The Impact of Restrictions on the State-Owned Enterprises to Expand their Operations into New Product Lines in Latvia

Inguss Vircavs

Master in Geography (1), Master in Public Administration (2), PhD cand. Student, University of Latvia, Department of Business, Management and Economics, Aspazijas Bulvaris 5, Latvia, zg00070@students.lu.lv

Abstract. There is a practice among OECD countries of establishing restrictions for state-owned enterprises to develop new products in addition to their main production. Scarce attention is paid to how such an approach affects public enterprises' performance in favour of the public good; thus, it must be clarified. This research aims to propose competition policy improvements based on the evaluated impact of new product restrictions on competition neutrality. The research methodology includes interviews with Latvian public sector stakeholders concerning the advantages of optimal use of the company's resources and risks' diversification. Private sector disadvantages if state-owned enterprises offer their products in private-dominated markets are considered. It was observed that national policy is contradictory: there is an emphasis on efficiency goals, but the expansion initiatives by state-owned enterprises in the market are accepted reluctantly. Taking advantage of state-owned enterprises to boost R&D innovations is important to fostering Latvian regional development policies.

Key words: *competitive neutrality, state-owned enterprises, free resources, diversification, resource view.*

Introduction

Relevance of the article

In business, diversification occurs when a company expands its production and services and enters new markets to favour its business. Diversification of products and risks is an important strategic option for a successful business. Among possible benefits, Jayeola, Ismail, & Sufahani (2017) pointed out the improvement of productivity, which is the cornerstone in discussions about public governance like Osborne (2006) and Marcon (2014).

Regarding the public sector, Rentsch & Finger (2015) noted that to pursue their entrepreneurial plans, diversification is one of the commercial techniques of state-owned enterprises to develop new lines of business or acquire subsidiaries to enter new markets. In this article, the definition of "state-owned enterprises" (SOE) refers to the companies of state and local government ownership.

Diversification should be essential to research on SOE as it applies public value issues through better use of public assets. In this respect, the problems concerning the legislative burden on restrictions to diversify SOE operations must be addressed.

The principle of equal competition is defined by the OECD (2012) and adopted by the EU (2007). The principle is argued to be essential for developing entrepreneurship and economics; however, Rentsch & Finger (2015) noted that it applies mainly to the twofold regulated public sector regarding competition and public-service regulations.

The Latvian legislation about public governance by Saeima (2002) allows SOE to enter a commercial market if there is a need for products or services of strategic interests, management of strategic properties, or if market failure is observed. However, the line beyond what one should observe market failures and application of defined strategic goals is subject to interpretation due to blurred boundaries defined by Saeima (2002) of operations that could fit in the strategic goals relying on. Pukis (2016) also explains the diversity of values of different actors. In this regard, it is vital to counterweight competition control practices to the commercial operations for both the public and private sectors, to which the broader research by Vircavs (2023) is devoted. This paper specifically contributed to the level playing field set by SOE diversification restraints.

Problem investigation level

In the seminal work, Markowitz (1952) addressed the options of efficient portfolios, almost all of which are diversified if the "right kind" of diversification has been done for the "right reason". Christensen & Montgomery (1981) and Montgomery & Wernerfelt (1988) have shown that diversification profiles differ across industries with different degrees of industry concentration. Chang & Wang (2007) and Yang, Cao, & Yang (2017) have referred to various business fields, such as marketing, management, retailing, as well as recreation, transportation etc., where diversification strategies have been applied to. Voorn, van Genugten & van Thiel (2020), in their research devoted to

https://doi.org/10.15388/Gronskis.2024.4

governance and performance issues at the local level, revealed a scarcity of research into the circumstances under which municipal corporatisation is effective. Białek-Jaworska (2022) and Jeong (2020) address issues of long-term debt capacity measures of local governments related to their companies. Andrews, Clifton & Ferry (2022) concluded that measures of effectiveness, efficiency, economy, and equity of corporatised provision across multiple policy sectors and countries are scarce. There are still many challenges for future research. However, specific research concerning public sector diversification practices is often overlooked.

