

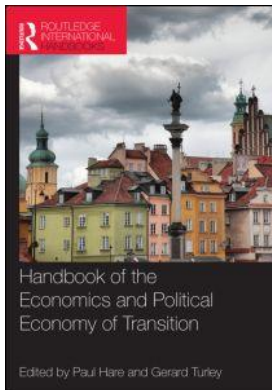
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Part VI

Firms

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ENTREPRENEURSHIP IN THE TRANSITION ECONOMIES OF CENTRAL AND EASTERN EUROPE

Saul Estrin and Tomasz Mickiewicz

Introduction

The willingness of business people to take risks in the formation of new firms is rightly regarded as one of the principal characteristics of a market economy. As risk-takers, entrepreneurs drive innovation and introduce new products and technologies. Moreover, the processes of entry of new firms by entrepreneurs, which reallocate resources from low- to high-productivity uses, is pivotal to achieving efficiency, while the pressures of potential entry push existing firms to minimize their costs and prevent waste. Entrepreneurship is therefore seen as an indicator of national economic health, especially with respect to the ability to grow and to create jobs. Recently, better availability of data on entrepreneurial entry has enabled researchers to test hypotheses on the impact of economic growth on entrepreneurship and to find evidence supporting a positive relationship (Parker, 2009).

The situation at the start of transition in most of the former communist economies was potentially especially conducive to entrepreneurial activity, as was widely recognized by analysts at the time (Kornai, 1990). This was because domestic relative prices, notably for energy, were not aligned with international ones, and trade patterns were severely distorted in the Soviet bloc. This had led to an over-expansion of industry, and especially heavy industry, at the expense of services and consumer products (Estrin *et al.*, 2006). There was therefore a fundamental need for economic restructuring; an activity for which, in a competitive market economy, entrepreneurs would be the primary agents.

However, the environment was not conducive to restructuring through this mechanism. Under communism, entrepreneurial activity was extremely low. Private entrepreneurship was frowned upon and most often outlawed. This exacerbated the fact that most countries in eastern Europe (but not parts of central Europe) did not have an entrepreneurial tradition in the pre-communist period. Moreover, while extending private ownership was seen as a route to building a capitalist class supportive of reform, policies focused on privatization and therefore implicitly favoured restructuring via existing firms or through foreign direct investment (Estrin *et al.*, 2009). Even so, the huge restructuring required for successful transition opened up new areas of profitable

opportunity, and in many countries these were seized with alacrity. However, after a surge in entrepreneurial activity in some countries in the 1990s, high rates of entrepreneurship did not last, and, as we will show, entrepreneurship tends to be significantly lower in central and eastern Europe than in comparable economies two decades after the start of the transition.

This chapter discusses the reasons for this finding and illustrates empirically various possible explanations using the Global Entrepreneurship Monitor (GEM) dataset. Among the main causes of low entrepreneurial activity in eastern Europe are comparatively weak institutions (formal and informal). Aidis *et al.* (2010) present evidence that formal institutions have a strong impact on entrepreneurship, notably via the size of the state sector. However, the significantly lower entrepreneurial activity in transition economies cannot be explained by this alone. Informal institutions, or cultural values and norms, are also important. Estrin and Mickiewicz (2011) identify this indirectly through a generational effect; the older generation in eastern Europe that was born and educated under communism is not only less entrepreneurial than the younger generation, but also less entrepreneurial than older generations in other parts of the world. However, this result also offers hope for the future, as the younger generation is shedding the communist-era social norms and values. In the following section, we outline recent developments in measuring entrepreneurial activity internationally before briefly summarising the evidence about the relationship between entrepreneurial activity and the level of development. Having established the very low levels of entrepreneurial activity in most former Soviet bloc transition economies, we go on to consider likely explanations, including institutional quality, corruption and social values. We conclude with a brief discussion of the impact of migration and of the recent economic crisis.

