should use our services and not turn to huge companies that sometimes do not deliver the appropriate level of service.*

4.3.4 Location factors and public support

"This is very strange question", responded the representative of Rakurss Video when asked 'Why was the company founded in the city of Riga?'. According to him:

> *It's obvious – Riga is the largest city in Latvia, hence, only here we can find a high number of potential clients. And there are no single disadvantages of being in the centre of the city.*

The representative of Device very much shares this view, also perceiving the reasons behind the choice of location as 'obvious':

> *Riga is the biggest city in Latvia, hence, it is the most convenient place for us to offer our services.*

Self-employed Ilona, who actually lives in Jurmala, some 30 kilometres from Riga and tried to start her business there. Soon enough Ilona realised that Riga is much better, since it is much more convenient for customers to reach her office than try to find her somewhere in Jurmala. "Last but not least, the potential of the market in Riga is much bigger than in Jurmala", she adds.

Some companies, such as Device also highlight some of the disadvantages of being located in Riga. According to them, the main disadvantage is that there are too many companies and that that the majority of them do not deliver at an the appropriate quality level. As a result, companies like the ones in the sample being small and focussing on quality suffer a lot:

> *When clients face cheating too frequently, they do not believe that any companies will still be able to deliver the services promised.*

Relatively high rental prices for commercial space is also mentioned as a main disadvantage of being in the city centre as well as a main reason for why companies located in suburbs are not eager to change their location.

Although most of the interviewed persons perceive Riga as the 'obvious place for them to be', there are quite different perceptions with respect to the geographical location. According to self-employed Ilona:

> *I do not see any importance of being located exactly in this region. To my mind, the demand for qualitative photo and video service persists in almost all regions, and I'm not talking African and Oceanian countries where there is no need for such service. I mean that if I lived somewhere else in Europe my business would be as successful as it is here in Latvia.*

Also Device Video considers that being located in the Baltic region does not influence the company – they could have been located elsewhere with the same success. Self-employed Egils seems to disagree with these opinions, emphasising that he always wanted to live and work in Latvia, as this is his home country and that he is not even considering moving somewhere else.

In terms of influence by soft and hard factors on the choice of location, it seems that infrastructure is relatively unimportant. Most of the company representatives interviewed emphasise that nowadays most of the things can be done over telephone or on the Internet. If this were the only aspect, then they should be able to work anywhere in Latvia, having clients from all over Europe (or the world). However, as mentioned by most of the interviewees, it is important to have a good location to ensure that people can meet. In other words, the social ties and networking play an important rule when it come to the choice of location.

The city location also facilitates contacts with the 'right' people. According to self-employed Ilona:

> *Yes, I think that the cultural level of people in the city matters. I think that the more educated people are, and if they are well raised and culturally intelligent the higher the demand for our services. Moreover, as clients mostly want me to express their personality, this characteristic is more common for educated people.*

While emphasising the role of educated people, social ties and cultural development, some company representatives also mentioned the tax system, in particular the tax rates, as an important factor.

When the issue of public support or support from the European Union was brought up during the interviews, all companies, with one exception, claimed that there is no support neither from Latvian sources nor from the European Union. The exception was the self-employed film-maker Edgars who claimed that actually there is support and that there are plenty of opportunities:

> *If you want to create art and have a plan in your mind, then government or the European Union will always support you.*

The representative of X-Ray expressed an opposite view:

> *All the support we have is the legal system – rules, what we can do and what we cannot. So if we do not break these rules, do not touch the government, then the government does not touch us. It neither supports nor harms us.*

Finally, self-employed Ilona would like to see some standards/regulation for entering the video and motion pictures industry to ensure that the level and quality of services would not be driven by so that the level "cheaters" jeopardising the business for the existing firms in industry.

4.4 Computer games and electronic publishing

4.4.1 Computer games and electronic publishing located in the Riga City Centre

An overview of the interviewed companies that are located in the Riga city centre and being involved in computer games and electronic publishing activities is provided in Table 4.5.

Table 4.5 - Overview of companies interviewed in Riga city centre: computer games and electronic publishing

Micro company	
Name and position	Rita Ruduša, editor in chief
Name of the company	Providus (www.politika.lv)
Sector of the company	Electronic publishing
Number of employees	3
Location	Alberta iela 13
Turnover	About 25 000 LVL (annual budget)
Small company	
Name and position	Ingmara Balode, editor
Name of the company	¼ Satori (www.satori.lv)
Sector of the company	Electronic publishing
Number of employees	4
Location	Pulkveza Brieza iela 6-86
Turnover	No information provided
Medium sized company	
Name and position	Janis Mitrevics, creative director
Name of the company	DD Studio
Sector of the company	Digital design, computer games, media-art
Number of employees	10
Location	11. Novembra krastmala 35
Turnover	No information provided

4.4.1.1 Providus

The first respondent representing computer games and electronic publishing, the chief editor of Centre for Public Policy Providus, Rita Ruduša describe her responsibilities in the company as being very broad:

> *The job is mainly connected with the contents of the web portal www.politika.lv. The responsibilities include cooperating with the authors, establishing new contacts, attracting new authors, and editing the texts. I am also responsible for putting the materials online as well as dealing with the representative function – participating in conferences, forums, speaking about politics, discussing political life of the country. I also participate in IT forums, representing politika.lv as an innovative electronic media.*

The portal www.politika.lv is a very popular portal in Latvia, focusing on both political and economic discussions and publications. This is manifested by the number of unique visitors which is very high for Latvia – reaching 40,000 unique visitors monthly, most of them being from Latvia, followed by visitors from USA and UK. The site was launched in 2001. The majority of the content in the portal is written by guest authors.

What concerns the development of firm, the site www.politika.lv was launched in 2001, whereas Providus was established in 2003. The company has 3 employees. When trying to position the web-portal and Providus, Rita Ruduša put it like this:

> *You see, we are not another news-media. Our content is more towards the academic side. About 95% of articles are written by contracted authors. This is when speaking about articles, but then we also have other content – e.g. blogs, interviews, research, etc.*

4.4.1.2 ¼ Satori

The responsibilities of the representative of ¼ Satori, Ingmara Baode, have grown tremendously since she started with the company editing poetry. She is now editor of ¼ Satori, editing both the books that are published by the firm and everything that is put on the website, satori.lv:

> *So I have red all the stories that one can find on-line at satori.lv,*

claims Ingmara Baode. What concerns company itself, it has existed for some four years. The current version of the portal was launched in 2006, and publishing started in September 2007. Describing the main responsibilities of the employees involved in the work of portal, Ingmara highlights the following:

> *We take care of the portal, so that every week some new stories appear, preferably by modern Latvian authors. But it's not easy to find them, since the market is small, and there are very few capable of writing well. We also order translations of foreign literature. Recently we started to run a publishing service, in cooperation with Oxford publishers. Now we have a contract for publishing six books with them.*

The portal is mainly focussed on young people in particular those with a cultural interest. Although in Latvian language many of the users are from abroad indicating that they belong to the Latvian diaspora. The average daily number of readers is approximately 1,400, and the number of regular readers is about 18,000 a month.

4.4.1.3 DD Studio

The third company, DD Studio, is the same company that was discussed in section 2.4. When the company started its activities, the name was Digital Workshop – a name that was later changed to the current on. As mentioned in section 2.4, there is another company with which DD Studio closely cooperates: DD Laboratory with whom company still have a close cooperation. The abbreviation "DD" stands for Digital Design and according to Janis Mitrevics, representative of the firm:

> *This term describes my understanding of what we do...*

The company started its activities in 1999 and company was established on the basis of one particular project. The underlying business idea leading to the creation of the company was that given the rapidly developing modern technologies there was a need to integrate them into the classical arts study processes. Janis Mitrevics tells us:

> *Yes, I am an artist myself, I graduated from the Janis Rozentals Arts School... So, I was invited to design and plan how the modern digital tools could be integrated into the existing programmes at the School. Thus, I needed to find people who could teach the students, and I needed to think how to attract specialists with whom we could cooperate. Then I realised that teaching is not that attractive, and in most cases it is not considered as a main occupation by artists. The solution was to define the teaching part as a hobby, and something else as the job, and thus a way of earning money. On this base the company was founded,*

The main clients of the company come both from public and private sector, the approximate proportion is 50/50. They are mostly big organisations, since, according the representative of the firm, quality is directly linked to money:

> *One can draw a parallel to the movie-making industry – a movie can be made using one camera and cutting film in ones kitchen... And then there is Hollywood. The quality of the end product is directly proportional to the amount of funds available. The projects are long-lasting. They might not bring profits immediately, but do in the long run.*

This quote from the owner reflects to a large extent the main philosophy of DD Studio.