In Latvia, competition discussion is much powered by non-governmental institutions like LCCI (2022), thus securing private sector views to foster control and detailed measures like The State Audit Office (2023) and Competition Council of Latvia (2022) to prevent private markets from public sector operations while the provision of services of general interests should be more accessible for private companies. No research has been done from the public sector's perspective to evaluate competitive neutrality, nor have specific studies been made concerning diversification and public value issues. However, The Government of Latvia (2023) recently admitted the unused potential and revisable role of SOE in the context of economic policies, with implications coinciding with the research by Bērziņš & Priede (2021) on R&D and contributions to the commercial environment adaptable for regional startups.

Overall, not all the relevant factors and their weight of influence are comprehensively discussed to get a knowledge-based viewpoint to address the balanced competition measures. Insufficient previous research on diversification issues in the public sector urges the author to emphasise this research from such a view, thus contributing to the main novelty of this article.

Scientific problem

Montgomery (1994) reveals that diversification is often related to a concern for its potentially anti-competitive effects, especially if one looks from market views only with the illustration by Hill (1985) that diversified firms will "thrive at the expense of non-diversified firms not because they are any more efficient, but because they have access to what is termed conglomerate power". Such a view is widely supported in Latvia mainly due to the historically based poignant mindset described by Randma-Liiv (2008) that "everything associated with the state had a bad reputation during the Communist era as the 'state' was usually equated with the rule of the Communist Party" as well as what Sheppard & Droog (2019) called declined trust in public sector institutions.

Moreover, like the approach of market view, the best international experience in the form of guidelines, for instance, OECD (2012, 2015), was implemented in Latvia. Related legislative amendments by Saeima (2014 & 2019) concerning SOE governance and competition regulation were adopted. Besides, Cabinet of Ministers (2022) regulations and numerous guidelines, such as the Competition Council of Latvia (2020), were issued. Meanwhile, decades ago, Hood & Peters (1994) and Randma-Liiv (2008) argued the significance of the critical approach of institutional design of one-fits-all countries referring to experiences following reforms related to New Public Management. Policy restrictions might impact the operations of SOE differently depending on the industry and obligations to serve services of general interest.

Implementing OECD international practices of competitive neutrality with implications of the post-soviet market view may reach out to diversification aspects. The competition measures in Latvia lack knowledge of how the legislative practices against diversification affect the performance of SOE. The research question addresses whether SOE operations are affected from a diversification perspective.

Object of the article is competitive neutrality issues between public and private sector enterprises concerning diversification to expand new production lines.

Aim of the article is to evaluate diversification aspects from the perspectives of the public sector.

Objectives of the article are the following:

1. To examine diversification issues in the context of competitive neutrality;
2. To evaluate the diversification opportunities of SOE and contribute to developing a competitive neutrality approach that fits the diversification initiatives.

Methods and limitations of the article

Research has been conducted to address the issues of the competitive neutrality model in Latvia. Along with the diversification issues to what is devoted to this paper, the creation of daughter companies, public problems of procurement and transparency, policies of non-financial goals, and human resource management, Pukis & Vircavs (forthcoming) examined in the broader research.

Qualitative and quantitative methods are used to study the legislative burden for SOE to develop expansion initiatives. The public sector stakeholders' perceptions are examined due to the lack of such views in competition-related diversification studies, which has implications for future research for comparing measures from public and private perspectives.

1. Theoretical aspects of diversification initiatives

Ansoff (1957) defined diversification as a change in the company's product line and/or market characteristics in his eponymous work. To examine diversification, one needs to consider relevant perspectives that provide a comprehensive and synergetic playground of performance and the views of market power, agencies, and resources. The market power view traces back to the work of Edwards (1955) and following scholars, who emphasised an undue implementation of gained power in terms of competition. However, Montgomery (1994) noted they do not pay attention to motivations, efficiencies, or inefficiencies it may involve, while undue benefits would include cross-subsidisation and predatory pricing as well as reciprocal buying. Overall, the market view is frightened of the risks of monopolisation and reduced competition.

