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STRATEGIC POSITIONING AND THE IMPORTANCE OF COMMUNICATION FOR STARTUPS IN LATVIA

Aija Vonoga[1], Mg.soc.sc.; **Anda Zvaigzne**[2], Dr.oec.; **Sandra Sprudzāne**[3], Dr.sc.comm.;
Iveta Mietule[4], Dr.oec.

[1,2,3,4]Rezekne Academy of Technologies

Abstract. The research aims to perform a complex analysis of startups to identify external and internal factors in the development of startups in Latvia, the strategic positions of startups and future action strategies thereof. The research employed various methods, including monographic and descriptive; graphic; expert interviewing and pairwise analysis for identifying the main factors included in a startup survey questionnaire; surveying that gives insight into self-assessments of the situation by startups and the Strategic Position and Action Evaluation Matrix (SPACE) that helps to identify the strategic position and identify future action strategies for startups. The research analysed in detail only two fields of economic activity of startups: fintech and healthtech. The research revealed that the main problems for startups involved insufficient market research, a lack of financial resources and improper strategic planning. The strategies proposed by the research are aimed at diversifying product and service development by startups, optimizing costs and increasing competitiveness, focusing on digital transformation and innovation. An effective communication strategy is one of the most essential prerequisites for successful business for startups. The research contributes to an assessment of external and internal factors in the performance of startups in Latvia and to the identification of strategic positions, thereby suggesting strategies for national startups to improve their strategic positions and actions in the market. The research results are important for both current startups and those individuals who plan to start their businesses.

Key words: startup, strategic position, SPACE, entrepreneurship, communication.
JEL code: M13, D83, L26

Introduction

In recent years, Europe has experienced the emergence of a new generation of companies in the global market. This trend relates to a more mature European venture capital industry and the growing interest of non-European investors. European startups are increasingly considered to be engines of economic growth, which have the potential to solve current problems in the field of digitalization, sustainability and industry competitiveness by using innovative and advanced technologies. For this reason, various government policy schemes are implemented both at the national and the European Union (EU) levels to contribute to the startup ecosystem. In 2023, 728 startups have been identified in the startup ecosystem of Latvia (EUIPO, 2023). Award-winning companies are a vivid example of the fact that we do not lack ambitions to change in Latvia. Startup ideas change the way industries operate and develop innovations. Latvia needs economic changes, and startups have to be a part of the changes (Startin.lv, 2023). Europe still lags behind other regions, including the USA, when it comes to financing innovative startups. Actions to deal with this challenge are multifaceted; however, making the intellectual property system more accessible to startups leads to innovative companies being part of the solution. The EU trademarks and patents play an important role in the development of startups. The EU unitary patents expand market opportunities for deep technology companies, thereby allowing them to enter a wider market (EUIPO, 2023). The failure rate of startups is significant at over 90%. Research studies show that more than nine in ten startups eventually fail, and about 20% of them fail in their first year. The innovative nature of startups makes them particularly vulnerable to risk, yet this applies to all kinds of businesses. According to the US Bureau of Labour Statistics, the long-term failure rate of all businesses is 70%. This rate increases to 50% by the

[1] E-mail: Aija.vonoga@rta.lv
[2] E-mail: Anda.zvaigzne@rta.lv
[3] E-mail: Sandra.sprudzane@rta.lv
[4] E-mail: Iveta.mietule@rta.lv

fifth year and 70% by the tenth year. There are many reasons why startups fail, including difficulty in finding a position in the market, competing with established competitors and making profits (Zhou, 2024).

Research hypothesis: in Latvia, the strategic positions of startups depend on their capability to identify internal and external factors in their performance.

The research aim is to perform a complex analysis of startups to identify external and internal factors in the development of startups in Latvia, the strategic positions of startups and future action strategies thereof. **Specific research tasks:** 1) to perform a theoretical analysis of the importance of strategic management and communication in business, placing a special emphasis on a strategic analysis tool – the SPACE matrix; 2) to perform an assessment of the strategic positions and actions of startups in Latvia; 3) to identify strategies for the long-term operation of the most significant industries for startups in Latvia.

The research employed general **scientific research methods**: monographic, descriptive and graphic, pairwise analysis, expert interviewing and startup surveying as well as the Strategic Position and Action Evaluation Matrix (SPACE).

The **theoretical framework** for the research is based on various scientific and other sources of information covering the fields of strategic management, communication and startups.