> *The company is not only focussing on the domestic market, it also has an international focus. Recently it took part in an industry fair in Chicago together with its North American partner. Furthermore, DD Studio has been awarded by ICOM (International Council of Museums, an organisation collaborating with UNESCO) for a digital exhibition in Jūrmala (Latvia).*

DD Studio has a rather small number of employees – 10-15. In addition it has approximately 30 contract workers with whom it cooperates. According the representative of the firm:

The local market is small. And for different projects many various experts are needed. Since we cannot ensure permanent work for them, we cooperate with them on a contractual basis. In order not to lower the quality of the end product we need to manoeuvre between permanent employees and contract employees.

4.4.2 Overview of the interviewed companies in the Riga suburbs

An overview of the companies in the sample that are involved in computer games and electronic publishing activities and located within the suburbs of Riga is provided in Table 4.6.

Table 4.6 - Overview of companies interviewed in Riga city suburbs: computer games and electronic publishing

Micro company	
Name and position	Artis Zvirgzdiņš, editor
Name of the company	www.a4d.lv, NGO Arhitektūras Veicināšanas Centrs (Centre for Promoting Architecture)
Sector of the company	Electronic publishing
Number of employees	3 (none full time)
Location	No settled office. Work from home.
Turnover	Annual turnover 24 000 LVL
Small company	
Name and position	Harijs Bernāns, technical editor, sales manager
Name of the company	StudentNet, www.studentnet.lv
Sector of the company	Electronic publishing
Number of employees	3 (none full time)
Location	No settled office. Work from home.
Turnover	Annual turnover 3400 LVL
Medium sized company	
Name and position in the firm	Oskars Dilēvičs, project manager
Name of the firm	CDI, www.Atlants.lv
Sector of the firm	Electronic publishing
Number of employees	10
Detailed location of the firm	Maskavas iela 322
Turnover	No information given

4.4.2.1 www.a4d.lv

The first company considered is the provider of the www.a4d.lv internet portal. It is without judicial status working as part of a non-governmental organisation (NGO), Arhitektūras Veicināšanas Centrs (Centre for Promoting Architecture). According to the representative and editor of the portal, Artis Zvirgzdiņš, the Centre has been established to promote architecture. The portal was established 2004 and three persons work on it (none of them full time). All three have a degree in architecture. On average, Artis Zvirgzdins, being the editor of the portal, spends 2-3 hours per day on portal-related issues, reflecting the part time nature of this business. According to him:

> *There is new material every day; sometimes there are three to four new entries. At the initial stages of the portal there were 500-600 visitors a day, now there are 2,000. All the information is prepared by employees of the portal. In addition to that, we urge architects to publish their works on the portal in order to receive feedback.*

Currently architects and students of architecture are the main target groups of the portal. Artis Zvirgzdins points out that the portal is the first web page these professionals and students view when they start their working day. He wants the visitors of the portal to be diverse rather than a group of elite professionals. Moreover, he is planning to expand the content with socially important material in addition to the professional material that is currently being posted on the website.

The portal has recently broadened its scope by launching an English version of the portal, since there has been an interest from an international audience. In terms of international cooperation, there will annually be weeks dedicated to Estonian and Lithuanian architecture, respectively.

4.4.2.2 StudentNet

The small company located in the suburbs of Riga, StudentNet, is a non-governmental organisation, currently employing three persons (although none full-time). As explained by the owner of the firm, Harijs Bernāns:

> *It is a virtual organisation – we do not have a physical office. It started as a hobby. I used to study in Daugavpils and felt that I lacked information about events in Latvia. When continuing my studies in Riga, I gained the necessary education in computers to launch the portal.*

Hence, like in many other cases, the hobby has grown into a company, which is now very well known in the Latvian market. According to the owner of the company, at the very beginning the portal was planned to be blog-based, but, as the new editor involved himself in the project, it was redesigned to be an editor-reviewed publishing tool. The portal which was launched in 2003 is focussed on editing and publishing articles submitted by students. The portal is in Latvian language. The daily number of unique visitors amounts to 150–300 persons per day, 98 per cent of them coming from Latvia.

4.4.2.3 CDI – Atlants.lv

The third company from the suburbs is represented by a lawyer, yet closely involved in electronic publishing activities. The activities of the company CDI are to a large extent built around the electronic publishing activities of Atlants.lv, which is an electronic library that have existed for some 10 years. The main focus of Atlants.lv is to provide the following service: students submit their theses, the company systemise those, add them to the database and then offer others to download them for a fee. Most of the clients of Atlants.lv are students, not only from Riga, but from all over Latvia. Less than one per cent of the users are from outside Latvia – this could be explained by the fact that the theses available on Atlants.lv are in Latvian language. According to the representative of the company: Oskars Dilēvičs:

> *Initially our work was just based on pure enthusiasm, but then we introduced some fees for the service, since it couldn't exist for free for long. Since then we have grown pretty large…*

Apart from working with Atlants.lv, there are also number of other projects in which the company is involved in. These include making home-pages for customers such as the Latvian National Opera and the New Riga Theatre. The company, however, is not dealing with the design and content – just the technical parts of the sites. Furthermore CDI also works with on-line payment systems. "A rather wide range for activities, considering that we only have ten people involved", concludes Oskars Dilēvičs.

4.4.3 Labour process, recruitment and networking

Many of the interviews with the companies in the electronic publishing industry revealed that they use 'non-standard' recruitment and labour processes. StudentNet can serve as an illustrative example: The company has never used formal recruitment processes or human resource management tools. Harijs Bernars puts it in the following way:

> *It is not a well paid job and members of the team work on the basis of enthusiasm.*

In Satori the recruitment is mainly done by Reinis. Being a philosopher, Reinis' main responsibilities at Satori is to critically judge and select works for publication. Since he also teaches at the university, he uses his contacts with students to recruit prospective writers among the students in his classes.

Providus, on the other hand, works in a more traditional way when it comes to recruiting staff. Rita Rudusa was head-hunted from the major daily newspaper in Latvia "Diena" and invited to work for the portal. When it comes to attract foreign authors to write for the portal, it is, according to Rita Rudusa, a "not so easy process". There are no funds available to travel to meet experts/potential authors. Instead Providus draws on formal and informal contacts when it comes to attracting in particular foreign authors. Furthermore, if an 'interesting' person visits Latvia, then they try to contact him/her during his/her stay in Latvia.

