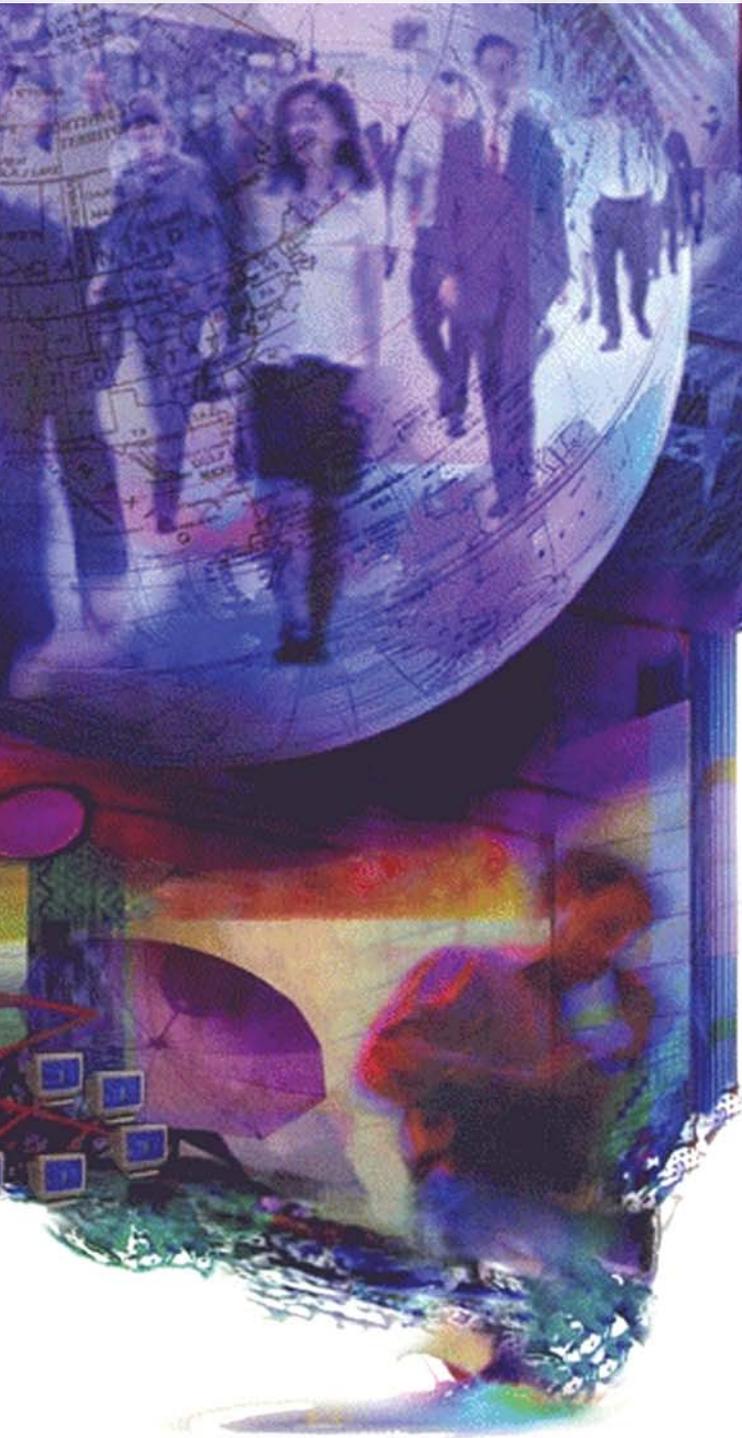




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REPORT

GLOBAL ENTREPRENEURSHIP MONITOR

Russia 2008

Report

GLOBAL ENTREPRENEURSHIP MONITOR

Olga Verkhovskaya
Maria Dorokhina

Russia 2008

Whilst this work is based on data collected by the GEM consortium, responsibility for analysis and interpretation of those data is the sole responsibility of the authors.

FOREWORD

This is the third Russian report under the framework of The Global Entrepreneurship Monitor (GEM). The goal of this report is to provide Russian entrepreneurs, experts in entrepreneurship, and other stakeholders with basic ideas of the GEM project and the main findings of its research in 2008.

From the beginning of its activity in 1997, the GEM project became one of the most influential research projects on relationships between entrepreneurship and economic growth.



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WHAT IS GEM?

Global Entrepreneurship Monitor (GEM) is a joint project of the world's leading business schools that conducts a series of cross-national research projects on entrepreneurial development and that facilitates the exchange of information on entrepreneurial activity in different countries.

The GEM project was conceived in 1997 at the initiative of leading academics from Great Britain, the United States, Finland, and Ireland. Institutional support for the project has been provided by two key organizations in the field of entrepreneurship studies: Babson College (USA) and London Business School. The first annual report was delivered in 1999 and prepared by 10 countries. Since then, the number of participants has grown continuously: from 20 in 2000 to 42 (including Russia) in 2007. At present the

GEM project is one of the widest research projects on entrepreneurship.

Since 2006, the Graduate School of Management, St. Petersburg State University, has played the leading role for the Russian side of the GEM project, with State University—Higher School of Economics, Moscow, as an important partner.

Despite the widespread view of entrepreneurship as an engine of the economy, the mechanism of interaction between entrepreneurship and economic growth has not been fully investigated. One of the main factors preventing a deeper understanding of this interaction is the paucity of data. To fill this gap, the GEM project has developed an annually renewed database (unique for its scope) providing important information for comprehensive analyses of entrepreneurship at national and global levels.

Goals

The GEM project is oriented to the following goals:

- Comparison of entrepreneurial activity in different countries;
- Revealing factors influencing the level of entrepreneurial activity (enhancing or hindering it);
- Measuring the influence of the level of entrepreneurial activity on economic growth;
- Developing policies for boosting entrepreneurial activity at the national level.

Data collection

- **Adult Population Surveys (APS)** are based on a special questionnaire revealing respondents' attitudes to conditions of entrepreneurial activity and their participation in the entrepreneurial process. The minimal representative sample in each country is 2000 adults.
- To measure framework conditions of entrepreneurship, the GEM project uses expert evaluation – **National Expert Surveys (NES)**, a survey of entrepreneurs and experts in entrepreneurship, using special

questionnaires and in-depth interviews. The questionnaire has 10 parts corresponding to GEM classification of the main environmental indicators influencing entrepreneurial activity and economic growth.

- The selection of experts was conducted through a semi-standardized procedure. The expert sample should comprise at least 36 experts and include men and women from various areas of professional activity and different geographical regions.
- **National economic and demographic data.**

The GEM model

GEM research has found that the interaction between entrepreneurial activity and economic growth depends on a country's level of economic development. Understanding this U-shaped might demonstrate this link, but it does not reveal casual relationships between entrepreneurship and economic

growth. In 2008 GEM's Research Committee introduced a new classification of economies following 2008 Global Competitiveness Report: the factor-driven economy, efficiency-driven economy, and innovation-driven economy. Table 1 provides a description of these types.

Types of economies

Table 1

Type	Description	GEM countries
Factor-driven economy	Firms are engaged in price competition, use unskilled labor and natural resources.	Angola, Bolivia, Bosnia and Herzegovina, Colombia, Ecuador, Egypt, India, Iran
Efficiency-driven economy	Efficient methods of production help improve performance. Competitiveness is achieved through higher education and the capability to benefit from existing technology.	Argentina, Brazil, Chile, Croatia, Dominican Republic, Hungary, Jamaica, Latvia, Macedonia, Mexico, Peru, Romania, Russia, Serbia, South Africa, Turkey, Uruguay
Innovation-driven economy	The economy produces innovative products through complex technologies (ICT). Firms survive only through innovations.	Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Republic of Korea, Netherlands, Norway, Slovenia, Spain, United Kingdom, United States

¹ In 2008 APS was conducted by a research team under headed by Professor A. Chepurens (HSE, Moscow).

Defining Entrepreneurship

In GEM research a rather wide definition of entrepreneurship is used that emphasizes the role of the individual in the entrepreneurial process. **Entrepreneurship** is any attempt to create a new business or company (individual business activity, a new business organization, an extension of an existing business) undertaken by an individual, a group of people, or an already established company (Reynolds, 2001). GEM project is interested mainly in the entrepreneurial behavior of people who create and manage businesses, in contrast with other research focused more generally on the registration of newly established companies.

Although understandings and interpretations of entrepreneurship are rather diverse, GEM emphasizes three major components of this phenomenon—attitudes to entrepreneurship, entrepreneurial activity, and entrepreneurial aspirations.

Entrepreneurial attitude reflects people's general feelings to entrepreneurs and entrepreneurship. The existence of people able to recognize new business opportunities and possessing enough knowledge and skills to seize on them has enormous influence for a country's development. A positive view of entrepreneurship in a society generally improves the entrepreneurial climate and facilitates development of the financial and commercial infrastructure.

Social attitudes to entrepreneurship influence entrepreneurial activity, and vice versa. For example, an individual's view of the legitimacy of entrepreneurship in a society, manifested in positive feelings to such activity, depends on that person being acquainted with someone who has recently started a new business. This reflects the level of entrepreneurial activity as well as the level of that society's development. Those who are personally acquainted with entrepreneurs are more likely to give a positive evaluation of entrepreneurship in general.

Entrepreneurial activity is a complex phenomenon that describes the involvement of a population in the process of creating new companies, managing re-

cently created and established companies, and closing unwanted or inefficient businesses.

Entrepreneurial activity is a dynamic process, which is why in the GEM project various stages of entrepreneurial development are analyzed, from conceiving the idea of a business through nascent entrepreneurs, to emerging and established companies. The study of various components of entrepreneurial activity draws out important distinctions in the process of creating new companies at different stages of a country's economic development. For example, statistical data show that the amount of nascent entrepreneurs and owners of newly created businesses will be higher in factor-driven economies; this may be explained by the fact that the majority of these initiatives will be motivated by urgent economic needs. Also, it is expected to find more innovation-motivated entrepreneurs in innovation-driven economies, in contrast to factor-driven and efficiency-driven economies.

Entrepreneurial aspirations give qualitative characteristics of entrepreneurial activity. GEM project developed a special system to measure such indicators as launching new products, implementing new production processes, participating in foreign markets, and company development. If these aspirations are fulfilled, they significantly influence the economic impact of entrepreneurship. Therefore, product and process innovations, internalization, and expectation of company growth are crucial features of this "high-aspiration" entrepreneurship.

The GEM project examines the mechanism of entrepreneurial influence on economic growth. The 2007 GEM Global Report discussed the applicability of Entrepreneurial Framework Conditions (EFC) as indicators of a country's potential to foster the development of entrepreneurship (Table 2). Conditions of entrepreneurial development are important characteristics of the social and economic environment that heavily influence the entrepreneurial sector.

Table 2

Entrepreneurial Framework Conditions

EFC1	Financial support. Availability of financial resources and support (including grants and subsidies) for emerging and developing firms. The quality of financial support—owned and borrowed initial capital, understanding by the financial community (e.g. knowledge and skills to evaluate entrepreneurial potential, business plans and small business needs in capital resources, readiness to deal with entrepreneurs and to take risks).
EFC2	Government policies. Regional and federal government policy and its application to taxation and regulation of business activity. Availability of government support to small and large firms. The impact of government policy on the development of emerging firms.
EFC3	Government programs. Existence of programs of direct support for new and emerging firms at all levels—national, regional, and municipal. The quality of these programs and their availability to any entrepreneur. The quality of human resources in the civil service and their ability to administer these programs.
EFC4	Education and training. The existing system of education and training in creating and managing small, new, and growing businesses is embedded in the general system of education and training, from primary school to post-graduate programs.
EFC5	R&D transfer. The level of development of R&D, leading to the creation of new opportunities for business. Availability of R&D products to new, small, and growing firms.
EFC6	Commercial and professional infrastructure. The availability of commercial, accounting, and other legal services and institutions supporting new, small, or growing businesses.
EFC7	Internal Market Openness. The stability of commercial relationships and opportunity for new and growing firms to compete with and replace established suppliers, subcontractors, and consultants. Two important components of this framework condition are market openness and the impact of globalization.
EFC8	Access to Physical Infrastructure. The accessibility and quality of physical resources such as communications (phone, mail, internet), communal services, transportation (roads, air and sea shipping), land, offices, parking places, rent, and natural resources, that may be an advantage for potential growth and development of entrepreneurship.
EFC9	Cultural and social norms. Existing social and cultural norms which support activity leading to the creation of new forms of business activity and the general attitude to entrepreneurship and entrepreneurs.
EFC10	IPR protection. The level of legal protection for new and growing firms.

The revised GEM model, along with the basic one, suggests that various environmental factors (entrepreneurial framework conditions) influence business and entrepreneurial activity of established entrepreneurs as well as of owners of newly created businesses. National framework conditions for factor-driven and efficiency-driven economies are borrowed from the 2008 Global Competitiveness Report (GCR) (Porter and Schwab, 2008) without changes, but conditions for innovation-driven economies are changed slightly by adding some elements of the environment associated with innovation and entrepreneurship. Following Acs et al (2003), the mechanism of entrepreneurship turns innovations into economic growth. Insufficient entrepreneurial activity may be considered an obstacle for achieving the potential growth level of an innovative economy.

It is important to understand that all types of economic activity may be found in every country, but each of them may be prevalent at a certain stage of development. GCR suggests that every stage of

economic development may embrace various combinations of these types of activity.

The revised GEM model is shown in Figure 1. For factor-driven economies it emphasizes basic requirements, such as the development of institutions, infrastructure, macroeconomic stability, health, and primary education. These support necessity-driven entrepreneurship and provide only weak support for opportunity-driven entrepreneurship. In the process of economic development and extensive economic growth, other requirements emerge and become crucial; these provide sustainable functioning of markets and lead to efficiency enhancement. They include higher education and training, goods market efficiency, financial markets sophistication, and technological readiness. For innovation-driven economies, the entrepreneurial framework conditions became more important drivers of development than basic requirements or efficiency enhancers.

