

(Early) entrepreneurship in Russia: some evidences of the GEM in the context of the economic transition



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Structure of presentation

1. Entrepreneurs in Russia?

2. GEM and 'early entrepreneurship'

3. Russia in the GEM

1. Entrepreneurs in Russia?

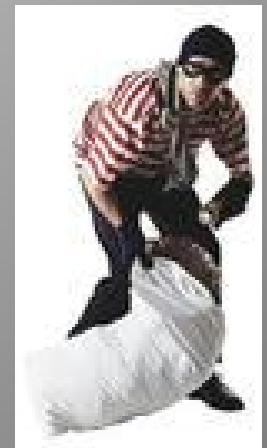


Transformation and Entrepreneurship: Main Wisdoms and Reality

Main wisdoms: transformation in the sphere of economy is a 'creative destruction' (Schumpeter) of old economic system based on state domination and establishing of a system based on *independently* acting *private* entrepreneurs

- Hence, emerging private entrepreneurship – inevitable condition of any transformation progress. Liberalization of social order enables them flourish

Reality: 'oligarkhs', 'red directors' and criminals (and respective business-as-usual-practices) instead of 'Schumpeterian entrepreneurs' occurred, whilst private SME remain underdeveloped



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Specific features of entrepreneurship development in Russia



- ... are in line with (Baumol, 1990) on different types of entrepreneurship: not only innovative, **productive**, but also other types of it - **unproductive** and «**destructive**» entrepreneurship
- **Productive entrepreneurship** – ‘innovation rent’
 - **Unproductive entrepreneurship** – ‘political rent’ (= redistributing *incomes*: monopolies of different kind etc.)
 - **Destructive entrepreneurship** – shadow and semi-criminal incomes (= redistributing *property*: semi-criminal M&A etc.)

Variety of entrepreneurship in Russia

... by size:

- **Big business** (ca. 300) – mostly affiliated with State agencies (political rent, ‘state capture’ in the 1990ies, now – ‘business capture’ by representatives of State elites)
- **Medium sized business** (before crisis ca. 13.000) – different models, annual turnover - between 10 - 350 Mio. USD, (among them ca. 3.000 with a turnover < 50 Mio. USD), mostly productive entrepreneurial firms, up to 1/3 are fast growing firms (‘gazelles’) with < 20 % annual growth for more than 4-5 years
- **Small and micro firms** (ca. 1,6 mln.) – although strong opportunistic behavior, ‘genuine’ entrepreneurship on the grass-roots level



Variety of entrepreneurship in Russia

By different other factors like:

- **efficiency**: 20 % of the most efficient enterprises – 10 - 20 times higher productivity than the worst 20 % (Yakovlev, 2009)
- **growth strategies** (organic vs. M&A):
multinationals - mostly M&A strategy; medium sized – primarily organic growth; small business – often in a form of establishing of a plethora of new firms (portfolio, or ‘parallel entrepreneurship’)
- **technological level** (innovative and traditional)

Technological level of enterprises compared (2004)

Country	Enterprises with ISO-certificate	Enterprises using E-Mail to contact clients and suppliers	Enterprises offering goods and services via Internet	Enterprises invented new technologies in last 3 years	Enterprises invented new products in last 3 years	R&D, in % of turnover
Russia	37,9%	92,9%	51,7%	29,5%	45,6%	0,4%
Czech	12,5%	83,4%	83,1%	23,2%	36,4%	0,2%
Ireland	17,2%	86,4%	84,8%	38,1%	62,3%	0,7%
Korea	17,6%	77,4%	No data	16,2%	57,0%	0,1%
Brazil	19,1%	92,0%	73,1%	36,6%	96,3%	0,9%
China	35,9%	No data	No data	67,9%	42,7%	2,5%
India	No data	62,1%	35,9%	31,9%	No data	0,5%