When it comes to the skills of the employees, more or less all of the interviewees mentioned the ability to learn fast as one of the most important skills that they are looking for when hiring a new person. Although some of the companies apply certain educational requirements, the quote from the CDI representative, Oskar Dilevics, provides a general picture as regards the educational requirements:

> *We are not expecting that the person is educated to suit our needs fully and perfectly. It's just not happening in reality. This is why the ability to learn the most needed and necessary skills is the main thing. It is, however, quite hard to find these types of people – there are candidates, but candidates worth employing are not that many.*

Ingmara Baode of Satori expresses views similar to those of Oskars Dilēvičs and adds that for Satori the lack of new writers in Latvia poses additional problems. According to her, the reasons for this are primarily that Latvia is a small country and that there are few opportunities available to a university student who would like to become a literary critic. Secondly, she emphasises that the Latvian university system fails to prepare quality editors and continues:

> *The main problem is that there is no foundation from where professionals in this sphere can appear. Furthermore, people lack competencies that are related to the content of the text, not its form. For example, when it comes to form, they can correct grammar very well. But when it comes to style… It is hard for them to change minor things. It is a higher level when one can be perfect at every bit of the text. The Cultural Academy offers a course on language culture, but it is short and never referred to in the later courses. There is, however, one man who has a lot of experience and knowledge in what I am talking about. He works in Luxembourg currently. Sometimes we approach him for advice.*

Most of the interviewed representatives of the companies, including Rita Rudusa of Providus, highlighted the importance of informal networking:

> *Informal connections and personal links are of great importance of course – I think this holds for journalism in general. Since we are not a news portal it is not of major importance to maintain contacts with information sources, but contacts with partners are of great importance. We have very good relationship Diena, which is leading newspaper in Latvia.*

The contacts with Diena are only there because Rita previously has worked for the newspaper. She explains::

> *On weekly basis we exchange information that might be interesting to the other side. If we know some issue that to our mind deserves greater public attention, we might cooperate with Diena to have it covered in their paper.*

She also emphasises the importance of cooperation with state-level institutions, including the Ministry of Environment of Latvia:

> *When we think that a particular political document or publication deserves wider discussion, we approach the institution that created the document and organise a public discussions on the topic.*

The role of networks is further highlighted by Harijs Bernars, the representative of StudentNet. Since the target audience of the portal is students, the company organises seminars for students and maintain contacts with student leaders. The company also runs a specific data base which includes the key people in the Latvian educational system. In terms of cooperation, the Latvian Student Union, the Latvian Museum of Nature (the previous chief editor works there), the Centre for Blood Donors are the major organisations with which StudentNet cooperates.

Janis Mitrevics, the representative of DD Studio shares the view on the importance of networking. He refers to informal networking as "essential and crucial for our business". Interestingly, DD Studio has even conducted a survey to assess the importance of the networking:

> *A couple of months ago I undertook research for the company, trying to outline a development plan. So, what I concluded is that personal ties are of utmost importance, then people trust you – trust you as a person and also as a brand. No one of our big clients have stopped the cooperation with DD Studio, which I consider being an important indicator.*

When it comes to the question how these informal ties are formed, Janis Mitrevics expresses it in the following way:

> *Riga is small, very small city, so eventually everyone knows everyone else in the industry... Easily, one asks another, and so it goes... In my case I guess about 50 per cent of a certain age group know me as an artist.*

In addition, various other methods are used in order to foster formal and informal networking within the sectors. In the case of a4d.lv, the main partners include Riga Technical University, e.g. the only university in Latvia that educates architects. There is also a regular cooperation with the magazine on architecture and there used to be cooperation with the Latvian Foundation of Culture Capital in the past. According to a4d.lv, although the company would be very much interested to expand its cooperation with students of architecture:

> *…it seems they are not very interested in cooperation. However, the portal has perhaps done too little to generate the interest of the students.*

To generate more interest for the portal, Artis Zvirgzdiņš tells that:

> *Recently the portal held a contest for the worst building... Overall the number and quality of discussions organised by the portal has increased. At the same time informal networking with various partners has increased.*

Some of the interviewees expressed wishes in terms of cooperation and networking. For instance, one of the companies highlighted that it would be very much interested in cooperation with the traditional libraries in Latvia, i.e. the ones that keep printed materials in their collection. According to the representative of this company, however,

> *...we have different approaches. Today traditional libraries do not incorporate much of the benefits that IT could give them. And if we work only with IT, it is not easy to find a common touch point. That is why we do not have any organisation that we might join.*

Still, as was the case with the previously discussed sectors, a few of the interviewed persons did not see any need for informal networking. For example, Oskars Dinevics, the representative of CDI says that:

> *I have not encountered anything like this during my career. So, generally informal connections are of little or no importance to my mind.*

4.4.4 Location factors and public support

As previously discussed, the attitude towards the location factors differs from company to company. Some of the companies regarding the location factors to be very important, whereas others consider them to be of little, if any, importance. According to Janis Mitrevics of DD Studio it is very important for creative industries in general to be located in the main cities of the country: “If you want to be a great artist, for example in UK, you need to study in London”. Furthermore, he emphasises the need to be in the centre of the city in particular:

> *Riga is small enough, there are small circles of clients, and work. One needs to be in the centre. Clients and employees are somewhere around the centre... The centre is like a meeting point, reached from all ends of the city. Hence, it is better and more convenient to be here.*

A similar point of view is also expressed by the representative of www.a4d.lv, although the company is different in the sense that it does not have a permanent office and when it comes to the need for an office Artis Zvirgzdiņš continues:

> *We do not need one because of the little time allocated to the portal. We conduct meetings in architect offices when needed. There will be need for an office if we became more commercialised. Then we would have to meet with costumers and would have to be reachable on a permanent basis.*

Were they to decide to have an office, it would be located in the centre of the Riga. The main reason for this is the accessibility of clients and Atis explains:

> *Because of logistics, it would also be foolish to locate the office outside he centre.*

He continues explaining that it would be much more difficult to work from outside Riga, emphasising the importance of being located in Riga:

> *It would be much harder since personal contacts play a crucial role. Riga is half of Latvia, it is the only city. I have tried to reach people outside Riga and urge them to write about architecture in Latvia, but distance relationships do not seem to be enough for appropriate results.*

Furthermore aspects such as easy access for employees, the need for the city environment/ spirit of a city, are highlighted by the representative of www.a4d.lv.

When it comes to Providus’ choice of location, Rita Rudusa claims that choice of being in Riga was not a conscious one:

> *The reason behind the current location is that we could get an attractive lease through the Soros Foundation. So we have a contract on reduced rent for 10 years, which is going to expire some day soon… So that’s the only reason behind settling here.*

Still, Rita very much appreciates the inspiration that comes from being located in the Riga city centre:

> *Also internationals, who live in Riga, are mostly working, as well as living in the centre, so the environment is diverse. Furthermore, the level of service is important, for example in the cafes in the neighbourhood… Safety, I don't know… I never thought of it. Maybe because I never really encountered any dangers. So safety is not something that comes to my mind,*

Traffic and parking are, however, the main drawbacks of being located in the Riga city centre – not only to Rita of Providus but to the other interviewees as well.

Oskars Dilēvičs, the representative of CDI located in the Riga suburbs, expresses an opinion quite different form the ones just discussed. The main reason why they are not in the centre is simply because it is cheaper:

> *We do not have the need to be based in the city centre in order to have a representative office. We do not have any official meetings with our partners. And if we do have some meetings, those are informal enough, so we can invite people here,*

Furthermore, Oskars thinks that CDI would have developed at the same scale irrespective of whether they would have been located elsewhere in Riga or in any other Latvian town. The main argument for this is that the work is mainly done through the Internet. The same argument applies to Satori, and as the representative of the company, Ingmara Balode, points out, not all authors live in Riga:

> *We happen to be located in Riga simply because we live here. If it was any other city, most likely we would run the same activities from there. Actually, cost-wise, another city would even be preferred to Riga.*

Harijs Bernars, the representative of StudentNet basically share this point of view, emphasising that company is located in Riga only because he started his studies there:

> *It would not be much different if we made it in Daugavpils. The choice of a city might matter if we had permanent correspondents, since face-to-face meetings are crucial. It would also matter if the concept of the portal would be intimately linked to other organisations.*

Furthermore, according to him, apart from the infrastructure, which is certainly much better in Riga, there would be a number of advantages of being located outside the city:

> *In fact, I would prefer Daugavpils to Riga, because of its diverse ethnic composition – Russians, Latvians, Jews are well represented. People of different ethnicities have different styles of work, different ideas. This contributes to the creative process – we can gain a lot from each other.*

As regards public support there was a considerable variation in the opinions of the interviewees as well. According to, for instance, the representative of StudentNet:

> *After all, no financial support from either state or local government has been received. Last year we obtained the status of states supported NGO, which allows for tax reductions for companies when donating to the portal.*

Having obtained the status of non-governmental organisation (NGO), StudentNet is indirectly supported by the government, since companies donating to StudentNet are eligible for tax reductions. Harijs Bernans of StudentNet also brings up the government's role when it comes to taxes and tax administration. A considerable improvement has recently been introduced – electronic submission to the State Revenue Service. However, still some traditional paperwork is needed:

> *The electronic system helps considerably. The drawback of the system is that only owner of the portal can view the situation on payment of taxes and not accountant, which would be crucial. Another drawback is that some paperwork with the State Revenue Service still has to be done manually, which takes considerable time resources. Bureaucratic issues are still to be improved.*

On the other hand, Rita Rudusa of Providus claims that there is at least some public support for her organisation:

> *We get financial support for organising public discussions, for example. Still, all public organisations want more support. The laws of the state put us in the position when we are too dependent on the state. It is hard to attract financing from the state, though. And no one works on making the process easier.*

Finally, Janis Mitrevics of DD Studio elaborates on the role of the government in the development of the creative industries of Latvia:

> *The state should play a bigger role in development of creative industries. Cost-cutting approach is not the most suitable when it comes to creativity. It is as if museums bought cheapest paintings available…*

4.5 Research and development

An overview of the three interviewed companies representing research and development is provided in Table 4.7 below. It is worth emphasising that all of them are located in the suburbs of Riga.

Table 4.7 - Overview of the companies interviewed representing research and development

Large company	
Name and the position in the company	Deputy Director Dace Kārkle
Name of the Company	Institute of Organic Synthesis of Latvia (OSI)
Sector of the company	Research/Science
Number of employees	More than 300
Location	Aizkraukles iela 21 Rīga (suburban Riga)
Turnover	Approximately 5 million LVL
Medium sized company	
Name and the position in the company	Vasiliy, founder
Name of the company	LLC Biosan (Molecular biology institute)
Sector	Scientific
Number of employees	Number of employees: 22
Detailed location of the firm	7 Ratsupītes iela (suburban Riga)
Turnover	2.5 million LVL.
Medium sized company	
Name and the position in the company	Director Pēteris Reihmanis
Name of the company	Foundation „Latvijas Tehnoloģiskais Parks"
Sector	Technology Park
Number of employees	Number of employees: 13 in the Park administration, around 500 in the companies present in the Park
Location	Āzenes 16/20, Rīga suburbs
Turnover	252 000 LVL for the Park and 3 million LVL being the total turnover of all enterprises in the Park

4.5.1.1 The Institute of Organic Synthesis of Latvia (OSI)

The company representative interviewed, Dace Kārkle is a deputy director, acting both as manager of financial issues and administrative manager and starts by telling us a bit about the history of the Institute. The history of OSI goes back to 1957 when the Institute of Organic Synthesis of Latvia was founded. It was established as an institution that dealt with fundamental and practical research in organic chemistry, biochemistry and biology. During Soviet times, OSI was subject to Soviet central planning and was given a wide range of tasks –ranging from the development of rocket fuel and to the development of medicines. However, the Institute mainly concentrated on developing medicine. In total 17 new pharmaceutical specimens were developed, which at that time was almost half of the amount developed in the entire Soviet Union.

After Latvia regained its independence the Institute was no longer financed by the government and OSI transformed into an organisation similar to a limited liability company. Acting in a market economy, the Institute started to search for clients and new markets. New clients were found among the pharmaceutical companies. Hence, fundamental research was abandoned whereas applied science remained and was developed further. The clients of OSI can be divided into two groups: governmental and European Union clients on the one hand, and the pharmaceutical companies on the other. The latter being the one bringing in most of the income through different services provided by OSI. The main activities of OSI are in pharmacy and work on various projects, which basically means development of new medicines. In general, OSI mainly works with foreign orders but there are local customers as well, including well known Latvian companies such as Grindex and Olainfarm.

According to the representative of firm, however, local customers do not generate more than 20 per cent of the Institutes' revenues. The total number of clients is not very high, somewhat more than 10 – this is due to industry specific characteristics. According to Dace:

> *In order to give a high quality service any customer consumes a lot of resources and in order to obtain the desired results takes time.*

The main collaboration partners (and hence clients) are German companies. Recently an agreement with a U.S. company has been signed. Other international clients come from Finland and Sweden. Currently, there is no intention to penetrate the Asian markets.

4.5.1.2 Biosan

The founder of Biosan, Vasiliy tells the story about the background of the firm:

> *There was a period when people believed that there will be some sort of confederation for Latvia with the East. However, once people realised that it would not be the case, many people went to the private business. I had many ideas, yet I could not implement them in the institute where I was working and then I left and founded the small company Biosan together with other scientists.*

Currently Biosan's turnover has reached 2.5 million LVL. The Company's core business is development and manufacturing of scientific devices, machinery and equipment. The product range includes instruments and devices which are used in areas such as: biochemistry, immunology and genomics. It also produces devices for diagnostics, forensics and school laboratories.

According Vasiliy, there are virtually no customers for Biosan in Latvia. The main customers are in EU, the former Soviet Union, South-Eastern Asia and Latin America. "Currently it is difficult to trade with Iraq and other Arab countries, because there is a list of items that cannot be exported and that is a hindrance to our business." In Latvia, the company still cooperates with the remaining parts of VEF and Alfa (these two companies were very well-known in the Soviet times and were/are both located in Riga). The company also cooperates with other companies in Latvia that are involved in metal processing.

4.5.1.3 The Latvian Technology Park

The Latvian Technology Park (LTP)/Latvijas Tehnoloģijas Parks was founded in 1996 and the founders were around 15 governmental and non-governmental organisations. The Park's aim is to promote integration of science and business. It mainly cooperates with authors of innovative ideas from local universities. The total area of the Park is 3.8 hectares. The premises are business incubators, where people who have developed or have participated in the development of new technologies are working. New enterprises can stay in the incubator for up to four to five years on favourable conditions. If still in business after four or five years, the idea is that the company should then leave the incubator and the premises of the Technology Park.

The Park has several goals to fulfil. Firstly to commercialise innovative technologies, promote them to potential domestic or international customers. On a regular basis, the organisation produces information material on the products and services developed by companies within the Park. This material is for example distributed at different events in order to promote the innovative science of Latvia. The second task of the Park is to support new enterprises with premises and advice them how to run the business. The third task is to participate in local and international projects. Currently the Foundation that owns the Parks is involved in four projects.

There are currently 32 companies operating in the Park. Some of them are very young whereas others are approaching the age of five years and hence about to leave the Park. All of them use the premises at favourable conditions. However, usage is not for free because the Park still needs to cover the running costs and to invest in the development of its infrastructure. Yet it is still much more favourable to start a business in the Park than in any other place.

