Graduate School of Management

St. Petersburg State University

GEM

REPORT

GLOBAL ENTREPRENEURSHIP MONITOR

Russia 2009

Report

Global Entrepreneurship Monitor

O. Verkhovskaia
M. Dorokhina

With participation by G. Shirokova, T. Tsyganova, and Iu. Aray

Russia 2009

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.

"Global Entrepreneurship Monitor. Russia 2009" is the fourth Russian report for "Global Entrepreneurship Monitor" (GEM). The goal of this report is to acquaint Russian businessmen, experts in entrepreneurship, and other stakeholders with the outlines of the project and general results from research on 2009.

GEM is among the most important and influential research projects that analyze relations between entrepreneurship and economic growth.

PARTICIPANTS IN GEM RUSSIA

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RESEARCH TEAM: GRADUATE SCHOOL OF MANAGEMENT SPBGU

Coordinator, GEM Russia: Olga Verkhovskaya
Researchers: M. Dorokhina, G. Shirokova, T. Tsyganova, Iu. Aray
Masters students: M. Molodtsova, V. Fedotov

Graduate School of Management
St. Petersburg State University

RESEARCH TEAM: STATE UNIVERSITY, HIGHER SCHOOL OF ECONOMICS (MOSCOW)

Head of Moscow team: Aleksandr Chepurenko
Researchers: O. Obraztsova, T. Alimova, M. Gabelko

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General characteristics

In general, Russian society has overcome negative feelings towards entrepreneurs: about 70% of the population accept high social status for entrepreneurs and feel they are gaining respect in society. Nevertheless, the level of entrepreneurial activity remains low when compared with other GEM countries.

Early-stage entrepreneurial activity in 2009 remained almost unchanged from last year at 3.9% (versus 3.5% in 2008). The rate of nascent entrepreneurs decreased to 1.8% against 1.9% in 2008, but the rate of new business owners rose to 2.3% (against 1.9% last year). The share of established business owners grew to 2.28% and is the highest rate in comparison with previous research years where this index fluctuated in between 1.2% in 2006 and 1.7% in 2008.

Early-stage entrepreneurship in Russia follows the general trend of being more a male occupation. In Russia 4.6% of all men and 3.2% of all women are early-stage entrepreneurs. Though established business showed a higher level of female participation over the years, in 2009 men were more stable in their businesses (2.42% against 2.16%).

In Russia the proportion of necessity-driven and opportunity-driven entrepreneurs remained stable, with opportunity-driven making up 70% of activity against 30% driven by necessity; however, the motive for maintaining income is high and measures at 29.8%. The independence motive practically doubled this year, rising to 16.2% (against 8.6% in 2008) among opportunity motivated early-stage entrepreneurs. Increasing income motivated almost 22% of opportunity motivated early-stage activity. Some 20% of early-stage firms expect to grow and aspire to create 10 or more jobs in five years.

Entrepreneurial activity and the economic crisis

The SME sector is considered to be a reserve for the country's development and one of the main targets of anti-crisis policy in Russia. Measures include financial support, tax incentives, access to physical infrastructure, and reduction of administrative pressure.

Official statistics reveal a reduction in turnover, number of employees, and fixed capital expenditure in the SME sector. Nevertheless, as mentioned above, the GEM survey in 2009 did not show significant fluctuations in early-stage entrepreneurial activity or changes in necessity- and opportunity-driven entrepreneurship.

The global slowdown has impacted entrepreneurs' assessments (both early-stage and established) of environmental conditions. More than 60% of early-stage entrepreneurs and 80% of established entrepreneurs commented that starting a business was more difficult in 2009 than in 2008. This proportion is observed for both types of entrepreneurs for perceptions of fewer opportunities for their businesses as a result of the recession. Almost 45% of early-stage entrepreneurs and 79% of established business owners believe that the global crisis has made growth more difficult.

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 55 (including Russia) in 2009. 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.

Project goals

GEM focuses on the following goals:

- to undertake cross-national comparisons of levels of entrepreneurial activity;
- to identify factors that simulate or limit the level of entrepreneurial activity;
- to identify differences in levels of entrepreneurial activity and relations to economic growth;
- to suggest measures for increasing 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.**

[1] In 2009 APS was conducted by a research team headed by Professor A. Chepurenko (HSE, Moscow).

The GEM conceptual model[2]

GEM research has found that the interaction between entrepreneurial activity and economic growth varies depending on level of economic development. A U-shaped curve reveals this relation empirically, but this does not fully reveal cause-effect relations between entrepreneurship and growth. After the 2008 Global Competitiveness Report, GEM's research committee introduced a typology of economies: the factor-driven economy, the efficiency-driven economy, and the innovation-driven economy. Table 1 provides a description of these stages of economic development.

Types of economies

Table 1

Type of Economy	Description	GEM Country
Factor-driven economy	Firms compete on price and rely on basic factors of production, especially unskilled manual labor and natural resources	Algeria, Venezuela, Guatemala, Yemen, Lebanon, Morocco, Saudi Arabia, Gaza Strip, Syria, Tonga, Uganda, Jamaica
Efficiency-driven economy	Efficient production methods to improve productivity. Competitiveness is achieved through higher education, market efficiency, and the capacity to benefit from existing technology	Argentina, Bosnia and Herzegovina, Brazil, Hungary, Dominican Republic, Jordan, Iran, China, Columbia, Latvia, Malaysia, Mexico, Panama, Peru, Russia, Rumania, Serbia, Tunisia, Uruguay, Croatia, Chile, Ecuador, South Africa
Innovation-driven economy	The economy produces innovation output, using complex production methods (ICT). Firm survive only if they compete on the basis of innovation	Germany, Holland, Hong Kong, Greece, Denmark, Israel, Iceland, Spain, Italy, Korea, Norway, United Arab Emirates, Slovenia, United States, Finland, France, Switzerland, Japan

Defining entrepreneurship

GEM research uses a broad definition of "entrepreneurship" that highlights the role of the individual in the entrepreneurial process. Entrepreneurship is any attempt to create a new business or company (individual labor activity, a new commercial organization, expanding an existing business) that is done by an individual person, a group of people, or an already existing company [Reynolds 2005]. GEM research mainly addresses entrepreneurial behavior of individuals who create and manage businesses, in contrast with other research that focuses primarily on registration of (new) companies.

In all the various definitions and interpretations of "entrepreneurship," GEM distinguishes three basic components: attitudes to entrepreneurship, entrepreneurial activity, and entrepreneurial aspirations.

Attitudes to entrepreneurship reflect people's general feelings to entrepreneurs and entrepreneurship. A country's development is significantly affected by the presence of people able to recognize new business opportunities and with sufficient knowledge and experience to bring them to profitable fruition. Thus, a positive attitude to entrepreneurship in a society

[2] This section is taken over Bosma, Levie, 2010.

helps the entrepreneurial climate and facilitates the development of financial and commercial infrastructures. The attitude to entrepreneurship in a society influences entrepreneurial activity, and vice versa. For example, the acceptance of entrepreneurship in a society, reflected in the population's positive attitudes to it, depends on whether people know someone who opened a business recently. This reflects both the level of entrepreneurial activity and the development of the business community.

Entrepreneurial activity is a complex phenomenon that describes the involvement of a population in the process of creating new companies, managing recently created and established companies, and closing unwanted or inefficient businesses. Entrepreneurial activity is a dynamic process, and for this reason GEM analyzes different stages in the development of entrepreneurship: from conceiving a business, through nascent entrepreneurs, to early-stage and established entrepreneurs. 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 number of nascent entrepreneurs and owners of newly created businesses will be higher in factor-driven economies, in all likelihood because the majority of these initiatives are motivated by urgent economic needs. Also, more innovation-motivated entrepreneurs can be found in innovation-driven economies than in factor-driven and efficiency-driven economies.

Entrepreneurial aspirations give qualitative characteristics of entrepreneurial activity. The GEM project has developed a special system of indicators related to these aspirations: launching new products, implementing new production processes, expanding into foreign markets, and developing companies. 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 reviewed conceptual model affirms that various environmental factors (entrepreneurial framework conditions) affect business and entrepreneurial activity of entrepreneurship of both established entrepreneurs and of owners of new businesses. National framework conditions for factor- and efficiency-driven economies are borrowed from the 2008 Global Competitiveness Report (GCR) [Porter and Schwab 2008]. Regarding innovation-driven economies, the GEM model supplements the GCR by adding environmental conditions characteristic for innovations 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 exist in the economic development of every country, but the prevalence of this or that stage and contributions to economic development can differ. The assumption in GCR is that each phase of economic development has different combinations of these three kinds of activity. Figure 1 presents the GEM model. For the factor-driven economy, the accent is made on fundamental conditions, such as developing institutions, infrastructure, macroeconomic stability, public health, and elementary education. These requirements support necessity-driven entrepreneurship but can provide only weak support for opportunity-driven entrepreneurship. In the process of economic development and extensive economic growth, other conditions become important: those that provide reliably functioning markets and are the conditions for economic efficiency. These include developing institutions of higher education and professional training, efficient commodity and labor markets, developed financial markets, and technological advancement. For economies based on innovation, general conditions of entrepreneurship become more important incentives of economic development than fundamental or efficiency conditions.

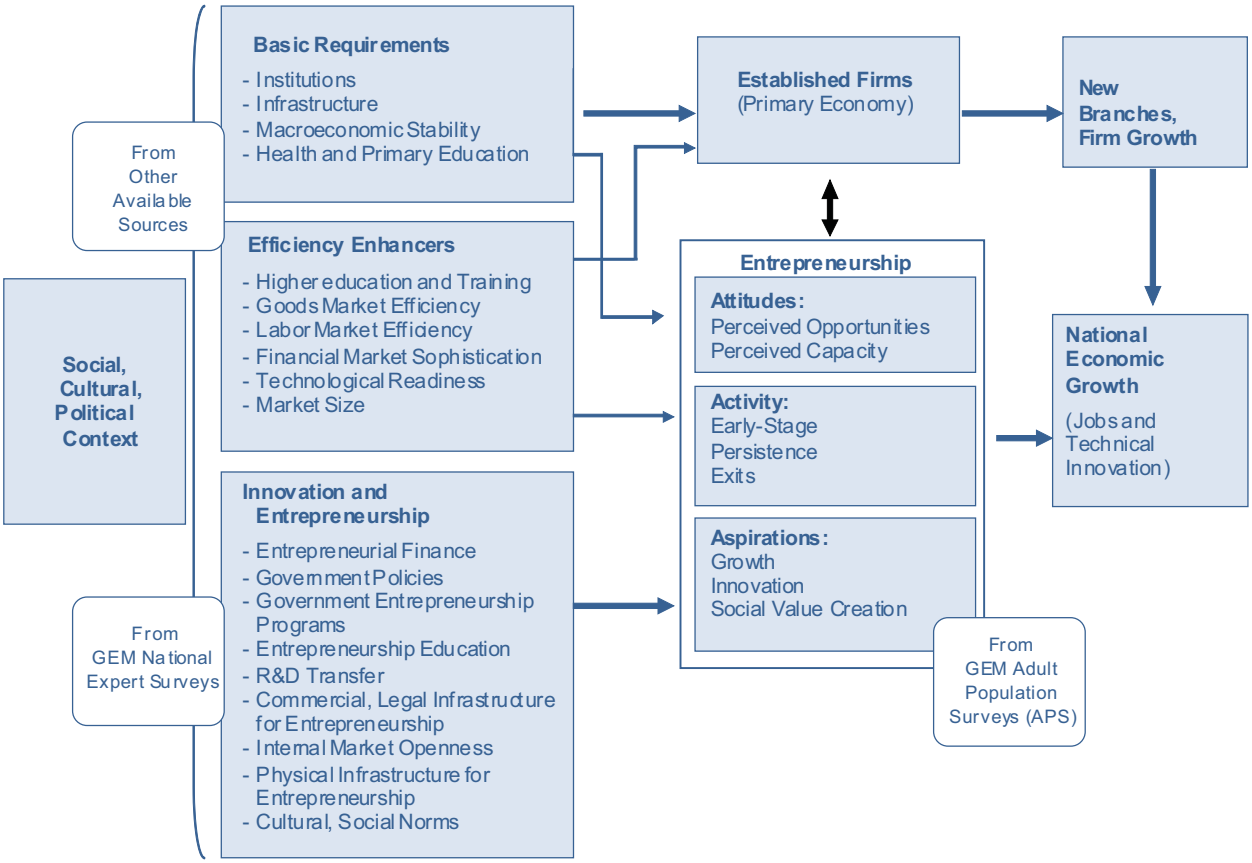

Figure 1. The GEM conceptual model

Together these factors foster the creation of new companies and influence the entrepreneurial climate, thereby affecting economic growth and employment.

Types of entrepreneurs

GEM conducts systematic research into diverse characteristics of entrepreneurship, such as motivation, innovativeness, competitiveness, and expectation of growth. An important aspect of GEM's approach is to conceive of entrepreneurship as a process covering all stages of a business' life cycle: from conception of an idea (potential entrepreneurs) to early stages (nascent entrepreneurs), when a company is in the maturation phase; and from new companies (owners of new created companies), when a company already operates in the market, to established businesses and the potential exit of entrepreneurs from business.

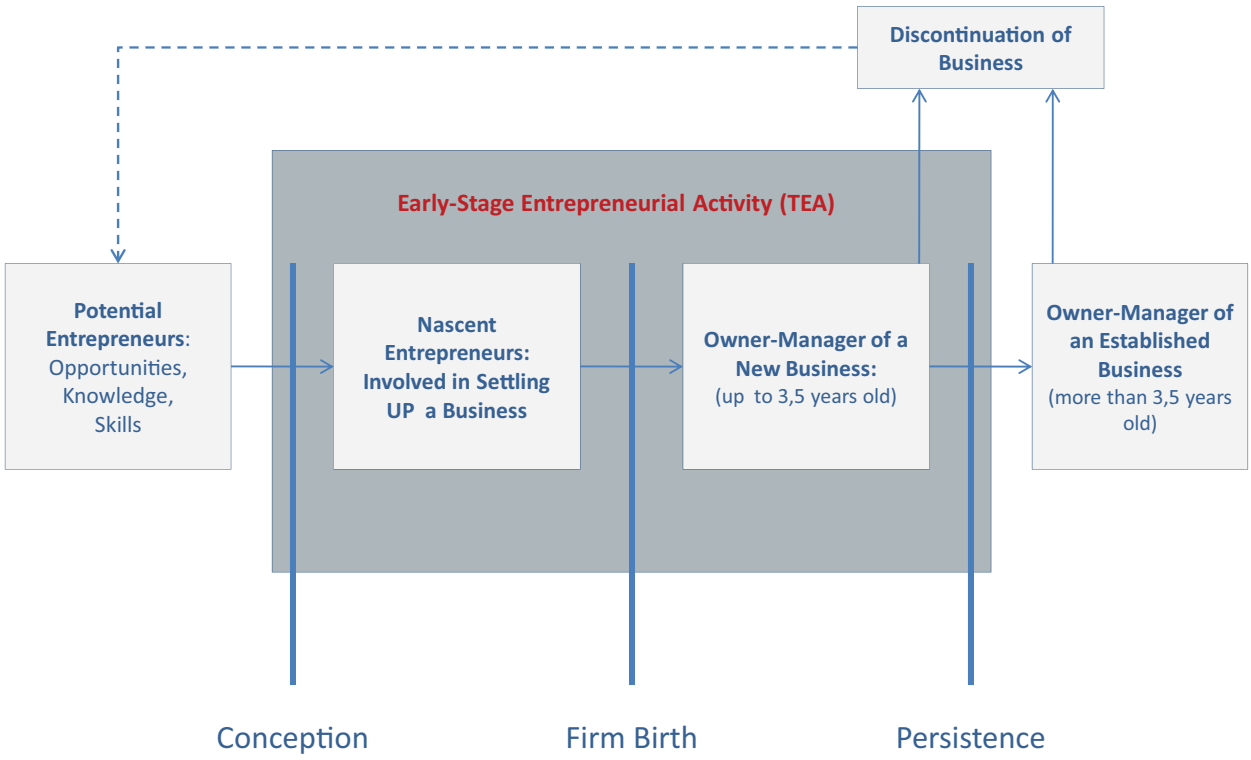

Figure 2. The entrepreneurial process and operational definitions

Figure 2 depicts the entrepreneurial process and presents GEM's fundamental definitions:

- potential entrepreneurs: those plan out the organization of business in the next three years, using opportunities, knowledge, and experience;
- early-stage entrepreneurs[3], including:
  - nascent entrepreneurs: those who in the previous year took active steps to open a new business; they hold all or a majority of shares in the new business, although wages and other forms of compensation are not paid for more than three months;
  - owners of new businesses: those who manage newly created businesses and receive income from its activity for more than three but less than 42 months;
- established entrepreneurs or owners of established businesses: those who own and manage a business and receive income from it for more than 42 months.

Nascent entrepreneurs and owners of new businesses are a dynamical indicator of early-stage entrepreneurial activity in a country (TEA). Even if nascent entrepreneurs do not succeed in creating their companies, the very fact of entering the market is a positive step, as it can increase competition for existing companies.

[3] Instead of "early-stage entrepreneur," one could use "entrepreneur at an early stage." However, the term "early-stage entrepreneur" is used more frequently in scholarly literature.

ATTITUDES TO ENTREPRENEURSHIP IN SOCIETY

Attitudes to entrepreneurship

Attitudes to entrepreneurship are an important part in analyses of entrepreneurship, as this reflects the population's general feelings about entrepreneurship and entrepreneurs. The existence of people able to recognize business opportunities and who possess knowledge and experience to seize them can have a 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.

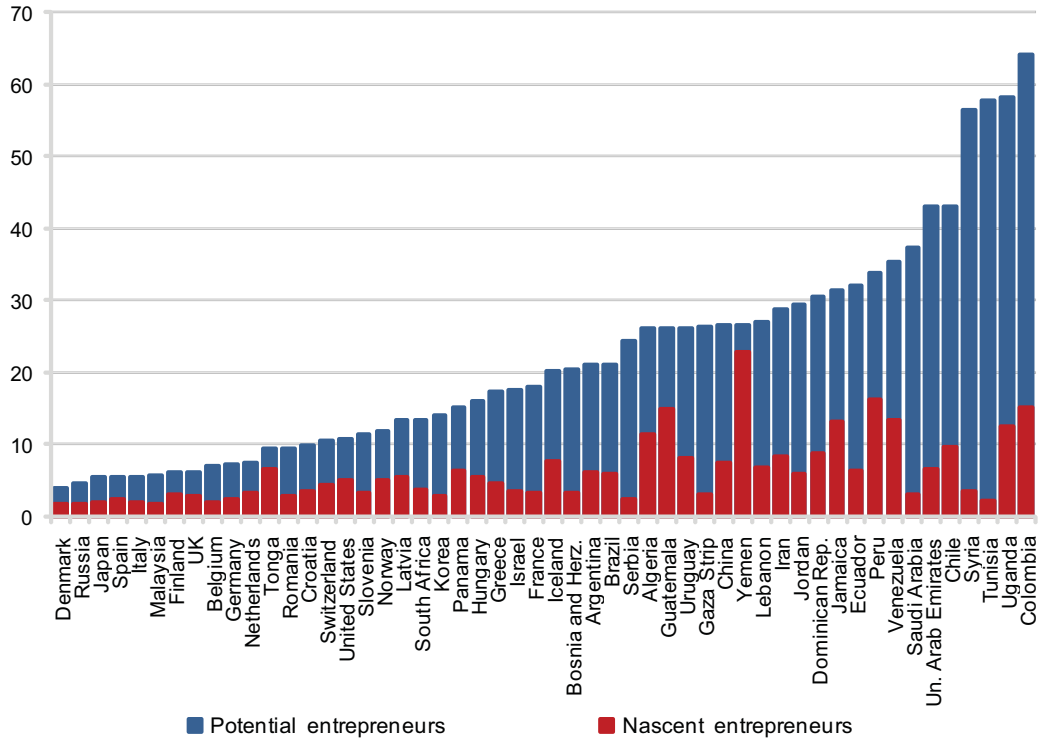

Figure 3. Activity levels of potential and early-stage entrepreneurs
Source: GEM Adult population Survey (APS 2009).

In Russia, less than 5% of the population plan to open their own businesses in the next three years. Among potential entrepreneurs, about half at present already are entrepreneurs, i.e. only 2.5% can ensure growth of the entrepreneurial community. The level of potential entrepreneurship remains among the lowest for all GEM countries over the entire life of the GEM project. The number of potential entrepreneurs characterizes the readiness of a population to create businesses, although not all intentions come to fruition. In several countries there is a high enough level of potential entrepreneurial activity against a rather low value of entrepreneurial activity (figure 3). Thus, in France and Bosnia there are four times more nascent than early-stage entrepreneurs; in Serbia this difference is five times, and in Saudi Arabia it is eight times. In the majority of countries, the number of potential entrepreneurs does not exceed the number of early-stage entrepreneurs by more than two times.

Factors that significantly influence initiating entrepreneurial activity and promoting entrepreneurial intentions include national features of the entrepreneurial development (choice of entrepreneurial career, social status of entrepreneurs in society, mass media attention to stories of business successes) and individual perceptions (estimations of possibilities for creating business, evaluations of one's own knowledge and experience necessary for starting up a business, fear of a failure, personal acquaintance with entrepreneurs).