A comparison of the levels of entrepreneurship in transition and other economies

The 2010 GEM Report (Kelley *et al.*, 2010) provides country-level indicators of entrepreneurship for 59 economies. These indicators were constructed from representative samples of at least 2,000 individuals in each country, each from the working age population. The GEM data capture a wide range of entrepreneurial activities and can be used to compare the transition economies with other countries. While the dataset does not provide information on all the transition economies, their coverage is wide enough for interesting comparisons with developed western economies and (non-transition) emerging markets.

We commence by reporting levels of entrepreneurial activity in transition as against other economies in Table 21.1. For entrepreneurship, GEM offers four main measures of entrepreneurial activity, namely:

- The *nascent entrepreneurship rate* (proportion of the population aged 18–64 actively involved in setting up a business they will own or co-own and manage; this business has not paid salaries, wages or payments to the owners for more than three months).
- The *new business ownership rate* (proportion of the population aged 18–64 currently owner-managers of a new business – owning and managing a running business that has paid wages, etc., for more than three but less than 42 months).
- *Early-stage entrepreneurial activity* (proportion of the population aged 18–64 who are either a nascent entrepreneur or a new business owner).
- The *established business ownership rate* (proportion of the population aged 18–64 who are owner-managers of an established business that has paid wages, etc., for more than 42 months).

Table 21.1 Entrepreneurial activity, 2010 GEM Report

	<i>Nascent entrepreneurship rate</i>	<i>New business ownership rate</i>	<i>Early-stage entrepreneurial activity</i>	<i>Established business ownership rate</i>
Bosnia and Herzegovina	4.1	4.1	7.7	6.6
Croatia	3.8	1.9	5.5	2.9
Hungary	4.6	2.6	7.1	5.4
Latvia	5.6	4.2	9.7	7.6
Macedonia	4.4	3.6	8	7.6
Montenegro	12	3.1	14.9	7.8
Romania	3.3	1.1	4.3	2.1
Russia	2.1	1.9	3.9	2.8
Slovenia	4.1	4.1	7.7	6.6
<i>Transition economies</i>	4.7	2.8	7.3	5.3
Factor-driven economies	11.8	12.3	22.8	12.6
Efficiency-driven economies	7.6	6.7	14.0	9.3
Innovation economies	3.0	2.8	5.7	7.1

Source: Kelley *et al.* (2010) plus authors' calculations.

Note that the early stage rate may be lower than the sum of nascent rate and new businesses rate because it avoids double counting: some individuals may be involved in more than one entrepreneurial project in various stages.

We follow the strategic entrepreneurship literature in dividing economies according to their stage of development with respect to innovative processes (Porter, 1990). Thus, the country sample is divided into three groups based on Kelley *et al.* (2010), yet we separated the transition countries into a fourth category:

- *Factor-driven economies* (relatively low-income economies): this stage of development is marked by high rates of agricultural self-employment. Economies compete primarily through low costs of production, the supply of commodities or low value-added products. Most small manufacturing and service firms are run by self-employed workers. In our sample, countries at this stage are Angola, Bolivia, Egypt, Ghana, Guatemala, Iran, Jordan, Syria, Tonga, Uganda, West Bank and Gaza and Yemen.
- *Efficiency-driven economies* (middle-income emerging markets): countries at this stage of development have efficient production techniques in large markets, and so are able to exploit scale economies. Capital and labour play the crucial role in productivity growth and self-employment is declining. This is the closest comparator group for eastern Europe. The economies at this stage in our sample are Argentina, Brazil, Chile, China, Colombia, Costa Rica, Malaysia, Mexico, Peru, South Africa, Taiwan, Trinidad and Tobago, Tunisia, Turkey and Uruguay.
- *Innovation-driven economies* (high-income economies): growth relies primarily upon innovation, and the economy shifts towards higher value-added activities. The role of the entrepreneur as innovator becomes more central. In our sample, countries in this stage of development are Australia, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Republic of Korea, Netherlands, Norway, Spain, Switzerland, the UK and the USA.
- *The transition countries of Eastern and Central Europe*: there are nine transition countries in our sample – Bosnia and Herzegovina, Croatia, Hungary, Latvia, Macedonia, Montenegro, Romania, Russia and Slovenia.