4.5.2 Labour process, recruitment and networking

When asked about the labour processes, Dace Kārkle of OSI explains that currently the Institute operates at full capacity. During few last years OSI has taken on measure to increase the efficiency of its activities. Almost everything has been repaired and the use of physical space has been optimised. Operating at full capacity means that OSI cannot take on any new orders or new customers. In addition there is a shortage of employees which that new projects cannot be accepted. Currently there are somewhat more then 300 employees working at OSI. To facilitate recruitment, the Institute has to a large extent taken over the educational process of second year students at the University of Latvia. The reason for this is according to the OSI representative that the students do not get the appropriate skills for working at OSI – neither at the University nor at any other Latvian institution of higher education. In terms of recruitment, Dace has made the following interesting observation:

> *The process of labour emigrating have ended and now even reverse is happening – i.e. employees who have worked abroad are returning to OSI.*

When it comes to Biosan, more than 80 people are currently working for the company. According to Vasiliy: “If we separate production and development then this ratio is 10 to 1”, and continues:

> *The largest portion of employees are on full-time contracts and almost none is employed on a project basis. In order to produce our products a very specific and technical knowledge is required. Thus the core of the employees who are active in development are experienced people, who have previously worked as chief engineers during Soviet times. There are also two new engineers. Engineers who come from other fields have now acquired much knowledge and thus are able to fully work for Biosan.*

The situation is a bit different at the Technology Park, since there are two types of employees: those working for the Park as such and those working for the companies within the Park. According to Pēteris Reihmanis of the Technology Park:

> *In the Foundation itself there are really few employees, yet they must manage the coordination and the support of the enterprises in the Park. The people working in the Park are highly experienced. The Director, for example, has worked for 25 years at the Riga Technical University and knows where to send new entrepreneurs for advice. Currently the Foundation has 13 employees, but in total in all companies operating here there should be no less than 500 people.*

When asked about recruitment of staff to the Foundation Pēteris explains:

> *Recruitment officially goes through the Scientific Council. However, since most of the employees are active in the academic environment, they just suggest a person to be hired if there is a vacancy. A scientific employee can be recruited for fulfilment of one project or for permanent work in the organisation. The Director is appointed for a period of 3 years. As the collective is small and the working process is ‘pro-creative’; teamwork is of high importance. New people are usually employed for one project and if their performance is satisfactory, then the agreement is prolonged.*

Like the Institute of Organic Synthesis, Biosan cooperates closely with the universities in Riga. The educational requirements needed to work for Biosan is to have knowledge in the following fields: electronics, mechanics, IT programming as well basics of biomedical science. However, according to the representative of the company, there is substantial biomedical knowledge that cannot be learned in any Latvian university programme. Hence, the knowledge among Latvian university graduates in this area is very limited (though they know the basic things) and students are welcome only after the fourth year of studies. Nevertheless the company is satisfied with the level of knowledge of the young specialists and virtually all have become high-class specialists within the company.

Like many of the other firms, Biosan perceives the informal connections as extremely important. Every year, Vasiliy is participating in two to three exhibitions in the United States and Asia and always he is there by himself. The personal relations are the key factor, because Vasiliy is able to explicitly tell about the company’s business competence and ability. Due to the specific knowledge he has, Vasiliy is the one who attracts new clients. There are also some connection with industry associations. However, they are perceived to be rather ineffective and hence company believes it is better to talk privately with people rather in the context of these associations.

In general OSI collaborates with pharmaceutical companies, universities as well as the Latvian Ministry of Education and Science. When asked about networking, Dace of OSI mentions that there is an organisation dealing with companies in the industry: the Association of Latvian Chemistry and Pharmacy Enterprises (Latvijas Ķīmijas un Farmācijas Uzņēmumu asociācija). The organisation represents interest of Latvian pharmaceutical enterprises and OSI is a member of it. As regards informal networking, the contacts with clients, employees, public institutions and others allow substantial informal networking. One aspect of networking that plays an important role to OSI is the contacts between the different laboratories within the Institute. These contacts have proven to be useful when it comes to solving specific scientific problems. Dace Kārkle elaborates further on the role of informal networking:

> *At the Institute we manage it by establishing close bonds between the different laboratories. Hence people who work on separate projects can afterwards engage in discussions about the issue in a different environment, for example while having coffee or lunch. The micro- environment is very important, so in the evening one can go to a colleague's laboratory and complain about a synthesis that is not working, and then engage in a discussion and problem solving. Thus informal networks inside OSI are very important. Informal networks are of high importance outside the company as well, but it is very important that information about projects remain only between OSI and client.*

Networking is also of some importance to the Latvian Technology Park. According to its Director:

> *Informal networks are of the same importance to the Technology Park as to any other institution – it is much easier to solve problem by a cup of coffee, than with a bunch of lawyers. There is an association of business incubators and technological parks where our organisation is a member. In the association we discuss issues that are important for all members – development issues, reasoning behind decisions made by government and so on. However, we do not discuss scientific matters, only problems of organisational type.*

Furthermore, good contacts with the universities it of importance to the Park as well and it has very good cooperation with Riga Technical University. This is of particular importance since it has the highest potential of Latvian universities in terms of developing new technologies. The Park also cooperates with the Latvian Technology Centre and the Nordic Technology Park. There is also some cooperation with private companies.

4.5.3 Location factors and public support

When asked about the choice of location, Dace Kārkle of OSI mentions that the Institute for historical reasons OSI is located in Riga, feeling so to say comfortable here. Moreover, the neighbourhood houses several academic institutions and the academic library is situated nearby, where employees can get the literature necessary for the research. Dace elaborates on the location:

> *This area was already in Soviet times built as science town – the Institute of Physical Energy, the Institute of Wood-pulp, the Institute of Polymer Materials, and others were located here. It is important that all the institutes are situated in the same region. It eases the exchange of information and the making of arrangements. It would be hard for the Institute to be located somewhere else than in Riga. Most of the employees live here, they would need to travel to get to work.... Yet the location does not really affect cooperation with clients because most of them are anyway foreigners and for them it does not matter whether OSI is located in Riga or Baldone. Most of communication is anyway virtual – trough Skype or e-mails.*

Furthermore, it is of importance that the labour market is close to the Institute, since around 100 out of 300 employees of OSI are students who go to lectures in the mornings and in the afternoons and evenings work at the Institute. Since the University of Latvia and Riga Technical University are in Riga, the Institute must be in Riga as well, explains Dace and continues:

> *Furthermore the infrastructural needs for Institute are quite specific, thus OSI cannot move to whatever place. Entertainment and cultural life has some impact but are definitely not the main issue behind the choice of location.*

According Pēteris Reihmanis it is logical that the Technology Park was founded in Riga, because it is not possible to operate efficiently if located in the provinces far away from the researchers and the academic environment.

A somewhat similar picture when it comes to location factors is painted by the Biosan representative. According to Vasiliy, Biosan has utilised the advantages that Riga has had historically:

> *Riga has been a good manufacturing city. Perhaps it has not excelled in innovation; yet still advantageous towards manufacturing. Riga had exceptional resources in context of the need of Biosan and they were used to start producing.*

Initially the company was located in the Latvian Technological Centre Business Development Lab. It is crucial for the company to be located in Riga, because in Riga there is the human capital needed – something which is extremely important to the company. Furthermore, had Biosan been located elsewhere in Latvia, it would have been difficult to follow the new developments in science and to commercialise them. Within a human capital intensive organisation the psychological climate is extremely important, and all changes can be a potential source of conflict. Vasiliy continues:

Riga is more expensive than Ventspils and despite the fact that it would be financially cheaper to build premises where such action would generate huge human factor losses.... The risk lies in human capital, and it is always important to be able find to new people.... All people have remained in this company.

Vasiliy is one of the few interviewees who mentions the recreational and entertainment activities available in Riga as important factors – "because people need to receive positive energy". His view should be contrasted with the view of Pēteris Reihmanis who, when asked about specific factors, recreational, entertainment possibilities etc. Do not consider them to be important for the people working in the Park – "They do not have time or motivation to visit such places", thinks representative of the Park. He also believes that entertainment is more aimed to the youth, who has the financial means to visit concerts, as well as to the small, non-stable, yet existing middle class.

When asked about the support from the government, Dace Kārkle of the Institute of Organic Synthesis says:

The support from public institutions is vital because most of the financing for equipment is received from the Structural Funds and the Ministry of Education and Science.

Thus providing a completely different picture in terms of public support compared to the one given by representatives of the other industries studied. Moreover, according Dace the government puts effort into ensuring an appropriate amount of students in particular fields, for example chemistry. Although in general happy with the cooperation with various government agencies, Dace mentions one area where there is room for improvement, the administration of the structural funds.

Currently the procedure is too complicated and heavy. It seems that the Ministry of Finance is afraid of the requirements of the European Union, thus making it overcomplicated for enterprises to receive the support. An EU project in Latvia requires a lot more than in the old EU member states. It takes nine months to receive feedback on the accounting. Furthermore, only the formal side of project is investigated, and no one checks whether the goals given at the beginning are reached after receiving the financing. It is a huge problem and we wonder why it is not enough with a report from an auditing company.