To estimate the possibilities for entrepreneurial development in a country, survey respondents

were asked whether they believed conditions in their country or region would be favorable for business creation in the next six months. Perceptions of business opportunities depend not only on conditions of economic development, but also on complexities arising during the registration of companies, access to infrastructure, and entrepreneurial culture. Overall, a positive estimation of external opportunities positively affects the level of entrepreneurial activity. However, there remains the question of how the population perceives prospects for creating businesses. It is not surprising that the value of this indicator can be higher in countries with a low level of economic development than in countries with more developed economies. For example, in Uganda this indicator has a value of 74%, while in Japan the same indicator has a value of 8%. In the majority of innovation-driven economies, the value of this indicator is around 20%; in efficiency-driven economies it is around 36%, and in factor-driven economies is 51%. In Russia 2009, 17% evaluated the external environment as positive (figure 4), which is significantly lower than in 2008, when every third respondent registered a positive estimation for business perspectives. Negative dynamics are characteristic for the majority of GEM countries. Obviously the recent economic crisis has affected perceptions of business opportunities.

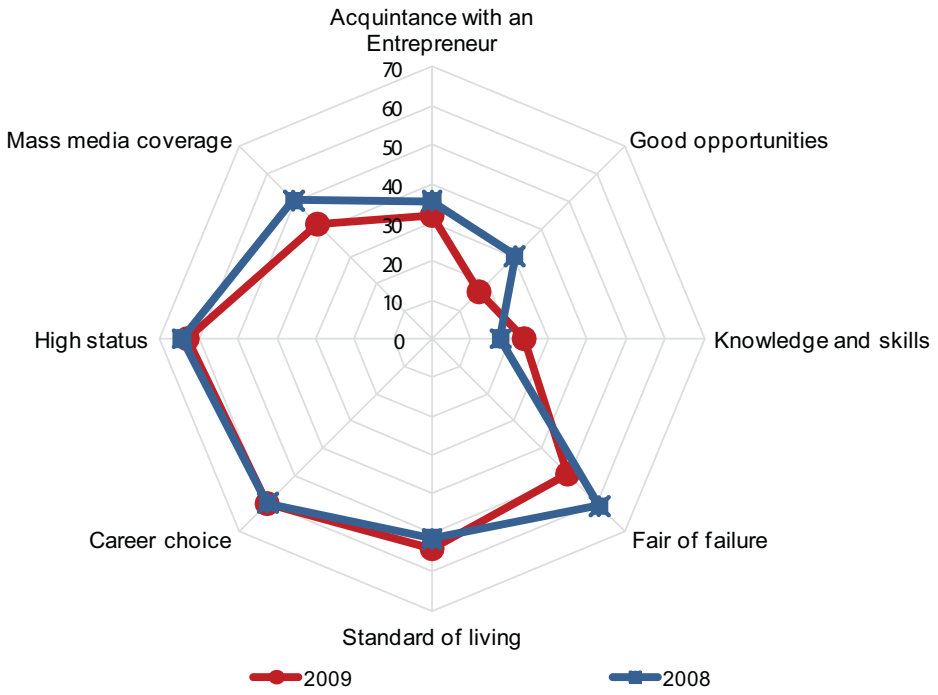

Figure 4. Attitudes to entrepreneurship in Russian society, 2008-2009
Source: Russia APS 2009

Fear of a failure is considered to be an important cultural element that negatively affects entrepreneurial activity. It is assumed that those who are afraid to be unsuccessful are less inclined to pursue entrepreneurial activity in comparison with those for whom fear of failure is less significant for opening a new business. In 2009, 50% of Russians admitted that fear of failure stood in the way of their desire to open a business. This indicator appears at its highest among such GEM countries as Tonga (66.7%), Greece (54%), Spain (53%), France (50.8%), Romania (50%), Italy (49.6%), and Malaysia (49.4%).

In 2009, the share of those in Russia hindered by fear of failure decreased to 14%, in comparison to 2008. Most likely this decline was due to the absence of other opportunities in the labor market because of the crisis. This appears to be the case in many other GEM countries as well, especially those in Europe. (In Germany, this measure dropped from 49% to 37%.) This "fear of failure" category has special significance relative to estimations of favorable conditions for staring up a business. Those people who perceive positive business conditions but refrain from pursuing business due to fear of failure is of great interest. In many countries, the level of fear is lower among those who evaluate the business environment positively. In Russia, nearly half of respondents who evaluate their business environment positively also do not open businesses because they fear failing.

Another indicator characterizing a society's perception of entrepreneurship is the share of respondents who think that opening a new firm is a good career choice. We should note that choosing entrepreneurial activity as a career speaks not only about a society's attitude to entrepreneurship, but also about the structure of the labor market and alternative job opportunities. This might explain why this indicator is so low in Japan (28%) and so high in Yemen (95%).

In recent years this measure has been fairly high in Russia: in 2009 60% of Russians considered opening one's own firm to be a desirable career choice. Nevertheless, this measure is somewhat lower than the average for efficiency-driven economies (70%) and is roughly the same as for innovation-driven economies.

Also, 63% of Russians surveyed believe that those successful in business have high social status and are held in society's respect. On average, more than 70% of respondents from GEM countries see entrepreneurs as having high social status. The usual leaders on this indicator are the United States (75%) and Finland (88%).

Another indicator reflecting societal values is the extent to which mass media highlights successful business histories. In some countries the mass media actively promotes entrepreneurship, while in other countries such reports are few and far between. In 2009, 60% of Russians noted that the mass media gave significant attention to highlighting entrepreneurs' activities and describing business opportunities.

However, while the majority surveyed view entrepreneurship as a successful career choice in Russia, the number of people involved in entrepreneurship remains low. This might be because respondents do not consider their knowledge and experience sufficient for starting their own businesses. The issue is not of entrepreneurs' own levels of education, but rather about perceptions of their own readiness and competence to open and develop their own business. It is logical to assume that those who believe they possess sufficient knowledge and experience will be more inclined to start up their own businesses. Unfortunately, Russia traditionally ranks very low (or lowest) on this criterion.

For the measure of confidence on their own knowledge and experience, the lowest ranking countries are Japan (13.7%), Hong Kong (18.7%), and Russia (23.6%). In innovation-driven countries, from 27% to 55% of respondents feel that they possess sufficient knowledge and experience to begin their own businesses. The highest level of confidence is in the Dominican republic (78%), United Arab Emirates (68%), Greece (58%), and the United States (56%).

Concerning gender, data show little difference between men and women on perceptions of the entrepreneurial climate. In 2009, the exceptions to this trend were regarding perceptions of knowledge and experience and fear of failure. Of respondents, 33% of men and 24% of women felt that they had sufficient knowledge to start up their own businesses. Also, women traditionally were less inclined to risk-taking than men, and the relatively greater fear of a failure inhibits their likelihood of opening their own businesses.

One might suggest that different types of entrepreneurs give different evaluations of external conditions for entrepreneurial development in their respective countries, and of their own personal characteristics for opening and carrying out business. Characteristically, personal networks with other entrepreneurs is crucial to the entrepreneurs in comparison with the population as a whole (figure 5). More than 70% of entrepreneurs (versus an average of 31% for the sample) noted that they are personal acquainted with a person who opened their own business in the last two years. In general, the data support the other scholars' claims that people with entrepreneurs as friends or close acquaintances are two times more likely to start up their own businesses.

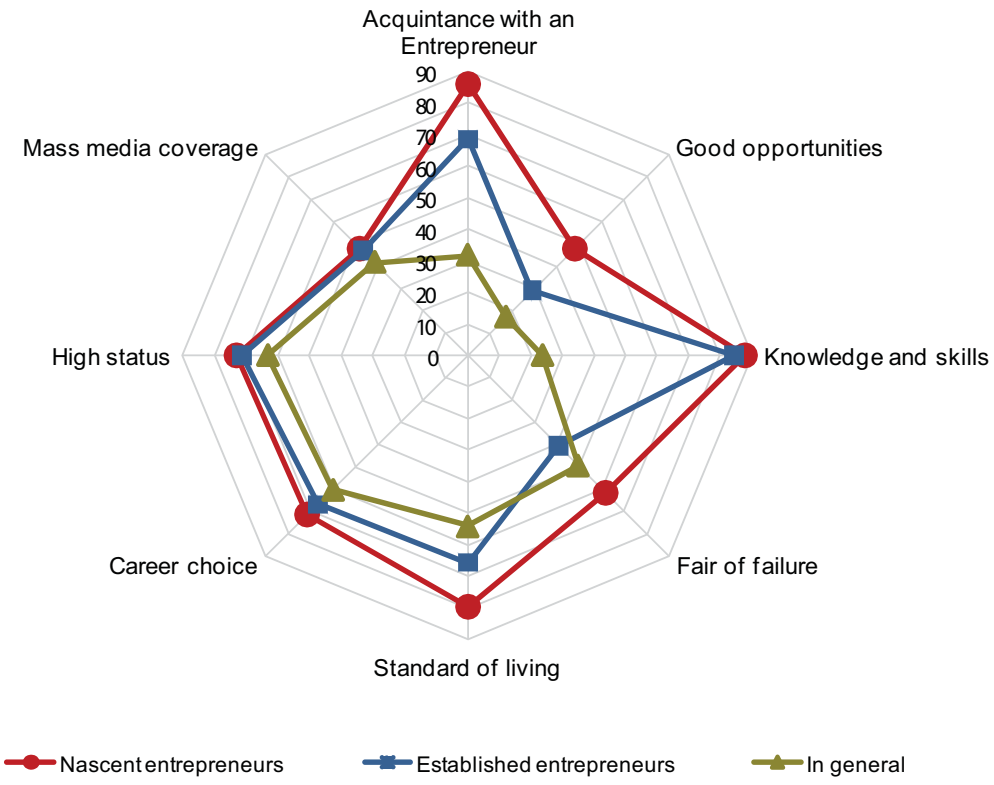

Figure 5. Attitudes to entrepreneurship among nascent and established entrepreneurs and among the population as a whole
Source: Russia APS 2009.

Entrepreneurs with different experiences evaluate conditions for opening business differently (figure 5). We note that potential and nascent entrepreneurs (i.e. those who plan to open a business in the next two years or those who have been involved in entrepreneurship for less than three months) are optimistic: 44% of potential and 47% of nascent entrepreneurs believe that their countries will have favorable conditions for entrepreneurship over the next 18 months. Entrepreneurs with experience (i.e. those who have opened their businesses) are more critical of their business circumstances. Only 26% of new business owners and 29% of established entrepreneurs see favorable tendencies for the development of business.

Influence of social networks on the creation and development of entrepreneurial firms[4]

Research on entrepreneurs and entrepreneurship has examined a range of factors that significantly influence the entrepreneurial personality and the process of business formation. Among these one finds various economic, political, social and psychological dimensions. One of the most important directions of research is networks and social resources. In its general meaning, a social network is that network of individuals with whom current or future entrepreneurs interacts in social contexts. Such a structure can include family members, friends, and acquaintances. Relations with different social groups, support of previously constructed networks, and even relations with relatives and friends play an important role for the entrepreneur and can influence the results of a firm's activity. Social networks (in the broad sense of this term) provide entrepreneurs with a wide range of valuable resources that are not yet the entrepreneur's property but that help him or her in achieving goals. Among the most important resources that networks can provide are the following:

- information;
- access to finance;
- access to skills, knowledge, and advice (competent aid);
- social recognition and status;
- reputation and reliability.

In recent years interest in studying the influence of social networks on entrepreneurship has grown significantly, as evidenced by myriad articles in leading scholarly journals on entrepreneurship.

For Russia, this question is of great importance, given cultural traditions. Especially in the Soviet Union, networks provided the individual with access to deficit goods and not rarely facilitated one's career path. After the collapse of the USSR and the transition to a market economy, the significance of personal contacts did not decrease; rather, the role of social networks in the development of entrepreneurship and the creation of new firms increased.

One research theme under investigation at the Graduate School of Management SPbSU is determining by what means social networks influence entrepreneurial firms at various stages of development. To aid this research, an artificial intelligence model was developed on the base of GEM data.

Figure 6 presents the dependence of the index of entrepreneurial activity (TEA) and of the index of established business on acquaintance with an entrepreneur (or entrepreneurs). In other words, this addresses the "birth" and "survival" stages using GEM terminology, to analyze how the number of entrepreneurs changes at different stages of business development in relation to the presence of entrepreneurs in networks.

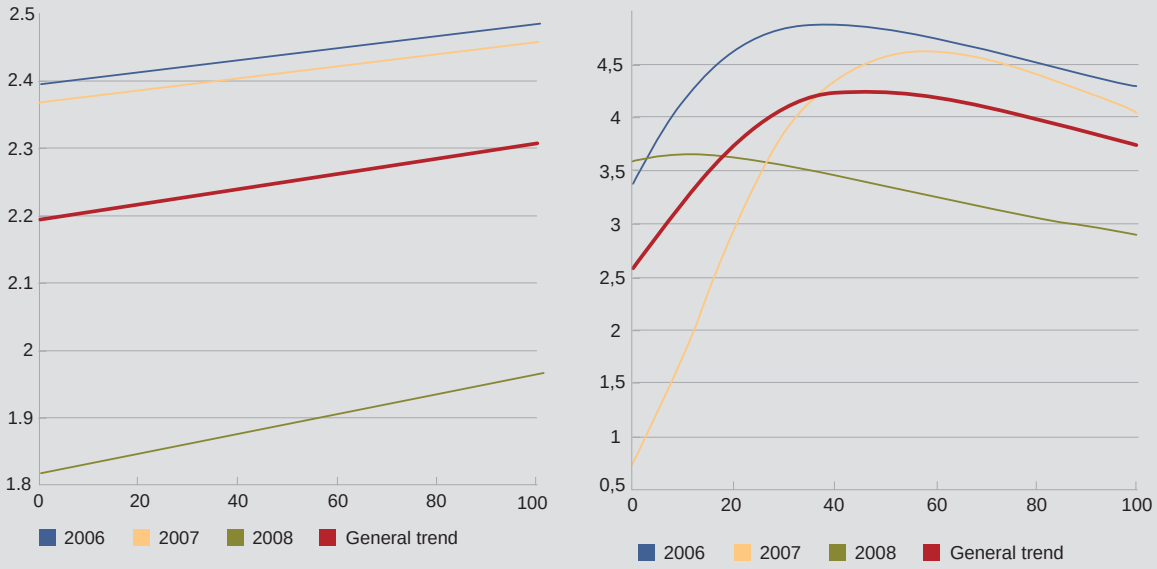

Figure 6. Relation of the index of early-stage entrepreneurial activity and activity of established entrepreneurs to the variable "personal acquaintance with an entrepreneur"

[4] This section was prepared by G. Shirokova (director of the Center for Entrepreneurship, Graduate School of Management, SPbSU), M. Arepevaia (department Applied Mathematics – Control Processes), and M. Molodtsova (Graduate School of Management, SPbSU).

In figure 6, the dark blue line shows the dependence for 2006, the yellow for 2007, and the green for 2008. The red line is the average for all three years. The vertical axis is values for resultant indicators (the index of entrepreneurial activity, and the index of established business); on the horizontal axis are values for the independent parameter, in this case "personal aquintace with an entrepreneur". The behavior of the lines on the graphs varies depending on the stage of business development. The graph for the index of entrepreneurial activity changes its behavior with the growth of the independent variable. As can be seen, until the percentage of people personally acquainted with entrepreneurs familiar reaches 45%, the index grows quickly, and the increase is on average 1.7%. Then the graph begins decreasing with reduced speed (the maximum change in value of the indicator is 0.5%). Thus, as a result we have an increase of 1.2% (at a point where the value of the variable is 100%).

Other picture is observed for established business, where change in the index change is within limits of only 0.1%. The impact of personal ties for established business decreases significantly, although the positive relation persists. Thus, an increase in the number of people personally acquainted with an entrepreneur positively affects the increase in the index of entrepreneurial activity. At the same time we can confirm that at different stages of business development, social networks have different impacts: stronger at the birth stage, weaker at the survival stage. These results might be useful for scholars and practitioners of business. The former can benefit from a method that facilitates analysis and prognosis of entrepreneurial activity in later time periods. The latter can appreciate the importance of networks at various stages of business development and elaborate business strategies appropriately. At the same time, results of research specify the importance of creating associations and other organizations that facilitate the creation and development of social networks of entrepreneurs and that influence the opening of new businesses.

ENTREPRENEURIAL ACTIVITY IN GEM COUNTRIES

Entrepreneurial activity

GEM data helps explain variation in different countries' entrepreneurial potential: institutional development and existing regulatory systems for creation and development of companies; demographic characteristics, especially age structure of the population and migration processes; entrepreneurial culture; general level of economic well-being; and technological development.
To estimate entrepreneurial activity in GEM countries, the project used the following indicators (table 2).

Table 2

Basic indicators of entrepreneurial activity

Level of activity, nascent entrepreneurs	Percent of the population ages 18-64 currently nascent entrepreneurs, i.e. actively in business creation, acting owners, or co-owners. The relevant company exists for more than three months but has not paid wages or other compensation.
Level of entrepreneurial activity among owners of newly-created firms	Percent of the population ages 18-64 and currently owners or managing directors of new businesses. The company pays wages and monetary compensation to the proprietor for more than three, but less than 42 months.
Total entrepreneurship activity index, TEA	Characterizes the level of entrepreneurial activity at early stages. Percent of the population ages 18-64 who are nascent entrepreneurs and owners of newly created businesses. This is not merely the sum of the two first indicators. If the respondent is involved in both kinds of activity, then his or her activity is counted only once.
Level of activity, established entrepreneurs	Percent of the population ages 18-64 who are currently owners or managers of established businesses. The company has been paying wages and monetary compensation to the proprietor for more than 42 months.
General level of entrepreneurial activity	Percent of the population ages 18-64 who are early-stage or established entrepreneurs.
Level of business closure	Percent of the population ages 18-64 who in the last twelve months have sold, closed, or in any other way ceased being owners or managers.
Level of activity, early-stage "necessity" entrepreneurs	Percent of the population involved in early-stage entrepreneurial activity due to necessity, i.e. they have no other source of real income.
Level of activity, early-stage "opportunity" entrepreneurs	Percent of the population involved in early-stage entrepreneurial activity who are motivated by (a) the chance to increase income and (b) possibilities for independence or autonomy.

Table 3 presents data on entrepreneurial activity for 54 GEM countries in 2009. The countries are grouped according to stage of economic development. Data describe basic characteristics of entrepreneurial activity for each country.

Table 3

Entrepreneurial activity in GEM countries, 2009, by levels of economic development

Country	Nascent entrepreneurship rate	New business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of businesses	Necessity-driven (% of TEA)	Improvement-driven opportunity (% of TEA)
Factor-driven economies							
Algeria	11.3	5.6	16.7	4.7	7.9	18	51
Guatemala	17.1	12.2	26.8	3.3	6.0	23	30
Jamaica	13.0	10.6	22.7	16.3	10.7	33	45
Lebanon	6.7	8.8	15.0	16.0	4.6	18	60
Morocco	6.9	9.4	15.8	15.2	3.7	25	57
Saudi Arabia	2.9	1.9	4.7	4.1	2.9	12	63
Syria	3.4	5.1	8.5	6.7	7.4	37	43
Tonga	6.5	11.1	17.4	2.3	3.6	33	39
Uganda	12.4	22.7	33.6	21.9	24.2	45	45
Venezuela	13.3	5.4	18.7	6.5	3.0	32	42
West Bank & Gaza Strip	3.0	5.9	8.6	6.9	7.1	37	33
Yemen	22.8	1.2	24.0	2.9	2.0	35	16
Average (unweighted)	9.9	8.3	17.7	8.9	6.9	29.0	43.6
Efficiency-driven economies							
Argentina	6.1	9.3	14.7	13.5	6.2	47	37
Bosnia and Herzegovina	3.1	1.3	4.4	3.9	3.1	39	20
Brazil	5.8	9.8	15.3	11.8	4.0	39	48
Chile	9.6	5.6	14.9	6.7	6.4	25	42
China	7.4	11.8	18.8	17.2	6.6	48	29
Colombia	15.0	8.0	22.4	12.6	7.1	34	45
Croatia	3.5	2.2	5.6	4.8	3.9	37	39
Dominican Republic	8.8	9.2	17.5	11.4	12.9	34	26
Ecuador	6.3	9.7	15.8	16.1	6.0	32	43
Hungary	5.4	3.7	9.1	6.7	3.2	24	45
Iran	8.2	4.1	12.0	6.5	6.0	35	35
Jordan	5.9	4.9	10.2	5.3	6.8	28	35
Latvia	5.3	5.4	10.5	9.0	3.3	32	54
Malaysia	1.7	2.7	4.4	4.3	2.7	25	44
Panama	6.2	3.5	9.6	4.2	1.4	24	59

Country	Nascent entrepreneurship rate	New business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of businesses	Necessity-driven (% of TEA)	Improvement-driven opportunity (% of TEA)
Peru	16.1	5.1	20.9	7.5	7.1	28	42
Romania	2.8	2.3	5.0	3.4	3.6	34	31
Russia	**1.8**	**2.3**	**3.9**	**2.3**	**2.2**	**29**	**37**
Serbia	2.2	2.8	4.9	10.1	1.9	41	46
South Africa	3.6	2.5	5.9	1.4	4.2	33	38
Tunisia	2.2	7.2	9.4	10.2	4.8	20	57
Uruguay	8.1	4.2	12.2	5.9	4.9	22	57
Average (unweighted)	6.1	5.3	11.2	7.9	4.9	32	41
Innovation-driven economies							
Belgium	2.0	1.6	3.5	2.5	1.3	9	55
Denmark	1.6	2.0	3.6	4.7	1.1	7	56
Finland	2.9	2.3	5.2	8.5	2.1	19	62
France	3.1	1.4	4.3	3.2	1.9	14	67
Germany	2.2	2.1	4.1	5.1	1.8	31	43
Greece	4.5	4.7	8.8	15.1	2.6	26	47
Hong Kong	1.6	2.2	3.6	2.9	1.5	19	49
Iceland	7.6	4.2	11.4	8.9	4.0	10	58
Israel	3.4	2.7	6.1	4.3	4.0	25	48
Italy	1.8	1.9	3.7	5.8	1.1	14	57
Japan	1.9	1.3	3.3	7.8	1.4	30	62
Korea	2.7	4.4	7.0	11.8	3.9	45	37
Netherlands	3.1	4.1	7.2	8.1	2.5	10	57
Norway	5.0	3.9	8.5	8.3	3.7	9	74
Slovenia	3.2	2.1	5.4	5.6	1.3	10	69
Spain	2.3	2.8	5.1	6.4	2.0	16	41
Switzerland	4.3	3.5	7.7	8.4	2.1	7	67
UK	2.7	3.2	5.7	6.1	2.1	16	43
United Arab Emirates	6.5	7.4	13.3	5.7	6.5	9	79
United States	4.9	3.2	8.0	5.9	3.4	23	55
Average (unweighted)	3.4	3.1	6.3	6.8	2.5	17	56

Source: Adult Population Survey 2009 (APS 2009)

Data represented in table 3 give general characteristics inherent in each group of countries, although each country has a unique set of socioeconomic conditions influencing the level of entrepreneurial activity. In factor-driven economies, the level of involvement in entrepreneurship for early-stage and established entrepreneurs is quite high. The average level of early-stage entrepreneurial activity for this group of countries is 18%. However, Uganda, the poorest GEM country, has a relatively high level of entrepreneurial activity (33.6%), along with a high level of necessity-driven entrepreneurship: 45%, versus an average level of 29% for this group of economies. In Saudi Arabia the TEA index is seven times lower, around 5% and the share of necessity-driven entrepreneurs is around 12%. In efficiency-driven economies, the average level of entrepreneurial activity (11.2%) is lower than in factor-driven economies. The share of "necessity" entrepreneurs (32%) is only slightly lower than that in factor-driven economies. Variation within a group testifies not only to the influence of the level of economic development on the involvement of the population in business creation; it also tells of geographical peculiarities of entrepreneurship. Latin American countries show a significantly higher level of early-stage entrepreneurial activity (average of 16.7%) in comparison with countries of East Europe (average of 6.2%). Overall, this picture corresponds with the general entrepreneurial climate in Latin America, where the image of the entrepreneur and the desire to become an entrepreneur are higher than in other countries of this group.