Research limitations

- As part of the research, a survey questionnaire was distributed to 221 startups in January 2024, and 34 responses were received with valid answers, i.e. a response rate was 15.4%. The low response rate could be explained by several factors, including a lack of time, complexity of the questionnaire and a lack of motivation. Despite the low response rate, the answers could be considered to be representative enough to draw conclusions about startups in Latvia. There were several reasons for this: the diversity of the respondents: 1) the survey respondents represented various industries and company size groups; 2) the quality of the data: the answers to the survey questions were well thought out and provided valuable information about factors in the performance of startups and the strategic positions thereof. Therefore, the research findings could serve as a basis for further research on startups in Latvia and other countries.
- The research analysed in detail only two industries: fintech and healthtech. The strategic positions of startups in other industries might differ.
- The SPACE matrix uses two internal dimensions (financial strength and competitive advantages) and two external dimensions (industry resilience and environmental stability).

Research results and discussion

A strategy is a tool for achieving long-term goals (David et al., 2017; Silaban & Syah, 2018). A strategy serves as a business plan for a company, showing its understanding of the following aspects: how, when and where to compete, with whom to compete and for what purpose the company competes (Silaban & Syah, 2018). The concept of a strategy has existed since the dawn of mankind (Henderson, 1989), while the term strategic planning entered the world of management in 1950 (Tafti et al., 2012). Since then, various tools have been introduced for each stage of strategic planning, including formulation, implementation and evaluation steps. Globalization and the complexity of companies have challenged the strategies developed by an organization (Daniel, 2006). Therefore, strategic planning has experienced periods of decline and growth (Mintzberg, 1994). For most organizations, formulating their strategies for success is the most important thing in an environment of complex changes. Strategic planning provides organizations with some tools to follow the formulation of a strategy in various organizational

aspects and manage the performance of strategic aspects (Miller & Cardinal, 1994). Today strategic management is widely used at various levels of entrepreneurship. Strategic management is considered to be a set of decisions and actions that managers apply at all levels of the organization. This is a set of decisions that can lead to long-term activities of the organization (Mintzberg, 1991). In other words, the general concept of strategic management is that managers need to know what factors are employed to improve prerequisites for the successful performance of the organization in the future (Stacy, 2002). Lovlyn emphasizes that a strategy is a relevant problem also in the context of organizational communication. An effective communication strategy is one of the essential prerequisites for successful entrepreneurship. The impacts of it are apparent at various levels of company management, thereby contributing to risk prevention, effective decision-making and a smooth flow of information at all levels of the structure. The importance of a communication strategy is stressed by the concept of communication as an indispensable tool of organizational development. It serves as an essential tool and a means of social interaction through which various relationships and interactions in the organization are established and maintained (Lovlyn, 2017). Thus, it could be said that a strategy is the basis of strategic communication. A strategy is used as an inclusive indicator of an organization's communication practices. In this regard, the concept of strategic communication has also been introduced, which examines how organizations use communication to purposefully accomplish their missions (Frandsen & Johansen, 2017). Seiffert-Brockmann and Wiggins & Nothhaft note that in the context of strategic management, strategic communication is defined as a set of tools aimed at achieving organizational goals. In a narrower sense, it serves the achievement of an organization's self-proclaimed goals, whereas in a broader sense, it provides it with sustainable growth and superiority over competitors. A characteristic feature of strategic communication is its role in the survival and long-term success of an organization. It allows organizations not only to function successfully but also to develop, thereby engaging in strategically important conversations and actively creating their images. Communication serves as a tool to help reduce both internal and external pressures that an organization faces. It acts as an interface where collective consciousness, desires and forms of cooperation are aligned with the changing environment. Thus, strategic communication ensures an organization's capability to adapt and operate effectively under dynamic market conditions (Seiffert-Brockmann, Wiggins & Nothhaft, 2023).

Research studies by Chaudhri et al. show that entrepreneurs can evaluate and prioritize strategic communication processes that are most suitable for them. The same is true of how startups strategically manage their brands – a process that does not have to follow after the concept or product is fully developed nor does this have to entail communication efforts that are wide-ranging across all media. Depending on business peculiarities, focused and direct efforts at communication with key audiences may be more strategic and cost-effective for some, while a wider scope of visibility may be beneficial for others (Chaudhri et al., 2022).