Concerning the agency viewpoint, Kozlenkova, Samaha & Palmatier (2014) explain that it incorporates managers' professional and personal incentives to optimise resource exploitation, including rewards and control measures by shareholders. Penrose (1995), Montgomery (1994), Kozlenkova, Samaha & Palmatier (2014) claim the efficient use of underused resources that also deals with profit issues. An incentive to expand relies on a better ability to use resources. Wang, Ning, & Chen (2014) summarised synergistic and financial motives, where one attempt to exploit operating synergies from the resource-based view thus, diversification could improve the efficient use of resources with positive Chatterjee & Blocher (1992) association on performance.

Finally, the comprehensive approach on all views is backed by Gyan, Brahmana, & Bakri (2017), which improved agency performance impacts on the resource capability of the firm.

2. Diversification evaluation practices

Sanchez (1995) and Yuan & Rieger (2021) claim that by producing a wide range of products, the company is reducing risks, gaining strategic flexibility and advanced market power by increasing its sales and may realise economies of scale in promoting, advertising, and distributing its products (Jovanovic & Gilbert 1993), thus enjoying more opportunities (Ruland & Zhou 2005), sustainability and Dierickx & Cool (1989) argue against providing a company with more competitiveness.

Various research like Chatterjee & Wernerfelt (1991), Penrose (1995), Gyan, Brahmana & Bakri (2017), Suoniemi, Meyer-Waarden, Munzel, Zablah & Straub (2020) are linking this business logic to better performance and capability for competition thus getting advantages.

Therefore, diversification initiatives are essential and widely used if a commercial company would like to successfully operate its businesses and raise the value and profit of a firm. To clarify this, let us see the example of vehicles at the disposal of a municipal company. These buses are to be used for children's school transport in remote rural areas only for a couple of hours a day, thus performing specific local government tasks of education reachability to everyone. The commercial logic means that these vehicles are available resources to undertake services in the private market, thus leveraging the company's expenditures if there are no other functions to employ vehicles under delegated tasks of the municipality. Therefore, SOE might also apply diversification options; however, the latest report by The State Audit Office (2023) does not support it.

3. The study of diversification aspects of competitive neutrality

Research methods

Aim of the research – to evaluate from a public sector perspective whether there is a burden of diversification restraints to SOE performance and competitiveness that stems from legislation.

Objectives of the research:

1. To review studies related to diversification practices;
2. To compare the impact of the legislative burden on Latvian SOE to expand their operations;
3. To evaluate diversification practices in Latvia from the perspectives of public sector experts;
4. To examine the diversification opportunities of Latvian SOE and propose solutions.

Survey sample

Experts were chosen from the public sector based on two criteria – the company's governance and political representation, respectively. First, all SOE management and governance levels were covered (shareholders and representatives of the supervision council as well as board members and department leaders). Second, the top-level politicians, both from position and opposition at state and local government levels. The Chief of the Competition Council of Latvia was also approached. In total, 24 experts were involved in the survey.

Research methods

The study of this article consists of the following steps.

1. Analysis of legislation of restrictions concerning diversification, which could decrease the performance of SOE. Besides, the experts were asked to indicate other vital factors influencing SOE. The political influence was highlighted in the answers and thus considered in the study.
2. The structural interviews consist of a qualitative evaluation of the experts' perceptions of competitive neutrality and related issues regarding Latvian SOEs, as well as a quantitative impact evaluation of legislative restrictions on the performance of SOEs.
   At first, qualitative questions deal with aspects of diversification such as the advantages and disadvantages of SOE, concerns about competition legislation and its practice, the experience of expansion initiatives, legislation amendment opinions regarding restrictions, etc.
   Secondly, the impact of eight types of legislative restrictions (including diversification, expansion of daughter companies, etc.) was quantitively evaluated with SOE performance constraints: cost, time, and quality based on The Iron Triangle concept offered by Atkinson (1999). Ward (2018) highlighted that owners and investors claim for the lowest cost; clients often want the shortest schedule while users enjoy the highest quality. All of them are impossible to reach. Davis (2016) underlined that success depends on stakeholders' ability to balance these constraints. Though, experts' rankings were accommodated on a scale from 1 (very negative) up to 10 (very positive). Question Pro and Microsoft Excel tools were used to process the data.
3. Finally, the evaluation and interpretation of results were done. The classification of individual private and services of general interests performed by the public and private sectors and fulfilment of governmental tasks were considered in tackling development initiatives.