Source: Ksenia Gonchar, according to HSE and WB data

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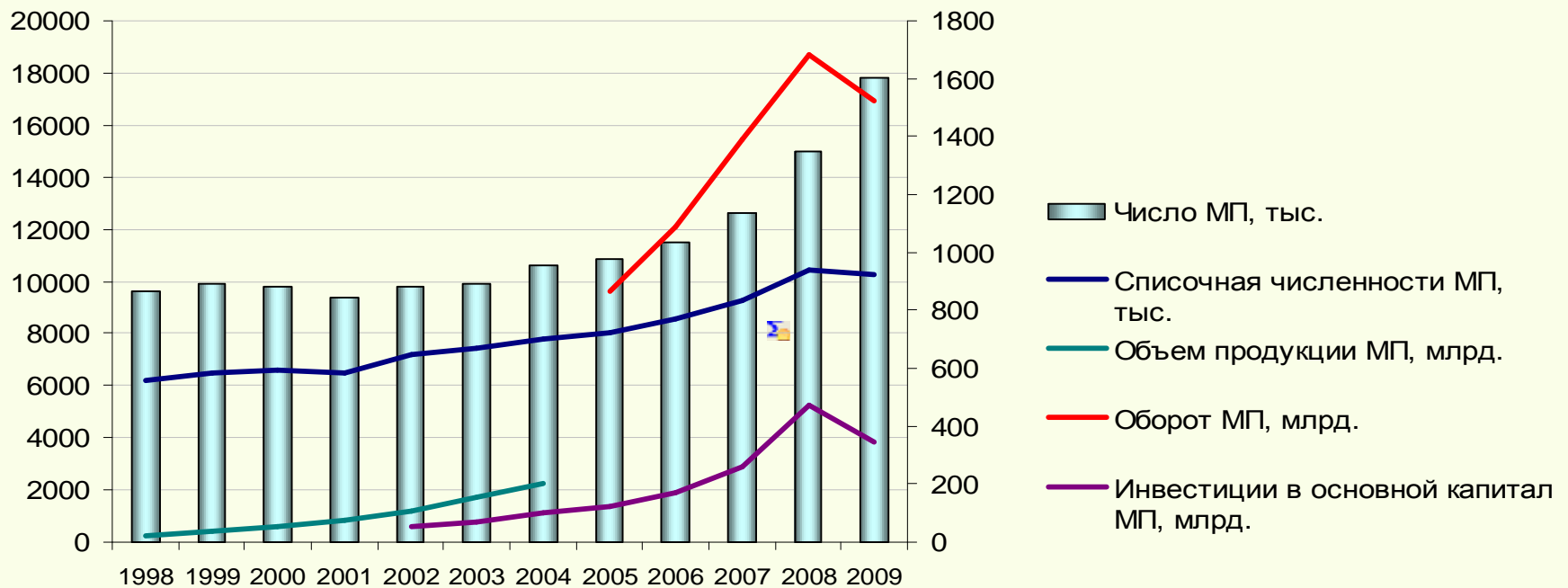
Small entrepreneurship in Russia: some milestones

Mostly bottom-up, hence *pushed* to be **productive**

- Early 1990-ies: rapid growth (open market niches – *opportunity driven* start-ups, decline of many industries – *necessity driven* start-ups: ‘shuttles’ etc.)
- Mid – second half of the 1990-ies: stagnation (growing economic and administrative entry barriers for newcomers),
- 1998-2000 – crisis and after: decline and rebirth
- Early 2000-ies – 2008: the only sector generating new jobs in masse

SME sector dynamics in Russia, 1998-2009

Динамика показателей МП



Number of small firms (as on the end of year)

	2005		2006		2007		2008		2009	
	Thous.	% to 2005	Thous.	% to 2005	Thous.	% to 2005	Thous.	% to 2005	Thous.	% to 2005
Total	979,3	100	1032,8	105,5	1137,4	116,1	1335,0	136,3	1602,2	163,6



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Average number of employees (persons)

	2002	2003	2004	2005	2006	2007
Average number of fulltime employees	14,3	15,0	15,9	16,7	17,8	18,9
Average number of part-time employees	34,4	36,6	38,7	39,6	40,5	39,5
Average number of freelancers (on contractual base)	21,4	22,6	22,0	22,8	19,8	22,4

Total number of employed in small firms (full time, 2007) – 9 239 200 (14 % of total employment in Russian Federation)

SME sector input, 2002-2007, in %

	2002	2003	2004	2005	2006	2007
GDP ¹⁾	...	9,8	12,5	12,0	11,6	...
Turnover	26,0	26,3	26,6
Investment	2,9	2,4	3,5	3,3	3,6	3,9

1) Share of SME added value at GDP in current prices.