A review of various scientific literature sources allows us to conclude that strategic management and communication are two interrelated disciplines that are critical to the success of any organization. A strategy determines the direction, while communication ensures that everyone in an organization moves towards the same goal. Effective strategic management and communication can help organizations to achieve their goals, increase their efficiency and grow in a sustainable way.

Shtal et al. have concluded that today analyses of the external business environment are very important for the development of any organization. This is because today's external business environment is characterized by an extremely high degree of dynamism, complexity and uncertainty. Besides, one of the main prerequisites in business, as well as in other areas of life, is the organization's capability to adapt to

external changes in the macro-environment. It could be added that any organization exists and functions depending on many factors. The factors have different effects on the organization and have very significant impacts on the organization's capabilities, prospects and strategy. A combination of interacting factors is considered to be an organizational environment in management (Shtal et al., 2018).

The Strategic Position and Action Evaluation Matrix (SPACE) was proposed and developed in 1994 by Alan Rowe, Richard Mason, Karl Dickel, Richard Mann and Robert Mockler (Rowe et al., 1994). Rowe et al. tried to overcome some of the limitations/shortcomings of the methods/tools mentioned above. Based on the explanation by Rowe et al. (1994), the SPACE matrix is an analytical tool to map the position of a company in a quadrant matrix with the aim of enabling the company to visualize its position to be able to identify a suitable strategic position for future expansion. Based on the strategy vector in the SPACE matrix, it can show the strategy that the company should implement. Basically, the SPACE matrix can be considered a short overview of the Profit Impact of Market Strategy approach, as each dimension is a combination of several separately assessed factors. By incorporating multiple factors, companies can examine multiple alternative strategies from different perspectives to choose the right strategy (Rowe et al., 1994).

Competition is key to the success or failure of an organization and determines the appropriateness of its activities. In designing a strategy, managers need to examine marketing opportunities in each industry and product market, as well as the organization's distinctive competencies or strengths relative to its competitors. The SPACE matrix is a valuable method for analysing the competitiveness of an organization. It uses two internal dimensions (financial strength and competitive advantages) and two external dimensions (industry resilience and environmental stability) to identify an organization's strategic position in the industry. The strategic positions of a company are classified as aggressive, competitive, conservative or defensive (Radder & Louw, 1998). Dimitrova states that by using SPACE analysis, marketing managers can include and integrate several various elements of the environment to test or examine specific strategic alternatives from different perspectives. In other words, the type and number of sub-factors are not predetermined but depend on specific analytical objectives (Dimitrova, 2017). The SPACE matrix is a strategic planning tool that serves to analyse an organization and define a suitable strategy for it. The matrix is based on four dimensions – two internal and two external ones – that allow an assessment of the state and potential of an organization. The internal dimensions: financial strength (FS) specifies the financial stability and profitability of an organization. The main factors in FS are return on investment, liquidity, capital structure, business risks etc. factors. Competitive advantages (CA) reflect an organization's capability to outperform its competitors. The main factors in CA are market share, product quality, the product life cycle, brand awareness etc. The external dimensions: industry resilience (IR) indicates the attractiveness and growth potential of the industry. The main factors in IR are growth and profit potential, financial stability, technological know-how etc. factors. Environmental stability (ES) reflects the variability and uncertainty of the external environment. The main factors in ES are technological changes, inflation, demand variability etc. factors.

The factors could be included in or changed within each dimension, depending on the specifics of a particular organization. The method functions as follows: the main factors of each dimension are rated by the decision maker(s) of an organization and a score from a scale of 0 to 6 is assigned to each of them belonging to FS and IR (CA and ES, respectively). The arithmetic mean of each dimension is then calculated. According to the basic principles of the method, CA and IR values are plotted on the X-axis and FS and ES on the Y-axis. The sum of CA and IS values (FS and ES, respectively) indicates the kind of strategy suggested by the final x (resp. y) value for the organization. Once the above steps are completed, a proper strategy could be selected according to one of the following four strategic positions: aggressive,

competitive, defensive and conservative (Gurbuz, 2013; Radder & Louw, 1998; Rumanti & Syauta, 2013). This position is then defined as a general competitive strategy that will help the company to develop proper strategies for its sustainability, namely: total cost management, differentiation and defence (Rowe et al., 1994). The review of various scientific sources allowed us to conclude that the identification of a strategy by using the SPACE matrix could be based on a logic seeking to maximize the company's strengths and take advantage of opportunities in the external environment while minimizing its weaknesses and neutralizing its threats.