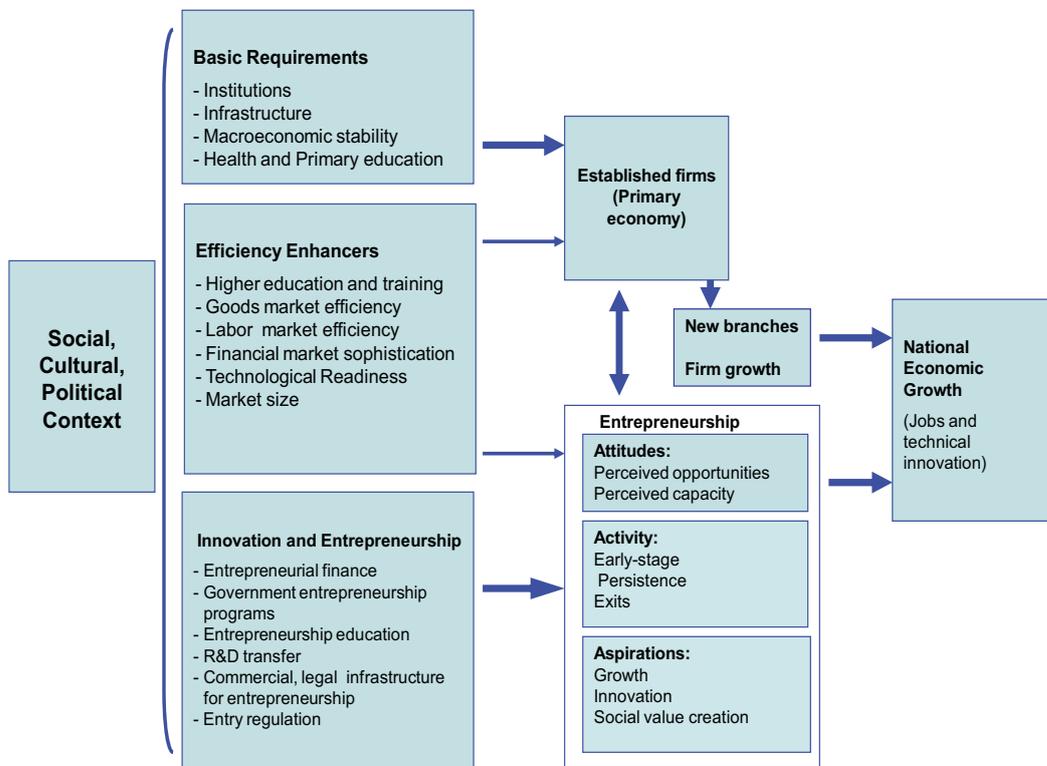


Figure 1. The Revised GEM Model

Together these factors foster the creation of new companies and improve the entrepreneurial climate, which in turn have a strong impact on an economy's growth and employment.

Types of Entrepreneurs

GEM conducts systematic research of various characteristics of entrepreneurship, such as motivation, innovativeness, competitiveness, and growth expectations. An important feature of GEM's approach to entrepreneurship is viewing it as a process embracing all stages of company's life cycle: from conception

of an idea (potential entrepreneurs) to early stages (nascent entrepreneurs), when a company is in gestation; and from new companies (owners of newly created companies), when a company already operates in the market, to established businesses and the potential exit of entrepreneurs from business.

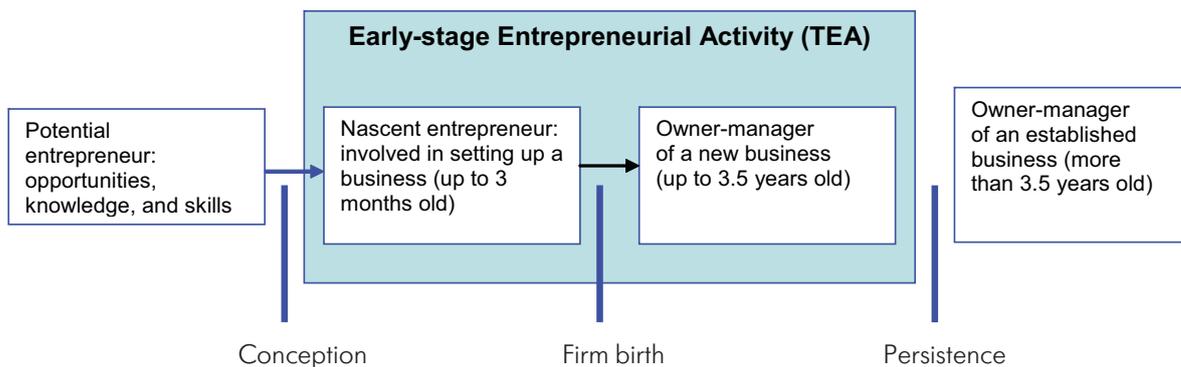


Figure 2. The Entrepreneurial Process and GEM Operational Definitions

The Fig. 2 depicts main stages of entrepreneurial process and defines main operational definitions of GEM:

- Potential entrepreneurs: those who make attempts to create their own business using their own capabilities, knowledge, and experience.
- Early-stage entrepreneurs, which include:
 - nascent entrepreneurs: those who during the previous year made attempts to set up a new business and have a stake in this business, but wages had not been paid for more than three months.
 - owners of new business: those who manage newly created business and receive income from its activity for more than three months but

less than 42 months;

- Owner-manager of established business: those who own and manage a business and receive income from its activity for more than 42 months.

Nascent entrepreneurs and owners of new businesses form a dynamic indicator of early entrepreneurial activity in a country. Even if nascent entrepreneurs do not succeed in establishing their companies, the very fact of market entrance may be understood as a positive event increasing competition for well-established companies.

Indicators for evaluating entrepreneurial activity of GEM countries are in Table 3.

Table 3

Basic Indicators of Entrepreneurial Activity in GEM project

Nascent entrepreneurship rate	Percentage of 18-64 population who are currently nascent entrepreneurs, i.e., actively involved in setting up an owned or co-owned business; this business exists for more than three months but has not paid wages or other payments to owners
New business ownership rate	Percentage of 18-64 population who are currently owners-managers of a new business, i.e., owning and managing a running business that has paid salaries or any other payments to owners for more than three months, but not more than 42 months
Early stage entrepreneurship activity index (TEA) ²	Shows the level of entrepreneurial activity at early stages. Percentage of 18-64 population who are either a nascent entrepreneur or an owner-manager of a new business. This is not a simple sum of the first two measures. If an entrepreneur is involved in both types of activity he is counted only once.
Established business ownership rate	Percentage of 18-64 population who are currently owners-managers of an established business, i.e. owning and managing a running business that has paid salaries or any other payments to the owners for more than 42 months.
Overall entrepreneurial activity rate	Percentage of 18-64 population who are either involved in early-stage entrepreneurial activity or owners-managers of an established business.
Business discontinuation rate	Percentage of 18-64 population who have, in the past 12 months, discontinued a business, either by selling, closing, or otherwise discontinuing an owner/management relationship with the business.

² Historically, this index was called Total Entrepreneurship Activity index and the abbreviation TEA was used. Later, the name of the index was changed to Early Stage Entrepreneurship Activity index but the abbreviation TEA was so popular that GEM retains it for the time being.

ENTREPRENEURIAL ATTITUDES

Attitudes to entrepreneurship are important characteristics for the country analysis, as this reflects general a people’s feelings about entrepreneurs and entrepreneurship. The existence of people able to reveal business opportunities and who possess knowledge and experience to seize these opportunities can have positive impact on general social support, access to financial resources, development of infrastructure, and the creation of a business community for nascent and potential entrepreneurs. Factors with significant influence on the beginning of entrepreneurial activity include personal characteristics as well as national features of entrepreneurial development. Such factors in the GEM model include:

- internal motivation and special knowledge;
- estimates of environmental favorability for starting a new business;
- social values, e.g. the meaning of entrepreneurship for career development, the prestige of the entrepreneurial role in society, aspiration to high standards of living;
- a developed business community;
- public opinion about entrepreneurship, which is mostly dependent on the image of the entrepreneur created by the mass media;
- the quality of entrepreneurial capabilities of people, which is based on education necessary to begin entrepreneurial activity and for relatively high self-assessment.

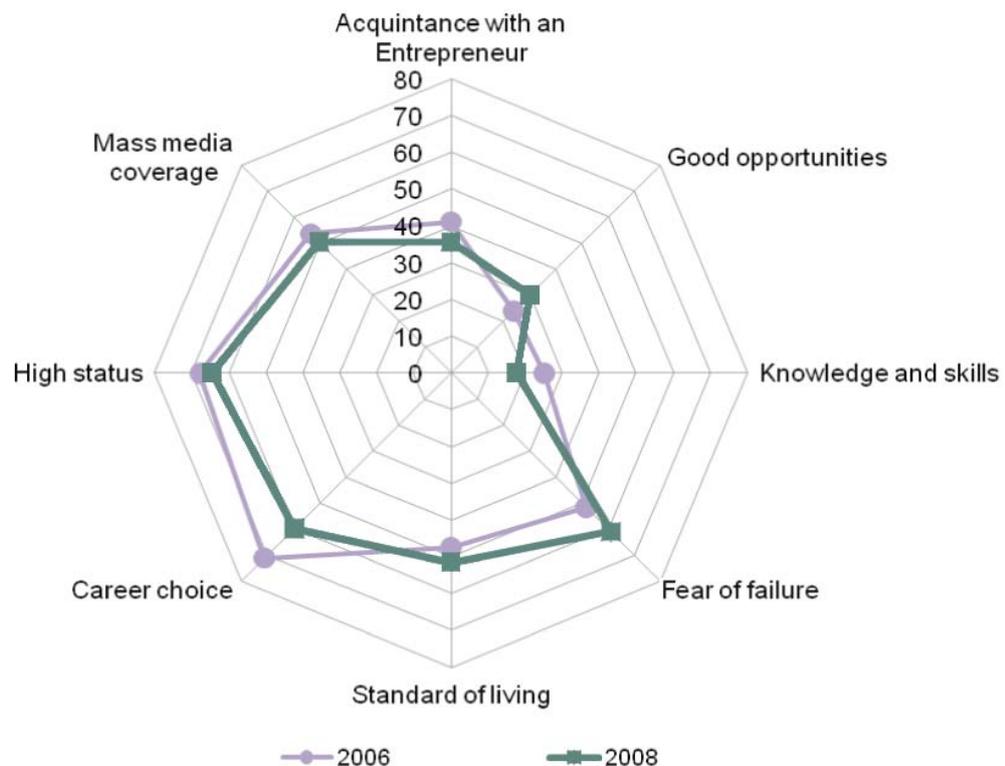


Figure 3. Social attitudes to entrepreneurship, 2006-2008
Source: APS 2006, APS 2008.

Research conducted for three years shows that despite the volatile character of these indicators, general trends can be seen (Figure 3). In general, Russian society has overcome negative feelings to entrepreneurs: about 70% of the population accept the high social status of this role and feel that entrepreneurs are gaining respect in society. This indicator shows an established public opinion about entrepreneurs. Comparing this result to other countries, it should be noted that the majority of GEM countries having a long history of entrepreneurship show a high value of this indicator. For example, 74% of respondents in the United States and 89% in Finland (highest for this dimension) believe entrepreneurs have high social status.

The choice of entrepreneurial career reveals not only social attitudes towards entrepreneurs but also the existence of opportunities for income outside of the labor market. This indicator has a wide range of values across different countries, from a low of 25% in Japan to a high of 92% in Colombia. In Russia 60% of people consider starting their own business to be a desired source of income.

Although the majority sees entrepreneurship as a good start to career, the number of people actually involved in entrepreneurial activity is not high. This may be explained by the fact that many respondents do not believe their knowledge and experience are sufficient for starting their own businesses. The

problem is not the real level of education, but rather their perceptions of capabilities and competencies necessary to start a new business. Unfortunately, for this indicator Russia is close to the bottom of rankings among GEM countries. In contrast, the highest level of people's confidence in their knowledge is in the Dominican Republic, Bolivia, and Peru, around 70%. The lowest level is in Japan (12.5%) and Russia (17.6%). In developed countries of Western Europe and America, 24% to 55% of respondents believe their knowledge is sufficient for being an entrepreneur.

Fear of failure is often an important element of culture that negatively influences entrepreneurial activity in that country. In 2008, 60% of Russian respondents admitted that fear of failure hampered their readiness to create their own businesses. This number was among the highest for GEM countries, along with the United Kingdom (57%), Estonia (52%), and France (50%). The share of populations that sees favorable conditions for starting a new business, but is prevented from doing so by this fear, is especially important. In Russia almost half (47.1%) of those who view conditions for entrepreneurship as favorable refrain from becoming an entrepreneur because of fear of failure. Nevertheless, almost every second Russian cannot give a definite answer when asked about the favorability of conditions for entrepreneurship.

ENTREPRENEURIAL ACTIVITY IN GEM COUNTRIES

Entrepreneurial activity

GEM data help to explain differences in the entrepreneurial potential of various countries, through analysis of such factors as institutional development, regulation of creation and development of new companies, demographics (age structure of the population and migration data); entrepreneurial culture; general level of economic welfare and techno-

logical development. Table 4 provides information on entrepreneurial activity at various stages of new business creation (Figure 2) for 43 GEM countries in 2008. The countries are grouped according their stage of economic development. The data describe general characteristics of entrepreneurial activity for every country.

Table 4

Indicators of Entrepreneurial Activity and Established Businesses Across GEM Countries in 2008 (Share of People at Age of 18-64) by Stage of Economic Development.