SME landscape in Russia (as to the end of 2007, number of SE, thousands)



Federal districts:

- 1 - Central
- 2 – North-Western district
- 3 - Southern district
- 4 - Volga district
- 5 – Ural district
- 6 – Siberian district
- 7 – Far Eastern district

2. GEM and 'early entrepreneurship'



Entrepreneurship research – a shift in focusing



Global Entrepreneurship Monitor



Early 20th century – mid of the 20th century:

- **Who** is an entrepreneur?
- What are **main resources** enabling entrepreneurial activity?

Since the last decade of the 20th century (impact of big longitudinal empirically based projects - PSED, GEM):

- Which role plays entrepreneurial activity in economic growth?
- Why are different societies 'entrepreneurial' to a very different extent?
- Why does the structure of entrepreneurial potential of different nations differ?
- **Role of 'perceptual variables' (perception of business opportunities and low self-efficacy) in decision making to start-up**
- **Motivation of early entrepreneurial activity**
- **Motivation of discontinuing a business**

Why is the analysis of 'early entrepreneurship' important?

- Early entrepreneurial activity of population (EEA) indicates:
 - the *ability to start-up*, resulting from
 - *human capital* of nation and
 - the state of *framework conditions for entrepreneurship*

What is the GEM?

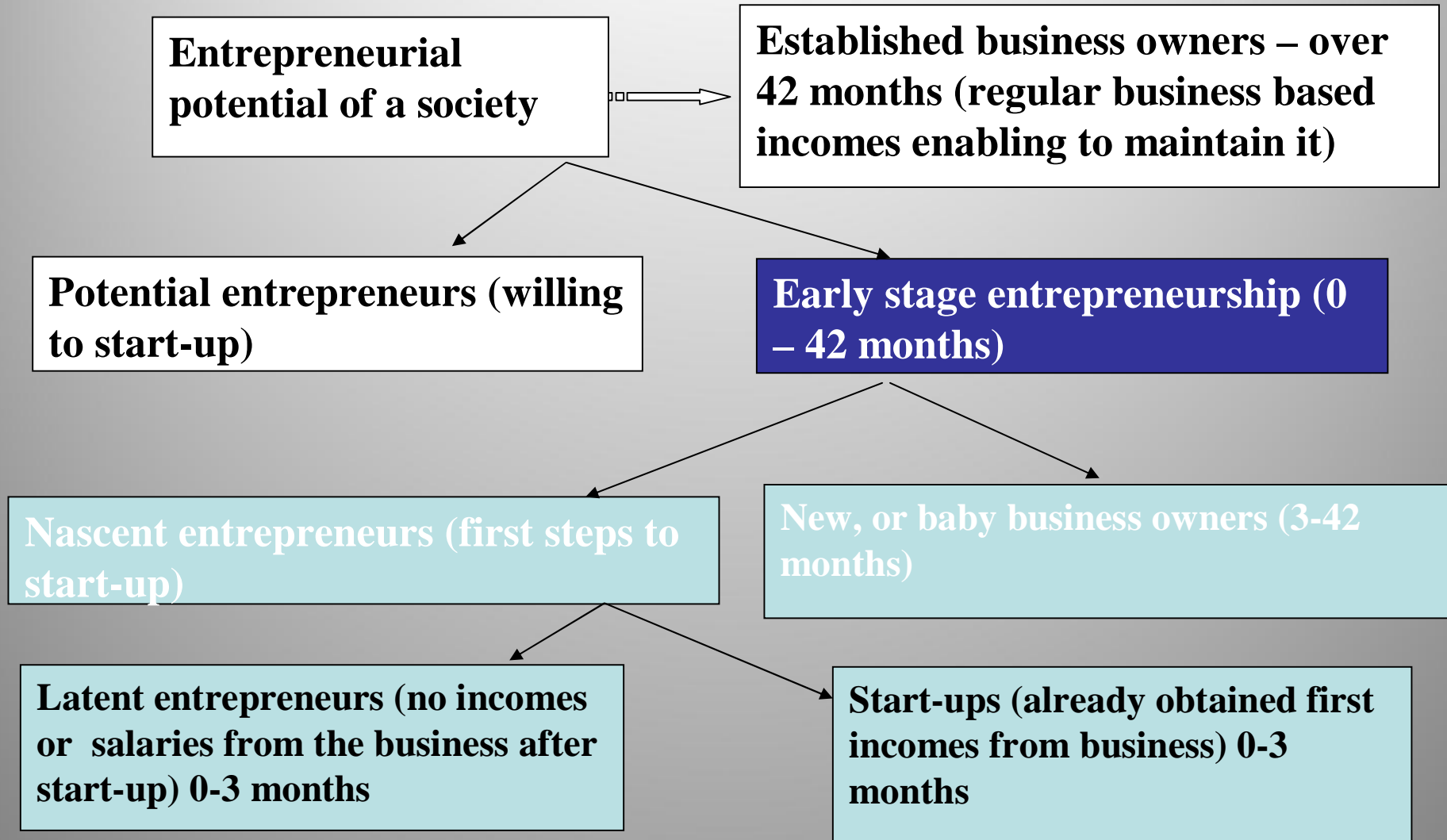


- Global longitudinal empirical project
- Started in 1999 in 10 countries, now – ca. 60
- More than 80 universities worldwide involved
- Researching entrepreneurial activity of population and its predictors and constraints
- Collecting, analyzing and disseminating data (www.gemsonsortium.org)