In terms of public support, OSI is overall satisfied with the current situation. According to the OSI representative Dace:

With respect to R&D enterprises the government's attitude definitely has positive tendency. The prestige of science has increased considerably. OSI is participating in Phare and Cefla projects, receiving high level of support from EU and the Latvian Ministry of Education and Science. Yet red tape barriers are worsening Institute's performance.

However, according to Dace, there are still some issues which should get more attention from the government's side, and she continues:

> *We believe that situation with intellectual property rights in Latvia should be solved. The main problems are with patents, and as the final products of OSI are patents, this affects company directly.*

In terms of public support, assistance when it comes to support in the process of attracting EU funds is especially needed according to Vasiliy of Biosan. The main reason for this is that the government usually promises but does not support companies in contacts with various EU institutions (although he later acknowledges that state assists with the EU contacts). So far, there has not been a single case when Biosan has asked for some public support and have not got it. The reason for this is, according to Vasiliy, that the state officials know that the company is using the support in a good way. Finally, contrary to many other interviewees, Vasiliy believes that bureaucratic barriers are not so bad after all and that they serve a good purpose excluding companies that are not serious.

Pēteris Reihmanis of the Technology Park considers the public support to be "quite OK". The Park has had common projects with the Riga City Council. Furthermore, there is one member of the Board of the Technology Park who represents the City Council. This in turn facilitates the contacts with the City Council. Finally, Pēteris stresses that in many cases financial support is not the main issue – often support in problem-solving is much more important.

4.6 Network partners

The following section presents briefly the findings from the interviews with the network partners of some of the companies studied. In this context a network partner is defined as a company with which an interviewed company has a strong cooperation link when undertaking the daily activities. The network companies are presented in Table 4.8 below.

It can already at this stage be revealed that the network partners do not differ very much from the other companies when it comes to their answers. On the contrary, they more or less confirm the findings from the previous interviews.

Table 4.8 - Overview of network partners interviewed

Behrens	
Name and position	Mārtiņš Dukāts, CEO, co-owner
Name of the company	Behrens
Sector of the company	Business Consultancy
Number of employees	7
Location	Matrožu iela 15, Riga suburbs
Turnover	No information given

Table 4.8 continued

Telekomunikaciju Grupa	
Name and position	Sergey, manager
Name of the company	Telekomunikaciju Grupa
Sector of the company	Telecommunication
Number of employees	Approximately 70
Location	Akadēmijas laukums 1, Centre of Riga
Turnover	No information given
The Latvian Centre for Contemporary Art (LLCA)	
Name and position in the firm	Solvita Krese
Name of the firm	The Latvian Centre for Contemporary Art (LCCA)
Sector of the firm	NGO in the field of Art
Number of employees	8
Detailed location of the firm	Alberta iela 13, Centre of Riga
Turnover	No information given

4.6.1.1 Behrens

The company was founded in cooperation with an Icelandic partner in 2005. Being a financial advisory company its core activities include advising companies and institutions from Iceland and Scandinavia about mergers and acquisitions in the Baltic countries. The company is not oriented towards the domestic market. When negotiating a deal, Behrens always represents the buyer. Behrens has 10-20 clients per year.

4.6.1.2 Telekomunikaciju Grupa

Telekomunikaciju Grupa was founded in 2002 when the state monopoly telecommunication company Lattelekom lost its monopoly. Telekomunikaciju Grupa was one of a number of companies that took the opportunity in 2002 to launch services in the field of telecommunication when the market opened for new operators.

The company mainly deals with business clients and provides telecommunication services at prices lower than those of the market leader. Although private persons do not benefit that much from the company's services, there are some private customers as well. The total number of customers is approximately 6,000.

4.6.1.3 The Latvian Centre for Contemporary Art

The Latvian Centre for Contemporary Art is a non-governmental organisation, which serves as a platform for the promotion and popularisation of contemporary art. The Centre does this through information gathering and information sharing (through its library) and through project management – in particular when it comes to exhibitions and production of high-end books on contemporary art. The Centre has two main sources of income: Donations and income from various projects.

4.6.2 Labour processes, recruitment and networking

All the interviewees representing the network partners mention the importance of being in Riga in terms of having access to a qualified labour force, since Riga is not only the commercial but also the academic centre of Latvia. Likewise the interviewees agree on the importance of networking. Mārtiņš Dukāts of Behrens explains:

> *Informal networking is extremely important as the industry is trust-based. The company is exploiting networks all around the world – although mainly in the three Baltic countries.*

Networks also play an important role when it comes to recruitment. This is particularly the case for Behrens as well as Telekomunikacija Grupa which both recruit directly from the leading institutions of higher education in Riga.

Networking plays an important role for the Latvian Centre for Contemporary Art as well. Being an organisation whose core activities are gathering and sharing information, it would not survive without substantial networking. The Centre's choice of location reflects the need to facilitate networking.

4.6.3 Location factors and public support

All three network partners emphasise the importance of being located in Riga. To be located outside Riga is not considered an option to any of the companies. As the representative of Telekomuikaciju Grupa puts it:

> *Because Riga is the major business centre not only in Latvia but in the whole Baltic region. As we are providing services mainly for business clients, we need to be where they are concentrated.... It is again highly important to be in Latvia to my opinion. Because we are, from one side, in between Lithuania and Estonia, and between Eastern European and Western European countries from the other side. So being located in Latvia is very important for a telecommunication industry company.*

The representative of Behrens puts forward similar arguments:

> *The location was mainly chosen due to the fact that we are originally from Riga and that this is place where our business is – Scandinavian and Icelandic companies are already present in Latvia and they want to expand into Lithuania or Estonia.*

When asked about location within the city, Solvita Krese of the Latvian Centre for Contemporary Art explains that the organisation has to be located in the centre of Riga as it targets both local and foreign clients – people who search for information on Latvian contemporary art as well as people who attend various contemporary art exhibitions. Furthermore, the office has to be easily accessible for tourists and therefore it has to be located in an area which is frequently visited by tourists. She continues discussing the importance of soft factors and mentions that the office has to have "an art like aura" (the office is located in one of the most beautiful Art Noveau buildings in the heart of Riga's Art Noveau district). She also mentions the need for cafeterias etc. in the neighbourhood, since they attract people, who in turn might visit the Centre. As regards the soft factors, the other two interviewees do not consider them to have any direct impact on their respective company's location. However, they might have an impact on the business as such according to Sergey of the Telekomunikciju Grupa:

> *In my opinion, the higher variety of leisure activities in the city as well as the higher the level of cultural activities, the higher the demand for our services since well developed social ties make people communicate more.*

He also points out the disadvantages with a central location: "too expensive labour and too expensive office space". For the Latvian Centre of Contemporary Art, the rent is currently not a problem, since it has a rent-free agreement that lasts until 2010. It is currently discussing with the Riga City Council on possible office space in the city centre after 2010.

Out of the three network partners, just one has some public support: the Latvian Centre for Contemporary Art. When it comes to public support, Sergey of Telekomunikaciju Grupa puts it like this:

> *I think companies in our industry are capable of surviving themselves without any need for public support. I do no actually see the reason for why there should be any support.*

Finally, like many other company representatives, the representative of Behrens suggested that the government should improve and facilitate the tax administration.

5 CONCLUSIONS

The research in this paper is based on 21 interviews with companies active in the following four sectors:

- Business and management consultancy activities;
- Research and development;
- Motion pictures and video activities, radio and TV activities;
- Computer games and electronic publishing.

The first two being referred to as knowledge-based industries, whereas the latter two as creative industries. In addition there were three interviews conducted with so called network companies, where a network company is defined as a company with which an interviewed company has a strong cooperation link with when undertaking its daily activities.

The companies interviewed where characterised along three dimensions:

- Industry (as discussed above);
- Size (micro company/self employed, small – 2-5 employees, big – 6-200 employees);
- Location (Riga city centre, Riga suburbs).