Innovation-driven economies are characterized by the lowest average of entrepreneurial activity. It makes up 6.3%, with "necessity" entrepreneurship also quite low (17%). If the share of entrepreneurs motivated by necessity was comparable to the share of entrepreneurs motivated by opportunities to increase income and gain independence in resource- and efficiency-driven economies, then in innovation-driven economies the share of "opportunity" entrepreneurs is two times greater than those driven by necessity. Nevertheless, even here there is variation: Germany, Korea, and Japan have high levels of levels of "necessity" entrepreneurship (greater than 30%), while Denmark, Norway, Switzerland, and Belgium have levels below 10%. Variation in levels of entrepreneurial activity in countries characterized by different levels of economic development has been observed over the 10 years that this project has been conducted. Research indicated a U-shaped relation between GDP per capita and level of entrepreneurial activity (figure 7).

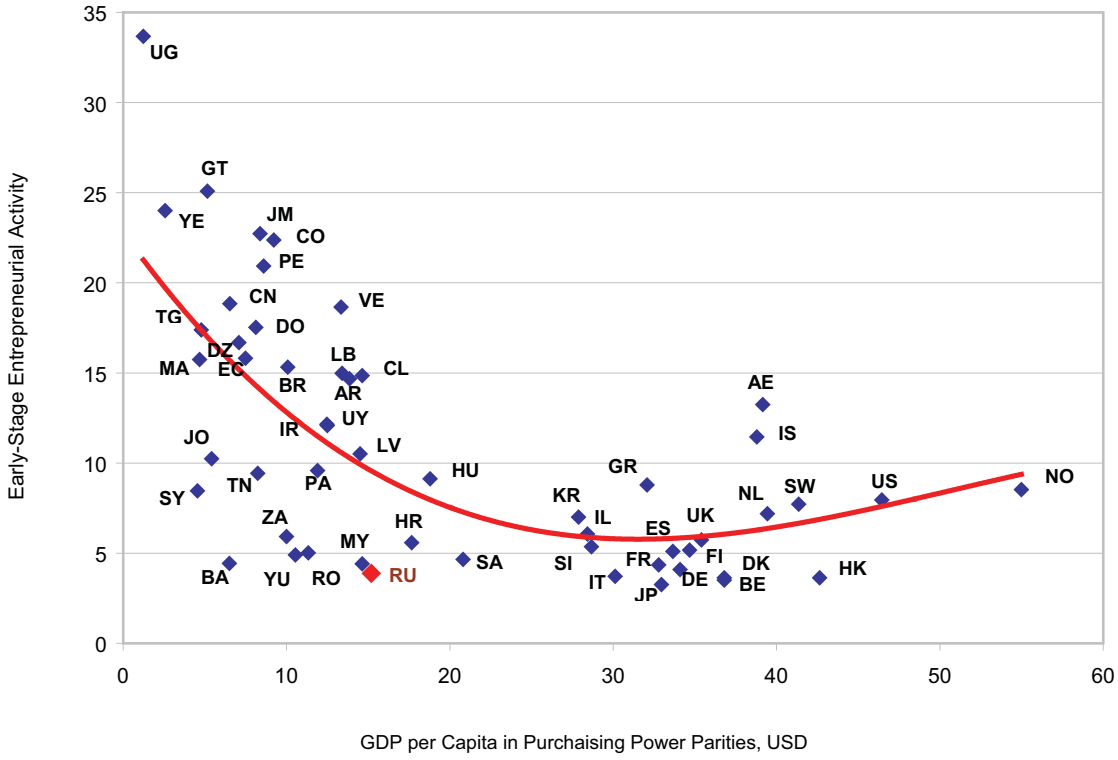

Figure 7. Index of entrepreneurial activity and GPD per capita
Source: Bosma, Levie, 2010.

The economic structure for countries with a low level of income per capita is characterized by the predominance of small firms. An important factor of economic growth is macroeconomic and political stability, which favors development of strong businesses. With economic growth and GDP growth, large and established firms start to play a more important role in satisfying growing demand in most markets. The growing importance of large businesses is accompanied by the slowing of small and medium businesses, as more people find jobs in large companies. Therefore, a decrease in the level of entrepreneurial activity may be seen as a positive sign for countries with low income per capita, especially if accompanied by economic growth and political stability.

The distribution of TEA country estimates around the line of best fit in figure 4 demonstrates that the size of the entrepreneurial sector in a 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 institutional development.

Russia in 2009 did not demonstrate essential changes in the index early-stage entrepreneurial activity. It comprised 3.9% and grew in comparison with 2008 (3.49%). This is the lowest index for the group of efficiency-driven economies. The level of activity of established entrepreneurs (2.3%) did double in comparison with 2008.

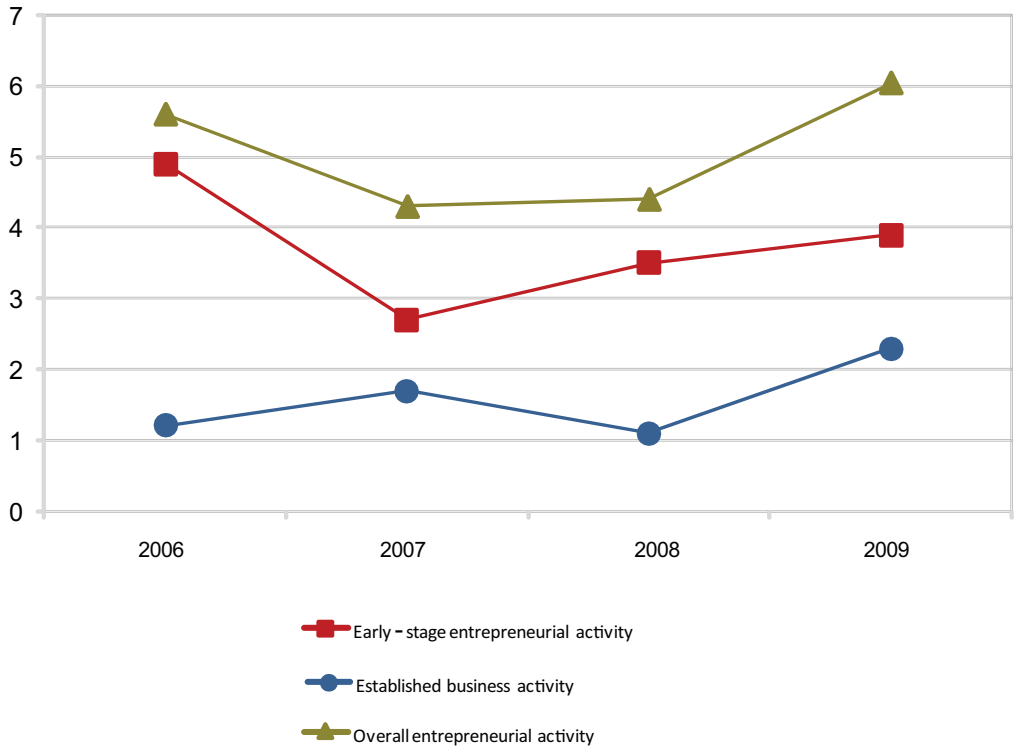

Figure 8. Dynamic of indices of entrepreneurial activity in Russia, 2006-2009
Source: Russia APS 2006–2009.

Figure 8 presents the dynamic for indices of entrepreneurial activity for 2006 to 2009. The level of activity for early-stage and established entrepreneurs is fairly steady. For Russia, the value of TEA in 2006 was 4.9%. In 2007 this indicator decreased, which might have been related to the stable development of large companies that could provide increasing employment and competitive wages. The economic crisis of 2008 forced companies to reduce costs, leading to a reduction in employment, which likely forced the newly unemployed to consider opening up their own businesses. However, the increase in entrepreneurial activity was insignificant, despite policies designed to support small businesses.

Motivation

Entrepreneurs open their own businesses for a variety of reasons. While some create new firms to take advantage of business opportunities, others are forced by necessity to create new companies because they have no other real source of income. Thus, the GEM project emphasizes two types of entrepreneurial motivations:

1. "Opportunity-driven entrepreneurs" are entrepreneurs who try to take advantage of arising opportunities and to gain from entrepreneurial activity.
2. "Necessity-driven entrepreneurs" are entrepreneurs who try to open businesses because they do not have any other real sources of income.

This rough division leaves a little room for a deeper understanding of motivations. For example, respondents could answer the question on motivations with "no other options" or "to use new business opportunities." A respondent could tick the latter answer even though his or her real motivation was closer to the former [Bosma et al 2009].

Therefore, motivations of entrepreneurs oriented to arising opportunities require more detailed study. These were divided into three groups. The first group includes those whose basic motive was improving income. The second group includes those whose primary motive was independence. The third group is those who use opportunities to maintain income – in reality, this group is close to necessity-driven entrepreneurs.

In examining the relation between level of economic development and entrepreneurial motivations, the GEM study revealed that overall, business opportunities had the greatest value in innovation-driven economies.

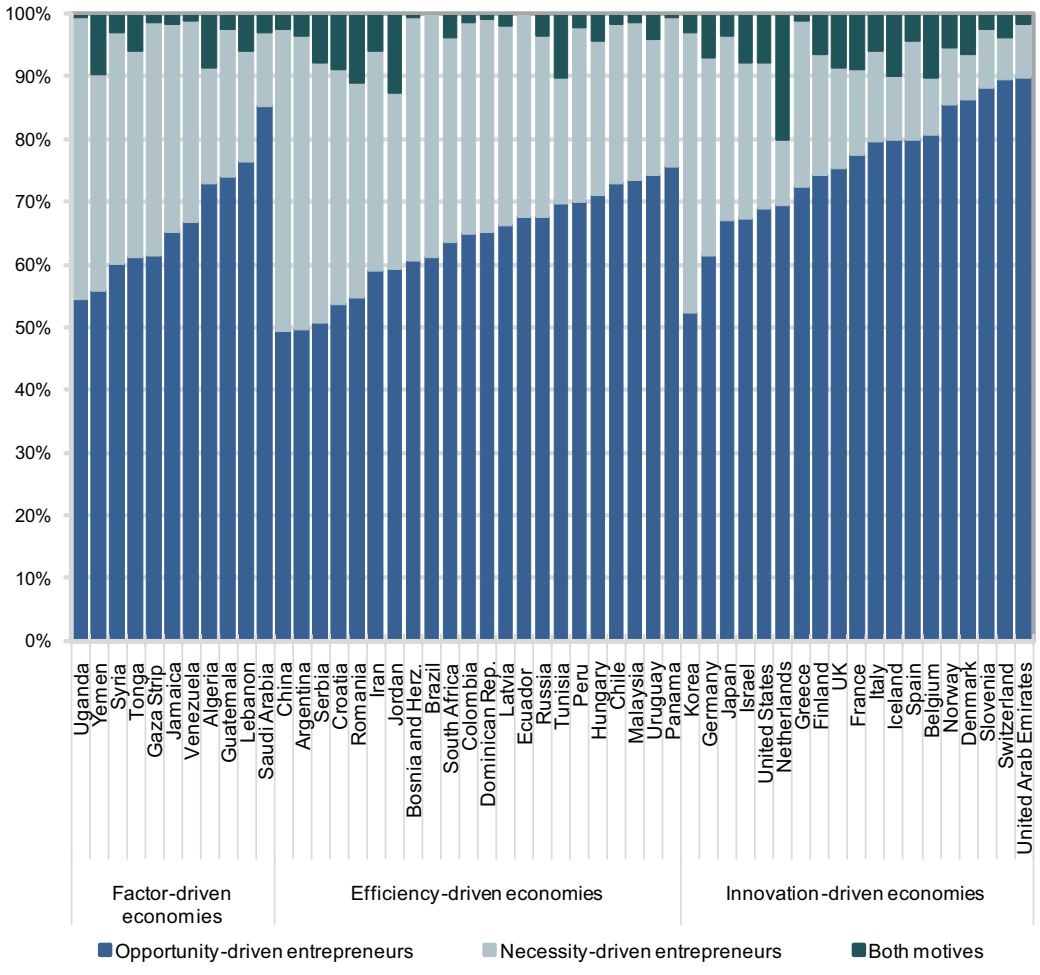

Figure 9. Distribution of early-stage entrepreneurs by motivation type
Source: Adult Population Survey 2009 (APS 2009).

[5] In the literature one sometimes sees such terms as "compelled entrepreneur" and the like.

In 2009 such a tendency continued (figure 9). Overall, the share of opportunity-driven entrepreneurs in innovation economies was higher than in the other two types of economies (on average 76%). In these countries the organization of new business is often undertaken from necessity. The high indicators of early-stage entrepreneurial activity in these countries are due more to the absence of alternatives than to a high level of entrepreneurial development. Analyzing the first two types of "opportunity" motivations, we can see that there are strong differences between countries (figure 10). In the majority of innovation–driven economies, independence is the most important motivation, i.e.

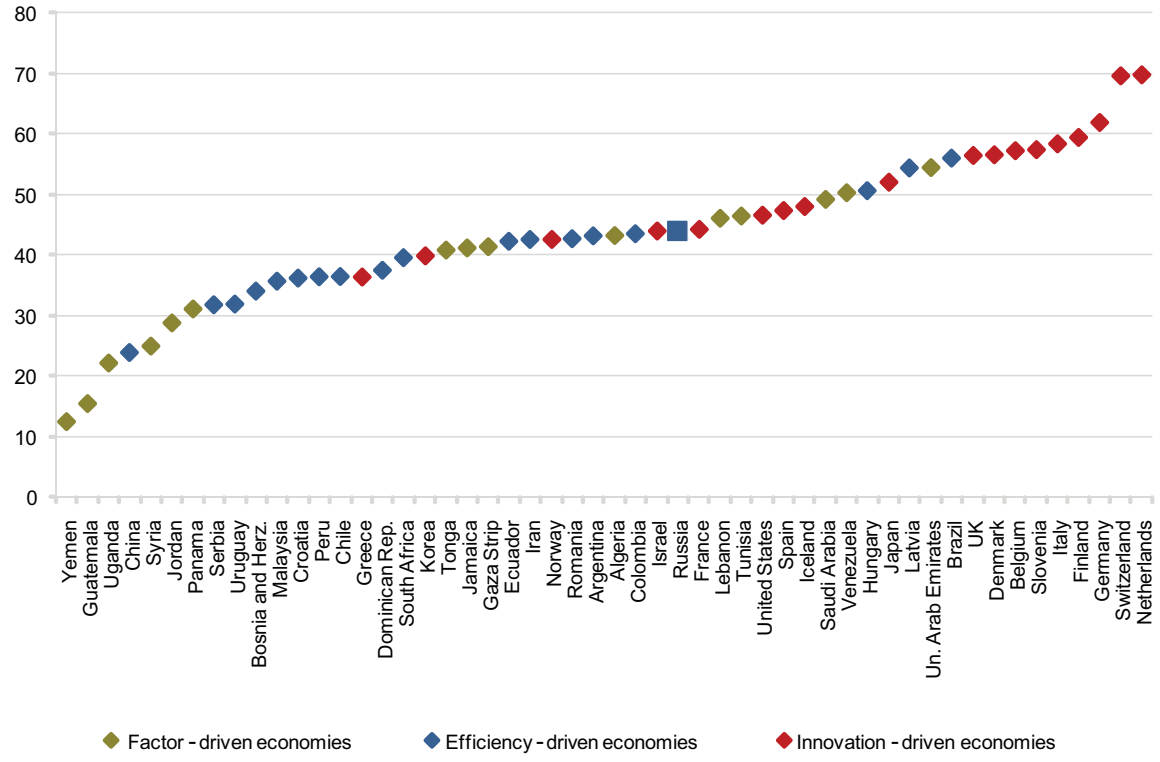

Figure 10. Independence motive among opportunity-driven early-stage entrepreneurs
Source: Adult Population Survey 2009 (APS 2009).

the population sees entrepreneurship as attractive and providing desired autonomy. In contrast, in factor– and efficiency–driven economies, the motive of improving income is the most popular. In Russia the levels of necessity– and opportunity–driven entrepreneurs did not change dramatically for the period 2006-2009. The share of "opportunity" entrepreneurs was around 70%, and a large segment of this group (56%) were moved by the desire to increase their income, with the remainder (44%) moved by independence of work (for 16.2% of the total of early-stage entrepreneurs). This share of entrepreneurs motivated by independence in 2009 was twice its 2008 level. Most likely this is related to wage reductions and the threat of unemployment during the economic crisis; these respondents preferred to open their own businesses instead of waiting on managerial decisions at larger companies where they might have worked. This also corresponds with a drop in those deterred by fear of failure. The number of early-stage opportunity–driven entrepreneurs is also higher among men (73%) than women (61%) – a change over 2008, when men were more likely to be "necessity" entrepreneurs than women.

Discontinuing business

Entrepreneurial activity is measured not only by the number of companies created, but also by the number of those exiting the market. In many countries, the level of market exit is comparable to and sometimes exceeds the level of early-stage entrepreneurial activity (table 3). In innovation–driven economies, the level of business discontinuation is lower than in factor– (7.2%) and efficiency–driven (4.9%), economies (on average 2.5%). However, these figures do not provide a complete picture of entrepreneurial expansion. For example, in Uganda the level of market exit is 24%, although that for nascent entrepreneurs was two times lower. Despite a high level of business closures in efficiency–driven economies (7.1%), in Peru the rate of market exit grew.

A comparison of the level of nascent entrepreneurship (i.e. people involved in opening a business and taking active measures towards this goal) with the level of market exit allows us to speak of expansion of entrepreneurship. As is clear in figure 11, in 13 of 55 GEM countries, the significance of this coefficient was less than 1. Thus, the link between the coefficient of expansion and the level of economic development is not revealed.