- Conducting annual conferences and publishing in peer reviewed journals

GEM methodology and main indicators

- Following to Kirzner (1973, 1979), GEM views entrepreneurship as an aspect of human action in which all individual-based acts of arbitrage are, to various degrees, expressions of entrepreneurial attitudes of actors
- **Entrepreneurship:** ‘any attempt to create a new venture, including self-employment, undertaken by an individual or a group of individuals’
- **Tools:** (1) Adult population survey (representative for the respective country, confidence interval - 5 %), (2) Experts’ standardized survey, (3) Experts’ in-depth interviews, (4) secondary statistics (WB ‘Doing Business’ etc.)
- **APS:** in Russia – conducted by the HSE, N= 1850-1900 annually

Ladder of entrepreneurial activity (GEM approach)



Comparing economies & societies: for which kind of questions the GEM data may be of relevance?

- GEM allows:
 - compare entrepreneurial activity in different (kind) of societies,
 - analyze the impact of some features and resources used by early entrepreneurs on the dynamic of entrepreneurial activity,
 - compare the impact of entrepreneurship on socio-economic development in different types of societies,
 - explain, why countries with similar GDP per capita and even 'common past' have very different quality and intensity of entrepreneurship development
 -

GEM provides data

- to study strategies of starting up and developing business (individually / together with other persons; as a singled undertaking / as one of a number of businesses) as well as ...
- ... of discontinuing a business (temporary / definitely)
- ... of using different kind of external resources to start up or to develop etc.