5.1 Location

An analysis of the answers to the question: "Why is the company located in Riga?" generated answers that could be divided into three different typologies:

- The owner/founder was born/lived/has studied in Riga;
- The city as such, being the biggest city in Latvia (and the Baltic countries);
- It does not really matter where the company is located.

The typologies are not mutually exclusive, i.e. one respondent could so to say belong to two or all three of the typologies.

The first typology was the most commonly observed one in the interviews. This should be no surprise, since Riga roughly counts for one third of the population in Latvia and that its share of the overall Latvian economic activity is considerably higher. Furthermore, the fact that Riga is the educational centre of Latvia plays an important role as well – young people from the regions leave for Riga to study at the university level and once they graduated many of them stay in the city working in the knowledge-based or creative industries. In other words, the mere existence of universities and other institutions of higher education works as an attractor of potential workers and entrepreneurs in the knowledge based and creative sectors.

Answers belonging to the first typology seem to be more frequent among the companies that in terms of size either are micro companies or small companies. As regards the sector in which they are active, there is not very much of a pattern – the exception being the companies active in research and development, which all have other reasons for being located in Riga.

When discussing the first typology it is important to keep in mind, that most of the respondents actually made a choice by staying in Riga even if they were born or lived there, or studied in Riga. Had they wanted, most of them could have established their businesses (or the companies could have been located) outside Riga, maybe even outside Latvia. This observation is important to keep in mind when analysing the attractiveness of Riga.

Among the respondents that belong to the first typology, we find some respondents who label themselves as "patriots" etc. of Riga. They cannot simply imagine living and working in any other place than Riga. To them, Riga is *the* city – in many cases not only because they were born in/lived/studied in Riga, but also because the size of the city and what it has to offer, not so much (at least not mentioned) in terms of soft factors, but in terms of business opportunities and in some cases also in terms of networking. These answers indicate that the second typology is to some extent overlapping with the first one (or *vice versa*).

The second typology being almost as frequently mentioned as the first one and could be summarised by the following quote from one of the interviews:

> *It is obvious – Riga is the largest city in Latvia. Hence, only here we can find a high number of potential clients.*

The responses belonging to the second typology list a number of reasons for why the companies are located in Riga:

- The size of the market – in terms of demand (customers/clients) as well as in terms highly qualified labour force.
- That the city by Latvian standards is international in terms of business opportunities.
- The city's geographical location, in the centre of the Baltics (defined as Estonia, Latvia and Lithuania) and also in between 'East' and 'West'.
- The fact that Riga is the biggest of the three Baltic capitals.
- The access to networking opportunities.

Here it is worth noting, that very few mention the importance of soft factors, such as the city's atmosphere, cultural life etc. – an observation that will be discussed later in this section.

Out of the responses related to the second typology, the size of the market and the presence of the clients was by far the one most quoted among the respondents. Furthermore, out of the responses belonging to the second typology three are directly related to the size of Riga. In other words, Riga as a city benefits tremendously from being the biggest city not only in Latvia, but in all three Baltic countries, thus attracting domestic business as well as foreign direct investment. This in turn makes Riga even more attractive to many of the companies in the knowledge based and creative industries.

When it comes to the first two typologies related to the choice of location, it is worth mentioning that it seems to be the city *per se*, that attracts the interviewees as well as the companies, not any type of policy measures undertaken by the Riga City Council in order to improve the business environment or in any other way to attract them to the city. An observation that to a large extent could be explained by the fact that there has been little, if any, such policy pursued by the local authorities. On the other hand, one could reverse the argument – Riga is in fact very attractive despite the lack of an active policy trying to attract knowledge-based and creative industries to the city.

Answers belonging to the third location typology are mainly heard from representatives of micro and small companies. Sectorwise, they belong to the two creative sectors. Many of these companies relying on the opportunities offered by the ‘new technologies’ in terms of communication with clients. Furthermore, more or less all of them also provide answers that belong to the first typology, i.e. the company was established in Riga because the founder was born/lived/studied in Riga. In other words, had not this been the case, then the company would most likely had been established elsewhere. An interesting, although a bit contradictory observation is that to many of these companies to which location is of less importance, (physical) networking still seems to play an important role.

If we take a look on where in the city, i.e. the centre versus the suburbs, the companies are located, we can identify the following typologies:

- Proximity to clients.
- The cost of commercial office space.
- The size of the space needed.
- Infrastructure.
- Proximity to network partners.
- Various soft factors.

Out of these six typologies, the first one is the dominating one among the companies that are located in the city centre. Many of these having private persons among their clients. Furthermore, companies involved in business consulting activities also stress the need for being in the centre, close to many of their corporate clients. A totally different view when it comes to the proximity to clients was expressed by several of the small companies in particular in electronic publishing. To them proximity to the client is not defined by the geographical location, but through internet. Hence, they can be located anywhere within the city and in fact many of them do not even have a ‘proper’ office.

Among the bigger companies located in the suburbs, the main reason put forward for not being located in the city centre is either the cost of commercial office space or like the case with the companies involved in research and development the need for large premises for laboratories etc. The companies located in the suburbs also mentioned the poor infrastructure, in particular in terms of traffic and parking opportunities in the city as a reason for being located in the suburbs rather than the city centre. Among the companies involved in research and development activities the proximity to other research institutes is also mentioned to be of importance when it comes to the decision to locate in the suburbs. The importance of networking opportunities is also mentioned among the companies located in the city. Being close to network partners seems to be an important aspect when it comes to the decision where to locate within the city, irrespective of whether the company is located in the centre or in the suburbs.

To some of the companies located in the centre of Riga, various soft factors as the quality and 'prestige' of the neighbourhood played an important role in the decision where to locate. A few companies representing various sectors mentioned access to recreational and entertainment activities as important factors.

When it comes to the future location of the company, most of the companies located in the suburbs did not express a wish to move into the city centre. Among the arguments against a move where the high rents and the fairly poor infrastructure in the centre of Riga. The companies located in the centre were in general happy with their location, but expressed a concern about the high cost of office space in the centre and the poor infrastructure – some of them thought that sooner or later this might force them to leave the very centre of Riga.

5.2 Labour and recruitment processes

In terms of labour and recruitment process, two different typologies could be identified based on the interviews:

- The 'streamlined' processes.
- The 'ad hoc' processes.

Generally speaking the bigger the company, the more streamlined the labour and recruitment processes. In other words, with respect to the labour and recruitment processes, the difference in procedures is mainly determined by the size of the company. Accordingly neither the sector in which the company is active nor its geographical location seem to be important. In other words, smaller companies tend to follow simple labour and recruitment ad hoc processes, whereas the formality of the processes grows with the size of the company.

In terms of recruitment the requirements on the labour force depends on the sector, rather than the size of the firm. More specifically, according to the interviewed managers, the creative sectors do value creativity and an 'open mind'. On the other hand, managers from the knowledge based sectors seem to put an emphasis on formal education. There of course exceptions, e.g. some managers requiring a combination of education and creativity.

Many of the companies, with the exception of some of the micro companies, cooperate closely with the universities and other institutions of higher education located in Riga, when it comes to recruitment. Many of them using their formal and informal networks to recruit qualified students and graduates.

The use of freelancers is quite common in the micro companies and the small companies. In many cases freelancers are hired on a project basis. As regards industries, the use of freelancers seems to be more common in the creative industries.

5.3 Networking

There seems to be almost consensus on the view that networking is important for the business to develop. This finding seems to be independent of company sector, size, and geographical location. More or less all of the companies are involved in networking with partners from their own sector. Furthermore, in particular bigger companies are involved in formal associations representing the industry in which they are active. To some of the companies in the creative industries networking seem to play an important role in terms of finding freelancers/skilled people needed for a certain project.

In particular smaller companies seem to rely on networking not only to establish contacts within the sector, but also to attract customers. Some of the bigger companies rely on the formal networks such as associations, membership in international networks, or ownership to recruit clients.

