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**GEM Russia 2006-2007:
a brief summary of APS data analysis**

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1. Introduction

The Global Entrepreneurship Monitor (GEM) is a longitudinal research project designed to answer two interconnected questions that are key to determining the aims and means of state economic policy, namely:

1. What is the contribution of entrepreneurial activity to the economic prosperity of individual nations and the international community as a whole?
2. What can governments do to increase the level of entrepreneurial activity?

GEM research focuses on the following:

- comparing levels of entrepreneurial activity in different countries;
- uncovering the factors that determine variation in levels of entrepreneurial activity;
- determining policies that could increase levels of entrepreneurial activity.

Entrepreneurship is taken to mean any attempt to create a new enterprise or business, including self-employment, the creation of a new entrepreneurial structure or the expansion of a pre-existing business, undertaken by an individual, a group of

individuals or an existing business structure.

The results of the study explore four phases of individual entrepreneurship:

- **potential entrepreneurs**, actively planning and organizing entrepreneurship;
- **early-stage** and **nascent entrepreneurs**, at the moment that resources are brought together for the beginning of economic activity, when production has already begun but gross combined income, if any, is no more than three months;
- **new, or baby business**: gross combined income from a period of three to 42 months;
- **established business**: functioning for more than 42 months.

The full text of the report is available on the website www.gemconsortium.org.

The results of the research, conducted by the Laboratory of Sociological Studies in 2007 based on GEM methodology are presented below.

2. Executive summary

The level of **early-stage and nascent entrepreneurship** among the able-bodied population fell almost by half: the TEA index was at 2.7% in 2007, against 4.86% in 2006. This may evidently be connected with a range of causes, including: (a) the appearance of alternative opportunities for economic activity among the population within large industry and the state sector; and (b) a worsening operating environment for new entrepreneurs.

While the **ratio of voluntary to involuntary entrepreneurs** in 2006 was 5:3, it grew almost to 7:1 in 2007. This signals the growth of the ‘quality’ of potential entrepreneurs, given that voluntary entrepreneurs, as a rule, have a higher level of education, are better able to attract the necessary resources, and also have a more creative approach to business.

In 2007, 1.33% of respondents were nascent entrepreneurs, and the same amount (1.34%) were owners of new businesses.

The level of entrepreneurial activity among nascent entrepreneurs saw the greatest contraction, by 61.6%, compared to a drop of 21.7% among new business owners. Nevertheless, slightly more than 1.3% of respondents were nascent entrepreneurs, meaning that they had begun actively preparing to open their own business or had already conducted the start-up.

Approximately 1.4% of respondents were owners or co-owners of new businesses, created not more than 42 months prior to the survey.

The level of entrepreneurial activity in established businesses increased by 150% to 1.86% of respondents, as a portion of the owners of new businesses transitioned into the ‘older’ category. This signals an expanded regeneration of established businesses against the background of an improving economy and growing GDP.

The **proportion of women among early-stage entrepreneurs** is stable at 40%. In 2007, the index of early-stage entrepreneurship among women was 1.64%,

while the index was almost 2.3 times higher among men.

Dynamics of the realization of the entrepreneurial potential of the population, reflected in the *coefficient of expansion of early entrepreneurship*:

Nascent : Discent (Where **Nascent** is the proportion of people who have made active efforts in the last 12 months towards opening a business, and **Discent** is the proportion of people who have closed, abandoned or otherwise ended their business in the last 12 months) is negative. While the expansion coefficient in 2006 was approximately 3.5, i.e. there were three and a half nascent entrepreneurs for each failed entrepreneur during the year, in 2007 the coefficient more than halved, falling to 1.35. In other words, *exit is barely covered by the birth of new businesses*.

Parallel early-stage entrepreneurship grew during the year by more than 23.7%. This signals constricting opportunities for entry into entrepreneurship by social groups who do not already involved in business.

The proportion of informal investors was approximately 1.6% of respondents, compared to almost 3.5% in the previous year. However, the average volume of financing they provided to early-stage entrepreneurs more than doubled.

Portrait of an early-stage entrepreneur. The typical early-stage entrepreneur in the Russian Federation is 35 years old, has professional, technical or specialized secondary education and is confident that his or her knowledge and qualifications are sufficient to create a new business. He or she lives in a major city (but not in a megapolis).

Gender. Women are approximately half as likely to be found among early-stage entrepreneurs as men and are most often found in medium-sized or small cities. The typical woman in this category is 42 years old, she usually has higher education and is confident that her knowledge and qualifications are sufficient to create a new business. Women generally enter entrepreneurship at a later age and (perhaps for that reason) have a higher level of

educational achievement than men among early-stage entrepreneurs.

More often than among men, entrepreneurship among women is likely to be the only option for employment and for earning a living. This sort of 'forced entrepreneurship' is to a significant extent particular to women.