The analysis of legislation burden and practices

According to Saeima (2002), the private sector can make intervention initiatives to provide services of general interest if they find them profitable. There are various cases when such intervention is undertaken, such as public transport lines served by private bus operators who compete with public railway companies in some lines. Other examples include private and public hospitals and real estate house maintenance enterprises. The government widely supports to the extent that derived from New Public Management the superiority of the private-sector managerial techniques over those offered by the public sector in line with Osborne (2006).

The research shows the legitimacy issues of Latvian SOE's diversification initiatives. No explicit definition of SOE operations to use free and unused resources is defined in legislation by Saeima

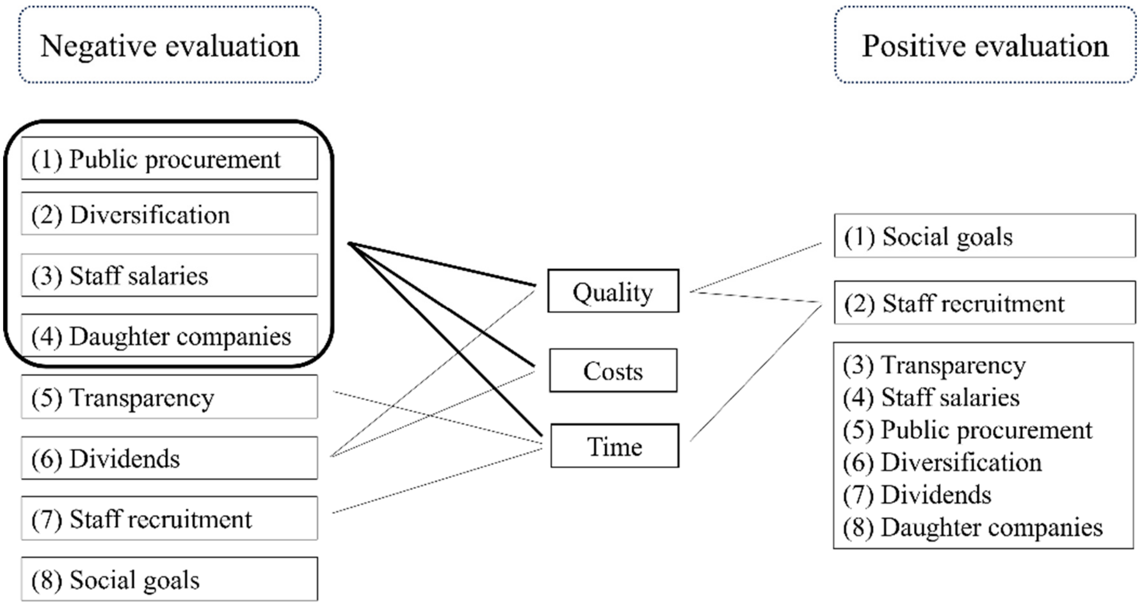
(2002 & 2014). Furthermore, regarding strategies, the review of long-term and medium-term policy documents like Saeima (2010) shows the main priorities – investment in human capital and education, an innovative economy and public governance, and nature as a future capital, thus in line with a spatial development perspective. These priorities do not provide for a sufficiently explicit strategic objective to augment public resources.

Therefore, SOEs are restrained from using diversification for development to leverage excess resources, costs, and income if shareholders of the state or municipality do not set public value goals in company strategies. Moreover, the argumentation based on Saeima (1995) concerning rationally used public resources is not accepted by The State Audit Office (2023), thus arguing that the principle of rationally used public resources is not applicable if SOE operates in the private markets beyond government functions. Such arguments are naturally logical for a commercial entity if one looks at a company through Penrose's (1995) concept of a "collection of productive resources". According to Capobianco & Christiansen (2011), the government or municipalities could be accused of the undue preference given to SOE. This approach is well received and used by private sector organisations to justify their initiatives.

The research data analysis and the discussion of the results

The results of the Iron Triangle

The Iron Triangle tests reveal the dominance of negative evaluation. Moreover, there are more negative rankings of diversification among other factors except public procurement obligations. In addition, the observed issues related to expansion through the creation of daughter companies are also binding to diversification initiatives (Fig. 1).