5.4 Public support

In terms of public support a few companies in the sample had had direct financial support from the public sector. When the issue of the role of the public sector was brought up, these were the main concerns of the interviewees:

- Facilitate the tax administration.
- The taxes as such.
- Corruption.
- Facilitate the administration of EU projects.
- The inability of the educational system to provide graduates suitable for work in the sector.
- The overall Latvian macroeconomic development.

These aspects were brought up by several companies of different sizes and from different sectors. In addition there were industry specific issues brought such as patents and intellectual property rights.

There are at least two observations to be made. Firstly, very few of the companies have had and very companies ask for direct financial support from the public sectors. The exception being a few companies in the creative sector and some of the companies involved in research and development activities.

Secondly, most of the concerns regarding public support are related to the central government. Very few of the companies mention actions to be taken by the local government, i.e. the Riga City Council. One notable exception is the representative of Re&Solution, who mentions the need to develop Riga and the region into a region favourable to business and hence to a centre of business (and a centre of tourism).

5.5 Discussion

From the discussion of the interview results above, it should be evident that Riga is an attractive city for companies active in the knowledge based and creative sectors considered. It should also be evident that this is mainly due to two reasons:

- The fact that Riga is the biggest city not only in Latvia but in the Baltic countries.
- The fact that Riga through its size, its geographical location, its level of economic activity and its educational institutions is a strong attractor of Latvian human capital.

The overall impression is that Riga, as a city for knowledge based and creative industries, is competitive at the national level. However, the main reason for this is that there is simply no competition within Latvia. For Riga to develop further and to meet the challenges that come with the city's long-term vision this might not be enough. In particular not, if Riga wants to become competitive on an international level (within the Baltic Sea region). Furthermore, there is a danger in the fact that Riga has done very well without any specific policy measures undertaken to improve the city's overall business environment, and that this might be perceived as an argument for not pursuing policies aiming at improving the business environment.

If the findings of this report are contrasted with the vision of Riga in 2025 as outlined in the Long-Term Development Plan, where Riga envisages itself as city which aims at:

- Developing a well-educated, skilful, and culture respecting society;
- Promoting the development of an economy based on the East-to-West link;
- Promoting high-quality living urban neighbourhoods;
- Facilitating the development of high added value industries; and
- Facilitating the development of creative industries

It is obvious that there is a long way to go. To reach the desired position in 2025, a number of policy measures have to be undertaken – at the national as well as at the local level.

At the national level, the government has to improve the conditions facing the businesses. It should in particular reduce the administrative workload facing entrepreneurs, micro businesses and small business. In addition the educational system, in particular the higher education has to be reformed in order to better meet the demands of the labour market.

At the local level, the Riga City Council has improve the general business conditions through measures ranging from improving the city's infrastructure; to facilitating the establishment of small businesses; to a planning process that takes the needs of the creative and knowledge-based sectors into account. It is somewhat symptomatic that when asked about the collaboration with the public sector, just one of the interviewed companies mentions support from the Riga City. Finally, when discussing public support it is important to keep in mind that it does not have to be monetary transfers to companies in the desired sectors. As the interviews showed, the policy measures should aim at facilitating the overall business environment.

The final question to be answered is in the spirit of Richard Florida's research emphasising the importance of soft factors: "In the case of Riga, are the 'soft factors' such as the atmosphere of the city, the offerings in terms of entertainment and recreational activities etc., important when it comes to the decision where to locate the business?". The easy answer based on the findings in the interviews would be "no, they are not important". On the other hand, an alternative answer would be "yes they are". Both views can be supported by the information gathered in this paper.

The fact that very few interviewees explicitly discuss the role of the soft factors in the decision might support the view that they are not important. On the other hand, the fact that they are not discussed could be taken as support for the argument that Riga does quite well in terms of soft factors, since interviewees usually find it easier to complain than to give credit. Hence, if the latter is the case, then Riga might score quite well in the eyes of the managers when it comes to the soft factors. A finding that if it is true is supported by the research in ACRE Work Package 5, *Riga: A place for Creative People?*, which showed that among "creative people" Riga was perceived as a good place where to live and work.

Although highly speculative, if Riga in fact scores well when it comes to the soft factors, then the soft factors, although not explicitly mentioned in the interviews, might have contributed to the decision to remain in Riga made by people active in the knowledge based and creative sectors. However, irrespective of whether the soft factors have played an important role in the decision to establish a business or to remain in Riga, it seems reasonable to assume that with the advancement of Latvia's as well as Riga's economy, the soft factors will play an important role when it comes to the city's further development.

6 REFERENCES

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APPENDIX

Interview guidelines

Structure of the interview (Firms)

Short introduction of the interviewer and ACRE (2 minutes)

Warm-up question to start the interview

- Position / description of daily work and tasks in the firm / current responsibility
- Short career history of interviewee (if founder)

Possible opening questions:

Origin of the Firm and Activities

- History of firm development
- Type of firm – start-up, buy out etc.

Activities

- Account of core and other activities (What does your company produce? / What services does your company provide?)
- Can you explain this to me? (*come to various focus areas which are mentioned in the guidelines: see below*)

Or: start with any other focus area if you think this is more suited to your local situation

Be sure that the following issues will get attention during the interviews:

Business Models and Markets

- How many/what type of clients/customers? (Who are your customers/clients?)
- Where are your customers located? (rough estimate of the *relative share* of origin of customers: inner city, region, state/country, abroad)
- Orientation to the local / national / international market (scale of activity)

Labour process and Recruitment

- How is the labour process organised in your company?
- What types of people with what skills/knowledge do you employ?
- Role of freelancers / people with permanent contracts / subcontracting of work?
- How do you recruit your employees?
- Where do you recruit them?
    - Regional /national / international scale
    - Universities / Fairs
    - Problems
- What kind of educational content would you look for to foster the professional advancement and creativity of your employees?

Networks

- How important are informal links to your firm? (in terms of competitiveness, innovation?)
    - What informal networks are in place in the city or region?
    - What types of knowledge /information are exchanged in informal meetings?
- Who do you collaborate with?
    - Firms same sector other sector
    - Universities / research institutions
    - Member of business organisations?
    - Administration / organisations of public authorities
- What kind of collaboration with universities would you be interested in, if any?

Location Factors (soft and hard)

- Why was the company founded in the city of…?
- Alternatively: why did the company move to this city?
- Why not in another city in … (your country)?
- Can you describe the role of (your city) for your sector? Is the city or region an important location for your sector in the national / international context?
- What advantages or disadvantages did the city offer in comparison with others for the firm's location?
- Role of factors like
    - Infrastructure (transport, IT infrastructure) /Labour market /city administration / Costs (rent/living/personnel) / Policies / support by the city/region government /Tax climate
    - …..
    - Social ties / family / quality of life / leisure activities /region/ sub cultural scene / tolerance – acceptance of diversity
    - …

- Why did the company settle in this neighbourhood/quarter/part of the city? (Depending on where the company is located: why in the inner city / urban fringe / suburbia? Why not in inner city / urban fringe / suburbia?)
- Overall satisfaction with the location? Advantages / Disadvantages
- View on the city: sites / property, transport, image…(e.g. Did the image of the city influence location decisions?)

Public Support

- Is public support relevant for your company?
- Types of support received?
- What could be done better by the public authorities (municipality, region, etc.)? Wishes? What conditions can be improved? (e.g. fiscal policies, subsidies for education, incentives for investment…)

Prospects

- prospects of the company at the location
- Does your company plan to move away? Why / why not?

Comments

- Did important points concerning your firm and the sector of your firm at the location of (your city/region) not come up? Do you want to add something?
- Any other comments about what the most important local conditions are that led to the attachment of your firm to this place?

Questionnaire (to be filled in after the interview)

Name and position in the firm	
Name of the firm	
Sector of the firm	
Number of employees	
Detailed location of the firm	
Turnover	