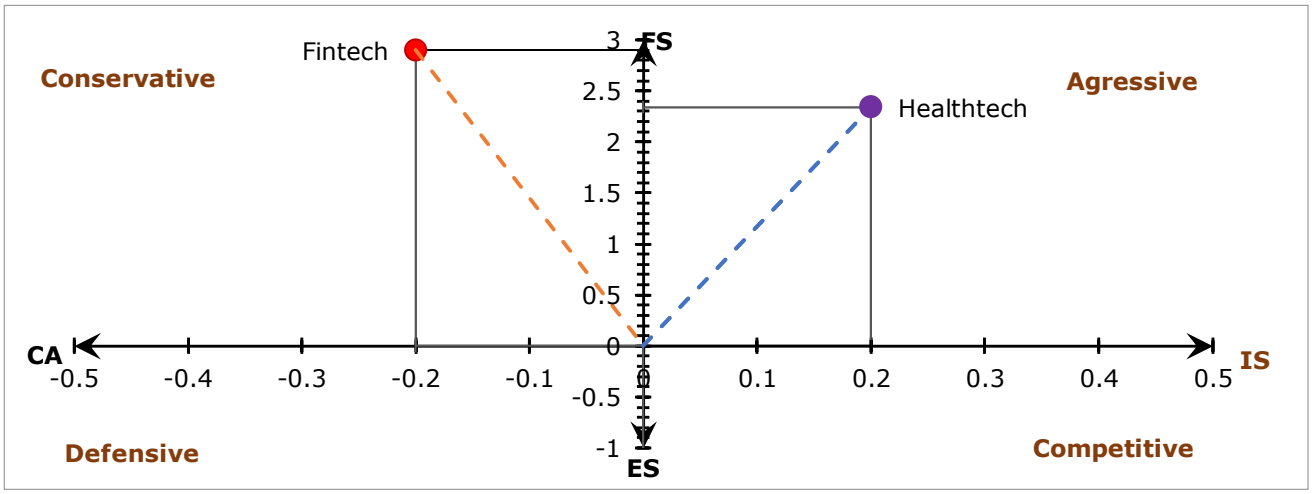
The factors affecting startups were selected and adapted using the SPACE matrix. A startup segment expert was involved in assessing the most important factors. *The expert selection criteria were as follows: 1) knowledge and practical/research experience: in-depth knowledge of the startup ecosystem; 2) analytical skills: the ability to critically analyse information and make informed decisions.* Pairwise analysis was used for the expert interview. By comparing all factors in pairs, the expert selected the most important factor in each pair. After ranking the factors, the top 5 most significant factors were selected in each dimension for the SPACE matrix for a survey of new entrepreneurs.

Pairwise analysis is one of the scaling methods that is employed based on the rating; in 1972, the method was proposed as a statistical model (Turgut & Baykul, 1992). This method is advantageous because of its simplicity and the inclusion of all comparative judgments (Acar-Guvendir & Ozer-Ozkan, 2013).

Based on the results of the expert interview, a questionnaire for startups was drawn up using the Likert scale for the following factor groups: *environmental stability*: technological changes, inflation, demand variability, competitive pressure and the price elasticity of demand; *industry resilience*: growth potential, profit potential, financial stability, technological know-how and capital size; *competitive advantages*: product/service quality, customer loyalty, technological know-how, effective internal and external communication. A research study by Mueller et al. has found that both early-stage and growth-stage entrepreneurs spend a significant part of their working time on communication. Although communication is considered to be "the basic elements of entrepreneurial behaviour", it is often limited to a tactical approach that focuses on formats, channels and/or directions (internal or external). Thus, activities such as networking, relationship building and information sharing remain indirectly affected (Mueller et al., 2012); *financial strength*: income from investment, cash flow, risks associated with business, inventory turnover and financial independence. The factors were rated as low/high following the methodology of the SPACE matrix so that the results obtained could be quantified and integrated into the SPACE matrix. For the survey, 447 startups registered in the national startup database were selected, of which 221 had accessible contact information. As part of the research, a survey questionnaire was distributed to 221 startups, and 34 responses were received with valid answers, i.e. a response rate was 15.4%. Despite the low response rate, the answers could be considered to be representative enough to draw conclusions about startups in Latvia. Therefore, the survey findings could serve as a basis for further research on startups in Latvia and other countries. The answers were received from representatives/startups of the AI, fintech, healthtech, biotech, advanced manufacturing, computer vision, agrotech, foodtech, contech/proptech and mobility industries. However, for data processing, the fintech and healthtech industries were selected because they were identified as the most significant ones, according to the results of the survey of startup experts and the 2023 report of the startup association Startin.lv.