	NASCENT ENTREPRENEURIAL ACTIVITY	NEW BUSINESS OWNER-MANAGER	EARLY-STAGE ENTREPRENEURIAL ACTIVITY (TEA)	ESTABLISHED BUSINESS-OWNER MANAGERS	OVERALL ENTREPRENEURIAL ACTIVITY	BUSINESS DISCONTINUATION RATE	SAMPLE SIZE 18-64 years
Factor-driven economy							
Angola	19.3	4.1	22.7	4.1	26.0	23.4	1,490
Bolivia	17.4	14.3	29.8	19.1	45.6	10.5	1,879
Bosnia and Herzegovina	6.4	2.7	9.0	8.7	17.1	5.0	1,586
Egypt	7.9	5.5	13.1	8.0	20.2	6.3	2,603
India	6.9	4.9	11.5	16.5	27.6	10.1	1,919
Iran	5.9	3.4	9.2	6.8	15.7	5.2	3,119
Colombia	13.8	11.7	24.5	14.1	36.7	7.1	2,000
Ecuador	8.7	9.1	17.2	11.9	28.1	5.9	2,142
Efficiency-driven economy							
Argentina	8.5	8.5	16.5	13.5	29.6	10.2	1,731
Brazil	2.9	9.3	12.0	14.6	26.4	3.5	2,000
Hungary	3.8	2.8	6.6	5.3	11.8	1.1	1,994
Dominican Republic	11.7	9.8	20.4	8.2	27.9	11.3	2,013
Latvia	3.9	2.8	6.5	3.0	9.4	1.7	2,011
Macedonia	7.2	7.7	14.5	11.0	24.8	5.3	1,746
Mexico	9.3	4.0	13.1	4.9	17.8	13.6	2,433
Peru	19.7	6.8	25.6	8.3	32.7	10.4	1,990

Russia	1.7	2.0	3.5	1.1	4.4	1.1	1,660
Romania	2.5	1.6	4.0	2.1	5.9	2.2	1,667
Serbia	4.0	3.6	7.6	9.3	16.5	3.7	1,813
Turkey	3.2	3.0	6.0	4.8	10.7	3.9	2,400
Uruguay	7.7	4.4	11.9	7.9	19.3	9.1	1,645
Croatia	4.9	2.8	7.6	4.8	12.3	2.9	1,696
Chilie	8.6	5.8	14.1	6.8	20.2	5.8	4,068
South Africa	5.7	2.1	7.8	2.3	9.9	5.8	2,719
Jamaica	9.0	7.1	15.6	9.1	24.3	8.9	2,399
Innovation-driven economy							
Belgium	2.0	0.9	2.9	2.6	5.3	1.5	1,997
United Kingdom	3.1	2.9	5.9	6.0	11.7	2.1	5,892
Germany	2.4	1.5	3.8	4.0	7.7	1.8	4,751
Netherlands	2.1	3.2	5.2	7.2	12.3	1.6	2,534
Greece	5.3	4.6	9.9	12.6	22.0	2.9	1,962
Denmark	2.3	2.3	4.4	4.4	8.4	1.9	2,012
Israel	3.5	3.1	6.4	4.5	10.6	3.2	1,778
Ireland	3.3	4.3	7.6	9.0	16.3	3.6	1,924
Iceland	6.5	3.6	10.1	7.1	16.7	3.4	2,002
Spain	3.3	3.9	7.0	9.1	14.8	1.3	30,879
Italy	2.0	2.7	4.6	6.5	11.0	1.8	2,970
Republic of Korea	3.5	6.5	10.0	12.8	22.6	4.7	2,000
Norway	5.0	4.0	8.7	7.7	15.8	3.4	1,614
Slovenia	4.1	2.4	6.4	5.6	11.8	1.3	3,019
United States	5.9	5.0	10.8	8.3	18.7	4.4	3,441
Finland	4.1	3.3	7.3	9.2	16.0	2.1	2,011
France	3.8	1.9	5.6	2.8	8.2	2.2	1,573
Japan	3.2	2.3	5.4	7.9	12.7	1.0	1,879

Source: GEM Adult population Survey (APS)

These data shed light on special characteristics of entrepreneurial activity in every country. As can be expected, factor-driven economies show a rather high level of involvement in entrepreneurial activity of nascent and established entrepreneurs.

The level of entrepreneurial activity in Russia have grown in 2008 and reached 3.49% (compared to 2.7% in 2007), but this still the lowest for GEM countries. The growth of this indicator in Russia may be explained by efforts of Russian authorities in 2008 to provide support for small businesses. These measures were mainly aimed at reducing entrance bar-

riers to markets and improving access to physical infrastructure through considerable financial help from the government. More than 38 billion rubles were used as subsidies for developing R&D parks, business incubators, and venture funds. The share of established business-owner managers also remains among the lowest for GEM countries, decreasing from 1.7% to 1.1% in 2008.

The 10 years of GEM research have found much evidence of U-shaped relationships between the level of economic development and the level and type of entrepreneurial activity. Figure 4 illustrates the U-

shaped dependency between GDP per capita and the level of entrepreneurial activity in 2008 for GEM countries. Data for entrepreneurial activity are from

a representative sample of the adult economically active population (Adult Population Surveys, APS) at ages 18-64.

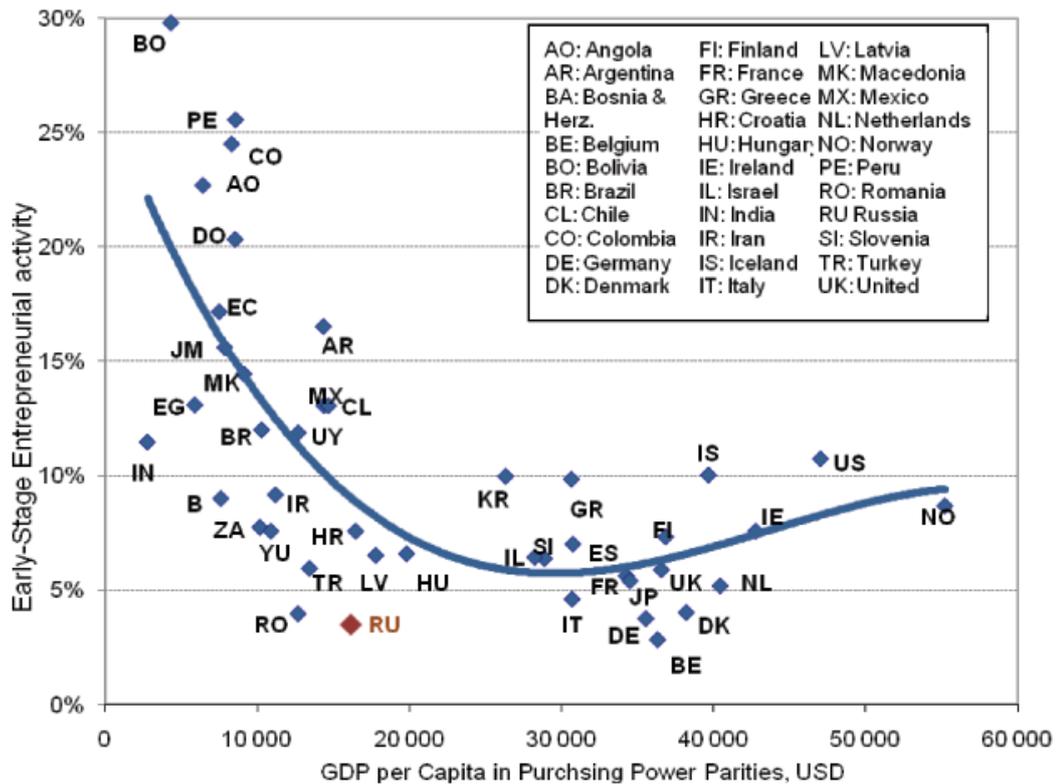


Figure 4. Early-stage Entrepreneurial Activity Rate and GDP per Capita
Source: GEM Adult population Survey (APS 2008).

The U-shaped relationships may be explained in this way. The economic structure for countries with a low level of income per capita is characterized by the domination of a large number of small firms. An important factor of economic growth is macroeconomic and political stability, which favors the development of strong businesses. With economic growth and growth of GDP, large and established firms start to play a more important role in satisfying growing demand in most markets. The growing importance of large businesses goes along with the slowing of small and middle businesses, as more people find jobs in large companies. Therefore, the decrease in

the level of entrepreneurial activity may understood as a positive sign for countries with low income per capita, especially if it is accompanied by economic growth and political stability.

The dispersion of TEA country estimates around the line of best fit in Figure 4 demonstrates that the size of the entrepreneurial sector in the country is not only a function of differences in economic development or welfare. Entrepreneurship is not a strictly economic but also a socio-economic phenomenon and is influenced by such factors as entrepreneurial culture, demographics, and level of institutional development.

Motivation

When considering starting a new business, entrepreneurs may be motivated by various factors. While some start companies to seize good opportunities, others may found their businesses because they do not have any other sources of income. Following this logic, the GEM model makes a distinction between:

1. **Opportunity-driven entrepreneurs:** entrepreneurs who try to use new opportunities and obtain an advantage from entrepreneurial activity.
2. **Necessity-driven entrepreneurs:** entrepreneurs who try to start new businesses because they do not have any other opportunity to make a living.

An investigation of the relation between the level of economic development and entrepreneurial aspirations found that over several years, using good busi-

ness opportunities was one of the most important reasons for entrepreneurship in innovation-driven economies. Even in countries far from the highest level of entrepreneurial activity, entrepreneurship is of high quality, i.e. the creation of a new firm is the result of pursuing a potentially profitable idea. In factor-driven and efficiency-driven economies, the creation of a new business is mostly a forced action. High intensity of early entrepreneurial activity in these countries is mostly evidence of the absence of other opportunities for income, not evidence of higher level of entrepreneurship development that demands not only large number of entrepreneurs but also an innovative character of their activity, which is common to innovation-driven economies.

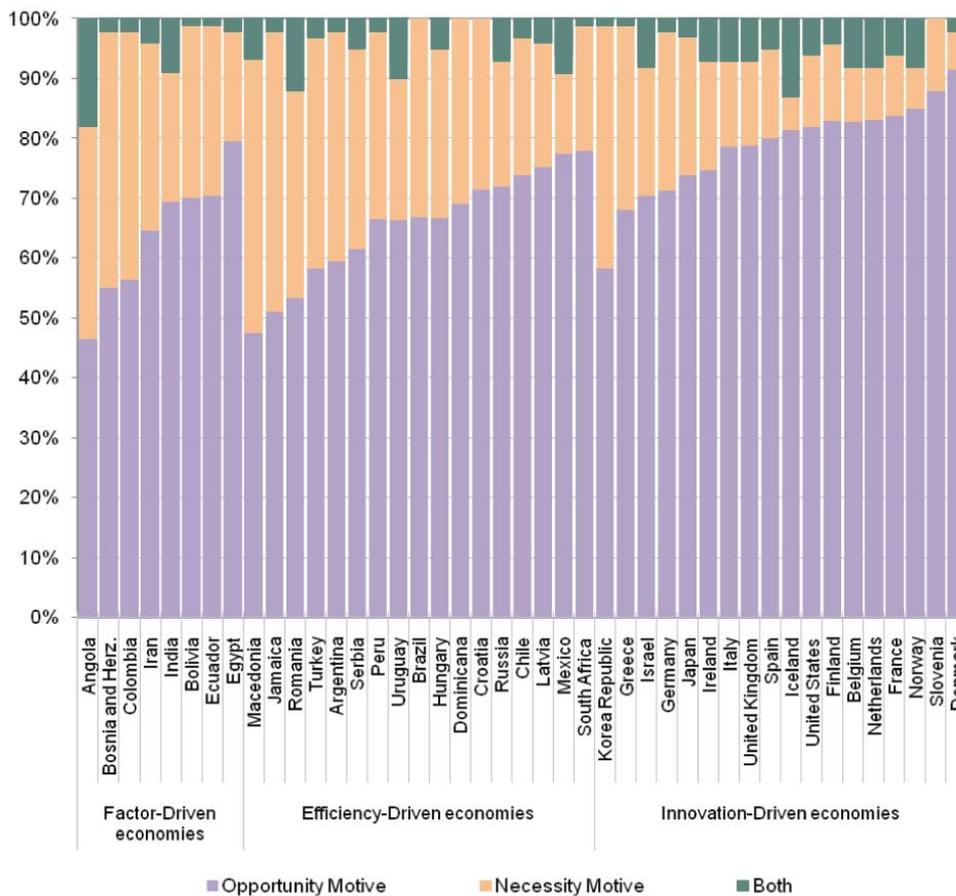


Figure 5. Motivation Types as a Percentage of Early-Stage Entrepreneurial Activity, GEM Countries 2008

The same trend may be found in 2008 (Fig. 5). The overall share of opportunity-driven entrepreneurs is higher in innovation-driven economies than in other economies. However, this rough distinction leaves little room for a deeper understanding of entrepreneurial aspirations, because respondents answering this question have to choose between “no better options for work” and “exploit business opportunities.” They may choose the latter even if their real motivation is closer to the former [Bosma et al. 2009].

That is why aspirations of opportunity-driven entrepreneurs became the object of a more detailed study. They were separated in three groups: the first named the most important incentive as additional income; the second named independence; the third cited basic need for income. The last group actually matches the most exact definition of necessity-driven entrepreneurs. It was found that in most factor-driven economies, the share of the third group is 15%, but in most innovation-driven economies it is 7%.