Source: created by the author.

Fig. 1. Experts' rankings of SOE restrictions and majority impact lines on The Iron Triangle constraints in Latvia

Regarding diversification, the results show different evaluations, however mainly negative influences that depend on industry, ownership, and government tasks as referred to by representing experts, thus showing the future research direction to avoid typical mistakes if reformers override suggestions noted by Hood & Peters (1994) that effectiveness of one-size-fits-all measures differs. Timing and cost issues are primarily affected, while negative quality evaluations are not far behind (Table 1). There are only a few positive evaluations and attention should be paid to this issue. The competitiveness risks should be considered.

Table 1

The experts' evaluations of diversification restrictions impact the Iron triangle constraints of SOE performance in Latvia

Constraints	Negative		Neutral		Positive		No answer	
Quality	10	45%	7	32%	2	9%	3	14%
Costs	12	55%	3	14%	4	18%	3	14%
Time	14	64%	4	18%	0	0%	4	18%
Total	36	55%	14	21%	6	9%	10	15%

Source: created by the author.

Results from experts' interviews

Structured interviews reveal the pros and cons of SOE diversification legislative practices to use a company's resources. First, although SOEs are legally created and experts noted several opportunities to develop new services, there is an observed burden of uncertainties concerning allowed business strategies and rational use of resources due to inconsistencies within legislation documents, practice of control institutions, SOE financial goals as well as customers' expectations concerning social goals. When SOE decides to offer new products on the grounds of strategic goals, they might be exposed to interpretations of whether it is bound by strategic importance if their private rivals have objections. There is a possible playground for undue pressure from the private sector representatives to secure their market positions.

Second, diversification restraints are growing; for example, it recently stopped the unused car rental business. A municipally owned public transport company is not allowed to offer unused buses for rent in the market. On the other hand, the company suffers from the lack of financial investments needed for development. The same applies to tariff-regulated energy companies' initiative to offer electric car rentals. The customer tariff costs are subject to suffering. No-attention has been paid to the game-changer point beyond what diversification restrictions are critically jeopardising the performance of SOE.

Third, the existence of a private monopoly is the subject of market failure treatment, which appears disregarded, as observed during the study. Distrust in the public sector and SOE management principles does not help reverse market failures.

Fourth, the experts' experience reveals that the needs of public interests have been considered primarily from an individual perspective. There is evidence of cancelled initiatives, such as car rental, delayed or social entrepreneurship (café) or postponed initiatives, like commuter bus lines connecting neighbouring municipalities. The practice shows that the setup of any new SOE production line initiative must be consulted by the Competition Council and negotiated with related industry representatives. Inviting competitors to evaluate their rivals' initiatives might appear against the natural logic of competition. It is based on the principle that the public sector is not welcome to conduct commercial and competitive activities in the private markets, followed by OECD (2015) good governance principles. However, governance must be appropriately undertaken, thus embracing Jordan & Bird (2010) that nonstate actors may operate across the spectrum of multilateral diplomacy and governance issues; some try to influence the standards, while others see themselves as a watchdog role. Muris (2005) suggested the actions of the state itself, not of private parties. Competition Council mitigates public and private interests. The results depend on the competitive neutrality approach. The observed line of balance is yet blurred.

Policy issues and the proposal

Concerning legislation improvement, there are claims for a clear framework for the boundary of allowed SOE services. Despite their ownership status, a need for the equivalence of legislative burden has been observed. At the same time, the private sector, like LCCI (2022), neglects any SOE initiative when private interests are in doing business and demanding strict regulation. A feasible solution is grounded on how the competition neutrality principle is applied.

Suppose the Government keeps the existing focus on encouraging private commercial activities. In that case, the policy amendments must clarify the definition of services of strategic and public importance to avoid interpretations about legitimate SOE initiatives. However, the Government must define social goals and allocate funding for public services.

Meanwhile, a shift towards balanced competition intervention tools like diversification should be recommended for all commercial entities, regardless of ownership. Private-owned companies offer public services if they find it profitable. At the same time, the analogue intervention principle should be applied to SOE, allowing them to expand their production lines in the private markets according to rational business logic. SOEs should not use state support except if market failures are observed.