The relationship between the level of development and entrepreneurial activity is not linear because entrepreneurship takes different forms and play different roles as income per capita in an economy increases (Parker, 2009). Thus, low-income countries have a large number of small businesses but as income per head rises, industrialisation and economies of scale increase the role of large firms in the economy. This may be accompanied by a reduction in the number of new businesses. At high levels of income, entrepreneurship begins to increase once again as institutions become more conducive and more individuals can access the resources necessary to start their own business. There is also a structural shift to services leading to an increase in entrepreneurial entry. Thus, the literature proposes that the relationship between entrepreneurial activity and the level of development will be U-shaped. Note that since most transition economies are probably in the second stage of development (efficiency-driven), entrepreneurial activity might be expected to be relatively low.¹

Table 21.1 shows that our measures of entrepreneurship are usually lower in transition economies than in the other three categories of economy for all four types of entrepreneurial activity. The only exception is in comparison with innovation-driven economies, for which all measures of entrepreneurial activity are very low. Most importantly, entrepreneurship rates in the transition economies are significantly lower than in the key comparator group – the non-transition, efficiency-driven (middle-income) economies. For most indicators, the averages for other middle income economies are about double those of the transition economies. Especially striking are the extremely low entrepreneurial activity rates in Russia – among the lowest in the world. However, Romania does not score much better.

The issue is illustrated further in Figure 21.1, which plots the relationship between the total entrepreneurial activity rate (nascent plus new business owners) and GDP per capita. The relationship is found to be U-shaped, as predicted, and the highlighted area represents observations within the 95 per cent confidence interval. The transition economies can be seen to be clustered below the regression line and often outside the area of significance, somewhat below the minimum of the curve. The result is confirmed by regression analysis – when running a corresponding regression model with linear and quadratic GDP per capita and including a dummy for the transition economies, the latter is significant at the 1 per cent level and has a negative sign (based on heteroscedasticity-robust standard errors).

The determinants of entrepreneurial activity

The remainder of this contribution is devoted to a preliminary exploration of why levels of entrepreneurial activity have remained so low in transition economies. The academic literature has identified a number of factors that influence the levels of entrepreneurship, including individual attitudes to risk, formal and informal institutions, human capital endowments and the development of the financial sector (e.g. Aidis *et al.*, 2010). We focus on the differences between transition economies and other countries with respect to these determinants.

Human capital

Levels of education and training are important for entrepreneurship and in principle the transition countries fare relatively well in this area. The communist regimes created extensive education and health services. Many central and east European economies continue to invest a high proportion of GDP in education. As a result, educational standards are high and transition economies typically have a high proportion of students in ‘hard’ subjects such as mathematics and engineering. That however does not imply that the educational systems produce graduates with skills important