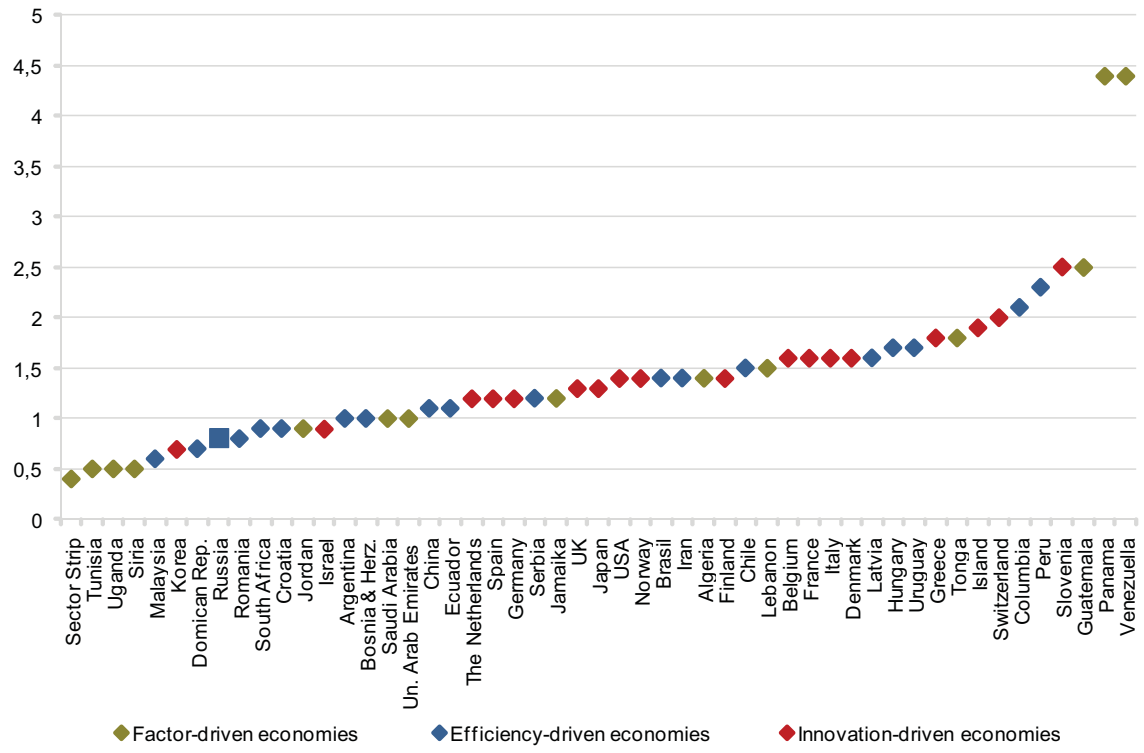

Figure 11. Coefficient of entrepreneurship expansion (level of nascent entrepreneurship versus level of business closure)
Source: Adult Population Survey 2009 (APS 2009).

In Russia the number businesses closed exceeded the number of businesses opened. The coefficient of expansion is 0.8, two times lower than for the previous year when it was 1.5. This is a disturbing sign, because along with an increase in the general level of entrepreneurial activity there has also been a worsening in the macroeconomic climate, leading to a real decline in the number of people involved in entrepreneurial activity.

It should be noted that market exit is not always the same as a company closing: in Russia, 20% of entrepreneurial firms whose founders left business

continued to operate, either in another form or with a new owner. However, in this year the number of businesses whose existence ceased coincided with the number created: this suggests the absence of a positive development dynamic in the entrepreneurial sector.

Each respondent who had closed a business in the previous twelve months was asked about motivations that induced this step. Figure 12 shows reasons for discontinuing business in countries with various types of economies, including Russia.

One of the main causes for closing business in all GEM countries was unprofitability. In particular, unprofitability and difficulties with access to finance were large problems in efficiency-driven economies (figure 12). In 2009 these two reasons made up almost 60% of motivations in this group of countries. Overall, it should be noted that the structure of reasons for existing business did not change relative to the previous year. For factor-driven economies, important reasons were uncertainty created by personal factors (e.g. illness, loss of relatives, civil disobedience, etc.) and other adverse circumstances. Because their markets are better developed, innovation-driven economies had a lower level of difficulty in access to finance: this level was 1.5-2 times lower as a reason for closing business. However, the possibility of selling a business occurs significantly more often in this type of economy.

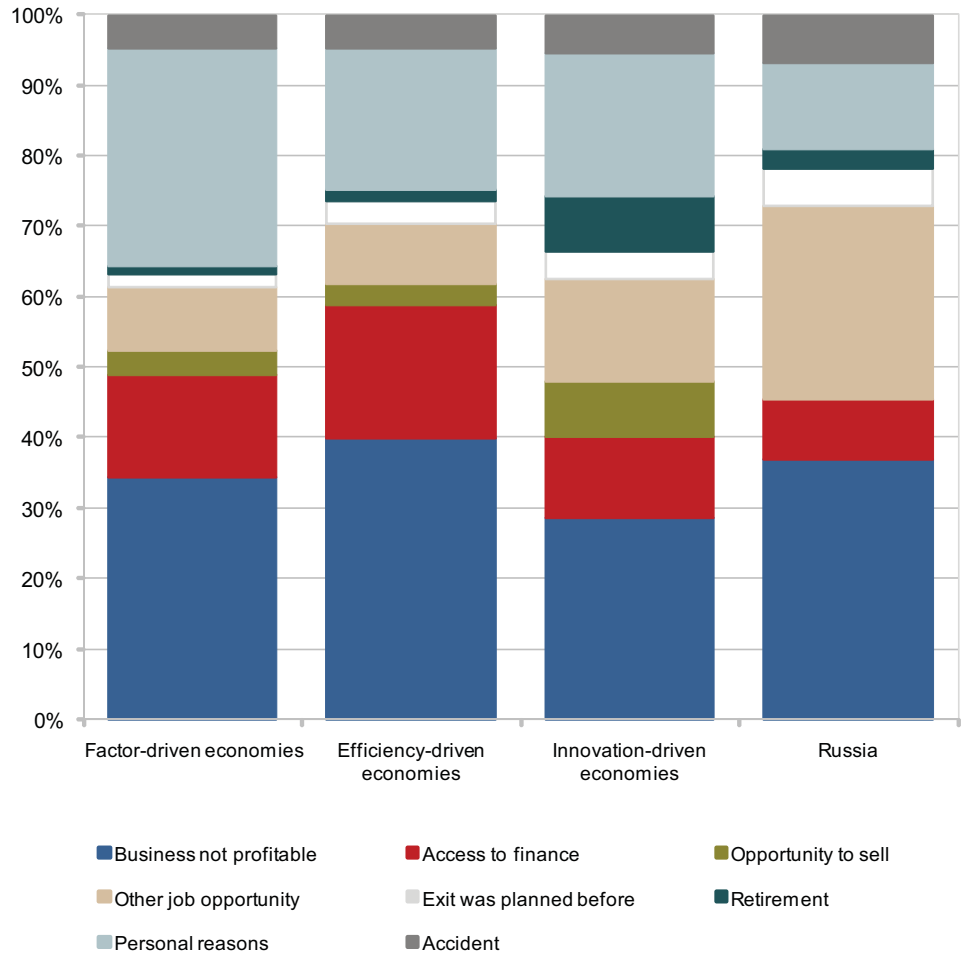

Figure 12. Reasons for discontinuing business in GEM countries and Russia, %
Source: Adult Population Survey 2009 (APS 2009).

As in other countries, in Russia weak or not profitable business was a major factor in business closures in 2009: 33% of respondents claimed this reason. As figure 13 shows, problems with financial turnover and working capital, the main reason for closing a business in 2008, dropped in importance and ultimately a played minor role. Most likely, the necessity to attract additional financing during the recession was less important. What is unexpected, however, is that the share of those who closed businesses because of alternative job opportunities actually grew.

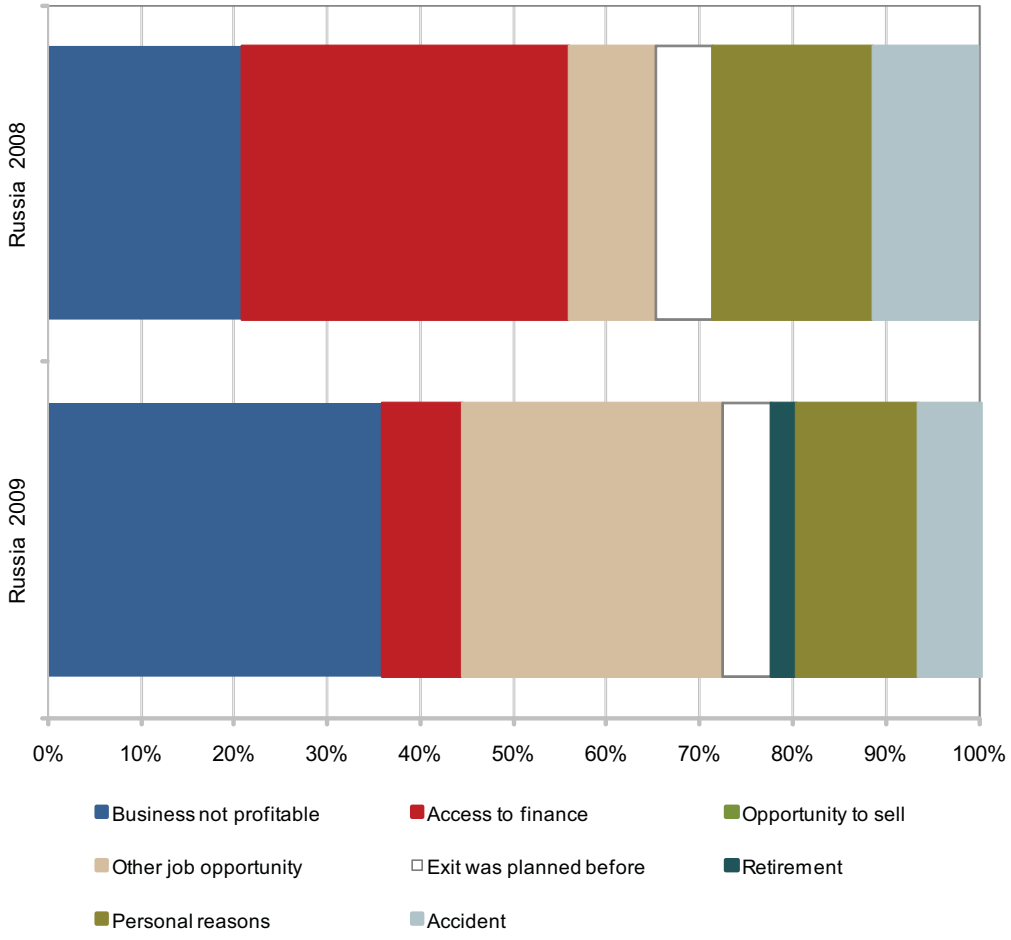

Figure 13. Reasons for discontinuing business in Russia, 2008-2009
Source: Russia APS 2008–2009

Social and demographic characteristics of Russian entrepreneurs

Social and economic characteristics such as age, gender, education, and income have a significant influence on the desire to start an entrepreneurial career and to found a business, thus being major determinants of the entrepreneurial landscape in a country.

Age

Among early-stage entrepreneurs (figure 14), respondents from the 25-34 age group showed the highest level of entrepreneurial activity. The prevalence of this age group is typical for GEM countries and has been fairly stable over four years that Russia has been analyzed. However, the share of this age group declined significantly in comparison with previous years and reached 28% (comparing to 41% in 2008). This occurred because of an increase in the share of the 45-54 age group, whose share in early-stage entrepreneurial activity traditionally has been low (barely higher than 10%). In 2009 the share for this group was 25% – higher than that for this cohort in other countries.

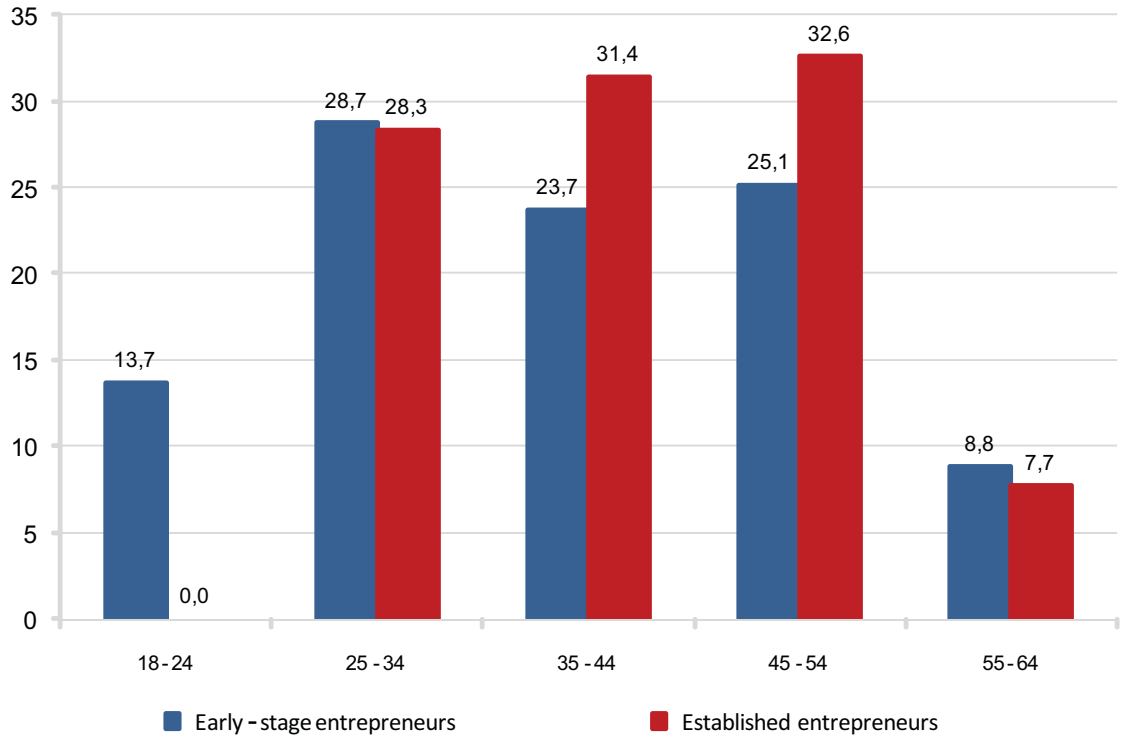

Figure 14. Distribution of the early-stage and established entrepreneurs by age.
Source: Russia APS 2009

The desire to create new businesses (which declines with age) and the presence of knowledge, skills, and capital (which increase with age) influence the distribution of entrepreneurial activity by age group. However, in Russia the link between knowledge and age does not have a linear character. Younger groups have greater confidence in their knowledge. Every fifth respondent in the 18-24 age group is confident in having knowledge and skills to open their own business; one in three express the same opinion in the 25-44 age group. Older groups are less optimistic about their knowledge and experience, and it is natural that entrepreneurial activity is lowest for the oldest group.

The distribution of established entrepreneurs differs from early-stage entrepreneurs. It is not unusual that the youngest cohort is not represented among established entrepreneurs; neither is the fact that the 35-54 cohort is the most active group for this entrepreneurial category. This age group makes up 64% of established entrepreneurs and 48% of early-stage entrepreneurs.

Gender

The gender structure for Russian early-stage entrepreneurs is typical for European countries, where the share of female employment is traditionally high. In all GEM countries except Tonga, Guatemala, and Brazil, early-stage entrepreneurial activity among men is higher than that for women. However, peculiarities of national cultures influence gender representation in early-stage entrepreneurship. In such countries as Saudi Arabia, Syria, and the Gaza Strip, men's activity exceeds that of women by four-five times, and in several European innovation-driven economies men exceed women by double [Bosma and Levie, 2010].

Early-stage entrepreneurial activity of Russian men in 2009 was at a level of 4.58%, and that of women at 3.23% (figure 15). These values have been stable for some time.

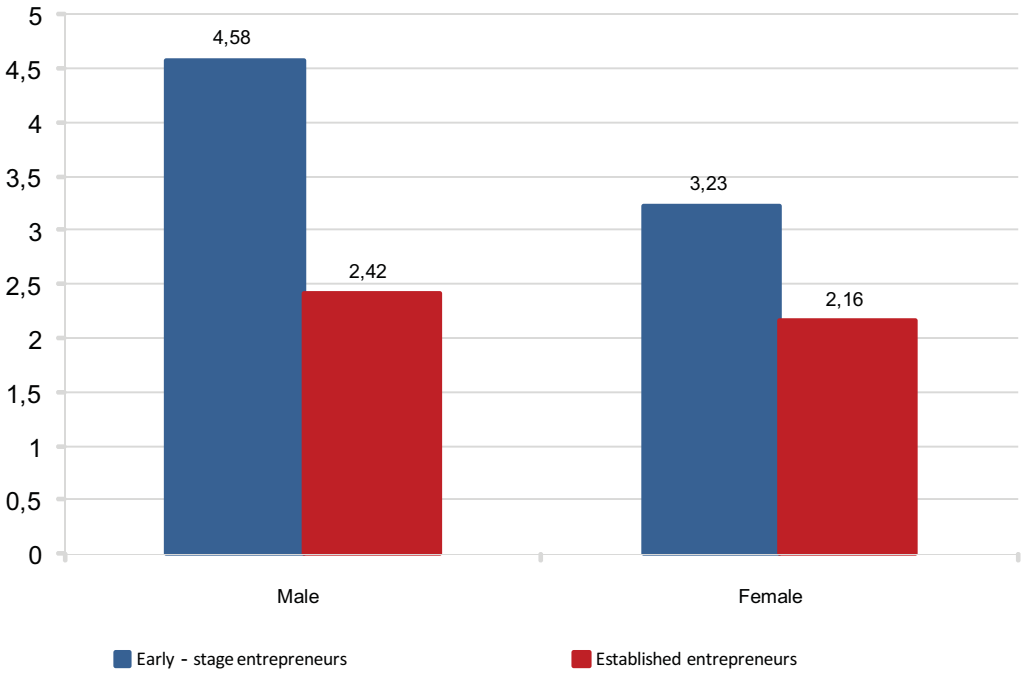

Figure 15. Early-stage entrepreneurial activity by gender, %
Source: Russia APS 2009.

In analyzing differences between the entrepreneurial behavior of men and women, attention should be paid not only to cultural traditions but also to different gender attitudes towards entrepreneurship. As noted above, men are more inclined to see favorable opportunities in the environment and to evaluate external conditions for starting businesses more positively. Men are also more optimistic when evaluating knowledge and experience necessary for starting a new business and have less fear of failure.

Although men are more often involved in creating their own businesses, at the stage of business survival they are not necessarily more successful. In 2008, the number of women was greater than that of men for established entrepreneurs. This year the entrepreneurial activity of women involved in entrepreneurship for more than 3.5 years (2.16%) was closer to the same measure for men who owned established businesses (2.42%).

Female's entrepreneurship: factors behind variation in entrepreneurial activity, male versus female (countries with efficiency-driven economies)[6]

Recently, women entrepreneurs have played an increasingly prominent role in economic growth. This tendency is observed in many countries, especially those with developing economies. However, men's entrepreneurial activity remains higher than women's. As a rule, women possess less experience running a business and have more modest financial opportunities to realize business projects. Women also prefer to develop projects more slowly and do not aspire as strongly to expand their businesses. As a result, companies under women managers tend to be smaller in size.

Research on gender carried out in 2009 by Graduate School of Management SPbSU investigated factors influencing entrepreneurial activity of men and women. Research drew on data from countries with efficiency-driven economies: Argentina, Brazil, Dominican Republic, Latvia, Macedonia, Mexico, Peru, Romania, Serbia, Turkey, Uruguay, Chile, South Africa, and Jamaica. Overall, data covered 32,295 entrepreneurs from 15 countries, and the number of entrepreneurs from an individual country varied from 1,645 in Uruguay to 4,068 in Chile.

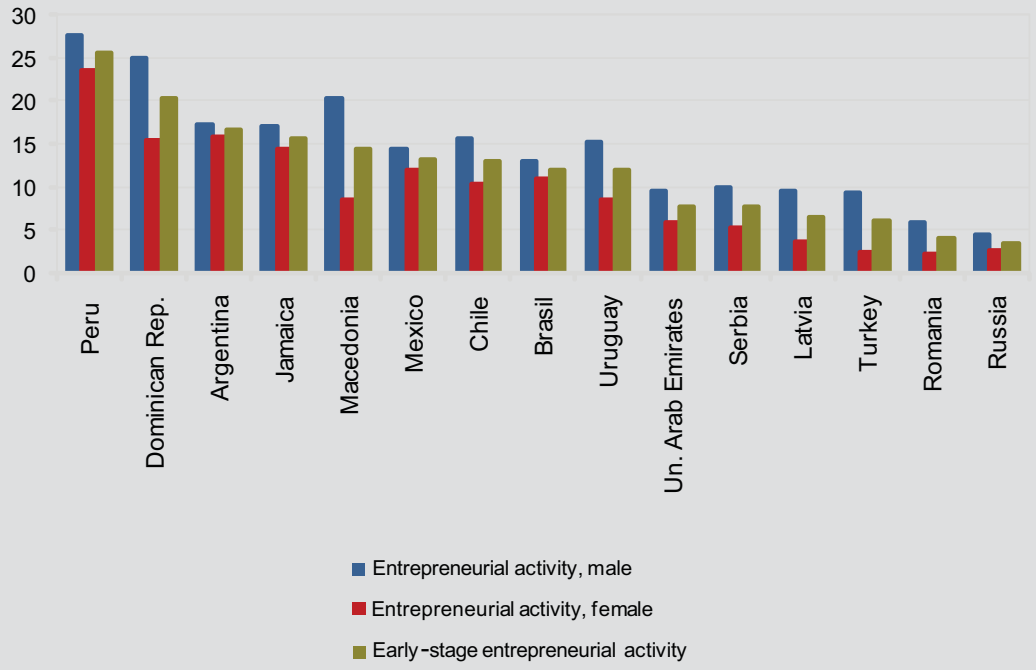

Figure 16. Index of male entrepreneurial activity, index of female entrepreneurial activity, and index of entrepreneurial activity (2008), %
Source: Adult Population Survey (APS 2008).