As shown in Figure 1, the identification and calculation of the strategic position of the healthtech industry were made in the following order: on the X-axis, the average rating of industry resilience (IR) (4.73) and the average rating of competitive advantages (CA) (-4.53) made up the total score or a point on the X-axis: (0.2). On the Y-axis, the average rating of financial stability (FS) (4.8) and the average rating of

environmental stability (ES) (-2.46) made up the total score or a point on the Y-axis (2.34) (see Fig. 1 for the results of the calculations and a visual representation in the SPACE matrix). The healthtech industry was placed in an aggressive strategic position. Based on the results of the survey of entrepreneurs and following the methodology of the SPACE matrix, the authors concluded that the startups of the healthtech industry were in an aggressive quadrant, which indicated strong market growth. This industry experienced fast growth owing to technological advances and the growing demand for industry services, the strong competitiveness of startups, many new companies offering innovative solutions and creating an intense competition environment as well as a favourable external environment, i.e. national policies and regulation supported the growth of startups. Dimitrova (2017) states that an aggressive strategic position, i.e. such a situation, is characteristic of attractive industries with low uncertainty in the external environment. The organization has competitive advantages that it can maintain and consolidate through its financial strength. Since the threats are insignificant, the organization can focus on guaranteeing the interests of its stakeholders. Some of the strategic alternatives to a similarly strong position involve: maintaining the level of innovation and further developing the competitive advantages possessed to date; rejecting any opportunity to develop competitive advantages of differentiation, i.e. those that would provide them with higher value for attractive market segments; vertical integration; diversification; "keeping up with the competition" by developing a unique high technology owing to a market "pioneer" (Dimitrova, 2017). Based on the action strategies already suggested by the SPACE matrix (Dimitrova, 2017; Krisnanto & Febriana, 2018; The Steps Required to Develop a SPACE Matrix, 2012; The Strategic Position and Action Evaluation (SPACE) Matrix, 2021; Kazibudzki, 2012), the authors recommend that startups in the industry should focus on: continuous development and innovation of products/services so that they meet the current market requirements; diversification of products/services to reduce risks and enter new markets; effective communication with customers, partners and other stakeholders to inform them about new products/services and improve the company's reputation; constant monitoring of competitor performance trends to maintain their competitiveness. Startups need to be able to create new products and services that meet the needs of customers and differ from what their competitors supply. Startups need to be able to communicate effectively with customers, partners and other stakeholders to inform them about their strategies, products and services.



Source: authors' construction

Fig. 1. **Identification of the strategic positions of startups in the healthtech and fintech industries in Latvia, January 2024**

As shown in Figure 1, the identification and calculation of the strategic position of the fintech industry were made in the following order: *on the X-axis, the average rating of industry resilience (IR) (4.6) and the average rating of competitive advantages (CA) (-4.8) made up the total score or a point on the X-axis: (-0.2). On the Y-axis, the average rating of financial stability (FS) (4.8) and the average rating of environmental stability (ES) (-1.9) made up the total score or a point on the Y-axis (2.9)* (see Fig. 1 for the results of the calculations and a visual representation in the SPACE matrix). Based on the results of the survey of entrepreneurs and following the methodology of the SPACE matrix, the authors conclude that startups in the fintech industry were in a conservative quadrant, indicating a low market growth rate – the growth of this industry was relatively slow because it was saturated with traditional financial service providers. There was a moderate level of competition for startups, as they had to compete with well-established companies and had significant resources and experience; there was a neutral external environment: national policies and the relevant legal framework had a neutral effect on the growth of startups in this industry. Dimitrova (2017) points out that a conservative strategic position means that the companies located in this quadrant of the SPACE matrix are in a stable, but slowly growing market. Product competitiveness is usually the key factor. In this case, costs should be reduced, product lines shortened and additional measures should be taken to protect competitive products, develop new products and propose and implement market penetration projects. The strategic alternatives suggested are as follows: promoting new product benefits and uses to win new market segments; downsizing, i.e. rearranging output to reduce costs; "harvesting" aimed at quickly recovering costs, market development through selling current products to new, more promising (demographic and geographic) markets (Dimitrova, 2017). Based on the action strategies already suggested by the SPACE matrix (Dimitrova, 2017; Krisnanto & Febriana, 2018; The Steps Required to Develop a SPACE Matrix, 2012; The Strategic Position and Action Evaluation (SPACE) Matrix, 2021; Kazibudzki, 2012), the authors recommend industry representatives to focus on cost reduction while developing new products and maximally diversifying the supply of products/services as well as paying attention to digital transformation and introducing innovations to enter new markets. Such a strategy, which combines cost optimization with product diversification, helps to mitigate various potential risks and ensures the sustainable development of a company.