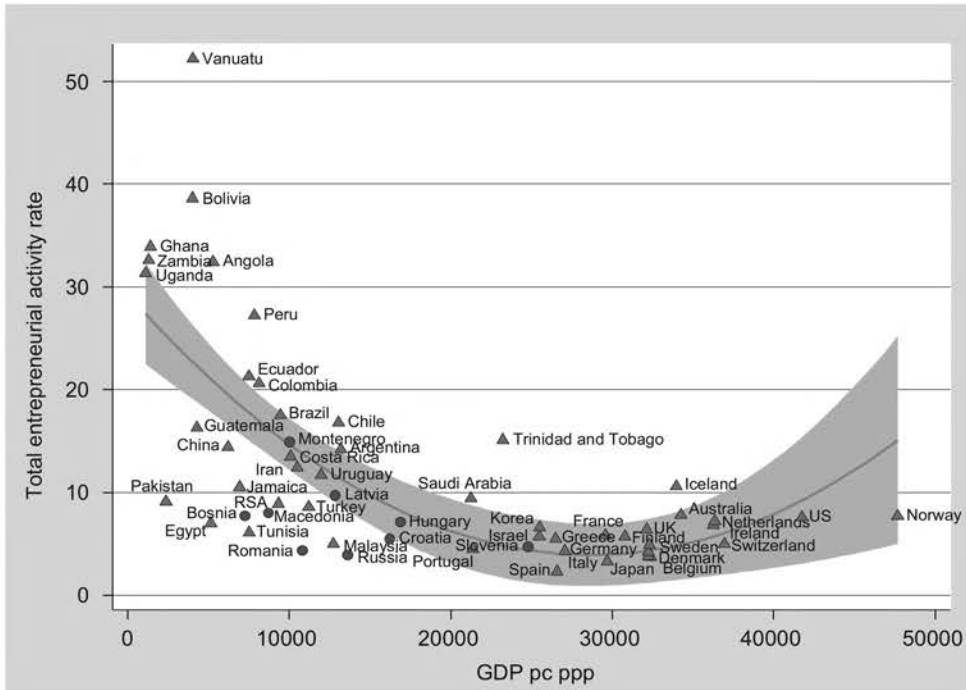


Figure 21.1 GDP per capita (purchasing power parity) and total entrepreneurial activity rate
 Sources: Kelley *et al.* (2010) – total entrepreneurial activity (owners-managers of either start-ups or young businesses/working age population); World Bank ‘World Development Indicators’ – GDP per capita purchasing power parity for 2009, constant 2005 US dollars.

specifically for new entrepreneurs and for the employees they would wish to hire. A closer inspection of surveys of framework conditions for entrepreneurship reveals that in this respect the situation is particularly problematic in Russia, Croatia and Slovenia. In all three countries, inadequate quality of primary and secondary education is listed as one of the three most negative framework conditions, and – unlike the majority of other countries – post-school education is not listed amongst those that have a positive impact (Kelley *et al.*, 2010). The disparity between general high quality of education and the deficiency of skills required for entrepreneurship is particularly striking for Slovenia, the most developed of the transition economies, yet where rates of both economic growth and entrepreneurship are not high.

Finance

Entrepreneurs require financial resources in order to establish and run their firms and they must either provide these resources from their own savings or borrow from financial markets. Private savings were inadequate at the start of the transition and capital market development remained weak in most of these countries (Estrin *et al.*, 2006). Progress in reform of the securities market and non-bank financial institutions was typically slow during the first decade of transition (EBRD *Transition Reports* 1999; and other years). The banking sector was inexperienced in private-sector lending and lacked the organizational capability to finance entrepreneurial businesses, with state-owned banks continuing to favour state-owned firms. However, over the past decade there has

been significant progress in financial sector development and reforms, and problems with finance are no longer a factor distinguishing most of the transition economies (Mickiewicz, 2010). Nevertheless, the GEM survey of entrepreneurship framework conditions reveals that in Latvia, Macedonia and Russia, finance is still listed as one of the three most negative factors affecting entrepreneurs (Kelley *et al.*, 2010).

Formal institutions

The institutional environment affects the propensity to start a new business because of its impact on the transactions costs of starting a new firm and on the returns in the early years of the business. Potential institutional obstacles to entrepreneurial activity include the quality of the commercial code, the strength of legal enforcement, administrative barriers to entry and to business activities, the prevalence of extra-legal payments and generally deficient market-supporting institutions (McMillan and Woodruff, 2002).

For the transition economies, a distinction should be drawn between the countries of Central and Eastern Europe (CEE) and those of the former Soviet Union (FSU), excluding the Baltic states. These were only annexed by the Soviet Union in the 1940s, and therefore probably preserved some institutional memory of a market economy; hence they can be regarded as more similar to CEE. Most CEE economies inherited institutions that were more conducive to operating a successful market economy. This initial advantage at the start of the transition was strengthened further by the process of EU accession when the CEE adopted EU legal codes and institutions. By contrast, the FSU had little prior experience of a market economy. Market-supporting institutions had to be developed after 1991 virtually from scratch.