Evidently, women in big cities have more stimuli to open their own business, and so these cities lead in female entrepreneurial potential (this is particularly the case in Moscow and St. Petersburg), and specifically in the proportion of women among established entrepreneurs. The least favorable conditions for women seeking to open their own business is in villages and small cities, owing, evidently, to the underdevelopment of infrastructure and resources.

Regional and local factors. The level of entrepreneurial activity varies significantly across the regions of the Russian Federation. As in 2006, the proportion of potential entrepreneurs in the typical Russian region is 11-12%.

The level of entrepreneurial activity varies depending on the size of the locality, although no direct causality between the

Motivation. For 12.5% of Russian entrepreneurs, the decision to start a business was necessitated by the lack of any viable or desirable alternatives for economic activity. Moreover, entrepreneurship is more likely to be the only option for gainful employment among women than among men.

For approximately half (49%) of Russian entrepreneurs, opening a business was a voluntary decision, driven by the search for additional advantages; what is more, the overwhelming majority (more than 60%) are driven by psychological factors, such as the desire for independence, rather than economic interests.

There are statistically significant differences in the structure of motivational factors among various groups. Thus, among the owners of new businesses, involuntary entrepreneurship is much more common than among the other groups analyzed.

level of entrepreneurial activity and the size of the locality was found.

The most problematic environments for entrepreneurial activity are cities with populations between 10,000 and 100,000 people (in 2006) and villages (in 2007, entrepreneurial activity decreased by 38%).

In both years, the regions with the highest levels of entrepreneurial activity also led on indicators of social capital: St. Petersburg in 2006, and the Northern Caucasus in 2007. A fairly stable statistical connection has been found between these two indicators.

At the same time, the proportion of people personally acquainted with entrepreneurs among the respondents declined from 2006 to 2007 (except in the Northern Caucasus and Central-Black Earth macroregions).

In Russia as a whole, the proportion of respondents who believed that fear or insufficient skills could prevent them from organizing their own business grew from 2006 to 2007, while the proportion of respondents who believed their knowledge and experience to be sufficient for starting a new business decreased. This, taken with the decrease in entrepreneurial activity, can be seen as a somewhat worrying tendency. Moreover, the educational attainment of an entrepreneur is positively correlated with a voluntary decision to open a business, while those who enter entrepreneurship at or after 45 years of age are increasingly likely to have done so involuntarily.

For understandable reasons, respondents who are still only planning their business are significantly more optimistic than those who have already begun operations.

Approximately 90% of respondents in all categories of potential entrepreneurs and active entrepreneurs highly evaluate their own entrepreneurial abilities. The proportion of people who highly rate their entrepreneurial abilities increases in positive correlation with entrepreneurial experience. This self-evaluation does not depend to any significant degree on entrepreneurs' educational attainment or age, but displays a clear gender divide: on the whole, men are

more confident than women in their abilities to run a business. The largest gender gap on self-evaluation of abilities is found among the owners of established business, while the smallest gap is found among potential entrepreneurs.

Almost a third of potential and early-stage entrepreneurs believe that fear and insufficient qualifications may impede them in running their new businesses.

Sources of income. Among early-stage entrepreneurs, the majority of respondents report that their primary source of income remains their salary from employment. In other words, a significant portion of people who are only just beginning entrepreneurship do not ‘take the plunge’ and dedicate their time completely to the development of their business, because the income from the business is either unstable or insufficient to support a normal lifestyle. Competition on Russian markets is growing, and free market share among established niches is harder to find. A large proportion of entrepreneurs who have just entered the market or who are planning to enter the market (from 55% to 70%) are preparing from the outset for a difficult competitive battle, knowing that products or services analogous to their own have already been launched by similar enterprises.

Sources of finance for early-stage entrepreneurship. A significant portion of early-stage entrepreneurial activity is financed from internal sources. At the same time, however, nascent entrepreneurs actively seek external sources of financing as well: thus, 51% of nascent entrepreneurs used external channels of financing in 2006, and that number grew to 65.2% in 2007.

Informal financing dominates external sources of funding. Loans from informal sources are most often relatively small, from 2,000 to 50,000 rubles, which is comparable in size to micro-credits.

Business angels are less important among informal investors than non-entrepreneurial categories. Nascent entrepreneurship is frequently financed by the recipients of social payments, including pensioners first and foremost.

Informal lending is most often seen as an investment of ‘love capital’, as a large portion of such investors does not expect to receive (or does not expect to receive any significant) return on their investment. As a result, the size of the expected return does not have a statistically significant effect on readiness to invest personal funds in nascent entrepreneurship.

Innovative potential. Only a very small portion of potential and early-stage entrepreneurs, as well as owners of established business, have started or are planning to start businesses that will occupy new market niches (approximately 3-6%). These data underscore the relatively low potential for innovation among Russian entrepreneurs in recent years.