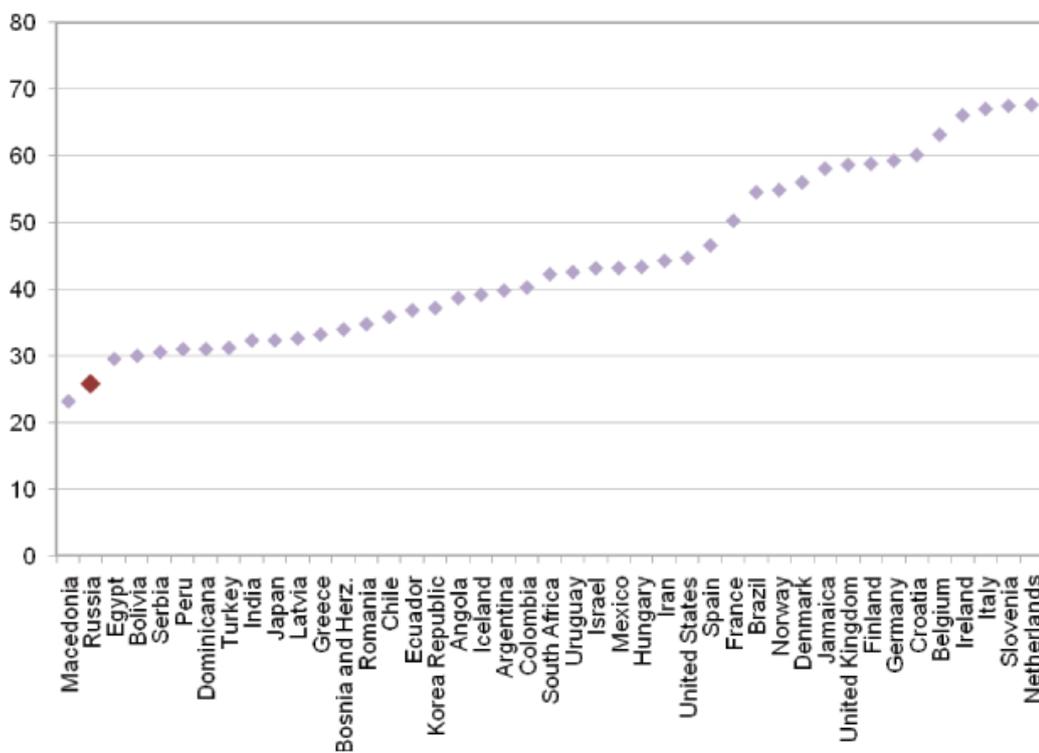


Figure 6. Independence Motive of Early-Stage Opportunity-Driven Entrepreneurs

If we look more carefully at the first two types of motivation of opportunity-driven entrepreneurs, the strong differences between countries are seen (Figure 6). In most innovation-driven economies, independence plays the main role, i.e. people view entrepreneurship as an attractive activity that brings freedom. Conversely, in factor-driven and efficiency-driven economies, the income motive dominates. In Russia the proportion of necessity-driven entrepreneurs and opportunity-driven entrepreneurs was stable during 2006-2008. The percentage of

opportunity-driven entrepreneurs is little over 70%. Nevertheless, the percentage of entrepreneurs who started new businesses for a basic income is also high: in 2008 it was 21% of the total of opportunity-driven entrepreneurs. Almost half of early-stage entrepreneurs are motivated by the wish for additional income, and independence is the main reason for starting a new business for about 24% of them. The last fact may be explained by the socio-cultural characteristics of the country and in particular by the overwhelming historical significance of collectivism,

which made individual success and independence unimportant for the majority of Russians. Despite the fact that men and not women are more often involved in the creation of new businesses,

the percentage of necessity-driven entrepreneurs is higher for men (32%) than for women (23%). Overall, we may talk about different activity of various socio-demographic types of entrepreneurs.

Business discontinuation

Entrepreneurial activity is measured not only by the number of companies created but also by the number of those who left this activity. GEM data shows that these two numbers correlate (Bosma et al). In some countries the number of those who stop entrepreneurial activity in a specified period is comparable or even larger than the number who decide to become an entrepreneur (Table 4). For example, in India the business discontinuation rate was 10.1%, with early-stage entrepreneurial activity of 11.5%. In Mexico these numbers were 13.6% and 13.1% respectively. In innovation-driven economies, the business discontinuation rate is lower than in factor-

driven and efficiency-driven economies. However, as noted above, in many of these countries the early stage entrepreneurship index is traditionally low. Comparing the number of nascent entrepreneurs as those who are involved in creating new businesses and the number of those who cease business activity may help us understand changes in overall entrepreneurial activity. As we see in Figure 7, this ratio is less than 1 in about quarter of all GEM countries. It may be noted that all these countries except Ireland are not innovation-driven economies. In Russia this ratio is 1.5, indicating slight growth of entrepreneurship in 2008.

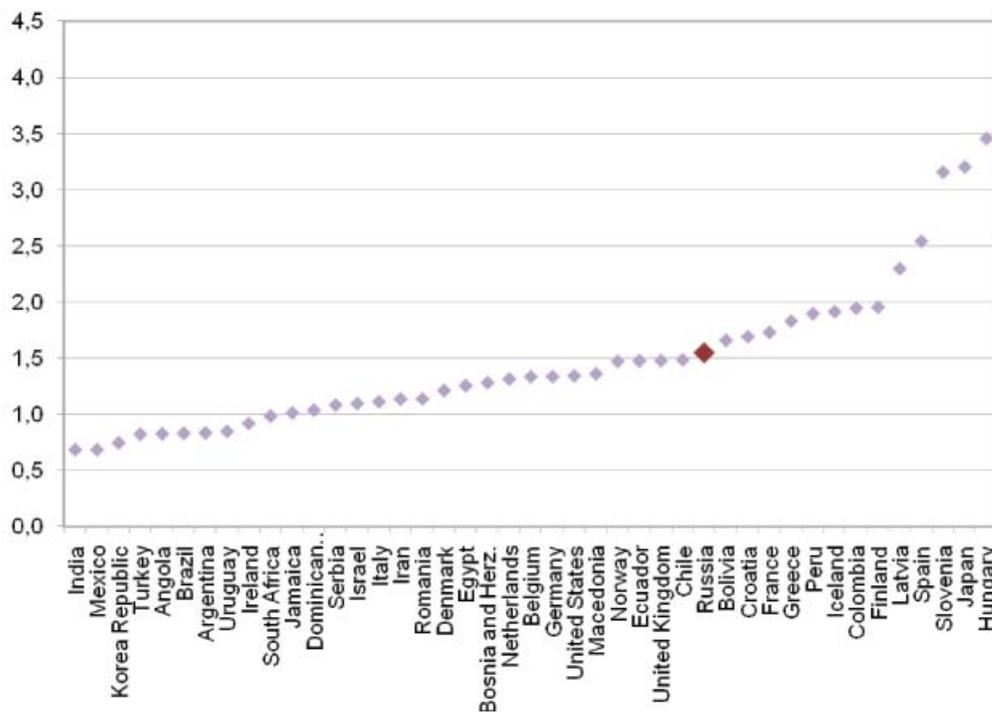


Figure 7. Entrepreneurial Expansion Ratio (the proportion between nascent entrepreneurs and entrepreneurs leaving their businesses), 2008

It should be noted that leaving a business does not necessarily mean failure of an entrepreneurial idea or bankruptcy. In GEM data, almost one third of companies whose founder, the respondent to the GEM survey, left the business continued to operate under the control of owners or in other organizational form [Bosma et al].

Figure 8 shows reasons of leaving a business in countries with different types of economies, including Russia. The most common problem in all GEM

countries is financial inefficiency of new businesses. Insufficient returns or limited access to financing pose more problems in factor-driven and efficiency-driven economies (more than 50%) than in innovation-driven economies (slightly more than 40%). In Russia financial problems were the main reason for closing a business. Another important reason for business discontinuation in this country is the problem of working capital.

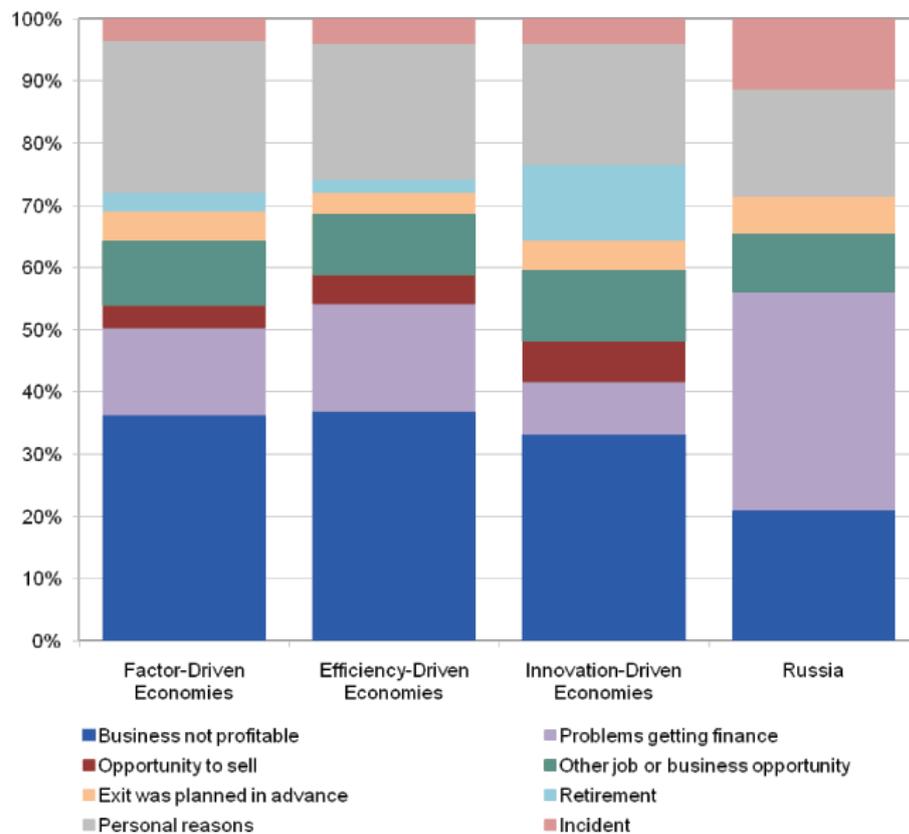


Figure 8. Reasons Expressed behind Discontinuing Businesses, GEM Countries and Russia, 2008.

High participation in entrepreneurial activity of people aged 55-64 in innovation-driven economies may explain a higher relative weight of retirement as a factor of business discontinuation in these countries. In Russia no respondent chose retirement as well as opportunity to sell as reasons for quitting business. For many entrepreneurs business discontinuation does not mean the end of an entrepreneurial career. Many early stage entrepreneurs had some past experience with entrepreneurial activity. The practice of starting a new business by people with some entrepreneurial

experience is more common for factor-driven and efficiency-driven economies. On average 17% of nascent entrepreneurs in these countries had quit a business in previous years. There are only 8% of such entrepreneurs in innovation-driven economies. But in Russia this indicator is much higher than average, 28%. This demonstrates the fact that participation of new individuals in entrepreneurial activity in Russia is lower than in GEM countries, and nearly every third firm is created by an entrepreneur who has some experience of entrepreneurship in the past.

Social and demographic characteristics of Russian entrepreneurs

All researchers of entrepreneurship admit that such social and economic characteristics as age, gender, education, and income have significant influence on

the desire to start an entrepreneurial career and to found a business, thus being a major determinant of entrepreneurial landscape of the country.

Age

An analysis of entrepreneurs' age structure reveals differences in age characteristics of different types of people who start their own businesses. The highest level of entrepreneurial activity among nascent entrepreneurs is by respondents in the 25-34 age

group. The dominance of this group in the entrepreneurial population is typical for most GEM countries, as well as for Russia, in the last three years. In 2007 these entrepreneurs accounted for 46% and in 2008 for 41% of all entrepreneurs in the country.

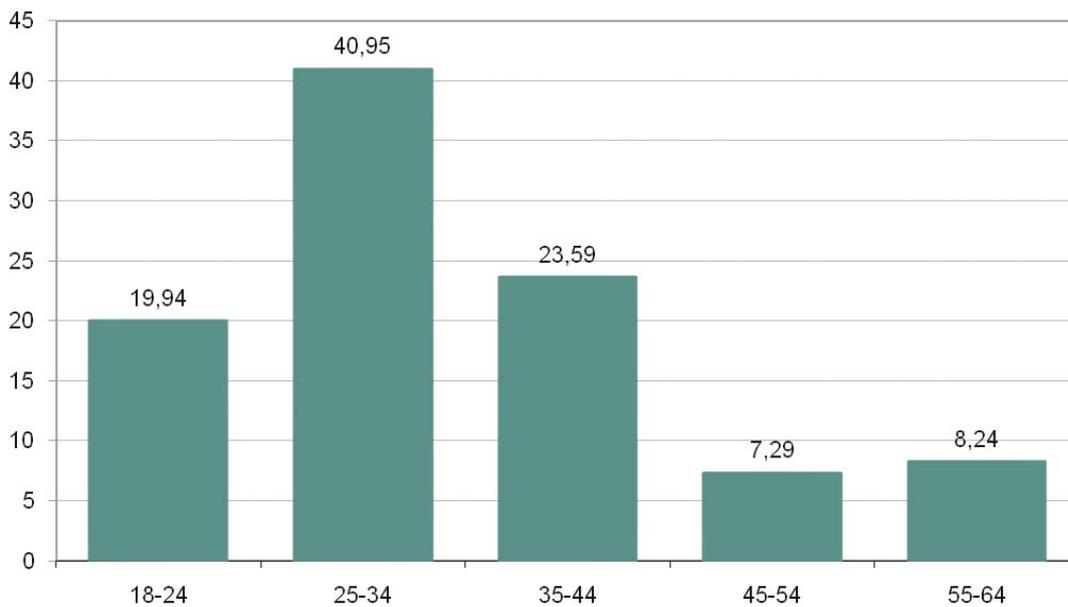


Figure 9. Age Distribution of Early Stage Entrepreneurs in Russia, 2008

The age distribution of entrepreneurial activity is shaped partly by the desire to create a business, which diminishes with age, and partly by knowledge, skills, and capital, which increase with age. This helps explain the fact that the share of older people

is higher among owners of established businesses than among early stage entrepreneurs. The share of people at age of 45-64 in the total number of owners of established businesses is 49.5%, although for early stage entrepreneurs this figure is only 15.5%.

Gender

The gender structure of early stage entrepreneurship in Russia is rather typical for all European countries, where the share of female entrepreneurs is traditionally high. In all GEM countries except Angola, early stage entrepreneurship is more a male occupation. However, cultural and national characteristics have some influence on the ratio of men to women among early stage entrepreneurs in different countries. In such countries as Iran, Egypt, Macedonia, Korea, and Turkey, men's entrepreneurial activity is 3-4

times higher than for women, although in most European innovation-driven economies male entrepreneurs are only 2 times more active.

In Russia 4.5% of all men and only 2.5% of all women were early stage entrepreneurs (Fig. 20). This means that in the current level of entrepreneurial activity, one of 22 men and one of 40 women are early stage entrepreneurs. This proportion has been rather stable for different years.