In particular, the Soviet legacy left policy preferences for a large state sector that typically militates against entrepreneurial activity, because of the resulting high taxation, and the associated complexity of the regulatory environment that increases the transaction costs of running independent businesses. Higher taxes and welfare provision may affect entrepreneurial entry via their direct impact on expected returns to entrepreneurial activity and on its opportunity cost. Yet while many transition countries have preserved a large state sector, a significant number of countries such as Russia are characterized by smaller state sectors, which can be dated back to the collapse of tax revenue in the 1990s and tax reforms in early 2000s. Nevertheless, even in Russia the extent of state redistribution is not small when compared with fast-growing Far East Asian economies, including China, South Korea and others.

In many countries in the region, the state also continues to engage in arbitrary interference in enterprise affairs, putting out its 'grabbing hand' to the detriment of new private ventures (Shleifer and Vishny, 1998). Entrepreneurs are the most affected by corruption and ineffective regulatory frameworks since, unlike large firms, they lack bargaining power vis-à-vis the bureaucracy (Aidis *et al.*, 2010).

For entrepreneurship, it is also important to have strong property rights. There is no universally accepted set of country-level measures of institutional quality; we use the Heritage Foundation–Wall Street Journal Economic Freedom Index (Beach and Kane, 2008), which has wide coverage. The enforcement and protection of property rights is correlated with GDP per capita. However, for the overwhelming majority of transition economies, the scores for property rights are still significantly below the scores that could be expected on the basis of their level of development (Mickiewicz, 2010).

These intuitions are supported empirically in the work of Aidis *et al.* (2010), who consider whether differences in the level of entrepreneurial activity between countries can be explained by variation in formal institutions. They use factor analysis to construct synthetic measures of

formal institutions. This data reduction technique allows the large number of related institutional indices to be combined into two distinct composite variables: the ‘size of the state sector’ (clustered around the extent of state spending) and the ‘rule of law’. The key components of the latter are the (highly inter-correlated) measures of the protection of property rights and of freedom from corruption based on the Heritage Foundation/Wall Street Journal data.

Figure 21.2 presents the findings for the transition economies covered by the Heritage Foundation 2011 dataset. We utilise the two key institutional dimensions important for entrepreneurship as identified by Aidis *et al.* (2010): the size of the government and property rights.² The lower-right hand side of the figure remains empty – this implies that no transition economies are characterized by those institutional characteristics identified as being conducive to entrepreneurship. Central European countries have strong property rights systems but also extensive state sectors. In contrast, Central Asian economies have limited state sectors, but property rights are weak. However, from the point of view of entrepreneurial framework conditions, the worst cases relate to the Balkan states and the CIS countries, where both property rights are weak and state sectors are extensive; Belarus and Bosnia and Herzegovina are the most prominent examples of this combination.