[6] The section is prepared by Tatyana Tsyganova, Center for Global Strategies and Innovation, Graduate School of Management SPbSU

Among the group of 15 countries with efficiency-driven economies, Russia scores lowest for general entrepreneurial activity and for men's entrepreneurial activity; Russia ranks No. 13 for entrepreneurial activity for women (figure 16). For the index of women's entrepreneurial activity, Peru is the leader (23.6%), followed by Argentina (15.9%) and the Dominican Republic (15.5%). Russia (2.6%) is followed at the end of the scale by Turkey (2.4%) and Romania (2.1%). For the index of men's entrepreneurial activity, we see Peru leads again (27.5%), followed by the Dominican Republic (25%) and Macedonia (20.3%), with Russia in last place (4.5%).

To make sense of variation in entrepreneurial activity between men and women, various factors were classified and examined in the following groups: economic, technological, socio-demographic, financial, and perception. Analyses revealed that the most important factors were unemployment, share of the service sector, educational level and training, technological development, access to financial resources to open a business, satisfaction with one's life situation, confidence in oneself, and evaluation of one's own opportunities.

In particular, women's entrepreneurial activity is influenced by life satisfaction and share of the service sector in the economy. Women entrepreneurs are negatively affected by a lack of confidence in their abilities. Life satisfaction can improve through better physical living conditions, including personal happiness and social benefits, and general conditions such as social programs supporting childrearing, as well as general improvement in the social and economic climate. In contrast, men's entrepreneurial activity is improved by increased knowledge and skills and the development of the high-tech sector. Training does seem to help both men and women with starting up businesses. Training raises the general educational level and has a significant impact on entrepreneurial activity and increased profit. Training oriented to creating and developing business provides necessary support and raises confidence in entrepreneurial undertakings.

Further, note that training has a greater impact on women entrepreneurs. In the aggregate, given issues of individual confidence, training should receive greater attention and support from state programs for aiding entrepreneurship and entrepreneurial activity generally.

Education

Research on entrepreneurship does not provide an unambiguous answer about the influence of educational level on entrepreneurial activity and a society's entrepreneurial potential. GEM methodology uses a fourfold division of education level: incomplete secondary education, secondary education, professional and higher education, and advanced degree (e.g. PhD, MBA, etc.).

GEM data show that in the majority of countries, people with higher education demonstrate a higher propensity both to create new businesses and to manage established companies [Bosma and Levie. Global Entrepreneurship Monitor 2009]. In Russia 2009, early-stage and established entrepreneurs with professional and higher education had the highest activity levels relative to other educational groups (figure 17).

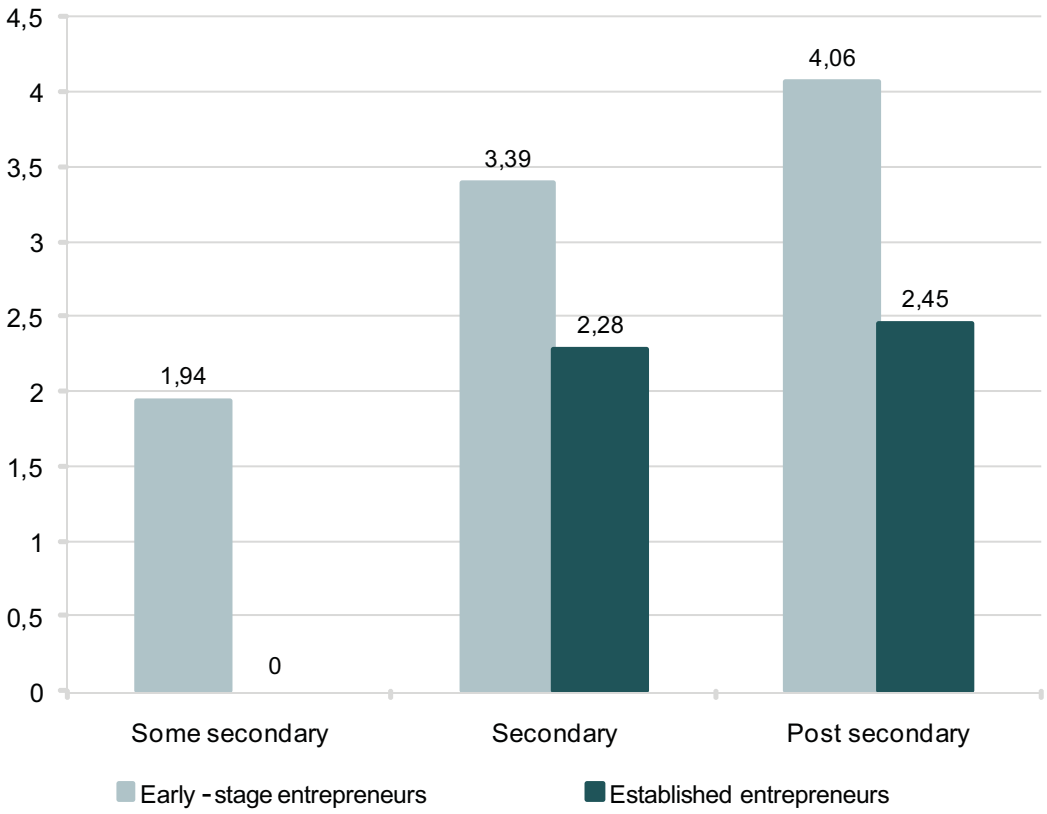

Figure 17. Activity of early-stage and established entrepreneurs by educational level, %
Source: Russia APS 2009.

Note that Russia is in first place among GEM countries on the index of education of early-stage entrepreneurs (i.e. the number of early-stage entrepreneurs having at least a secondary education). This rate (more than 90% for Russia) is three times higher than the average level for efficiency-driven economies and two times higher than the average for innovation-driven economies. In comparison, the United States, ranking second place, has a rate of 75%.

Type of settlement

Creation of new businesses is greatest in cities with a population of 500 thousand to one million inhabitants (figure 18). Early-stage entrepreneurial activity in these cities has grown of late. Most likely this is due to problems with employment in large enterprises whose production fell in the 2008 crisis. Entrepreneurial activity has also increased over the previous year in cities with over one million people, although activity there still lags behind cities with 500 thousand to one million people. This might be evidence of high availability of labor in existing companies.

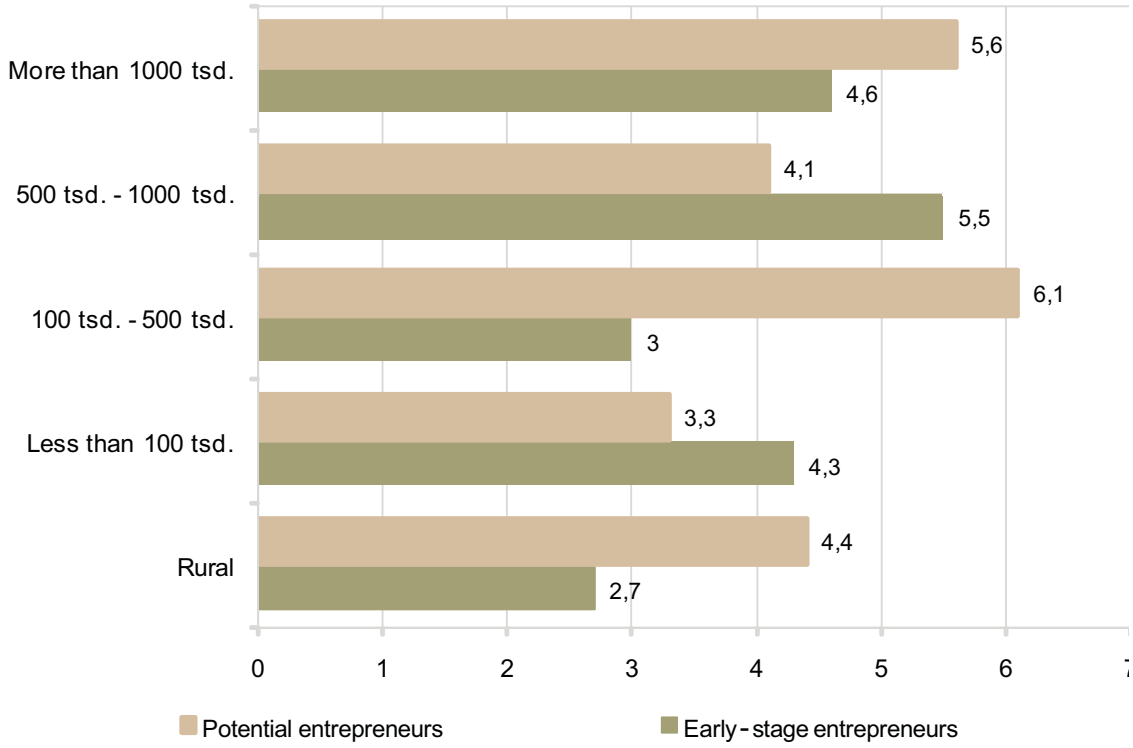

Figure 18. Distribution of potential and early-stage entrepreneurs by type of settlement
Source: Russia APS 2009.

The lowest rates of entrepreneurial activity are in the rural areas and in cities with a population from 100 to 500 thousand. The share of those interested in opening a business in the next three years is higher than the level of early-stage entrepreneurs, i.e. in these areas there is the potential to develop entrepreneurship, but this is not being realized because of adverse conditions.

Sector distribution

The GEM project focused not on simply counting the number of firms, but also on estimating the "entrepreneurial spirit" and entrepreneurial activity in different stages of a firm's development. It should be noted that for analysis of some indicators, e.g. sector distribution, the GEM data base is not the best source of information, although it might have utility for discerning general traits of the early-stage entrepreneurial activity.
To analyze economic sectors in which entrepreneurs are engaged, GEM uses the International Standard of Industrial Classification of All Economic Activities (ISIC). Sectors are categorized as consumer industries, business services, manufacturing and construction, and extraction (farming, forestry, fishing, and mining).

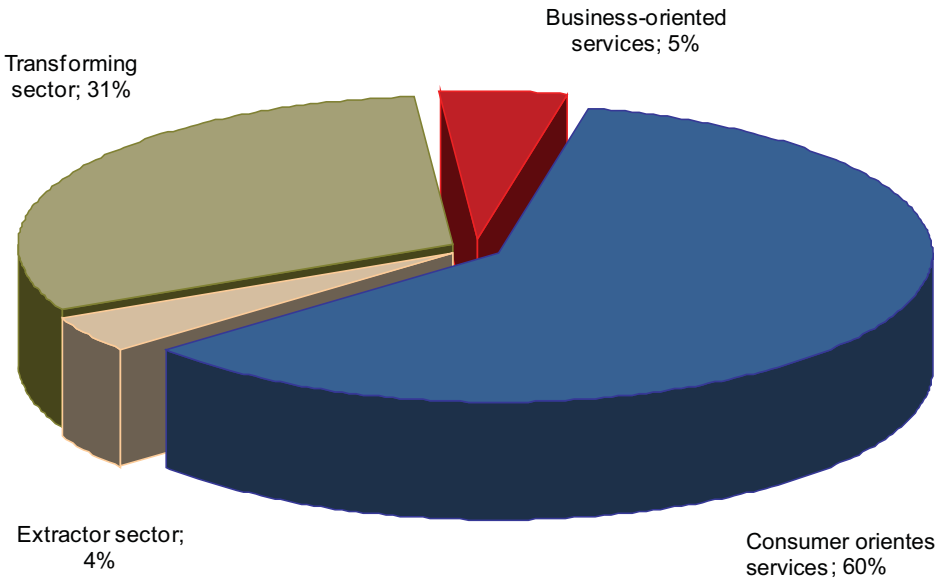

Figure 19. Distribution of early-stage entrepreneurs by sector
Source: Adult Population Survey (APS 2009).

Throughout the course of this project's existence, general tendencies in sector distribution of entrepreneurs has been emphasized. A large part of early-stage and established entrepreneurs work in the consumer industry. However, in innovation-driven economies the share of such entrepreneurs is lower than in factor- and efficiency-driven economies. On the contrary, the share of entrepreneurs in business services has grown in innovation-driven economies. However, in Russia 2009, the share of early-stage entrepreneurs in the consumer sector grew and reached 60%, while the share of entrepreneurs in manufacturing, industry, and business services dropped from 48% to 36% (figure 19). This might be evidence to the fact that, despite declared measures towards the development of markets, entrepreneurs are not making use of new opportunities to create innovation-driven companies. Instead, new firms are oriented to the consumer sector, which does not need as much start-up capital (although this sector also does not promise the same levels of growth for entrepreneurs).

ENTERPRENEURIAL ASPIRATIONS

Entrepreneurial aspirations reflect the qualitative nature of entrepreneurship. Countries vary not only by level of entrepreneurial activity, but also by how entrepreneurs introduce new products, carry out production, approach foreign markets, develop their companies, and attract capital for development. Such aspirations can have a considerable impact on the level of entrepreneurial activity for a given country. The GEM project uses such indicators as innovativeness of entrepreneurial activity, export orientation, and expected growth of business to assess entrepreneurial aspirations.

Innovativeness

One of the most important features of entrepreneurship is innovation. Within the bounds of the project, early-stage and established entrepreneurs were asked to evaluate:

- the novelty of the product/service the firm produces or will produce;
- the competitive environment that the firm faces or will face;
- the novelty of used technologies.

How entrepreneurs evaluate novelty of their products or services differs somewhat across GEM countries. Both early-stage and established entrepreneurs are more likely to be involved in manufacturing already existing products. Nevertheless, the general tendency over several years is that early-stage entrepreneurs more optimistically evaluate the novelty of their products and services, while the number of established entrepreneurs who believe in the innovativeness of their output is significantly lower. This suggests that early-stage entrepreneurs do not have sufficient knowledge of the market to evaluate innovativeness of their goods and services objectively.

In Russia, 58% of early-stage entrepreneurs and 69% of established entrepreneurs are convinced that their goods are not original for their markets (figure 20). However, the share of those among early-stage entrepreneurs who are convinced in the novelty of their products remains consistently high, on average 22% for 2007-2009. Entrepreneurs encounter a highly competitive environment; this is the norm for all types of economies, Russia's included. Practically 75% of early-stage and established entrepreneurs evaluate competitiveness on the Russian market as intensive (figure 21). One of the reasons for such a highly competitive environment is the peculiarities of sector distribution: the majority of Russian entrepreneurs are engaged in the consumer sector, in which the number of companies offering standard products is high.

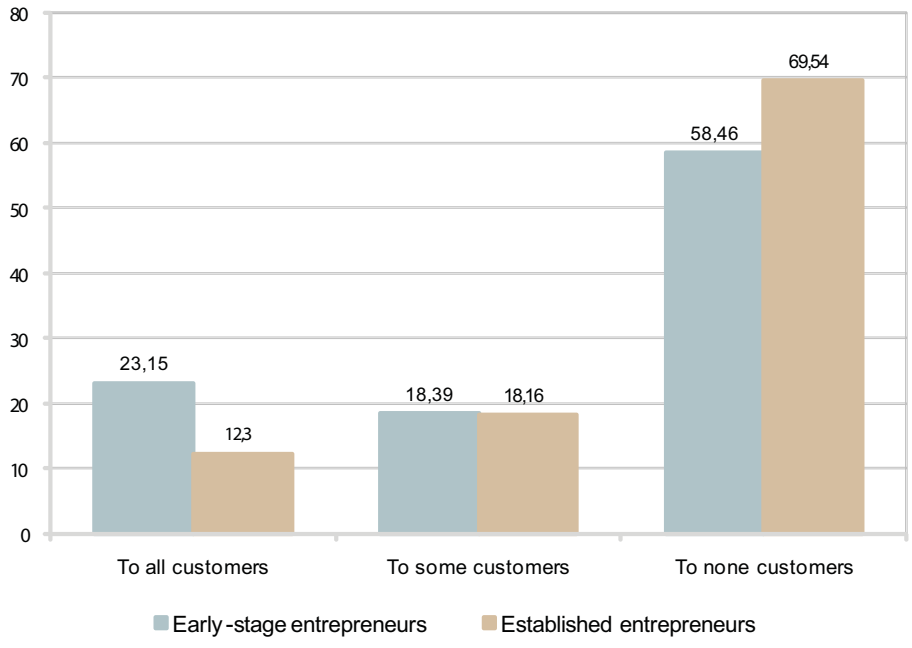

Figure 20. Product novelty by country for early-stage and established entrepreneurs, %
Source: Russia APS 2009.

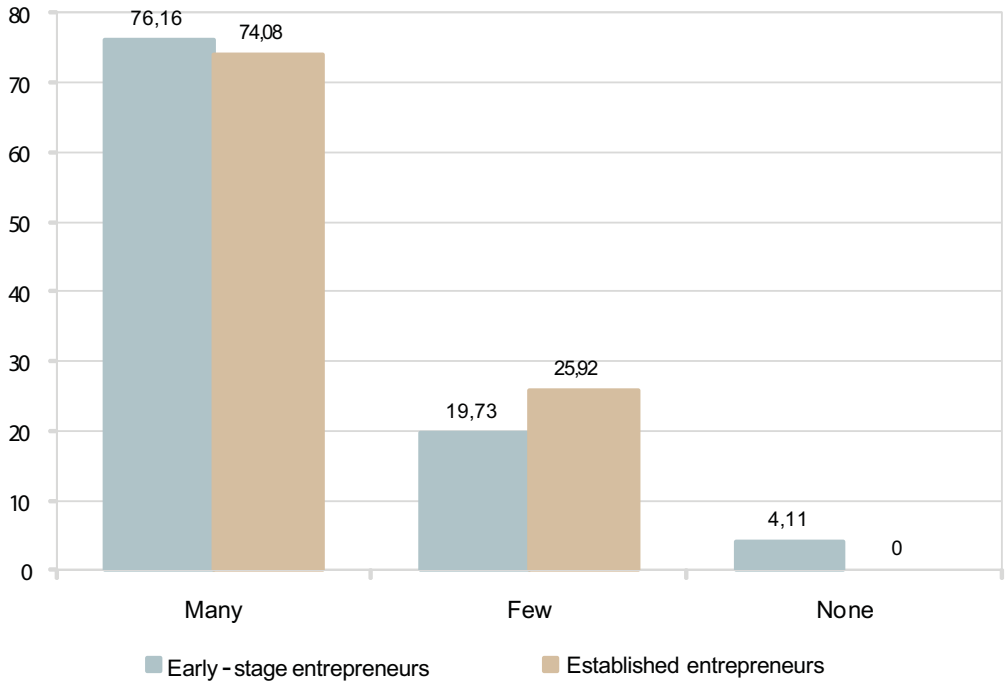

Figure 21. Competitive environment for Russian entrepreneurs, %
Source: Russia APS 2009.

On average 10% of early-stage entrepreneurs in GEM countries are convinced that they will not face serious competition. In Russia, only 4% of early-stage entrepreneurs are so optimistic about possible competition. Not a single established entrepreneur of those surveyed claimed they faced no real competition.

To estimate the innovation potential of a country an index was used that combines two indicators, product novelty and intensity of competition. This index reflects the number of entrepreneurs who think that the products or services they offer are new for most or

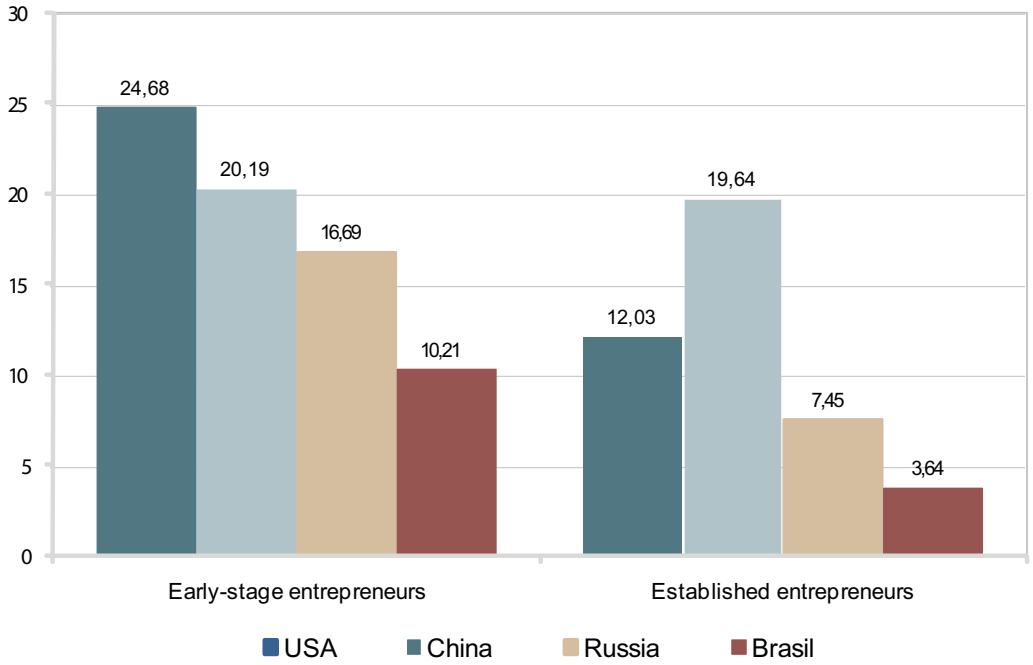

Figure 22. Index of product novelty/degree of competition by country, for early-stage and established entrepreneurs
Source: Adult Population Survey (APS 2009).

all possible consumers and do not have competitors at the time.

Figure 22 presents the value of this index for four countries representing different types of economies and geographic regions. The choice of Brasil and China is determined by the discussion of general trends in their development comparatively to Russia. US is chosen as a country with developed entrepreneurial culture.