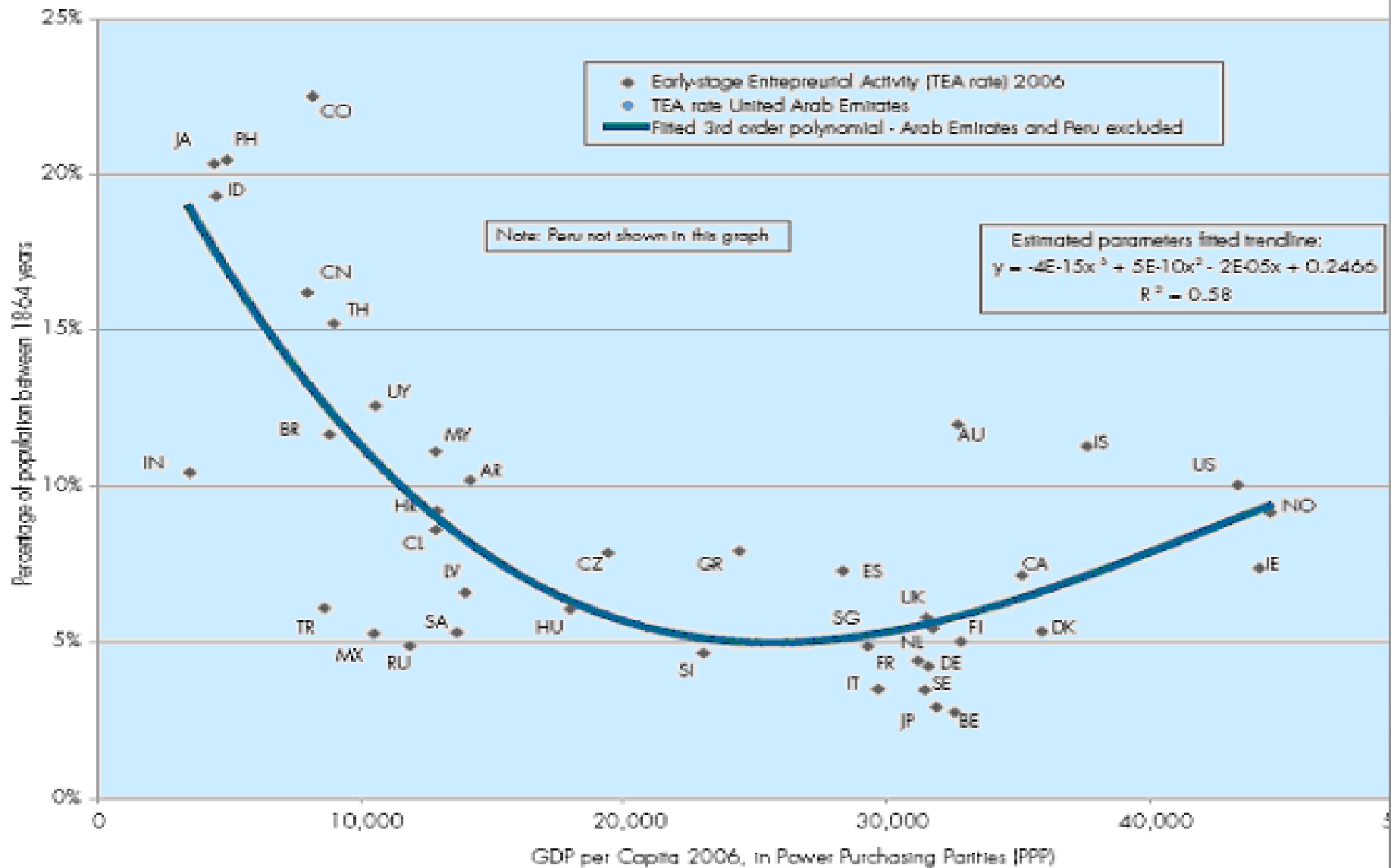
Most important GEM indicators

Total Entrepreneurial Activity index (TEA) – share of adult population (18 to 64 aged), taking part at a start-up or being owners/managers of firma younger than 42 months;

Established business owners rate (EBO)

- Percentage of 18-64 population who are currently an owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months.