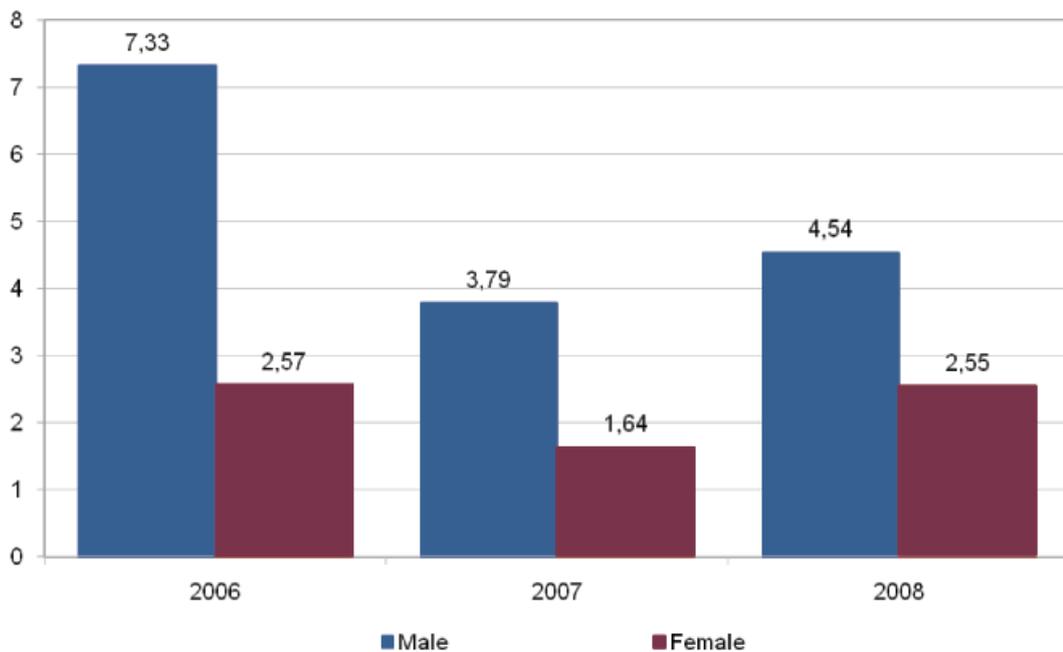


Figure 10. Early Stage Entrepreneurs Activity among Men and Women in Russia, 2006-2008

In analyzing differences between the entrepreneurial behavior of men and women, the attention should be paid not only to cultural traditions in various countries but also to different gender attitudes towards entrepreneurship. Men are more inclined to see favorable opportunities in the environment and to give a more positive evaluation to external conditions for starting a new business (36% of men, to 29% of women). Further, men are more optimistic in evaluating the knowledge and experience necessary for

starting a new business (20% to 15% respectively) and have less fear of failure. Men are more often ready to take risks—the fear of failure prevents 53% of men and 68% of women from starting a business. Although men start a new business more readily, they are not always more successful than women, and there are more women among owners of established businesses. In 2008 entrepreneurial activity of women (1.22%) was slightly higher than similar activity of men (1%).

Education

GEM data show that in most countries people with high education demonstrate a higher propensity to create new businesses. In Russia entrepreneurial ac-

tivity was the highest among people with higher education, both for nascent and established businesses (Figure 11)

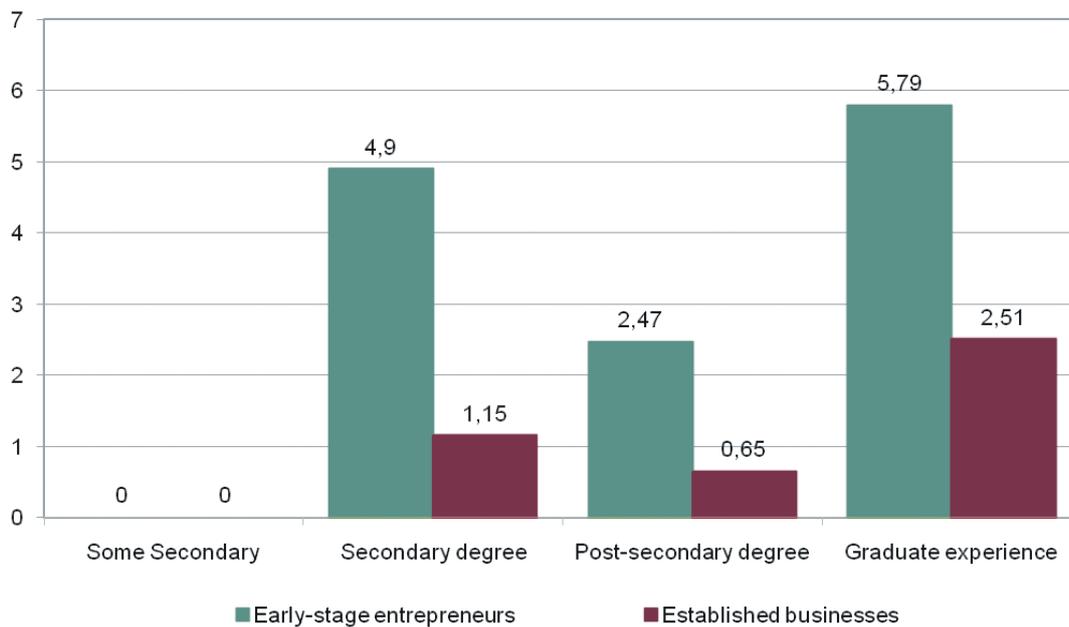


Figure 11. The Activity of Nascent Entrepreneurs and Owners of Established Businesses, by Level of Education, Russia, 2008

The level of entrepreneurial activity among people with higher education is 1.7 times greater than the average among nascent entrepreneurs and 2.3 times higher among owners of established businesses. Therefore, higher education is more important for

developing business than creating a new company. It may be that the most valuable knowledge for entrepreneurs is not special education but general skills in analysis and decision-making.

Type of settlement

An analysis of early stage entrepreneurial activity in various types of settlement showed that large cities with a population from 20 to 100 thousand have the most active creation of new businesses (Fig. 12). In megalopolises this activity is slightly lower, which might be explained partly by more opportunities for

work at larger established companies in cities with a population great than 1 million. Similarly, the higher level of entrepreneurial activity in rural areas may be due to the deficit of jobs with existing companies; this is associated with a high share of necessity-driven entrepreneurs.

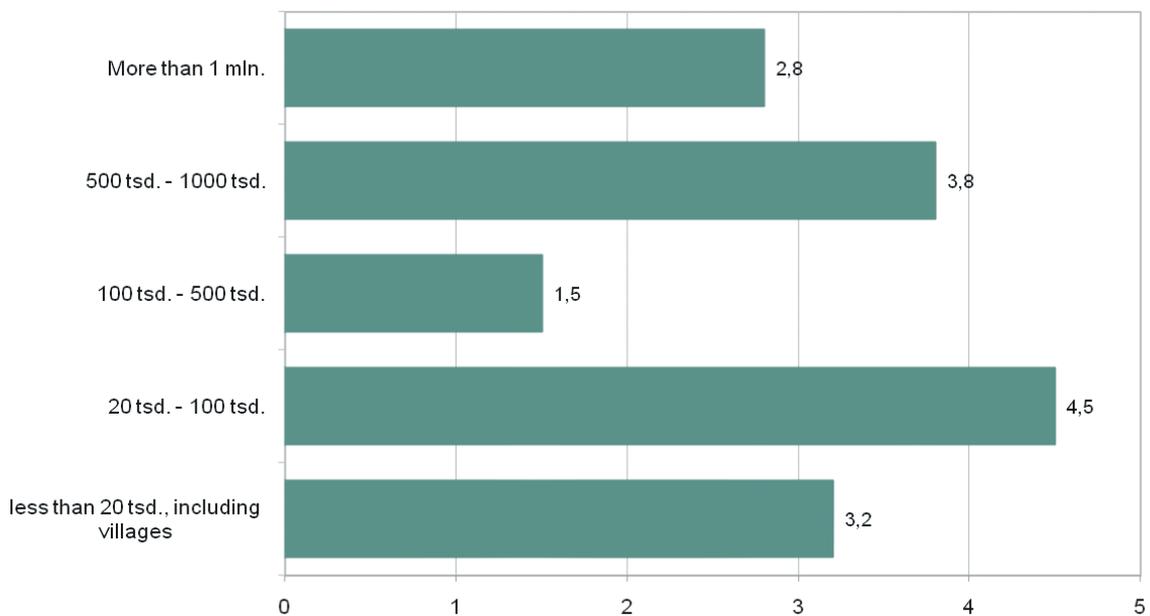


Figure 12. Early Stage Entrepreneurial Activity, by Type of Settlement.

The lowest level of entrepreneurial activity is in cities with a population from 100 to 500 thousand. This may be explained partly by the absence of poten-

tially profitable opportunities for creating new businesses.

Type of employment

The majority of early stage entrepreneurs state that their main source of income is the wage from their employment in another company where they have full-time or part-time work and some social benefits. The characteristic feature of Russian early stage entrepreneurs is the high activity of the unemployed—3.36% of respondents stated that they did not work anywhere but had been trying to set up their own businesses. This share is almost equal to the share of the population that tries to establish new businesses while being a full-time or a part-time employee of another company. In general, the entrepreneurial activity index for unemployed people among GEM countries is much less than the TEA index. For exam-

ple, in France it is 10 times less than TEA, in India 5.7 times less, in Great Britain 2 times less, in the United States 1.6 times less. That means that the majority of the Russian unemployed seek a way back to normal employment, and this may create a potential for economic development during the current economic slowdown with its reduction of jobs at large enterprises.

This evidence is supported by an analysis of potential entrepreneurs' activity by type of employment: 14.7% of unemployed and 14% of part-time employed state that they plan to start a new business in the next three years (Fig. 13).

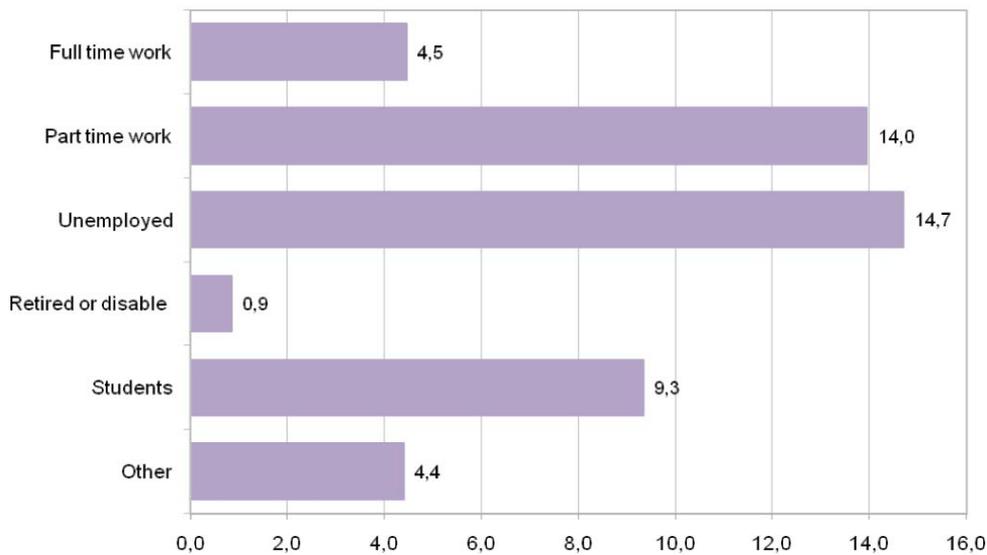


Figure 13. Activity of Potential Entrepreneurs by Occupation

From fig. 13 it is clear that every 10th student plans to be involved in entrepreneurship. This suggests significant potential for entrepreneurial growth. Taking into account low self-evaluation of their current

knowledge, skills, and experience for starting a business, special educational and training programs could be great boost to entrepreneurship in Russia.

Sector Distribution

The GEM project is focused not only on counting the number of the firms created but on the estimation of the entrepreneurial spirit and entrepreneurial activity at different stages of a firm's growth. For a correct use of the project data we have to understand that for measuring some important characteristics, e.g. sector distribution, the GEM database is not the best source of information, although it has some value for

painting a picture of early stage entrepreneurs.

GEM studies entrepreneurship in various economic sectors using the International Standard of Industrial Classification of All Economic Activities (ISIC). All sectors are categorized as consumer industries, business services industries, manufacturing, and construction as well extraction (farming, forestry, fishing and mining).

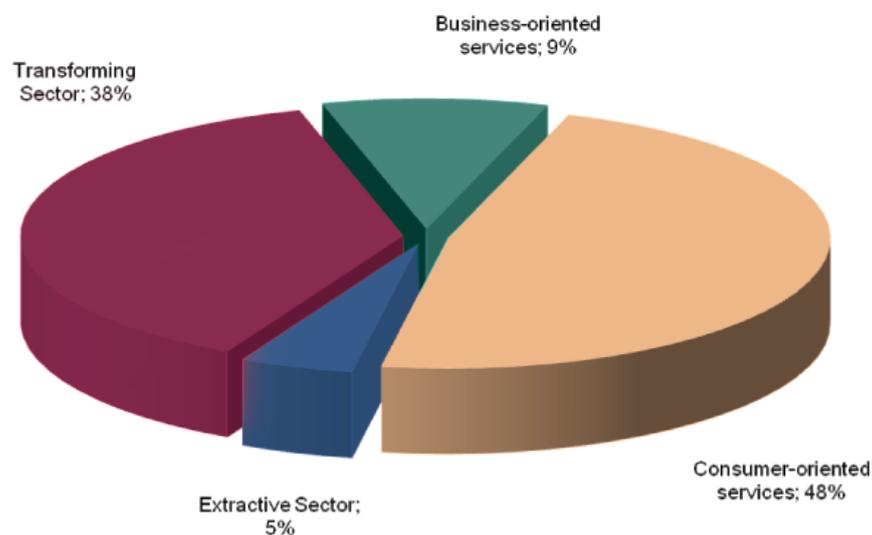


Figure 14. Sector Distribution of Russian Entrepreneurs.

In most GEM countries entrepreneurs are involved in producing goods and delivering services to consumers. The share of this sector varies in different economies. As an economy is becoming more developed, it starts to play less important a role in its structure. If this sector accounts for more than 60% of entrepreneurs in factor-driven economies, in efficiency-driven economies it has 50% of entrepreneurs and in innovation-driven nearly 40%. In Russia this share is 47.6%.