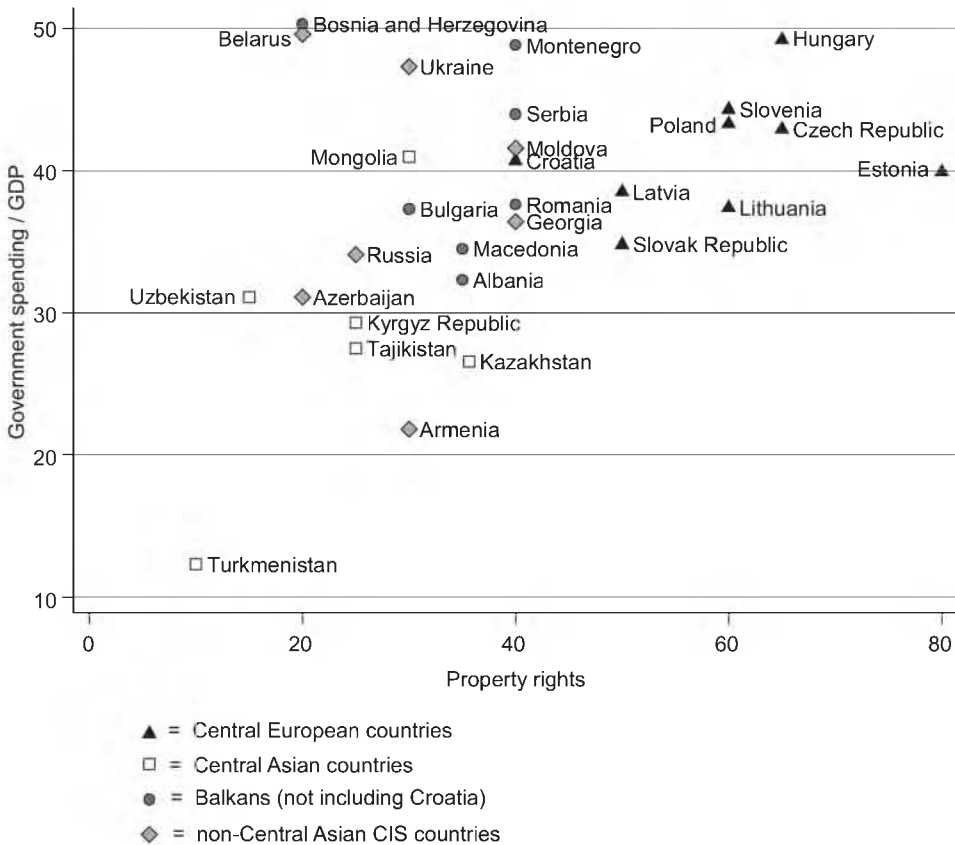


Figure 21.2 Institutional conditions: government spending/GDP and property rights
 Sources: Heritage Foundation plus authors’ calculation. Here, the property rights index reflects ‘the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state.’ (Beach and Kane, 2008; see further detail there). Note that data on government spending in Turkmenistan may be problematic.

Social and cultural factors

Informal institutions (prevailing norms and values) are as important as formal institutions in shaping the framework for entrepreneurship. Communism left a legacy of values and norms that are not conducive to entrepreneurship (Batjargal, 2003; Hsu, 2005; Ledeneva, 2006). Sztompka (1996) describes this legacy as a 'bloc culture' which comprised priority of dependence over self-reliance; of conformity over individualism; and of rigidity and extremism in beliefs over tolerance and innovation.

Schwartz and Bardi (1997) explain that the norms developed in the communist era were not the result of indoctrination, but rather resulted from social adaptation to the prevailing economic and social conditions. Indeed, their adoption was sometimes in direct contradiction to the official ideology. Thus, while the communist system officially promoted trust and cooperation, the prevailing conditions of surveillance of citizens led to distrust, which became deeply rooted in social attitudes. Values that are critical for entrepreneurship remain much weaker in post-communist societies than in comparable countries. However, the differences between transition and comparator countries are lower for younger people, as the latter have a much greater capacity to adapt to new conditions and are more receptive to new cultural influences (Estrin and Mickiewicz, 2011).

These findings can be confirmed by using the data collected by the World Value Surveys. Trust is an essential prerequisite for entrepreneurship. However, for transition countries the levels of generalized trust in others are relatively low. This creates disincentives to entrepreneurial activity, as developing new business relations is hampered by the perceived risk inherent in dealing with strangers.

In the 2010 GEM study, respondents in various countries were asked to assess the social and cultural norms that correspond to framework conditions for entrepreneurship. The GEM data show striking differences between the transition group and other countries. The social status attached to entrepreneurship is lowest in the transition economies compared to all other groups of countries, and the same relates to positive media coverage. Even if the number of respondents who believe that entrepreneurship is socially perceived as a good career choice is higher than in high income ('innovation driven') economies, it is still almost 10 percentage points lower than in the comparator 'efficiency-driven' group of countries, as Table 21.2 shows.