Conclusions

1. Diversification strategies are proven to be an efficient scenario for a company's growth. They are widely used in business to use available resources better and raise competitiveness. However, there is an unequal set of rules for commercial enterprises in Latvia based on their ownership under the shield of competitive neutrality that protects only private sector initiatives. Little attention has been paid to how this practice impacts the public sector's undertakings except for general statements like contribution to economic development.
2. The examined competitive neutrality practice presents evidence opposing Latvian practice under the moniker of equal competition. First, SOE diversification-related restrictions are among those that affect performance more negatively. Secondly, SOE development issues are neglected by control practice despite their significance for competitive neutrality. This embarrasses SOE expansion initiatives if unused resources are left. Not all SOE resources are set to make a profit, contrary to the principles of business logic and rationality.
3. There is a narrow path to expand new SOE production lines if market failures are observed. SOE diversification eligibility interpretation issues open the playground for pressures imposed by private rivals, including political lobbying that affects SOE strengthening initiatives. Undertakings of public services may suffer.
4. The proposed balanced intervention principle for diversification initiatives for public and private enterprises shows the way towards the competitive neutrality model in compliance with commercial principles and favours the public good.
5. The research limitation tackling the public sector perspective is appropriate at the particular research stage. However, the playground for future study is also outlined. The research of legislative burden from public and private perspectives, which deals with the comparison of different factors' impact, will reveal the place of diversification in the equilibrium model of competitive neutrality and allow the adoption of policies that fit the development of the public good as well as bring the business environment closer to competitive neutrality. The issue of the private sector having an equal legislative burden should also be examined.

References

1. Ansoff, H.I. (1957). Strategies for diversification. *Harvard Business Review*, *35*(5), p. 113–124.
2. Atkinson, R. (1999). Project management: cost, time and quality, two best guesses and a phenomenon, it's time to accept other success criteria. *International Journal of Project Management*, *17*(6), p. 337–343.
3. Bērziņš, G., & Priede, J. (2021). Inovāciju izaicinājumi Latvijā salīdzinājumā ar citām Eiropas Savienības valstīm. In: Šteinbuka, I. (ed.). *Latvian Economy in the Shadow of Pandemic and Opportunities of the Post-Crisis Recovery* (in Latvian). Riga: LU Akadēmiskais apgāds, p. 257–270.
4. Jordan, S., & Bird, T. (2010). The Private Sector and the Business of Global Governance. In: Muldoon, J. P., Jr., Aviel, J. F., Reitano, R., Sullivan, E. (eds.). *The new dynamics of multilateralism: Diplomacy, international organisations, and global governance*. Boulder: Westview Press.
5. Białek-Jaworska, A. (2022). Revenue diversification and municipally owned companies' role in shaping the debt of municipalities. *Annals of Public and Cooperative Economics*, *93*(4), p. 931–975.
6. Cabinet of Ministers (2022). The Corporate Governance Codex - Good corporate governance recommendations for companies in Latvia, Regulations. Adopted 15.03.2022, 175. Retrieved from https://www.tm.gov.lv/en/media/7428/download
7. Capobianco, A., & Christiansen, H. (2011). Competitive Neutrality and State-Owned Enterprises: Challenges and Policy Options. *OECD Corporate Governance Working Papers*, 1. Paris: OECD Publishing.