The reduction of the consumer sector in innovation-driven economies is caused by the growth of the business services sector. The latter accounts for 25% in developed economies while in less developed countries it accounts only for about 10%. The important characteristic of Russian sectoral distribution is the relatively high share of entrepreneurs in construction and manufacturing industries (Fig. 14).

ENTREPRENEURIAL ASPIRATIONS

GEM countries differ not only in the level of entrepreneurial activity but also by the type of entrepreneurial activity. To describe the nature of this activity

such indicators as innovativeness of entrepreneurial activity, export orientation, and expected business growth are used.

Innovativeness

- An important characteristic of entrepreneurship is the degree of its innovativeness. In GEM there are three indicators used to measure this characteristic.
- An estimation of novelty of the product or service produced by the entrepreneur
- An estimation of the competitive environment the entrepreneur faces
- An estimation of the novelty of technologies used.

Figure 15 shows an index combining two indicators of innovativeness, product novelty and degree of competition. This index shows the number of entrepreneurs who think their product or service has some novelty for some or all consumers and that they have few if any competitors. The choice of countries reflects the leading role of the American economy in entrepreneurial activity among innovation-driven economies, and the position of Brazil and India as typical factor-driven and efficiency-driven economies (correspondingly) that are rapidly growing.

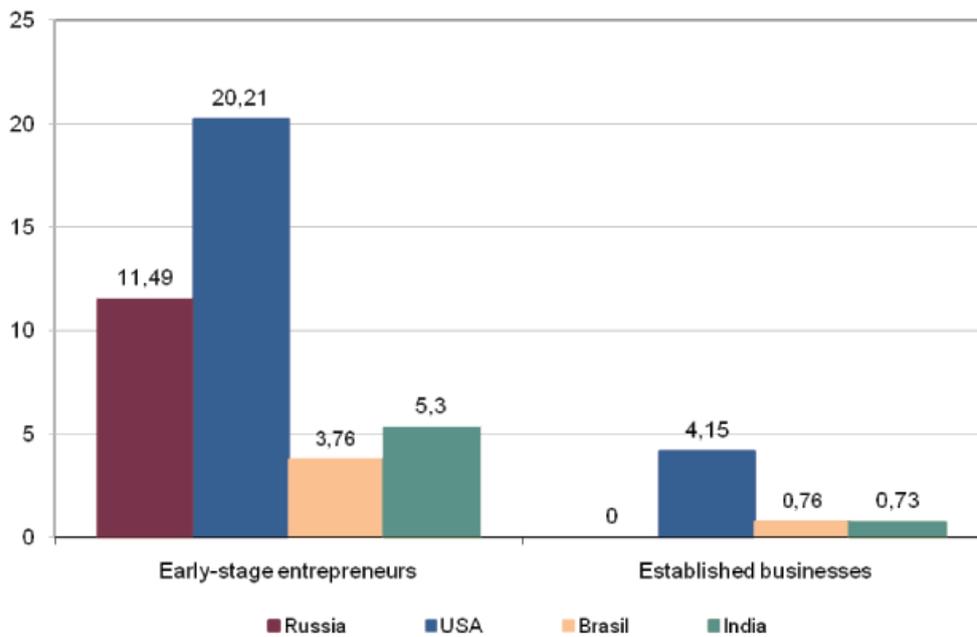


Figure 15. Index of Product Novelty and Degree of Competition for Early Stage and Established Entrepreneurs
Source: GEM Adult Population Survey (APS 2008).

As we see, the common characteristic for all countries is that early entrepreneurs are more optimistic about product novelty and expect less competition than established competitors. This suggests that early stage entrepreneurs have insufficient knowledge for a realistic evaluation of the innovativeness of their products and of possible competitive threats. Although the rates of early stage entrepreneurial activity for Brazil (12%), India (11.5%), and the United States (10.8%) are very similar, these countries show significant variation by type of innovativeness. The

highest degree of innovativeness is in the United States, where one of five early stage entrepreneurs defines its product as innovative and its market as non-competitive. Around 11.5% of Russian entrepreneurs estimate their position in a similar way—two times higher than for India and three times higher than for Brazil. Nevertheless, for two consecutive years no one was found among established business owners in Russia who would evaluate their product as innovative.

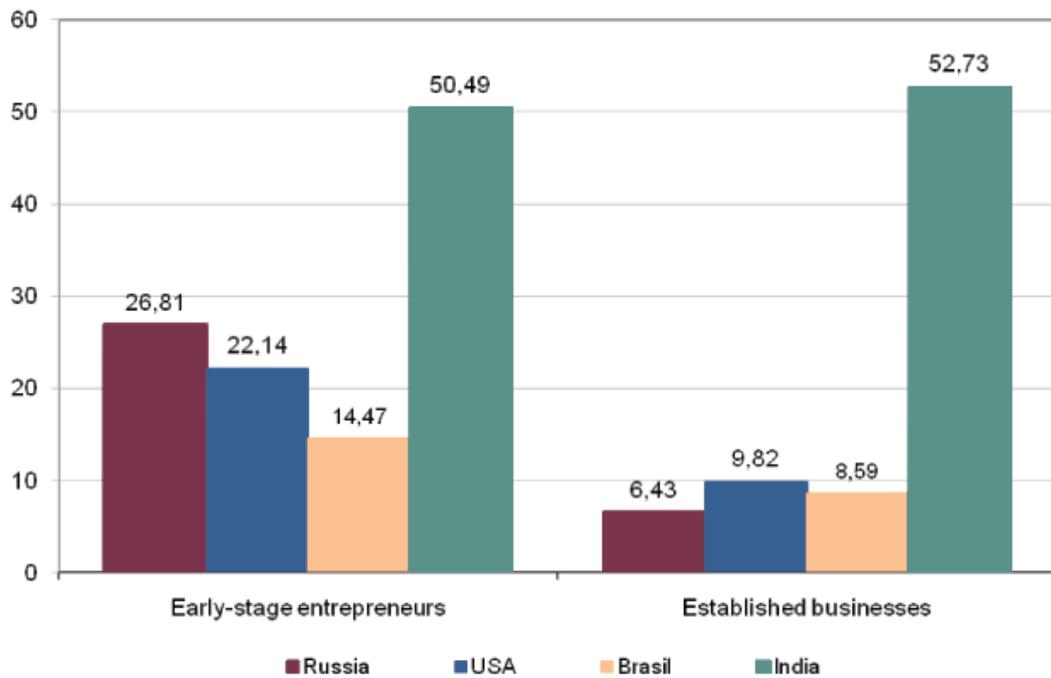


Figure 16. Usage of New Technologies by Early Stage Entrepreneurs and Owners of Established Businesses

Figure 16 shows the share of early stage entrepreneurs and owners of established businesses who believe that their technologies are the newest (up to one year old) or new (from one to five years old). Here we find the same pattern: early stage entrepre-

neurs show more optimism about their technologies. This self-assessment of technological novelty does not prove the general innovative nature of the economy. Higher values of this indicator in some factor-driven and efficiency-driven economies, compared

to innovation-driven economies, can be explained by the fact that technologies evaluated as new ones in the first two types of economies are not new in developed economies. For example, the high degree of technological novelty reported by Indian entrepreneurs may be explained when one takes into ac-

count that the share of those employed in high-tech sectors is about 3%.

In Russia about 70% of early stage entrepreneurs and 93.5% of owners of established business use technologies that are more than 5 years old. The share of entrepreneurs in the high-tech sector is about 3%

Aspirations for Growth

When investigating relationships between economic growth and entrepreneurship, it is necessary to note that not all types of firms contribute to growth in the same way. To estimate growth the GEM project uses the number of new jobs created. There are two criteria to reveal growth: an early stage entrepreneur expects to create 19 or more new jobs or an established firm reports 50% more new jobs in the year of survey.

In general only 8% of startups expect to create 20 or more jobs in their first five years. These firms may be regarded as the engine of economic development. The highest aspiration to growth among GEM countries from 2002 to 2008 comes from Chinese entrepreneurs. However, in other countries a higher level of income per capita is correlated with higher

aspirations for growth. The majority of newly created companies (90%) in the sample had less than 20 employees. At the same time, 20% of early stage entrepreneurs did not plan to create new jobs at all, and only 13% expected to increase the number of jobs by 50% or more. Only 12% of owners of established businesses expect similar growth of jobs at their firms.

Comparing these figures with 2006 and 2007, we may say that this indicator has lower values, which may be explained by the first signs of the global economic crisis felt by entrepreneurs mid-2008, when the survey was conducted.

FACTORS FOSTERING AND CONSTRAINING ENTREPRENEURSHIP DEVELOPMENT BY EXPERT INTERVIEW

The GEM project employs expert interviews to obtain descriptions of the structural characteristics of entrepreneurial development in each country. The sample of experts includes two categories of respondents, entrepreneurs and professionals.

Entrepreneurs are respondents with some experience of entrepreneurial activity. They were selected from people with in-depth understanding of entrepreneurial life, e.g. founders of companies and organizations. Professionals are respondents directly involved in regular evaluation of some structural component of a country's entrepreneurial activity. These experts include politicians, academics, entrepreneurs, government officials, and other professionals whose activity has some relation to entrepreneurship.

There were 60 experts in the 2008 sample presenting six regions in Russia: Moscow, St. Petersburg, Novosibirsk, Yaroslavl, Yekaterinburg, and Krasnodar. Each expert named three factors positively or negatively influencing the development of entrepreneurship and proposed measures to stimulate Rus-

sian entrepreneurial activity. Their responses were aggregated into ten groups describing external environmental factors with positive or negative impact on entrepreneurial development and economic growth. These include access to finance, government policy, government programs to support entrepreneurship, the educational system, R&D implementation, access to commercial and physical infrastructure, openness of markets, cultural and social norms, and protection of intellectual property rights.

Both groups of experts reported a similar range of estimations about factors that positively and negatively affect entrepreneurial development. All experts named some problems hampering entrepreneurial development in Russia; active entrepreneurs paid more attention to particular problems, although experts without entrepreneurial experience stressed general unfavorable conditions. We can see that professionals are more prone to search for solutions in their particular areas of expertise.

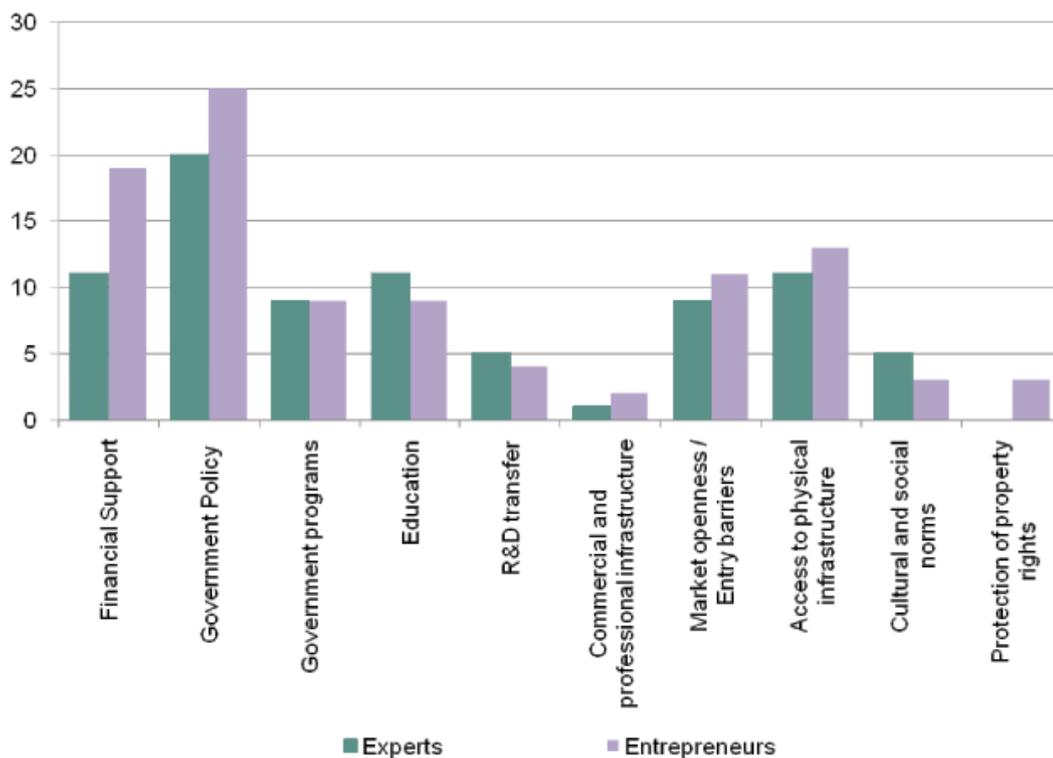


Figure 17. Factors Constraining Entrepreneurship in Russia

For three consecutive years experts suggested the same basic factor hampering entrepreneurial development: government policy (Figure 17). The respondents believe that the government's promised support for small and medium business is not matched by real help on the ground in various regions.

Universal problems for entrepreneurs in all regions of the survey include bureaucratic obstacles and government corruption. Experts lacking practical entrepreneurial experience agreed that these problems are the main factor hampering the development of entrepreneurship in Russia. They also suggested that state support for large business interests has a negative impact on the development of small and medium businesses.

The second important factor hampering entrepreneurial development is insufficient access to finance. Acting entrepreneurs cite this factor more often than do experts. Despite the large number of credit and investment institutions in the country, the problem of obtaining access to finance remains critical for many entrepreneurs. The major aspects of this problem include prohibitive interest rates and the need to provide financial reports to creditors, something that entrepreneurs often see as a barrier to obtaining loans. Obviously, this problem is even more critical in the current economic crisis, as acquiring financing at current interest rates is simply impossible for the majority of small businesses.

A critical problem for the largest cities (Moscow, St. Petersburg) is access to physical infrastructure. Experts mentioned such factors as limited supply, low quality and high price for renting space for offices and production facilities, problems with connections to power supplies—this last being critical to entrepreneurs who work in the real sector of the economy and face limitations of production and the rise of production costs. This is why government policy to reduce costs of connections to power networks should have a positive effect on entrepreneurial activity. However, acting entrepreneurs are not aware of this or other policies.