Data show clearly that these countries differ considerably in innovativeness. The highest measure is for the United States, in which every fourth early-stage entrepreneur characterizes his or her product as new and without a competitor. In China, 20% of early-stage entrepreneurs believe that they are offering a new product and will not face much competition. It is possible that this is related to China's underdeveloped domestic market. The share of Russian early-stage entrepreneurs who evaluate their output as up-to-date is 16.7%, which is 1.5 times higher than the same value for Brazil.

Experience makes entrepreneurs estimate their economic context more critically, and thus established entrepreneurs are twice as likely to say that they will face competition than colleagues who have less experience with entrepreneurial activity. The exception is China, where the value of this indicator does not change vis-a-vis how developed the entrepreneurial firm is.

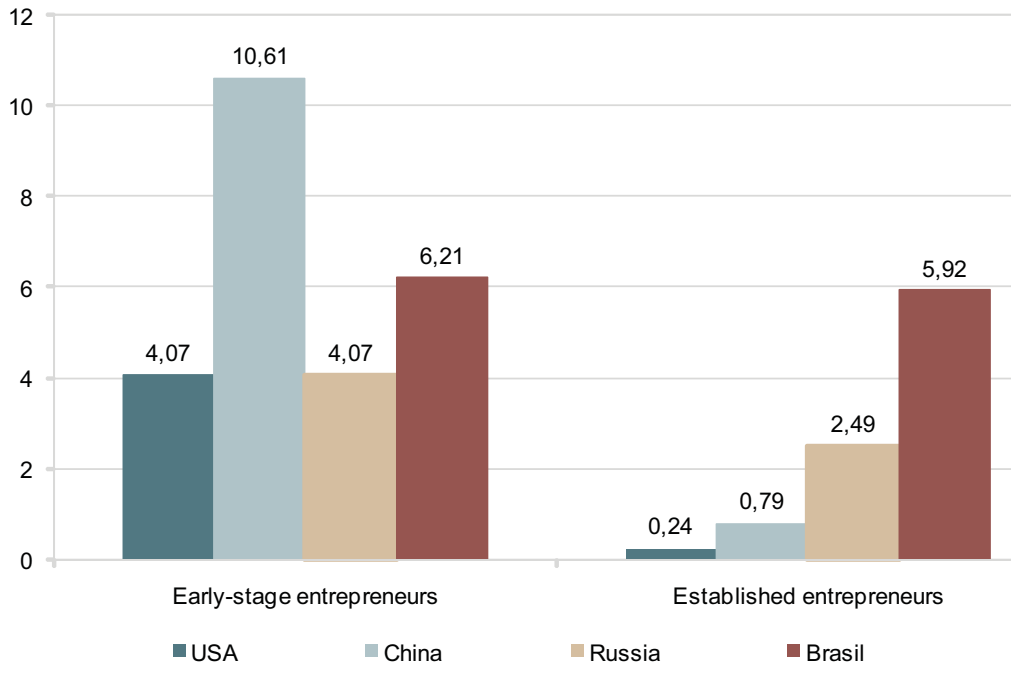

Figure 23. Use of newest technology by early-stage and established entrepreneurs, %
Source: Adult Population Survey (APS 2009).

Figure 23 presents the share of early-stage and established entrepreneurs who think they are using up-to-date technology (technology aged up to one year). In the usage of new technologies we can see the same trend as in evaluation of the product novelty: early-stage entrepreneurs express more optimistic opinions. However, evaluating one's operating technology as new does not always represent an economy's innovativeness. Factor- and efficiency-driven economies have higher values for this indicator than innovation-driven economies, which might be because technology that seems new in these countries is actually not so new in developed economies. This might explain why Chinese entrepreneurs give high evaluations for the newness of technology they use. Further, use and development of new technologies in developed countries occurs in large companies, while in less developed countries technological development takes place in small and medium-sized firms.

In Russia about 81% of early-stage and 76% of established entrepreneurs use technologies in existence for more than five years. The share of entrepreneurs engaged in hi-tech is around 3%.

Aspirations to growth

When studying the relation between economic growth and entrepreneurship, it is best to note that the contribution of various firms is not equivalent. To estimate the growth of companies, GEM uses the creation of new workplaces as its main indicator. We classify firms as rapidly growing if they create 19 or more workplaces in the first five years of that firm's existence. For already established firms, we use an additional criterion: more than 50% growth in the number of workplaces.

In 2009, among early-stage entrepreneurs 70% of respondents claimed they used hired employees, while 30% created businesses in which they were the only employee. This is the average value for GEM countries. For example, in Brazil only every second entrepreneur creating a company planned to use wage labor, while in Saudi Arabia and Yemen, practically all entrepreneurs (99%) are creating or plan to create more workplaces.

During 2004-2009, 70% of Russian early-stage

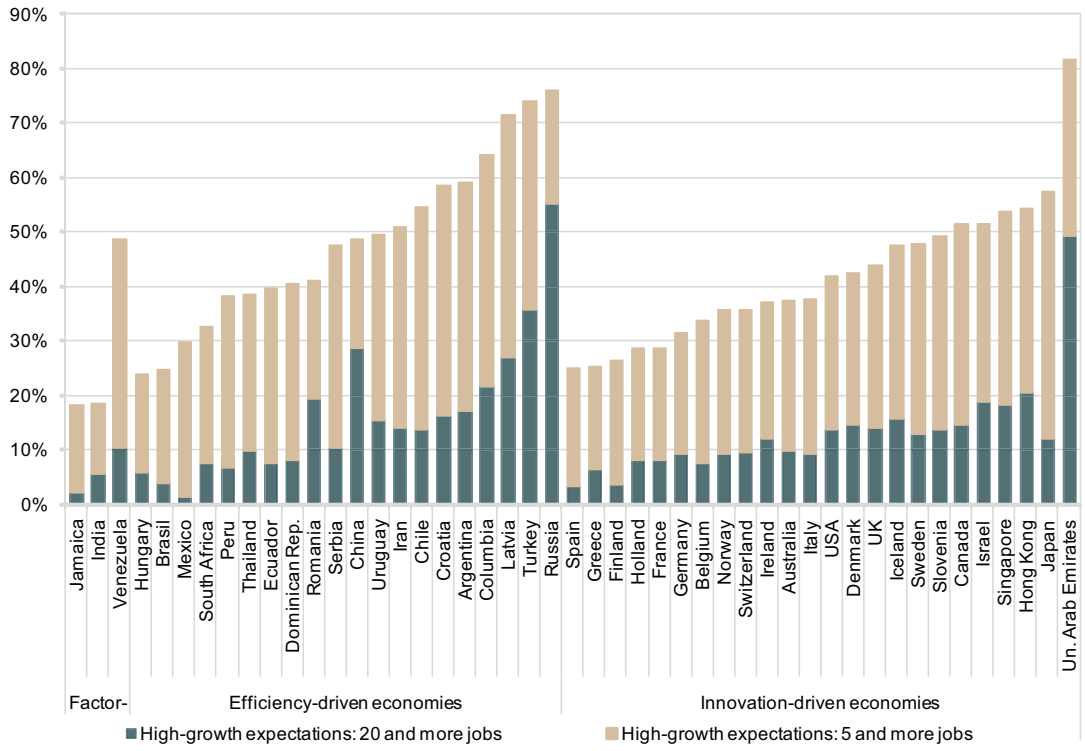

Figure 24. Aspirations to growth among early-stage entrepreneurs (%) versus index of early-stage entrepreneurial activity, 2004-2009.
Source: Bosma, Levie 2009 (APS 2009)
NB: Countries in the graph participated in the GEM project for several years, thus a fewer number of countries is shown than were in GEM in 2009.

entrepreneurs aimed at growth and planned to create additional jobs; more than 50% of these planned on creating 20 or more positions. By this aggregated indicator, Russia was the leader among all GEM countries (figure 24). This testifies to the high potential of Russian entrepreneurial firms. Considering the size of the able-bodied employable portion of the Russian population, even a low level of entrepreneurial activity such companies could provide 1.5 million new jobs over five years. However, in recent years early-stage entrepreneurs have not been so optimistic. In 2009, 20% of early-stage entrepreneurs and only 5% of established entrepreneurs planned to double the number of their employees. Further, in the slowdown period the number of firms employing only the own grew. Such firms usually have a short lifespan and their owners do not aim for stable development.

Orientation to the international market

The third characteristic of entrepreneurial aspirations is orientation to the international market. The given indicator is based on a calculation of the number of consumers outside the country. This takes into consideration not only an export orientation, but also foreign consumers buying goods through the internet or during travel abroad.

Figure 25 shows the share of early-stage entrepreneurs having more than 25% of their buyers outside their country and those who sell part of their output abroad. In Russia, 89% of early-stage entrepreneurs had little or no foreign consumers for their output in 2009. However, to make a conclusion about competitiveness of companies only on the basis of a higher share of foreign purchases would not be legitimate, insofar as the desire to sell abroad depends on such factor as domestic market capacity. Countries with a large population, irrespective of the level of economic development, have an insignificant export orientation among early-stage entrepreneurs. For example, 89% of early-stage entrepreneurs in China and 85% in Brazil have no foreign consumers of their output.

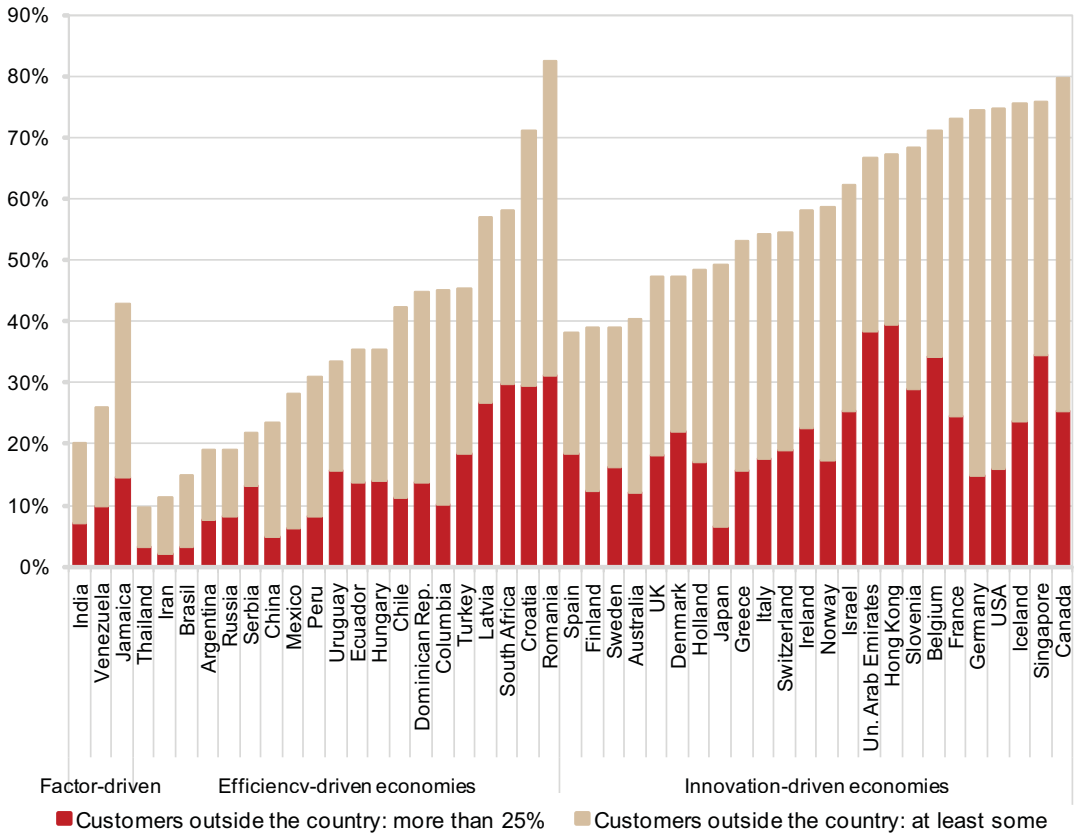

Figure. 25. International orientation of early-stage entrepreneurs versus index of entrepreneurial activity, 2004-2009, %
Source: Bosma and Levie, 2009 (APS 2009).

Social entrepreneurship[7]

For the first time the Adult Population Survey included a special section on social entrepreneurship. It should be noted that this new section of the survey, covering 49 countries[8] is unique at present.

For the last twenty years, social entrepreneurship has raised scholarly and lay interest, although there is as yet no uniform definition or understanding of this phenomenon. That there is a wide range of approaches to this phenomenon – from the narrow (e.g. on profitable activities of non-profit organizations) to the broad (any social significant activity)—has hindered consensus on a general understanding and scholarly analysis [Short et al. 2009]. The GEM project uses a broad definition of social entrepreneurship: entrepreneurial activity with a social orientation and that involves an organization of individual [Mair and Marti 2006; Zahra et al. 2009]. Social activity includes social work, activity of non-commercial organizations and companies that do make profit, and organizations that take the form of a corporation or private entrepreneur.

There are many world-renown foundations and organizations that render financial and professional support to social entrepreneurs. Thanks to their investment and professional support, social entrepreneurship is actively developing across the world.

Social entrepreneurial activity in GEM countries

To estimate social entrepreneurship, the GEM 2009 survey included additional questions exclusively for this issue. Respondents were asked control questions to check whether this activity differs from that which they noted earlier in the survey. GEM also added the category of early-stage Social Entrepreneurial Activity.

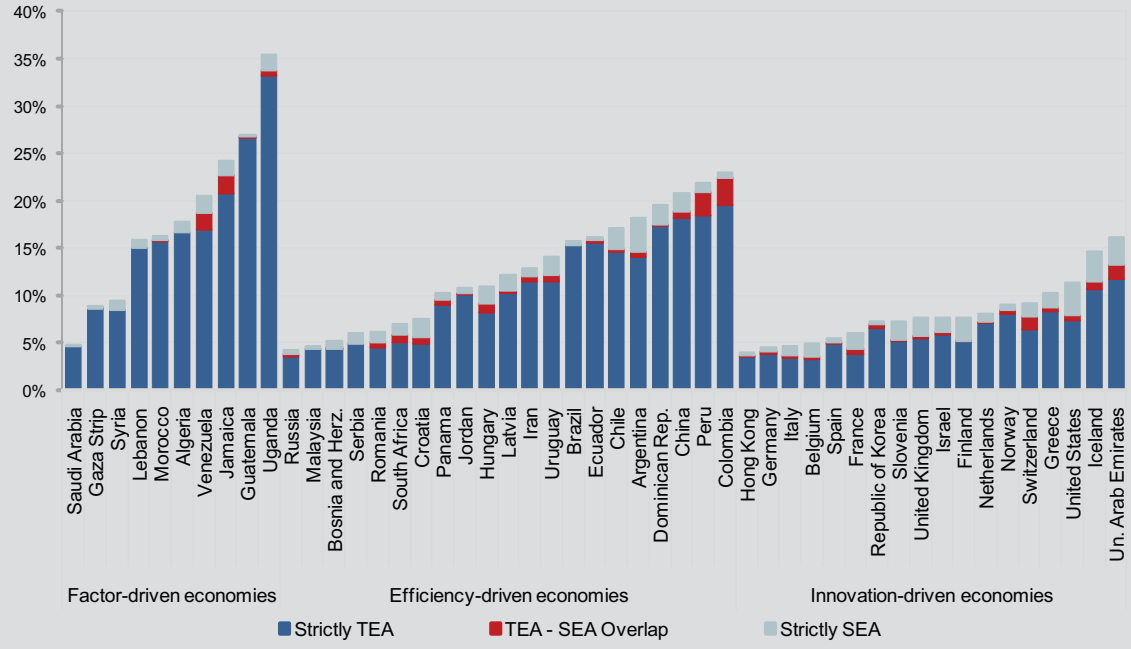

Figure 26. Indicators of social early-stage entrepreneurial activity and early-stage entrepreneurial activity by country
Source: Bosma, Levie, 2010.

[7] This section was prepared by Iu. N. Arai, a researcher at the Center for Corporate Responsibility PriceWaterHouseCoopers, Graduate School of management, SPbSU.

[8] Data for five countries (Denmark, Yemen, Tonga, Tunisia, and Japan) were not included in the report.

Figure 26 shows that the average measure for social entrepreneurial activity increases with as a country's well-being improves. This correlation has several possible explanations [Bosma and Levie 2009]. First, one can presume that, once they have satisfied personal needs, people are more likely to share and render help to others, as the cost of helping others is higher in countries with lower levels of economic development. Second, the history of social entrepreneurship is connected with the activity of non-profit organizations in the United States. The expansion of social entrepreneurship to the global level was not uniform and took place in various institutional contexts. Thus, "social entrepreneurship" and its concrete forms varied in developing and developed countries. The overlap in entrepreneurial activity and social activity in many countries was not insignificant: 2.5% in Peru, 2.8% in Colombia, 1.7% in Venezuela. This suggests interesting dynamics in the boundaries between typical and social entrepreneurship. We suggest that in previous reports, indicators of entrepreneurial activity in some countries included socially oriented activity. In Russia, the given indicator is fairly low (0.34).

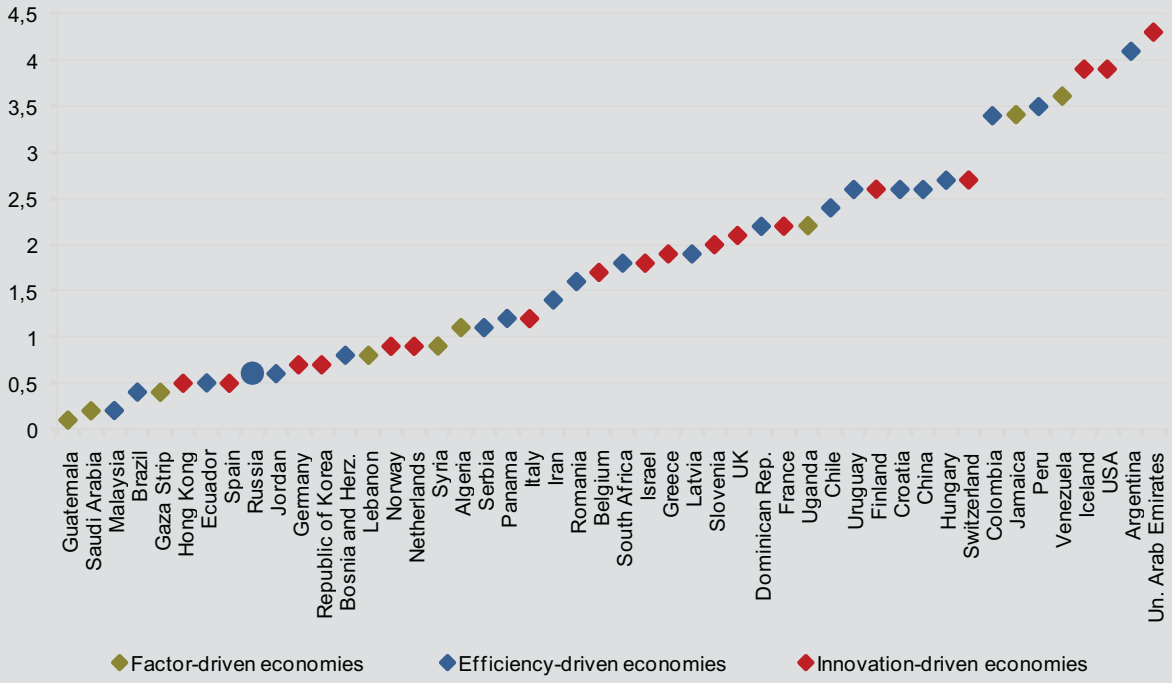

Figure 27. Level of social entrepreneurial activity by country
Source: GEM Adult Population Survey (APS 2009).

Figure 27 presents data on social entrepreneurial activity for all GEM countries. In Russia, the level of social entrepreneurship is among the lowest (0.6%) for efficiency-driven economies and for all GEM countries as well. Russia's value is 6.5 times lower than that of the United States and 3.5 times lower than that of Great Britain. This might be for several reasons: the absence of traditions in which businesses address social problems; the role of the state; problematic institutional support for such organizations; and the absence of any reward or competitive advantage for social innovations.
This hypothesis was supported by data from expert interviews (NES). More than half of respondents see social responsibility as a source of competitive advantage for new or growing businesses, but

they note that in Russia businesses tend to limit engagement with social responsibility to that required by law. The majority of experts support the idea that businesses should pay more attention to socially responsible initiatives, and that entrepreneurship can provide efficient and effective solutions to social problems. However, in answering questions about the reality of this situation, respondents expressed less confidence that business could handle these issues better than the state. Data cited reflect a gulf between the reality and willingness of business to take the initiative and use innovative approaches to address social problems.

The project helps assemble a portrait of the social entrepreneur. In the majority of GEM countries, social entrepreneurial activity is higher among men than among women. However, in Russia, Latvia, Argentina, Iceland, and Lebanon the measure for social entrepreneurship at early stages of entrepreneurial activity is higher for women than for men.

It is also interesting to note that the youngest group of entrepreneurs (18-24 years old) has the highest social entrepreneurial activity relative to general entrepreneurial activity for this age cohort. This tendency also occurs in efficiency- and innovation-driven economies.

GEM data show a positive relation between educational level and involvement in social entrepreneurship. In factor-driven economies the social involvement of entrepreneurs with higher education is greater in factor-driven economies than in efficiency- and innovation-driven economies.