8. Chatterjee, S., & Blocher, J.D. (1992). Measurement of Firm Diversification: Is It Robust? *The Academy of Management Journal*, *35*(4), p. 874–888.
9. Chatterjee, S., & Wernerfelt, B. (1991). The Link between Resources and Type of Diversification: Theory and Evidence. *Strategic Management Journal*, *12*(1), p. 33–48.
10. Christensen, H.K., & Montgomery, C.A. (1981). Corporate Economic Performance: Diversification Strategy Versus Market Structure. *Strategic Management Journal*, *2*(4), p. 327–343.
11. Competition Council of Latvia (2019). The Guidelines of Competitive Neutrality Evaluation (in Latvian). Riga. Retrieved from https://ej.uz/konkurences_neitralitate
12. Competition Council of Latvia (2022). Opinion about "Zemgales mutes veselības centrs", Ltd. and "Bauskas slimnīca", Ltd. to Bauska Local Government (in Latvian), 30.09.2022 (1.7-2/919). Retrieved from https://www.kp.gov.lv/lv/media/10397/download
13. Davis, K. (2016). A method to measure success dimensions relating to individual stakeholder groups. *International Journal of Project Management*, 34(3), 480–493.
14. Dierickx, I., & Cool, K. (1989). Asset Stock Accumulation and the Sustainability of Competitive Advantage: Reply. *Management Science*, *35*(12), p. 1504–1511.
15. Edwards, C.D. (1955). Conglomerate bigness as a source of power. In: *The business concentration and price policy*. Princeton University Press.
16. EU (2007). Consolidated version of the Treaty on European Union. European Union: Brussels, Belgium. Retrieved from https://eur-lex.europa.eu/resource.html?uri=cellar:2bf140bf-a3f8-4ab2-b506-fd71826e6da6.0023.02/DOC_1&format= PDF
17. Gyan, A.K., Brahmana, R., & Bakri, A.K. (2017). Diversification strategy, efficiency, and firm performance: Insight from emerging market. *Research in International Business and Finance*, *42*, p. 1103–1114.
18. Hill, CW (1985). Diversified growth and competition: the experience of twelve large UK firms. *Applied Economics*, *17*(5), p. 827–847.
19. Hood, C., & Peters, G. (2004). The Middle Aging of New Public Management: Into the Age of Paradox? *Journal of Public Administration Research and Theory*, *14*(3), p. 267–282.
20. Jayeola, D., Ismail, Z., & Sufahani, S.F. (2017). Effects of diversification of assets in optimising risk of portfolio. *Malaysian Journal of Fundamental and Applied Sciences*, *13*(4), p. 584–587.
21. Jeong, S.H. (2020). Does the size of local government debt affect the level of debt of off-budget entities? The case of local government in Korea. *International Review of Administrative Sciences*, *86*(2), p. 333–348.
22. Jovanovic, B., & Gilbert, R.J. (1993). The Diversification of Production. *Brookings Papers on Economic Activity. Microeconomics*, *1993*(1), p. 197–247.
23. Kozlenkova, I.V., Samaha, S.A., & Palmatier, R.W. (2014). Resource-based theory in marketing. *Journal of the Academy of Marketing Science*, *42*, p. 1–21.
24. LCCI (2022). Administrative-territorial reform: as an appropriate moment to review the legal validity of local governments' participation in commercial activities, as well as to prevent possible distortions of competition, Latvian Chamber of Commerce and Industry, Report (in Latvian). Retrieved from https://ej.uz/kvf_pētījums
25. Marcon, G. (2014). Public Value Theory in the Context of Public Sector Modernization. In: Guthrie, J., Marcon, G., Russo, S., & Farneti, F. (eds.). *Public value management, measurement and reporting (Studies in Public and Non-Profit Governance)*, Vol. 3. Bingley: Emerald Group Publishing, p. 323–351.
26. Markowitz, H. (1952). Portfolio Selection. *The Journal of Finance*, *7*(1), p. 77–91.
27. Montgomery, C.A. (1994). Corporate Diversification. *The Journal of Economic Perspectives*, *8*(3), p. 163–178.
28. Montgomery, C.A., & Wernerfelt, B. (1988). Diversification, Ricardian rents, and Tobin's q. *The Rand journal of economics*, p. 623-632.
29. Muris, T.J. (2005). Principles for a Successful Competition Agency. *The University of Chicago Law Review*, *72*(1), p. 165-187.
30. OECD (2012). *Competitive Neutrality: Maintaining a Level Playing Field between Public and Private Business*. Paris: OECD Publishing.
31. OECD (2015). *G20/OECD Principles of Corporate Governance*. Paris: OECD Publishing.
32. Osborne, S.P. (2006). The New Public Governance? *Public Management Review*, *8*(3), p. 377–387.
33. Penrose, E.T. (1995). *Theory of the growth of the firm* (3rd edition). Oxford, New York: Oxford University Press.
34. Pukis, M. (2016). Local dilemma about liberalisation or intervention. *International Journal of Management Science and Business Administration*, *2*(10), p. 17–24.
35. Pukis, M., & Vircavs, I. (forthcoming). Opportunity for Symmetric Approach to the Competition Neutrality – Case of Latvia, 3rd IEEE-TEMS International Conference on Technology and Entrepreneurship, 9-11 October 2023, Kaunas (Lithuania), Conference Proceedings.
36. Randma-Liiv, T. (2008). New public management versus the neo-Weberian state in central and Eastern Europe. *The NISPAcee Journal of Public Administration and Policy*, *1*(2), p. 49–71.
37. Rentsch, C., & Finger, M. (2015). Yes, no, maybe: the ambiguous relationships between state-owned enterprises and the state. *Annals of Public and Cooperative Economics*, *86*(4), 617–640.