Conclusions, proposals, recommendations

1) Strategic management and effective communication are critical to the success of any organization. A strategy determines the direction, while communication ensures that everyone in an organization moves towards the same goal. The SPACE matrix is a useful tool for assessing the strategic position of an organization. The matrix is based on four dimensions – two internal and two external ones – that allow an assessment of the state and potential of an organization.

2) Startups are recognized as drivers of economic growth, which have strong potential to solve the most pressing problems in the national economy. By employing expert interviewing and pairwise analysis, the authors of the paper designed a questionnaire for a survey of startups to identify external and internal factors for a SPACE matrix: *environmental stability factors*: technological changes, inflation, demand variability, competitive pressure and the price elasticity of demand; *industry resilience factors*: growth potential, profit potential, financial stability, technological know-how and capital size; *competitive advantage factors*: product/service quality, customer loyalty, technological know-how, effective internal and external communication; *financial strength factors*: income from investment, cash flow, risks associated with business, inventory turnover and financial independence.

3) For a survey, 447 startups registered in the national startup database were selected, of which 221 had accessible contact information. As part of the research, a survey questionnaire was distributed to 221 startups, and 34 responses were received with valid answers, i.e. a response rate was 15.4%. Despite the low response rate, the answers could be considered to be representative enough to draw conclusions about startups in Latvia. The answers were received from representatives/startups of the AI, fintech, healthtech, biotech, advanced manufacturing, computer vision, agrotech, foodtech, contech/proptech and mobility industries. However, for data processing, the fintech and healthtech industries were selected because they were identified as the most significant ones, according to the results of the survey of startup experts and the 2023 report of the startup association Startin.lv. The strategic positions of startups in two industries in Latvia – fintech and healthtech – were assessed using the SPACE matrix.

4) Based on the results of the survey of entrepreneurs and following the methodology of the SPACE matrix, the authors conclude that the startups of the healthtech industry were in an aggressive quadrant, which indicated strong market growth. This industry experienced fast growth owing to technological advances and the growing demand for industry services, the strong competitiveness of startups, many new companies offering innovative solutions and creating an intense competition environment as well as a favourable external environment, i.e. national policies and regulation supported the growth of startups. As regards the fintech industry, the startups of this industry were in a conservative quadrant, indicating a low market growth rate – the growth of this industry was relatively slow because it was saturated with traditional financial service providers. There was a moderate level of competition for startups, as they had to compete with well-established companies and had significant resources and experience; there was a neutral external environment: national policies and the relevant legal framework had a neutral effect on the growth of startups in this industry.

5) The authors recommend that startups in the healthtech industry should focus on: continuous development and innovation of products/services so that they meet the current market requirements; diversification of products/services to reduce risks and enter new markets; effective communication with customers, partners and other stakeholders to inform them about new products/services and improve the company's reputation; constant monitoring of competitor performance trends to maintain their competitiveness. Startups need to be able to create new products and services that meet the needs of customers and differ from what their competitors supply. Startups need to be able to communicate effectively with customers, partners and other stakeholders to inform them about their strategies, products and services.

6) The authors recommend fintech industry representatives to focus on cost reduction while developing new products and maximally diversifying the supply of products/services as well as paying attention to digital transformation and introducing innovations to enter new markets. Such a strategy, which combines cost optimization with product diversification, helps to mitigate various potential risks and ensures the sustainable development of a company. Startups need to perform regular strategic analyses to identify changes in the external and internal environments and adjust their strategies in a timely manner. Accordingly, the hypothesis put forward proved to be true.

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