Types of social entrepreneurship

Social entrepreneurship remains a relatively new topic of study, and so it is unsurprising that there is no uniform classification system. Therefore, the authors of the 2009 GEM Global Report developed a typology of social entrepreneurship based on three key characteristics: prevalence of a social mission over economic aims; receiving income from a primary activity; and the presence of an innovative component. Combinations of the presence and absence of these characteristics led to four classifications of social entrepreneurship:

- traditional non-commercial organization (social mission, non-commercial structure);
- non-commercial, socially-oriented entrepreneurial firm (social mission, non-commercial structure, innovative approach);
- hybrid organization (social mission, receiving income as secondary);
- commercial, socially-oriented entrepreneurial firm (social mission and financial mission equal, reception of income from basic activity).

Further, the category “business involved in social activity” corresponds to an overlap between entrepreneurial activity and socially-oriented entrepreneurial activity. In reality, this category is traditionally linked to corporate social responsibility and social initiatives of business.

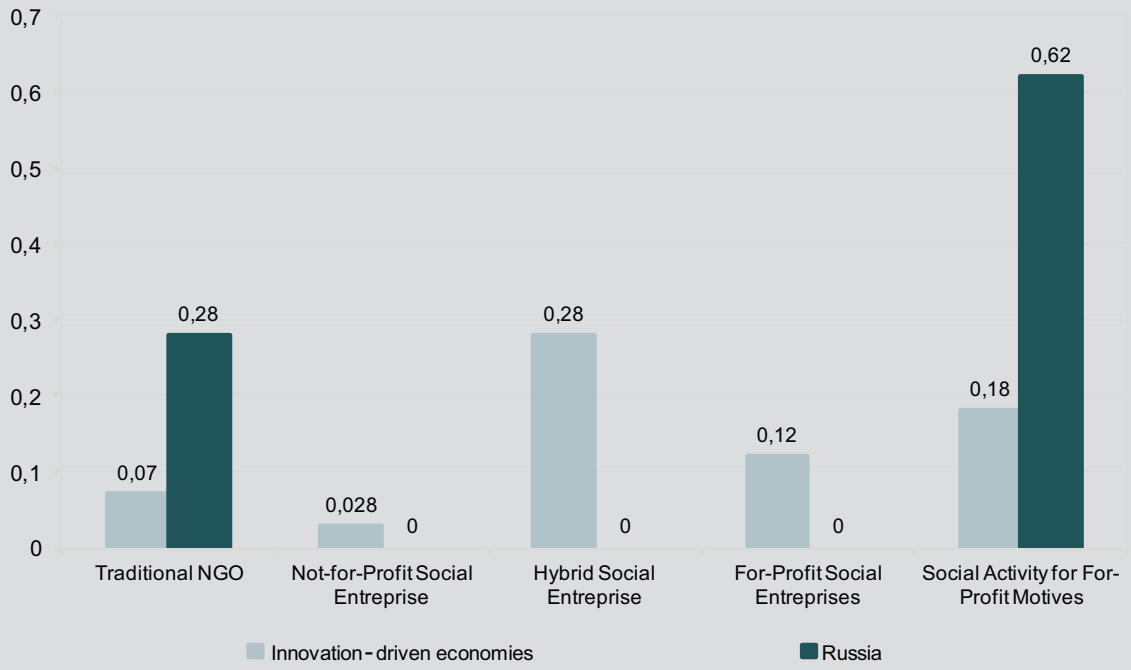

Figure 28. Distribution of social entrepreneurial activity by category, in Russia and in innovation-driven economies
Source: GEM Adult Population Survey (APS 2009).

The most common forms of social entrepreneurship in GEM countries are non-commercial, socially-oriented entrepreneurial firms (24%) and hybrid organizations (23%).
In the Russian sample, the non-commercial, socially-oriented entrepreneurial firms, hybrid organizations, and commercial, socially-oriented firms are absent: 28% are traditional non-commercial organizations and 62% are social activities of commercial organizations. It should be noted that the insignificant number of respondents prevents us from making broader claims of organizational types. Still, it is presumed that basic forms of social entrepreneurship that dominate in developed countries and are aim to gain income and fulfill society's social needs, remain rare in Russia. Figure 28 provides comparative distributions of social entrepreneurship by categories, in Russia and in innovation-driven economies with traditional social entrepreneurship.

ENTREPRENEURIAL FRAMEWORK CONDITIONS (by NATIONAL EXPERT SURVEY, NES)

The GEM project classifies structural conditions of the socioeconomic context that aid the development of entrepreneurial activity (Entrepreneurial Framework Conditions, EFC), table 4.

Table 4

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 of entrepreneurship in 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 policy.** Regional and federal government policies and their practical application to taxation and regulation of business activity. Availability of state support for small and large firms. The impact of state 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	**Market openness/barriers to market entry.** 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	Protection of intellectual property rights. The level of legal protection for new and growing firms.

Expert interviews were used as data on entrepreneurial framework conditions. The sample of respondents included "entrepreneurs" and "professionals." "Entrepreneurs" were respondents with experience in entrepreneurial activity in one or more structural contexts. They were selected first and foremost on the basis of their active experience, e.g. founders of companies or organizations.

"Professionals" included respondents directly involved in evaluating structural conditions in a country. Such experts might be politicians, scholars, state officials, and other professionals working in the area of entrepreneurship.

In 2009 the sample included 36 experts, who evaluated framework conditions on a five-point scale; determined factors that positively and negatively impact on the entrepreneurship development; and suggested measures that would stimulate entrepreneurial activity in Russia. For the evaluation of each framework condition, 5-7 questions were asked. For example, to estimate access to finance, experts were asked to evaluate access for different sources: one's own capital, credit, venture capital, and state subsidies. To evaluate state policies, experts were asked to appraise measures of state support as well as complexity of registering new companies and licensing. Figure 29 presents average estimations.

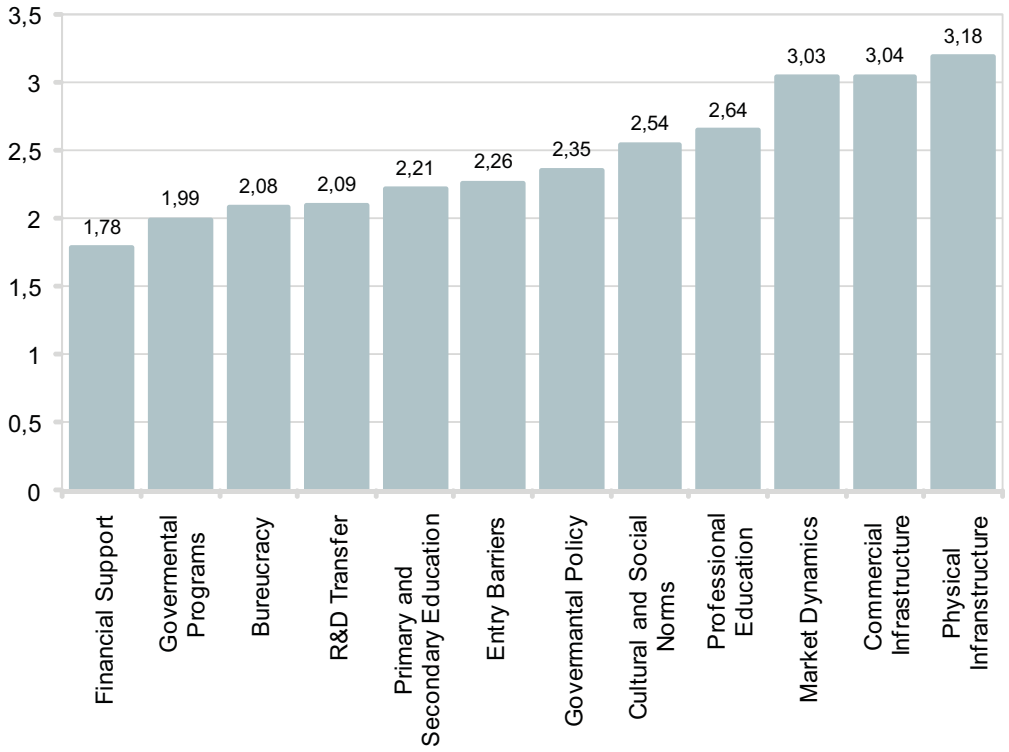

Figure 29. Expert estimations of entrepreneurial conditions in Russia, average values

Source:

NB: In calculating the average value, the correlation of sets of questions was tested using Cronbach's alpha. Thus, the evaluation of educational level and state policy did not allow determination of an average value for the whole bloc with a high degree of reliability. Thus, the corresponding blocs were divided into two subgroups.

As is apparent from the figure, the majority of estimations are below the 2.5 level, i.e. these factors do not facilitate development of entrepreneurship. Access to finance received the lowest estimation. Experts considered state programs for supporting new and developing firms to be ineffective, and the behavior of state officials providing such aid were judged incompetent – the average value on this question was 1.82. Further, entrepreneurship is negatively affected by the high level of bureaucracy and the related time required for registration and licensing. Experts consider that there is no effective system for transferring knowledge and technology from research institutes to developing companies, making their acquisition by entrepreneurs that much more difficult.

Experts also claimed that the existing system of primary and secondary education does not help students gain knowledge and skills necessary for opening new business. Entry barriers to new markets also affect entrepreneurship negatively. Experts noted that Russian national culture does not always support personal success in the abstract and does not encourage risk-taking and aspirations to the new. Structural factors not affecting entrepreneurship negatively include commercial and physical infrastructures. Experts claim that new and developing companies should not face serious problems finding suppliers of services (including legal, accounting, and banking services) or gaining access to communication networks and communal services.

Using a unified questionnaire for different countries facilitates an estimation of the state of framework conditions in GEM countries. There are problems with making policy recommendations based on these evaluations alone, insofar as they characterize framework conditions inside a country and identical values for this or that condition in different countries would not reflect the quality of its development. This said, comparisons can reveal some critical factors in development for different countries.

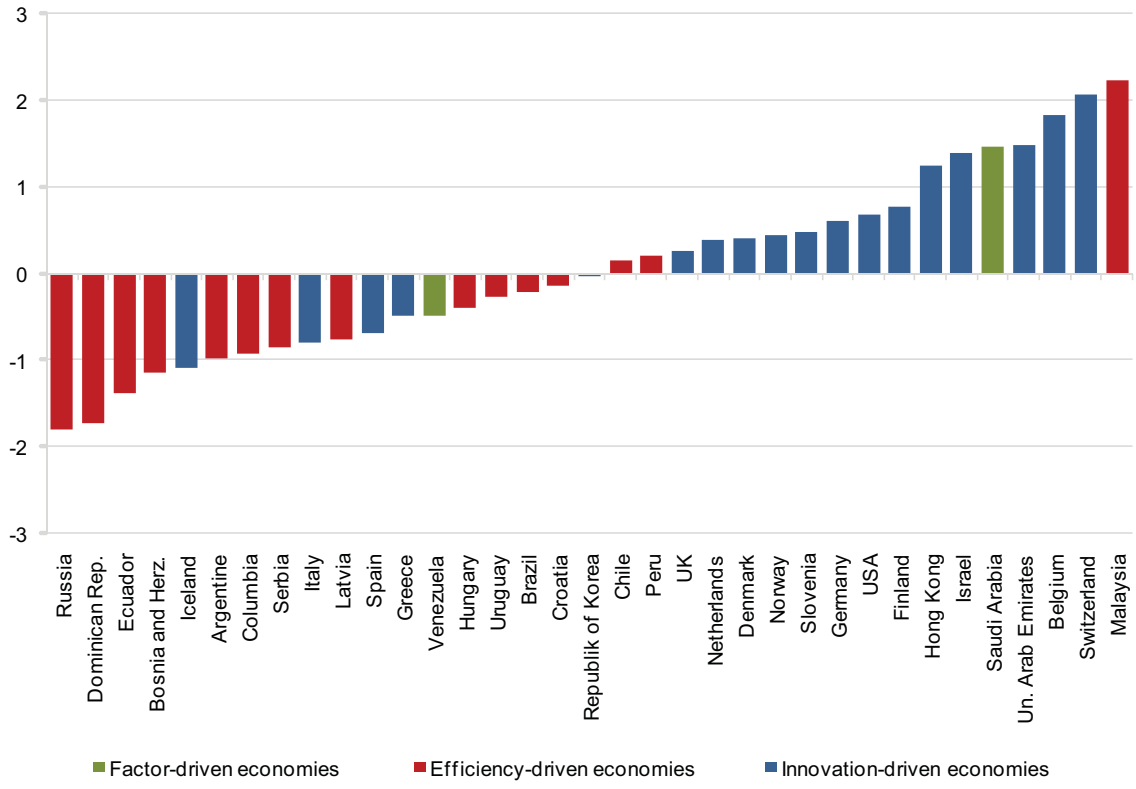

Figure 30. Access to finance for GEM countries
Source: National Expert Survey (NES 2009).

In one comparison of expert opinions, access to finance for Russian entrepreneurs is among the worst in GEM countries (figure 30). For descriptive reasons, values were converted to a scale of –3 (very bad) to +3 (very good).

Overall, in innovation-driven economies getting finance was more accessible better than in factor- and efficiency-driven economies. Experts noted problems with such access in Iceland, Greece, and Italy, i.e. in economically developed countries whose financial systems suffered during the 2008 recession.

This distribution of values for countries with different types of economies is characteristic for almost all factors. The exceptions are professional education, dynamics of domestic markets, and cultural norms. These factors do not show much of a relation between level of economic development and expert evaluation.

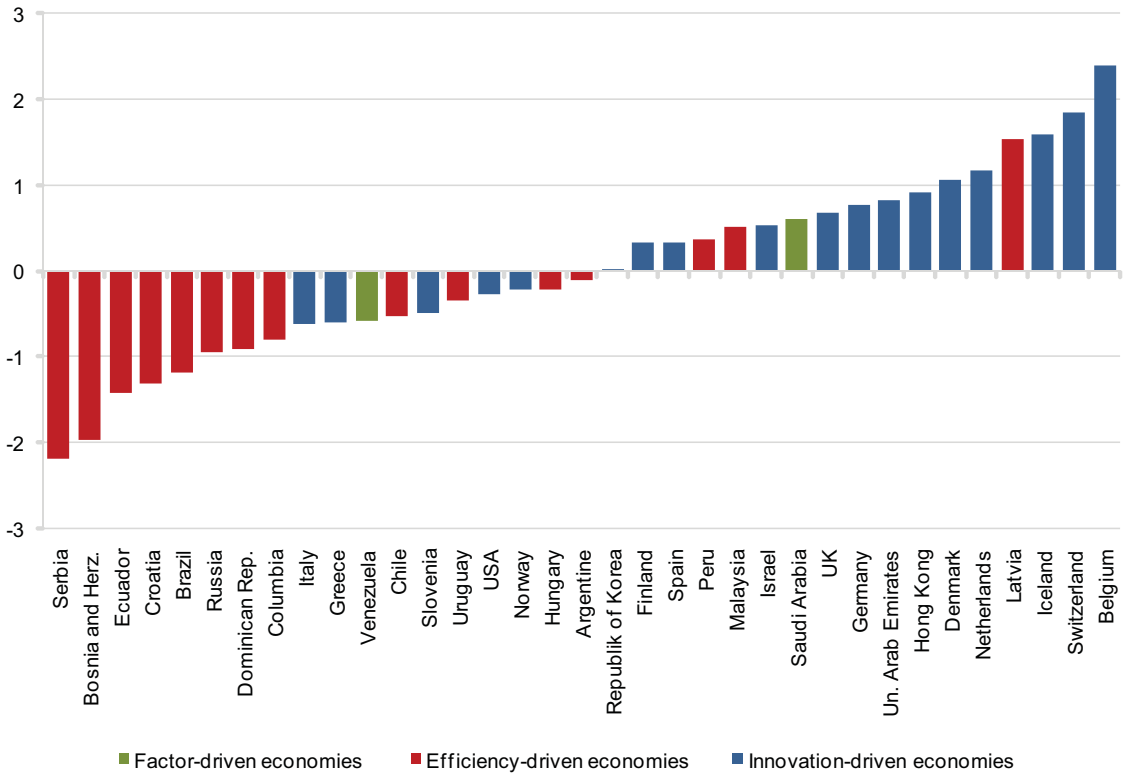

Figure 31. Market openness: entry barriers for GEM countries
Source: National Expert Survey (NES 2009).

Difficulties with market entry for new firms vary across level of economic development (figure 31). In the majority of innovation-driven economies, experts did not connect problems of new and developing firms with high market entry barriers or with actions by companies already entrenched in the market. On the contrary, for the majority of efficiency-driven economies – except for Latvia, Malaysia, and Peru – entry barriers were an obstacle difficult to overcome.

Russia is in the negative zone not only in the in the estimation of access to financial resources, but also vis-a-vis such factors as state policies, effectiveness of state programs, access to scientific output and developments, and so on.

In GEM research experts not only evaluated nine structural conditions for entrepreneurship; they also listed factors hindering and facilitating development of entrepreneurship. For several years, the single factor with the most negative impact on entrepreneurial development has been state policies. Experts note that, despite declarations about the necessity to develop small business in Russia, real support is absent. Entrepreneurs themselves especially highlight less any legal deficiencies than the possibilities legislation provides to state officials to use small business as a source of personal income. Further, according to experts there is no effective mechanism for protecting entrepreneurs in disputes with state institutions.

In 2009 bureaucracy and corruption were the most mentioned factors negatively affecting entrepreneurial development. The availability of various forms of financing remained extremely low. As one expert remarked, "microcredit offered on the market for beginning businesses covers no more than 10% of demand. The availability of different forms of investment finance, especially for rapidly growing or venture businesses, is also low. Opportunities for small firms to enter the capital market are practically absent". Bank credit in the pre-crisis period was unavailable for the majority of companies because of the rising interest rate. Thus, it is no wonder that the majority of entrepreneurs claimed problematic mechanisms for providing credit and financial support were a brake on business development.

One feature of 2009 was that the third most popular factor among those hindering entrepreneurial development in Russia was market openness: 30% of experts considered it a core factor that could promote entrepreneurial development.

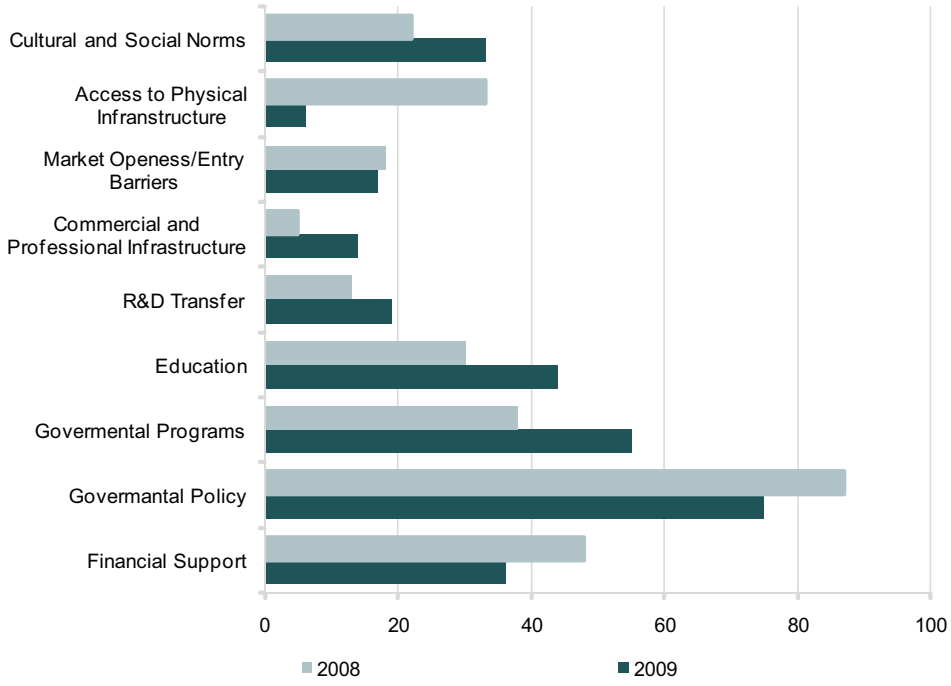

Figure 32. Factors stimulating entrepreneurial activity
Source: National Expert Survey (NES 2008–2009).

Concerning measures for improving the entrepreneurial climate, experts were asked to list what they consider the three most important factors. Research did not reveal any significant changes in such expert evaluations vis-a-vis Russia from the previous year (figure 32). As before, the majority of respondents see state policies as having the greatest potential to affect entrepreneurial development.

Providing financial support, as before, was seen as a positive factor, although the frequency by which it was mentioned dropped in comparison to 2008 data. In 2009 experts less frequently noted the necessity to improve access to physical infrastructure to aid entrepreneurship. These changes are probably due to the fact that state investments have improved access to infrastructure and because in the crisis access to offices and manufacturing space for small businesses improved.

Despite the fact that high entrance barriers have negatively affected entrepreneurship, concrete measures to improve the entrepreneurial climate in Russia have not been related to the opening of markets.

IMPACT OF THE GLOBAL FINANCIAL CRISIS ON ENTREPRENEURIAL ACTIVITY

The 2008 global recession affected the majority of GEM countries. Changes affected environmental conditions and created additional barriers to creating new firms (e.g. reduction of consumer demand, reduced access to bank credit) but also created some new opportunities.

Overall, the impact of the slowdown on entrepreneurship has not yet been well-studied. There are different explanations for the link between entrepreneurship and business cycles. Some scholars believe entrepreneurial activity is not related to stages of business activity. Others note a pro-cyclical character, when the stage of the life cycle affects entrepreneurial development. Yet a third group of scholars claim entrepreneurship is a defining indicator of the economic cycle [Koellinger and Thurik 2009].