38. Ruland, W., & Zhou, P. (2005). Debt, diversification, and valuation. *Review of Quantitative Finance and Accounting*, *25*, p. 277–291.
39. Saeima (1995). Law On Prevention of Squandering of the Financial Resources and Property of a Public Person. Adopted 19.07.1995. Retrieved from https://likumi.lv/ta/en/en/id/36190-on-prevention-of-squandering-of-the-financial-resources-and-property-of-a-public-person
40. Saeima (2002). State Administration Structure Law. Adopted 06.06.2002. Retrieved from https://likumi.lv/ta/en/en/id/63545-state-administration-structure-law
41. Saeima (2010). Latvija 2030 - Sustainable Development Strategy of Latvia until 2030. Adopted 10.06.2010. Retrieved from https://www.mk.gov.lv/en/media/15132/download?attachment
42. Saeima (2014). Law On Governance of Capital Shares of a Public Person and Capital Companies. Adopted 16.10.2014. Retrieved from https://likumi.lv/ta/en/en/id/269907-law-on-governance-of-capital-shares-of-a-public-person-and-capital-companies
43. Saeima (2019). Amendments of Competition Law (in Latvian). Adopted 28.03.2019. Retrieved from https://likumi.lv/ta/id/306101-grozijumi-konkurences-likuma
44. Sanchez, R. (1995). Strategic Flexibility in Product Competition. *Strategic Management Journal*, *16*, p. 135–159.
45. Sheppard, B. & Droog, C.A. (2019). A crisis of legitimacy. *Strategy+Business*, A PWC publication, Autumn 2019(96). Retrieved from https://www.strategy-business.com/article/A-crisis-of-legitimacy
46. Suoniemi, S., Meyer-Waarden, L., Munzel, A., Zablah, A.R., & Straub, D. (2020). Big data and firm performance: The roles of market-directed capabilities and business strategy. *Information & Management*, *57*(7), 103365.
47. The Government of Latvia (2023). Declaration of the Intended Activities. Retrieved from https://www.mk.gov.lv/en/media/16779/download?attachment
48. The State Audit Office (2023). Have newly established local and regional governments assessed shareholding in municipal enterprises according to the statutory procedure and best practice? The audit. Riga. Retrieved from https://lrvk.gov.lv/en/getrevisionfile/29653-etmXJDqQQ9Fff1wtzHfajqcxoENUdx4X.pdf
49. Vircavs, I. (2023). Problems of ensuring equal opportunities for public owned and private enterprises, Master's Thesis (in Latvian). Riga: University of Latvia.
50. Voorn, B., van Genugten, M., & van Thiel, S. (2020). Performance of municipally owned corporations: Determinants and mechanisms. *Annals of Public and Cooperative Economics*, *91*(2), p. 191–212.
51. Wang, Y., Ning, L., & Chen, J. (2014). Product diversification through licensing: Empirical evidence from Chinese firms. *European Management Journal*, *32*(4), p. 577–586.
52. Ward, G.G.F. (2018). *Effective project management: Guidance and checklists for engineering and construction*. Hoboken: Wiley-Blackwell.
53. Yuan, S., & Rieger, M.O. (2021). Diversification with options and structured products. *Review of Derivatives Research*, *24*, p. 55–77.