Experts' opinion on government programs generally is not entirely shared across the board. The majority of acting entrepreneurs have little information of

such programs and see them as inefficient and not transparent. Experts often give positive evaluations to government policies and view them as effective approaches to developing Russian entrepreneurship.

The absence of professional training among the majority of entrepreneurs also hampers effective management of new and established businesses. Many entrepreneurs are aware of this problem, but obtaining necessary education and skills is difficult because of the high price of such education and lack of information about educational institutions. As well, many entrepreneurs do not believe they need special knowledge and prefer to rely on personal experience as a sufficient guide to business success. Experts believe that school and vocational education does not motivate students and is an insufficient foundation for a new business creation. This is related to the personality of the typical school teacher, who usually has no experience with entrepreneurship. The majority of respondents mentioned that higher education also does not provide the best background for starting and developing new businesses, and experts especially noted insufficient interest among small business owners towards obtaining a systematic education. This year the number of respondents naming entry barriers as factor hampering entrepreneurial development slightly increased. At the same time acting entrepreneurs more often see the negative side to this factor and associate entry barriers mainly with local authorities.

The commercial and professional service infrastructure is currently highly developed in Russia. There is a large number of companies in the market who provide consulting, accounting, legal, and other professional services with high value for entrepreneurs who are not financially able to hire such professionals on a constant basis.

The last two years of the survey revealed less evidence of negative social attitudes towards entrepreneurs. This means entrepreneurs do not have to overcome prejudices towards their occupation and can obtain resources and support from society.

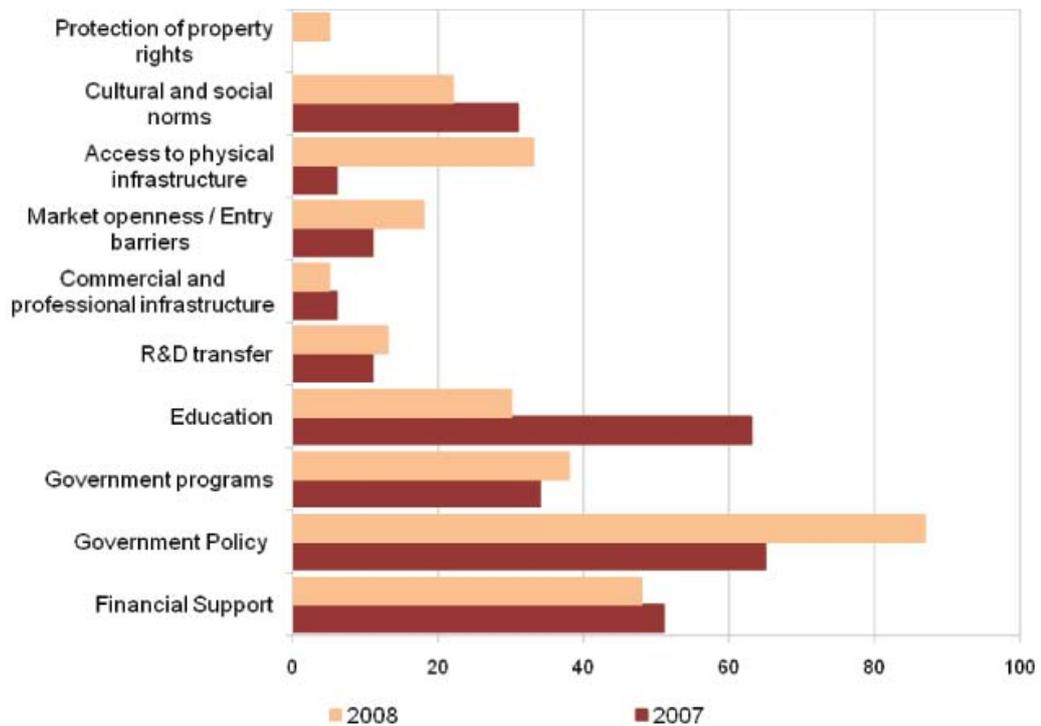


Figure 18. Factors Fostering Entrepreneurial Activity

Experts were asked to choose what they considered to be the three most important measures to improve the entrepreneurial climate in the country. The survey did not reveal significant changes in these factors relative to the previous year (Figure 18). The majority of respondents maintain that government policy can have a positive impact on entrepreneurship; the number citing this increased 15% over previous years. This reflects the fact that the government made some important steps toward improving the position of small business in the country. Financial support is also considered to be a factor stimulating entrepreneurship. Acting entrepreneurs stressed financial support as the main prerequisite for successful growth of entrepreneurship in the country.

In 2008 access to physical infrastructure was reported as an important element to entrepreneurial development policy five times more often than in 2007. Moreover, if in 2007 this factor was mentioned only

by acting entrepreneurs who already suffered from poor access to production or office facilities, in 2008 both groups of experts named this factor as important.

In 2008 those experts who represented government service were confident of the positive effects of federal and regional government programs for small and medium business support, while acting entrepreneurs expressed a firm opinion about the negative impact of this factor on small business development. This may be seen as direct evidence of differing perceptions between entrepreneurs and experts on the various factors influencing entrepreneurial development.

The survey was conducted in June 2008, when the world financial crisis had not impacted on Russian economy as it would. The influence of the negative state of global economic markets on Russian entrepreneurship is one subject for future research.

ENTREPRENEURIAL ACTIVITY IN LARGEST RUSSIAN CITIES

Individual entrepreneurial decisions, as well as the success or failure of companies, depend not only on a country's general economic environment but also on local conditions for business development in various cities. As the majority of people live in cities, which have a higher level of cultural and economic development relative to the rest of the country, it is important to estimate entrepreneurial potential of various cities.

The source of data for this analysis was a survey of the adult working population in 25 Russian cities in April-May, 2008. The sample included 3012 respondents from Moscow, St. Petersburg, Novosibirsk, Nizhny Novgorod, Yekaterinburg, Samara, Omsk, Kazan, Chelyabinsk, Rostov-on-Don, Ufa, Volgograd, Perm, Krasnoyarsk, Saratov, Voronezh, Tolyatti, Krasnodar, Ulyanovsk, Izhevsk, Yaroslavl, Barnaul, Irkutsk, Vladivostok, and Khabarovsk. As the economic crisis had not yet made itself felt in the middle of 2008, we must

be aware that responses are not an entirely correct description of the economy in the end of 2008, when the crisis was at its peak. The survey was conducted following GEM procedure. Highly developed infrastructure allowed the use of telephone interviews, making the survey more cost-efficient. The downside of telephone interviews is the compatibility of this data with those from personal interviews.

On the basis of the survey we estimated the level of entrepreneurial activity in various cities and calculated indexes of entrepreneurial activity for various types of entrepreneurs. The highest level of potential entrepreneurial activity was Krasnoyarsk (35.9%), Vladivostok (33.3%), Kazan (33.3%), Ulyanovsk (31.5%), and St. Petersburg (30%) (see Figure 19). The weakest motivation to start new businesses was in Krasnodar, Yekaterinburg, Novosibirsk and Perm.

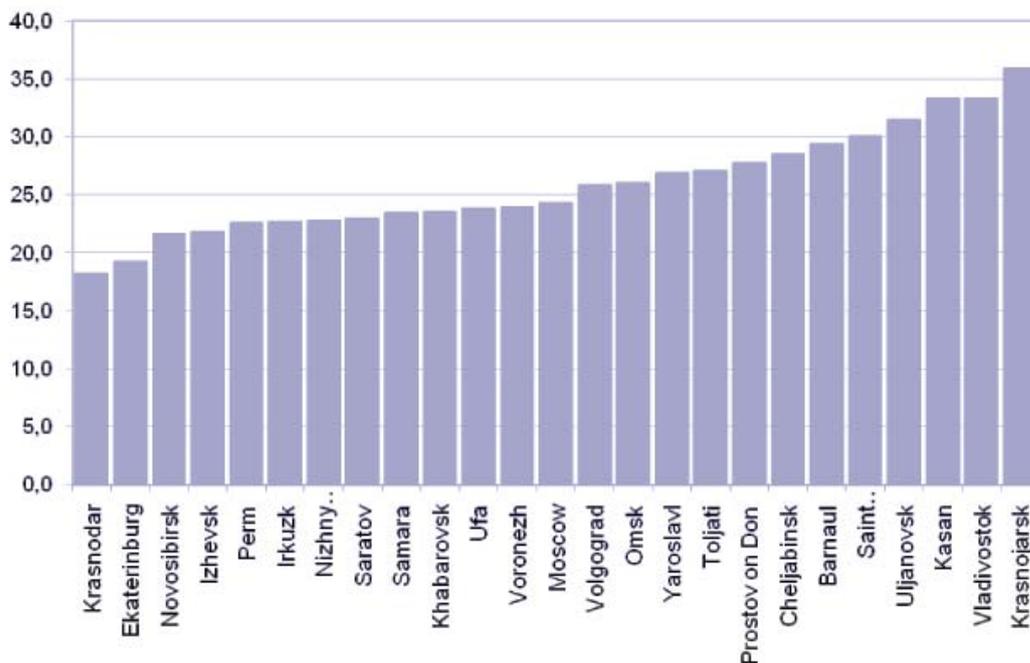


Figure 19. Level of Potential Entrepreneurship in Russian Cities

Comparing these results with the level of nascent entrepreneurship (Figure 20), we may conclude that not all cities with leading positions on the scale for potential entrepreneurship maintain this leadership once we look at actual activity directed towards creating new companies. Kazan and St. Petersburg demonstrate the most stable positions on both scales. The highest level of activity for nascent entrepreneurs was in Irkutsk, Khabarovsk, Voronezh, and

Krasnoyarsk. Cities with a population least active in creating new businesses were Perm, Yekaterinburg, Chelyabinsk, and Ufa. Another interesting difference between these two scales is that the level of potential entrepreneurship increases only two times from the lowest to the highest values of the scale, but the level of nascent entrepreneurship has a much wider range of variation—from 2.4% in Perm to 13.2% in Irkutsk.

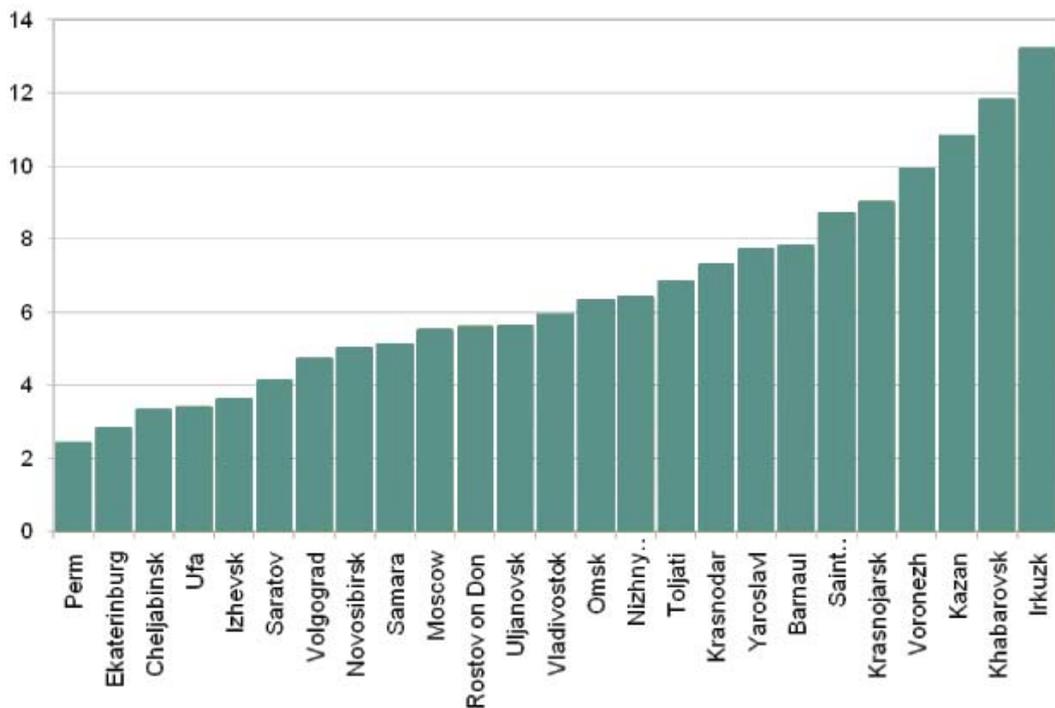


Figure 20. Level of Nascent Entrepreneurship in Russian Cities

The survey was based on a representative sample, which provides an opportunity both to estimate the entrepreneurial potential of various cities and to investigate the influence of social and demographic factors on entrepreneurial development.

The number of potential entrepreneurs is almost the same among men and women, but actual entrepreneurial activity among them differs significantly. Every third man and every fifth woman plan to start their own businesses. Men are four times more active as nascent entrepreneurs than women (8.1 and 2.3%). The same proportion may be found for early stage entrepreneurs in general. However, among owners of established businesses, there are almost an equal number of men and women (52% and 48% respectively), which may be explained by the proposition

that women are more successful in avoiding business failures. At the same time, men’s entrepreneurial activity is two times greater than women’s activity among owners of established businesses.

The age structure of potential and early stage entrepreneurs is dominated by youth: 71% of all potential and nascent entrepreneurs are 18-34 years old. Levels of entrepreneurial activity in the oldest and youngest age groups differ nine times for potential and 13 times for early stage entrepreneurs. The age structure of established entrepreneurs in Russia is similar to average values in the overall GEM project—the most active entrepreneurs in the age range 35-44.

Although people with higher education constitute the majority of all entrepreneurs, only a quarter of the

general population with an university degree plan to start their own businesses in next three years. At the same time, 38% of people with a vocational education plan to start a business. This group demonstrates the highest level of entrepreneurial activity among early stage entrepreneurs (13.1% comparatively, with an average of 10.7% for the whole sample). Analyzing the structure of entrepreneurship by type of occupation, we note a high level of entrepreneurial activity among students. Every third student plans to become an entrepreneur. This is a significant reserve for entrepreneurial development in cities. Another relation may be noticed between personal

income and the desire to open a business. Only 14% of respondents with low income consider entrepreneurship to be a potential activity. As income level rises, readiness to become an entrepreneur increases, reaching 39% for the highest income level. The same trend is found among early stage entrepreneurs and owners of established businesses. One widely accepted claim is that a person's social capital has a significant impact influence on his or her desire to create a new business. Much research shows that people are two times more likely to become entrepreneurs if at least one of their friends is an entrepreneur.