Corruption

Embedded, widespread corruption becomes another informal institution, and is likely to be damaging to entrepreneurial activity and expansion, as it increases the costs of starting and running a business and reduces entrepreneurial gains. As was the case for property rights, for the overwhelming majority of transition economies, the scores for corruption are significantly worse than could be expected on the basis of their level of development (Mickiewicz, 2010). The level of corruption reflects all the institutional weaknesses in an economy, as it is affected by weak property rights, arbitrariness in state administration, a weak judicial system, and inefficient and non-transparent regulatory frameworks. But it is more than that. It also reflects prevailing social norms and therefore it is characterized by persistence, responding slowly to changes in the formal institutional environment (Aidis *et al.*, 2008, 2010). It can be treated as a proxy for overall institutional quality, both formal and informal. For most transition economies, high corruption is consistent with low scores on levels of entrepreneurship.

Last but not least, all these factors explain only part of the cross-country variation in rates of entrepreneurship. For lack of space we do not comment on all potentially important dimensions. In particular, there is simultaneity between economic growth and entrepreneurship.

Table 21.2 Attitudes to entrepreneurship, 2010

	<i>Entrepreneurship as a good career choice</i>	<i>High status to successful entrepreneurs</i>	<i>Media attention for entrepreneurship</i>
Bosnia and Herzegovina	76.0	63.0	47.6
Croatia	67.1	49.9	41.8
Hungary	55.0	73.7	47.4
Latvia	58.8	64.8	57.2
Macedonia	71.3	66.2	56.0
Montenegro	81.0	68.4	69.5
Romania	66.5	65.5	46.9
Russia	65.4	63.7	46.6
Slovenia	53.2	73.7	56.2
<i>Transition economies</i>	66.0	65.4	52.1
Factor-driven economies	75.3	80.9	65.3
Efficiency-driven economies	75.4	73.0	67.7
Innovation-driven economies	59.5	70.1	55.5

Source: Authors' calculations based on Kelley *et al.* (2010).

Note: Average survey responses on extent to which social and cultural norms are considered to be supportive of entrepreneurship.

While entrepreneurship contributes to economic growth (Parker, 2009), the latter also attracts more entrepreneurial entry via widening the range of profitable opportunities. This may explain some cases in our data, where entrepreneurial entry is strong despite weak institutions, for example Montenegro.

Assessing the impact of values and norms

Estrin and Mickiewicz (2011) investigate the impact of informal institutions indirectly through the age structure of entrepreneurs. They hypothesise that change in informal institutions will be embedded in generational change; acceptance of corruption and non-entrepreneurial attitudes are deeply rooted in the generation brought up under communism. Older people are less likely to be entrepreneurial in all countries but this effect is likely to be stronger in transition economies. To test their hypothesis, they introduce an interaction term defined as the transition dummy multiplied by each individual's age (and age squared). They found that – even after controlling for the size of the state, property rights and a number of macro- and individual-level controls – this effect was negative and statistically significant in regressions of the probability of an individual choosing to become a nascent entrepreneur (new business start-ups). Thus, the negative effect of age on entrepreneurship was found to be significantly stronger in transition countries, even when controlling for variation in individual characteristics such as education and gender, as well as for differences in the formal institutions discussed above. Estrin and Mickiewicz (2011) attribute this result to the negative impact of informal institutions, notably the communist heritage in norms and values, on entrepreneurial activity.

Conclusions

We have shown that entrepreneurial activity rates are lower in transition countries than in comparable middle income economies. In large part, this is the result of deficient formal institutions in central and eastern Europe. In particular, one can point to inadequate property rights protection, regulations that hamper businesses and the relatively large size (controlling for the level of

development) of the state sector. Informal institutions, including attitudes and social norms, are also a problem. In the GEM survey, existing social and cultural norms are highlighted as more serious obstacles by respondents in transition economies than in comparator countries. The particular cultural values supporting entrepreneurship are weaker in transition countries than elsewhere.

Generalized trust was severely damaged during the communist era, while other values conducive to entrepreneurship including confidence and autonomy are also weak. Estrin and Mickiewicz (2011) identify a clear-cut generational effect: the older generation born and educated under communism is far less entrepreneurial than its counterpart in other regions of the world. This is both a cause for concern and a source of optimism since the younger generation carries much less of the burden of the past.