Direct comparisons may occur confusing:



Country Grouping Used in the GEM for the 54 GEM 2009 Countries

According to the Global Competitiveness Report 2009-2010 methodology (Schwab, 2009):

Factor-Driven Economies

Algeria*, Guatemala*, Jamaica*, Lebanon*, Morocco, Saudi Arabia*, Syria*, Kingdom of Tonga, Uganda, Venezuela*, West Bank and Gaza Strip, Yemen

Efficiency-Driven Economies

Argentina, Bosnia and Herzegovina, Brazil, Chile*, China, Colombia, Croatia*, Dominican Republic, Ecuador, Hungary*, Iran, Jordan, Latvia*, Malaysia, Panama, Peru, Romania*, **Russia***, Serbia, South Africa, Tunisia, Uruguay*

Innovation-Driven Economies

Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Israel, Italy, Japan, Republic of Korea, **Netherlands**, Norway, Slovenia, Spain, Switzerland, United Kingdom, United Arab Emirates, United States

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* *Country in transition to next stage*

Cross-country GEM data, 2009

Country	Nascent entrepreneurship	New business ownership	TEA	EBO	Discontin. of businesses	Necessity driven (% of TEA)	Improvement driven opportunity (% of TEA)
Efficiency-Driven Economies							
China	7.4	11.8	18.8	17.2	6.6	48	29
Hungary	5.4	3.7	9.1	6.7	3.2	24	45
Latvia	5.3	5.4	10.5	9.0	3.3	32	54
Russia	1.8	2.1	3.9	2.3	2.2	29	37
Innovation-Driven Economies							
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
Netherlands	3.1	4.1	7.2	8.1	2.5	10	57
United States	4.9	3.2	8.0	5.9	3.4	23	55

3. GEM data on 'early entrepreneurship' in Russia



Russia in the context of the GEM nations

- On the basis of international comparisons in 2006-2009 Russia should be characterized as a *country with a low level of entrepreneurial potential* and its rather *unfavorable structure* (motivation, high growth potentials' rate etc.)
- *The single among efficiency-driven and innovation-driven countries with negative EPT* (more discontinuing than nascent's during last 12 months)
- The lowest level of improvement driven opportunity entrepreneurs (except China) - in Russia. The highest one – in France
- Not only different societies are to a different extent 'entrepreneurial', but also countries with similar level of economic development and well-being (GDP) have very different rates of TEA, EBO etc.

GEM based early entrepreneurship dynamic indicators for Russia, 2006-2009

Index	Measured in	2006	2007	2008	2009
TEA	%	4,9	2,7	3,5	3,9
Nascent Entrepreneurs	%	3,5	1,3	1,7	1,8
Baby Business Owners	%	1,4	1,3	1,8	2,1
Establ. Business Owners	%	1,2	1,4	1	2,1
TEA_OPP	%	3,4	1,9	2,5	2,6
TEA_NEC	%	1,4	0,5	0,7	1,1
Business Discont. Rate	%	1,1	1,0	1,0	2,0

Entrepreneurs in Russia by motivation, 2009

Motivation type	Entrepreneurial cohorts						Total	
	Nascent		New business owners		Established business owners			
	Pers.	%	Pers.	%	Pers.	%	Pers.	%
Opportunity	19	63,3	25	67,6	10	26,3	54	51,4
Necessity	10	33,3	9	24,3	16	42,1	35	33,3
Mixed	1	3,3	1	2,7	10	26,3	12	11,4
NA	0,0	0,0	2	5,4	2	5,3	4	3,8
Total	30	100,0	37	100,0	38	100,0	105	100,0

Example: Crisis and entrepreneurship behavior in Russia (2009)

- Shares of opportunity vs. necessity driven among potential entrepreneurs in 2009 became nearly equal, whilst in recent years – prevalence of opportunity driven entrepreneurs.
- Entrepreneurs who decided to close and exit of any business definitely - more strongly affected by the economic crisis than those who discontinue only temporary
- Firms of those who discontinue only temporary survive more often than firms of ex-entrepreneurs who escape definitely
- ETP index became < 1
- Negative perception of business opportunities and low self-efficacy - most important factors preventing a significant part of non-entrepreneurs with 'entrepreneurial past' to start up anew

Thank you!

Dank u wel!