Existing empirical studies neither disprove nor confirm these propositions. In this context, GEM data could be useful, as they allow us to examine changes not only in levels of entrepreneurial activity but also in their character and in attitudes to entrepreneurship.

The impact of the crisis was reflected both in the change in the number of nascent entrepreneurs and in the relation of firms that opened and that closed. Growth rates for nascent entrepreneurship in 2009 are presented in figure 33. As that figure shows, in the majority of GEM countries the rate of company openings declined. However, in some countries –Brazil, the Netherlands, Jamaica, Hungary, Iran, and Latvia – the number of nascent entrepreneurs actually increased. For a number of countries, this decline was a continuation of tendencies already in evidence in 2007; for Brazil and the Netherlands, the trend was not straightforward.

A sharp decline in the number of nascent entrepreneurs in 2008 was followed by a rise in their numbers in 2009, such that in comparison to 2007 there was no real increase. The red on figure 33 indicates countries in which GDP per capita (in real terms) grew in 2009 in comparison with 2008. If in Iran, China, and Uruguay GDP growth was accompanied by growth in nascent entrepreneurship, Peru suffered a reduction in business creation. At the same time—e.g. in Latvia, which had the worst fall in GDP among GEM countries—nascent entrepreneurship has generally grown throughout 2007-2009. In Russia, where economic shock of the crisis was also strong, the number of nascent entrepreneurs remains nearly at the pre-crisis level. Thus, we cannot speak of a direct, unambiguous affect of the crisis on nascent

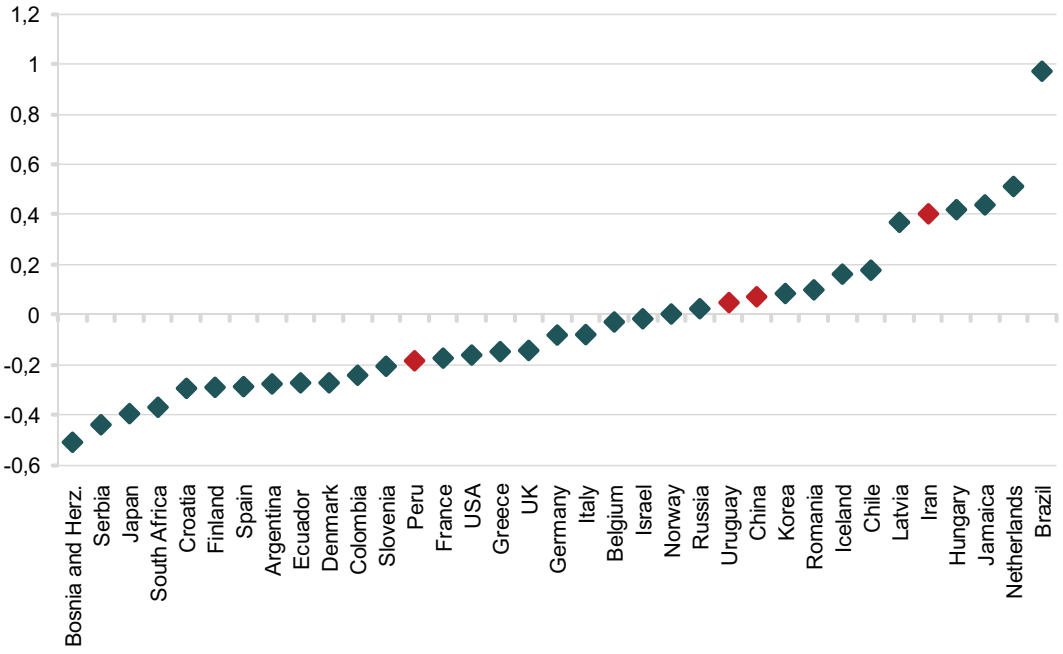

Figure 33. Growth rates for nascent entrepreneurs, 2009
Source: GEM Adult Population Survey (APS 2009).
NB: The sample of countries is due to the necessity of comparing data from 2008-2009. Thus, the smaller number of the countries was considered in the analysis of the effect of the crisis. When comparing data for China, Venezuela, and the United Arab Emirates, data from 2007 were used.

entrepreneurship and on entrepreneurship as a whole. Apparently, it is necessary to consider changes in institutions that determine entrepreneurial activity and its scale.

The crisis influenced not only entrepreneurial activity, but also attitudes to entrepreneurship. For example, the recession affected perceptions of how favorable the environment was for opening a business. In the majority of countries, the number of respondents who saw conditions as favorable for starting a business dropped relative to 2008 (figure 34). However, respondents in Chile, Norway, Iceland, Brazil, and France showed more positive evaluations among their populations.

Change in macroeconomic conditions influenced fear of failure in creating new businesses creation. Nevertheless, the dynamic of this measure was not as significant as the previous evaluation of favorability. Further, a relation between rising fear and worsening external conditions was not observed.

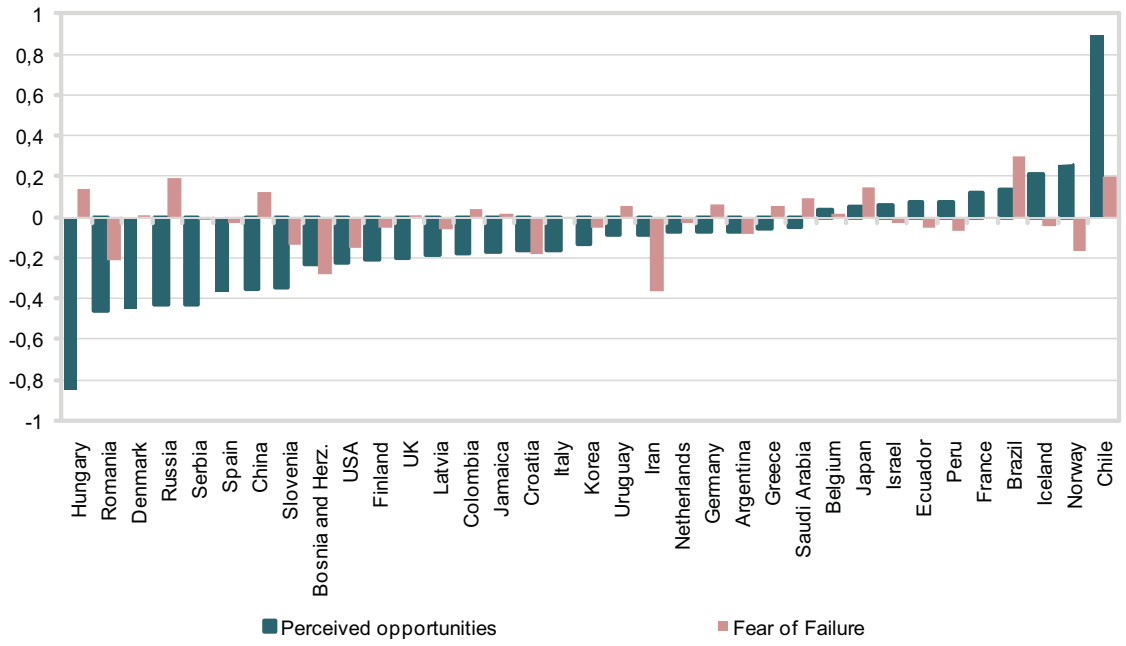

Figure 34. Change in perceptions of opportunities and fear of failure, 2009/2008
Source: GEM Adult Population Survey (APS 2008-2009).
NB: In figure 34, a positive value for "fear of failure" indicates a reduction in the number of those whom fear prevents from opening a business.

In Russia, despite a real rise in the number of those who see the broader environment as adverse, fear of failure would have stopped 20% fewer respondents in comparison with the previous year. A similar tendency is observed in Hungary, China, Uruguay, and Germany. We note that in these countries the number of nascent entrepreneurs has grown. In the majority of countries in which fear of failure was accompanied by worsening perceptions of external conditions – Romania, Bosnia and Herzegovina, the United States, Finland, Croatia, Iran, and Argentina – the index of nascent entrepreneurs declined.

Essential changes occurred in the motivation of early-stage entrepreneurs. In the majority of the countries, the number of entrepreneurs creating companies out of necessity increased. If in Russia the general shares of "necessity" entrepreneurs and "opportunity" entrepreneurs were fairly steady, then among nascent entrepreneurs the share of "necessity" entrepreneurs grew by 3.5 times. Their share grew as well in Denmark (3.4 times), the United States and Iceland (2.2 times), the Netherlands (1.9 times), and Brazil (1.8 times).

The share of "necessity" entrepreneurs was greater for nascent than for early-stage entrepreneurs. Most likely entrepreneurs motivated by necessity are not interested in long-term business development; for them, entrepreneurial activity is temporary. This means that with the return of favorable economic conditions for larger companies, these people will likely return to wage labor.

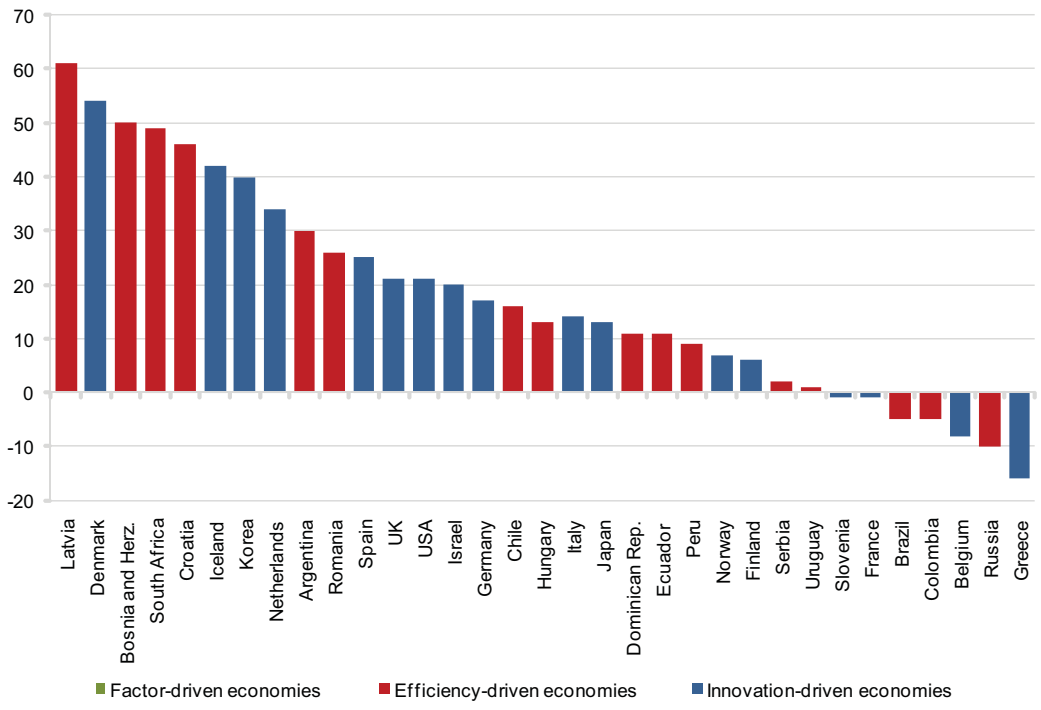

Figure 35. Dynamics in the number of necessity-driven entrepreneurs, 2008-2009
Source: GEM Adult Population Survey (APS 2008-2009).

Further, in the majority of countries early-stage entrepreneurs, including nascent entrepreneurs and owners of newly created businesses, were motivated by necessity more in 2009 than in 2008 (figure 35). This was the case in both efficiency- and innovation-driven economies. The share of "necessity" entrepreneurs grew significantly in such countries as Latvia, Denmark, Bosnia and Herzegovina, South Africa, and Croatia where the fall in GDP was substantial.

In the 2009 survey a special set of questions was included for entrepreneurs to evaluate the influence of the crisis on entrepreneurial activity. The first question was related to difficulties in opening business in comparison with the previous year. It is unsurprising that the majority of businessmen noted that it became more difficult to begin a business in 2009 than in 2008 (64% of early-stage and 77% of established entrepreneurs).

A second question was devoted to business growth. Early-stage entrepreneurs were not as pessimistic when evaluating opportunities to increase the scale of business in comparison with the previous year – unlike the (pessimistic) pattern for evaluating opportunities to open one's own business (figure 36). Entrepreneurs with some experience in developing

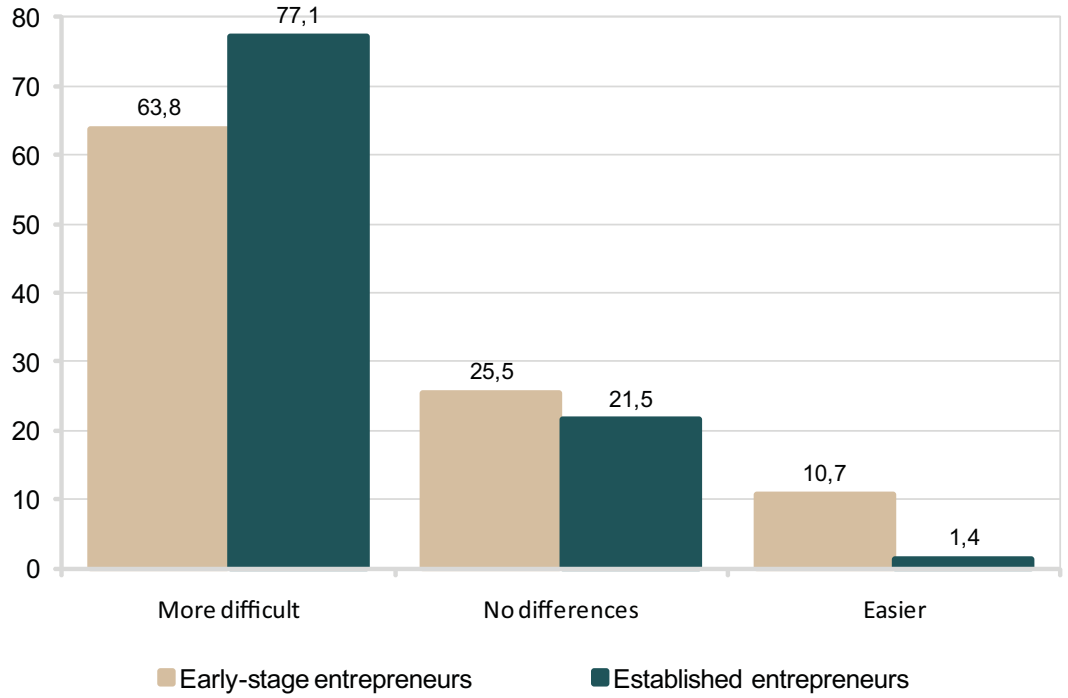

Figure 36. Impact of the economic slowdown on early-stage and established entrepreneurs' evaluations of possibilities for starting a business, in comparison with the previous year, %
Source: Russia APS 2009.

companies, however, are twice more likely than their less experienced colleagues to admit that company development is more complex in current conditions (37% versus 71% respectively, figure 37). This might be because owners of established businesses, accustomed to working on the market in periods of rapid economic growth, faced the need to solve new problems of company development as consumer demand dropped.

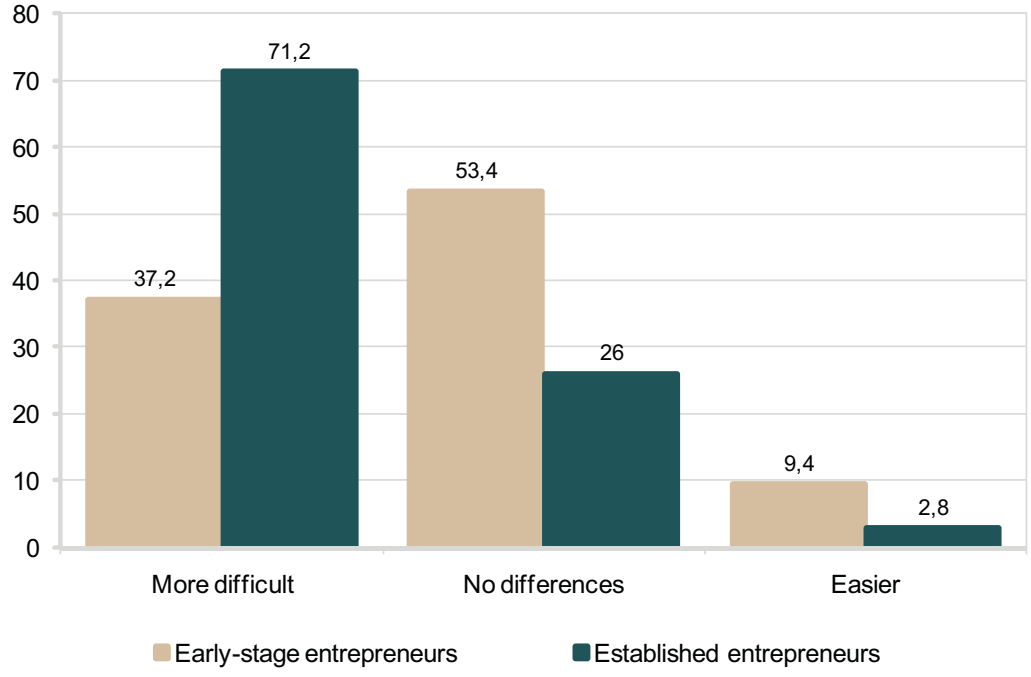

Figure 37. Impact of the economic slowdown on early-stage and established entrepreneurs' evaluations about possibilities for business growth, in comparison with the previous year, %
Source: Russia APS 2009.

The last question, on the effect of the crisis, examined how the recession was reflected in entrepreneurs' perceptions of growth opportunities (figure 38). Only 14% of early-stage entrepreneurs and 1.3% of established entrepreneurs saw additional opportunities for business. Established entrepreneurs were more pessimistic – although their answers also revealed variation across types of economies. Despite the fact that the majority of entrepreneurs in all countries noted reduced opportunities, entrepreneurs in innovation-driven economies saw more potential prospects than entrepreneurs in the other two types of economies. Among these less pessimistic were young, educated people oriented to growth and innovation [Bosma and Levie 2009].

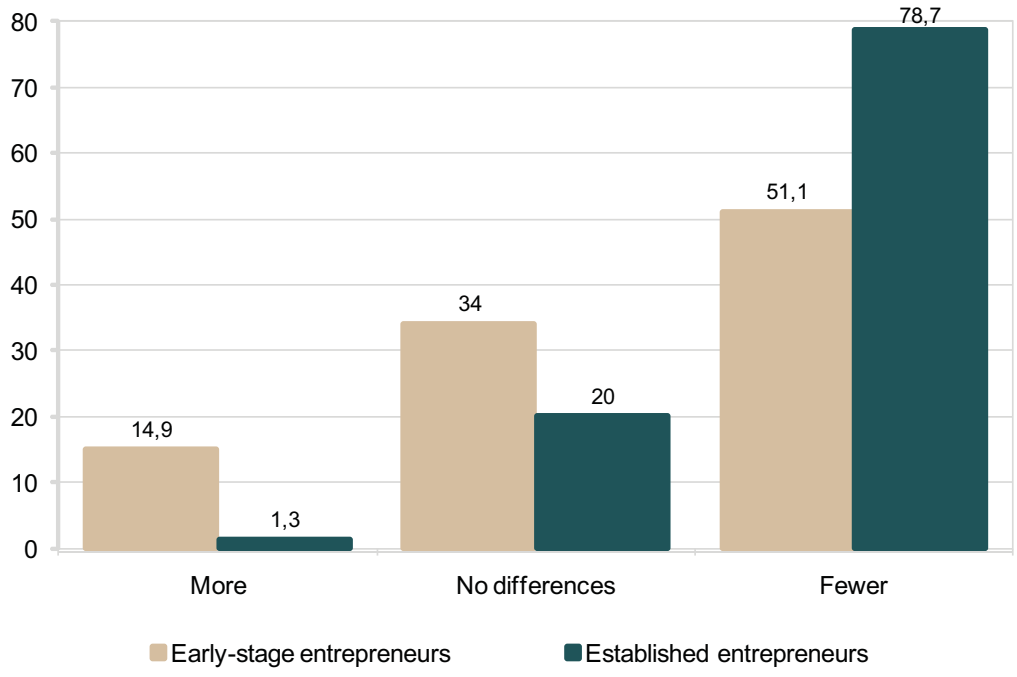

Figure 38. Impact of the economic slowdown on early-stage and established entrepreneurs' evaluations of business opportunities, in comparison with the previous year, %.
Source: Russia APS 2009.

In Russia, people with a higher education were more likely than the general sample to believe that the crisis created additional opportunities: for established entrepreneurs 6.8% versus 1.3%, and for early-stage entrepreneurs 18.8% versus 14.9%. GEM data reveal how entrepreneurs who closed their business assessed the impact of the crisis. Only one third of those linked market exit with the crisis, and 45.2% believed that the crisis did not have much of an impact on ending business operations.

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AUTHORS

Olga Verkhovskaya
The coordinator of GEM Russia
PhD (Economics), Associate Professor of Strategic and International Management Department of Graduate School of Management, St. Petersburg State University.
verkhovskaya@gsom.pu.ru

Maria Dorokhina
PhD (Sociology), Researcher, Center for Entrepreneurship, Graduate School of Management,
St. Petersburg State University.
dorokhina@gsom.pu.ru

Graduate School of Management
St. Petersburg State University

Volkhovsky Per. 3 St. Petersburg,
199004, Russia
Phone: +7 (812) 323 8456,
Fax: +7 (812) 329 3234

www.gsom.pu.ru