The ambiguous effects of migration

Our study suggests that entrepreneurship should increase in transition economies when the new generation born and educated in a market economy grows to maturity. However, even here the auguries are not entirely positive because the demographic structure in Eastern and Central Europe is beginning to converge to that of western Europe, with relatively fewer young people. The impact of this could be amplified by the effects of the wave of migrations of mostly young people from eastern to western Europe. However, hopefully, this will not only enhance entrepreneurship in recipient countries like UK, Ireland and Germany, but also create positive feedback effects by increasing the perceived returns to entrepreneurial behaviour and an increased number of start-ups by return migrants.

The low levels of entrepreneurial activity do not seem to have been a significant constraint on economic growth in central and eastern Europe so far. This is perhaps because of the role of foreign direct investment (in east central Europe; see Bevan and Estrin, 2004) and high resource prices (in much of the former Soviet Union). However, deficiencies in entrepreneurship could become more telling in the future. In addition, the role of policy in improving the situation is likely to be limited in the short term because of the persistent negative impact of informal institutions, which can only change slowly over time. For policy-makers who focus on entrepreneurship, there may, however, be big benefits over the longer term from limiting the size of the state sector, reducing corruption, improving property rights, shaping education so it offers a better match with the needs of business, and from promoting cultural values conducive to economic initiative.

The effects of the global recession

The impact of the 2008/09 crisis on central and eastern Europe has been mixed, with Poland experiencing only a mild slow down, but the small open economies of the Baltic republics sliding into two-digit recessions (meaning that GDP fell by more than 10 per cent). Although crises can sometimes unleash new entrepreneurial energies (as well as boost necessity-driven entrepreneurship), the aftermath of 2009 had a negative impact on entrepreneurship in the region via reduced actual and perceived opportunities and more difficult financing conditions. Nevertheless, as illustrated by Table 21.3, this has been temporary.

The GEM data for 2008 and 2009 show that entrepreneurial activity rates on average did not decline in eastern and central Europe compared with 2008. The two striking cases were Hungary and Latvia, where there were significant increases in activity. These economies were among the worst-affected by the crisis, suggesting that there was an increase in necessity-driven

Table 21.3 The crisis and entrepreneurship

Country group	Year (GEM report)	Early-stage entrepreneurial activity	Nascent entrepreneurship rate
Transition	2007	5.03	3.08
Transition	2008	5.77	3.48
Transition	2009	6.58	3.67
Transition	2010	5.87	3.60
Innovation	2007	6.14	3.84
Innovation	2008	6.73	3.72
Innovation	2009	6.03	3.35
Innovation	2010	5.69	3.16
Efficiency	2007	16.88	8.32
Efficiency	2008	17.43	10.20
Efficiency	2009	16.72	10.13
Efficiency	2010	18.00	10.40

Source: Global Entrepreneurship Monitor (GEM) 2007–10. The country coverage in the regional groups in this table differs from tables 1 and 2 as it is governed by the availability of the same countries in 2007, 2008, 2009 and 2010. Notably, the comparator efficiency group is now composed entirely of Latin American economies and the factor-driven group is absent.

entrepreneurship. In 2010 the entry rates in central and eastern Europe still did not reflect much negative impact of the crisis, in contrast with high income (innovation driven) economies. Transition economies share the pattern of recovery similar to the comparator emerging market economies of Latin America ('efficiency-driven' group in Table 21.3), albeit that the latter region is characterized by much higher entry rates overall.

Notes

- 1 GEM also distinguishes between necessity-driven (individuals who are involved in entrepreneurship because they have no other option for work) and improvement-driven entrepreneurship (engagement in entrepreneurial activity in order to be independent or to increase income). Necessity-driven activity tends to be higher in less developed economies. As an economy develops, it declines as large firms provide more employment opportunities. At the same time, the proportion of opportunity-driven entrepreneurial activity increases with income per head.
- 2 Though we use Heritage Foundation data, their indicator of government spending is transformed back to the original figures, reversing the non-linear transformation the Heritage Foundation applies. The latter places a heavy penalty on a high level of spending by introducing a quadratic term (Beach and Kane, 2008).

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