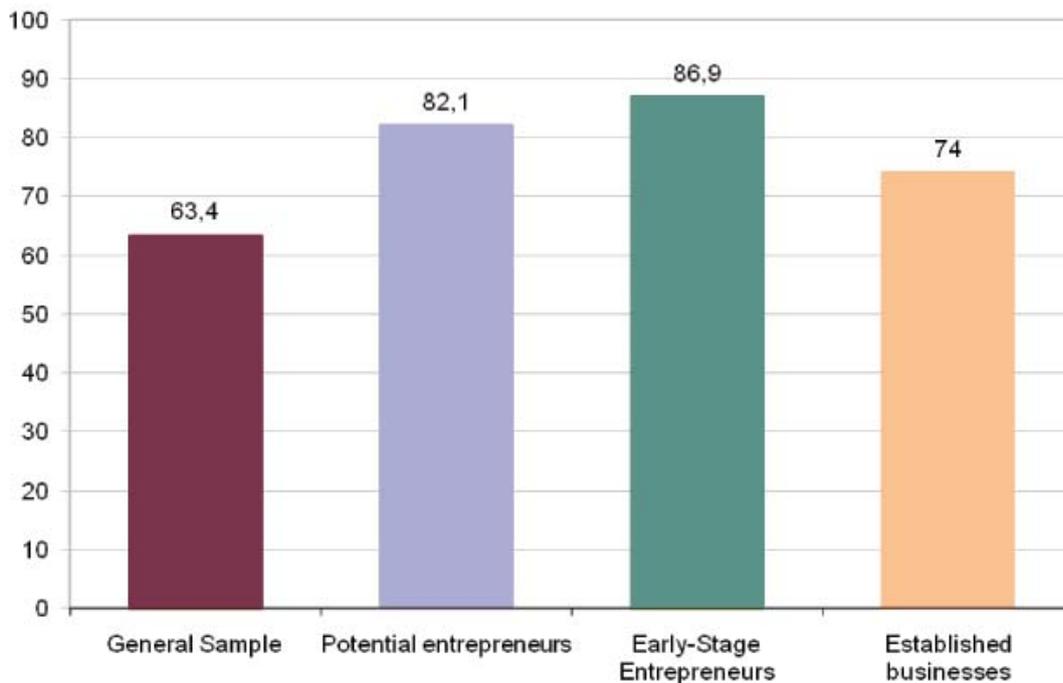


Figure 21. Acquaintance with an Entrepreneur

This factor influences entrepreneurial activity in Russian cities. The number of those acquainted with an entrepreneur differs between the general sample (63%) and potential entrepreneurs (82%), early-stage entrepreneurs (86.9%), and nascent entrepreneurs (85%) (Figure 21). It is interesting to note that having an entrepreneur as an acquaintance is two times higher in cities than in the country in general. At the same time, it is surprisingly that this indicator is

relatively low for owners of established businesses. It can be supposed that this factor is less important at later stages of company development, especially in relation to knowledge necessary for operating a business. Respondents in various cities showed different self-assessments of their knowledge and experience necessary to open a new business (Figure 22).

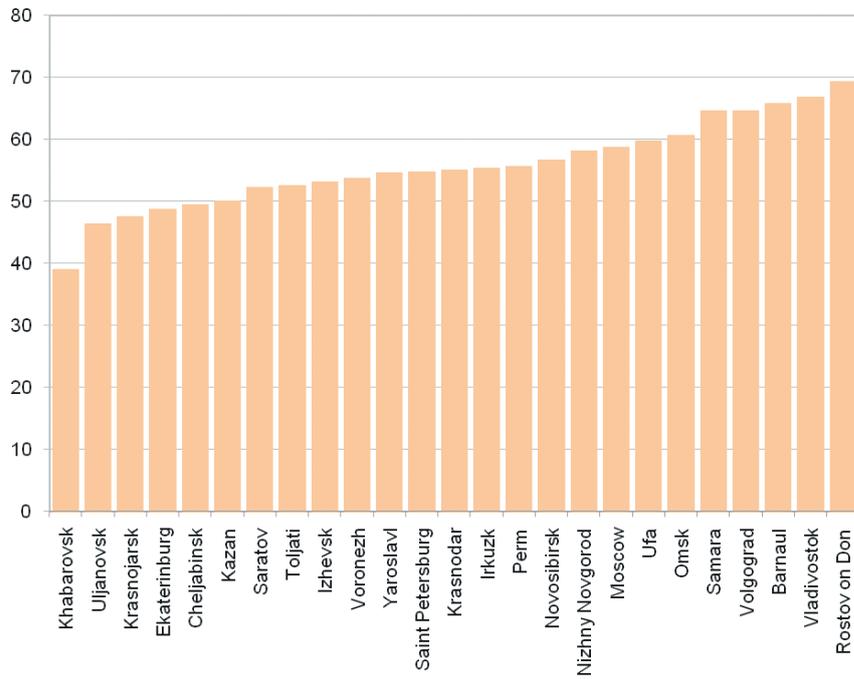


Figure 22. Self-Assessment of Knowledge and Experience Necessary to Start a New Business, by City

We also see that self-assessment of knowledge and experience as sufficient for starting a new business

increases with entrepreneurial and organizational experience (Figure 23).

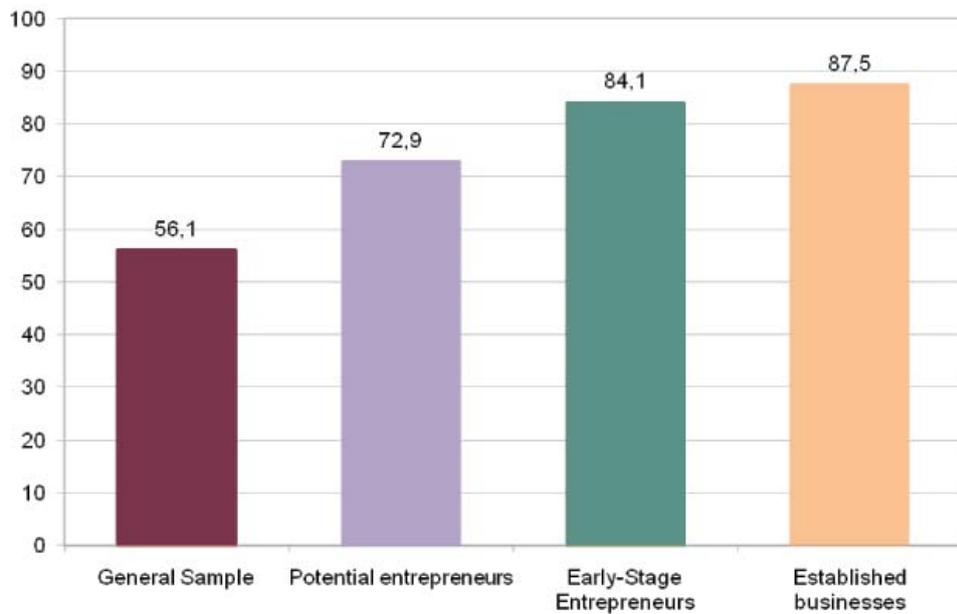


Figure 23. Self-Assessment of Knowledge and Experience by Types of Entrepreneurs

The evaluation of conditions for starting a new business in a region influences the level of entrepreneurial activity. Only one third of respondents in the general sample evaluate conditions for starting a business as favorable; potential and early stage entrepreneurs are more optimistic in their estimates (Figure 24), with 37% of potential and 42% of early stage entrepreneurs believing that the environment is favorable

for their activity. Only 30% of owners of established businesses support this view. Acting entrepreneurs face challenges of solving new problems, such as increasing sales and answering new challenges from the environment. However, existing data do not support the relationship between regional conditions and the number of established entrepreneurs.

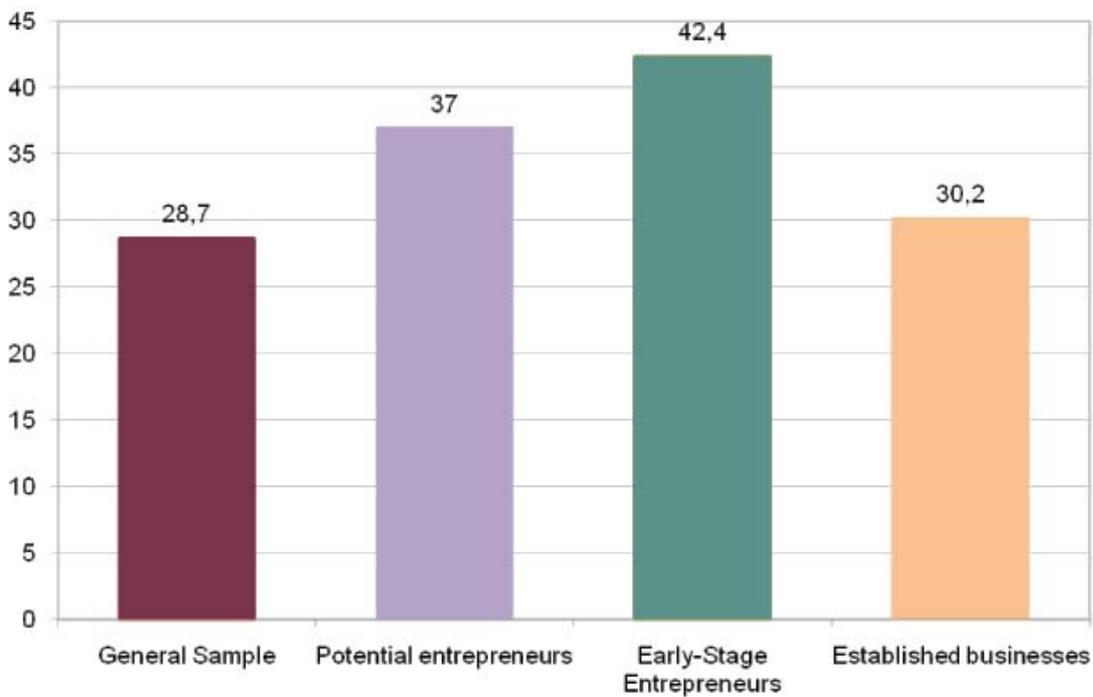


Figure 24. Environment Evaluation of Entrepreneurial Activity

The evaluation of environment is different for various Russian cities, but the relationship between level of entrepreneurial activity and evaluation of environment is not yet clear.

In addition to characteristics of environment and economy favoring entrepreneurship, we find another important factor influencing the level of entre-

preneurial activity: perceptions of the advantages of owning their own business. This perception depends on the degree of prestige entrepreneurship has in the society, the value of entrepreneurship for one's personal career, and self-evaluation of the personal character as well as knowledge and skills.

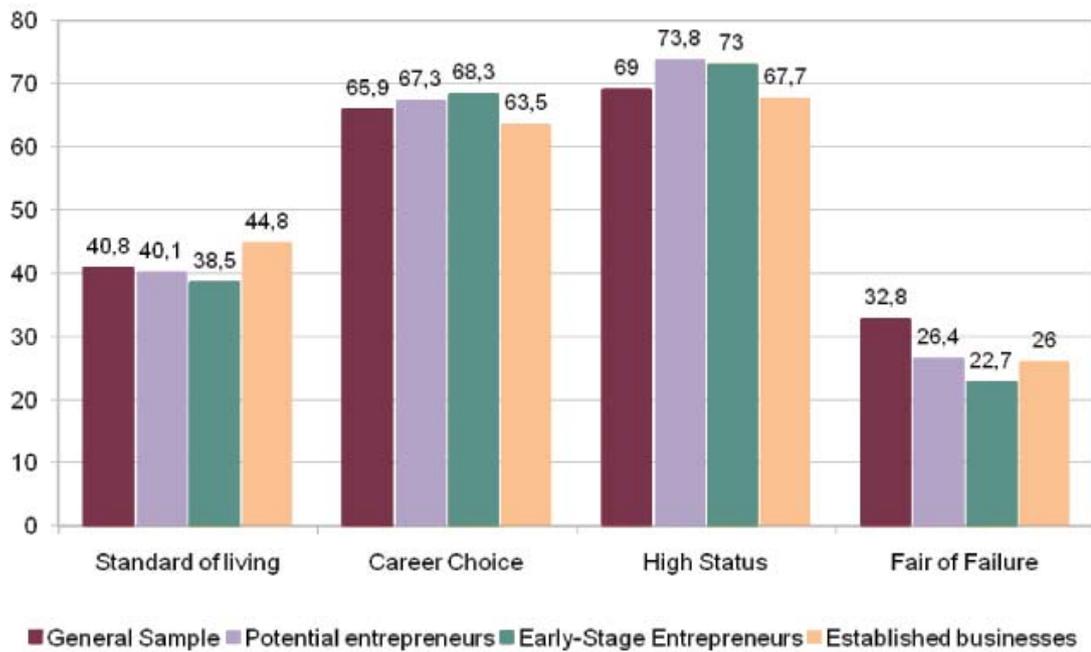


Figure 25. Perceptions of Personal Factors, by Types of Entrepreneurs in Cities

Fear of failure is an important factor influencing entrepreneurial decisions, and its importance depends on personal attitudes toward risk. It is usually believed that the less an individual is risk adverse, the more opportunity he or she will perceive and the more likely he or she will become an entrepreneur. This view

is supported by the data (Figure 25). Fear of failure prevents more than one third of respondents, who cannot be considered entrepreneurs, from starting a business. At the same time, this share is only 25% of people classified as entrepreneurs in the research.

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GEM List of Publications

The results of GEM project are published in the Russian research journals - *Russian Management Journal*; *Vestnik of Saint Petersburg University. Management Series*; *Voprosi Ekonomiki (Economic Issues)*.

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