The methodology employed by the GEM, combined with the rather insignificant sizes of the groups of respondents who declare the intent to pursue innovative goods and services, does not allow us to draw any meaningful conclusions from the data in this area.

Unsuccessful entrepreneurs. While the number of unsuccessful entrepreneurs did not change significantly from 2006 to 2007, there were significant changes to their socio-demographic structure. There is as yet no basis for firm conclusions about the stability of observations, and thus for conclusions about causal factors as well.

In 2007, women and people with secondary and/or specialized secondary education were comparatively less successful than in 2006.

Rational explanations, such as unprofitability and problems with financing, were found relatively more frequently in 2007.

After closing their business, two thirds of 2007 respondents went back to salaried jobs (in various forms), compared to approximately half in 2006. Meanwhile, only 15% of unsuccessful entrepreneurs sought to reenter business in 2007, compared to almost 40% in 2006. Factors here included, evidently, growth in employment opportunities in large industry and the non-market sector on the one hand, and negative evaluations of opportunities for

conducting entrepreneurial activities in the near future on the other hand.

Parallel entrepreneurs have a higher level of educational attainment and are more closely tied into entrepreneurial networks. As a result, they achieve more stable results in business (with a smaller proportion of respondents reporting failure) and a higher level of optimism vis-à-vis their own entrepreneurial skills.

Parallel entrepreneurs have more conservative financing structures than other early-stage entrepreneurs: they use fewer external sources of financing, including formal lending institutions. On the one hand, this reflects their access to certain resources that can be brought into play from another, already existing business. But on the other hand, this may also bear witness to the fact that the parallel entrepreneurs we find in the Russian survey results are primarily self-employed or the owners of micro-enterprises, who do not need (and in any case are not able) to seek loans from banks.

International context. In 2006, Russia, Russia was found almost exactly in the center of the TEA index (at a distance of 0.07 from the center) among the cluster of 18 countries with below-average levels of early-stage entrepreneurial activity. Russia's TEA index, meanwhile, was only half of the average for all of the countries participating in the GEM consortium.

This group (of below-average countries by early-stage entrepreneurship) includes countries that have seen more success in the development of their market economies, as well as one of the overall leaders in economic development, Norway. At first glance, this would suggest that there is no direct relationship between levels of early-stage entrepreneurial activity and overall levels of economic development.

Support is found for a statistically meaningful correlation between the level of entrepreneurial activity among the general population and levels of socio-economic development. In this instance, the quality of entrepreneurial activity is key, and specifically the proportion of voluntary or involuntary entrepreneurship. Statistical analysis of the levels of early-stage

entrepreneurial activity among the population as found in the study, when compared to per capita GDP, supports the presence of a non-linear relationship.

After performing a cluster analysis of countries based on the established business indicator (the EB Index) using the k-means method, Russia's 2006 results place it not in the group of typical countries, but rather in the cluster with low EB Index levels.

The pace of development of early-stage entrepreneurial activity among the general population was found to be negative. In 2007, Russia's TEA Index was 3.5 times below average, and the indicator fell by more than 45% over the course of the year. That was the biggest drop experienced by any country analyzed.

Russia's neighbors in the low-TEA cluster included predominantly countries with developed industrial economies, primarily countries of 'Old Europe' (for example, Austria, Belgium, Denmark, Sweden, and Great Britain, but also Japan). Three new members of the EU also fell into this category (Romania, Latvia and Slovenia), as well as Puerto Rico.

The only statistically significant positive correlation found for all categories of early-stage entrepreneurs (nascent and new, voluntary and involuntary, male and female) was found with the GDP deflator.

The proportion of re-processing industry among Russian early-stage entrepreneurship is significantly lower than in other countries. The level of focus on economic activities oriented towards consumer markets among Russian early-stage entrepreneurship is comparable to that found in other countries with a middle level of development, a group that includes Russia.

The motivational structure of Russian early-stage entrepreneurship does not differ greatly from that found in other countries of Central and Eastern Europe and is significantly more favorable than in Brazil, for example, with is important from the perspective of qualitative analysis of entrepreneurial potential in the Russian Federation.

3. Russian early-stage entrepreneurship in international context

The participation of a Russian team in the GEM consortium made it possible to collect data for Russia on the level of development and the structure of entrepreneurial potential that are comparable to analogous indicators in other countries participating in the GEM. (It should be noted that in 2006 and in 2007 the GEM was based on analysis of survey results from 42 countries, with a total sample of more than 170,600 people.)

Table 3.1.
Indicators of entrepreneurial activity among participating countries in 2006

Country	Early-stage			Established			Early-stage		Failed
	Total	Men	Women	Total	Men	Women	Voluntary	Involuntary	
Russia	4,86	7,33	2,57	1,19	1,83	0,61	1,44	3,39	1,27
Hungary	6,04	8,09	4,05	6,72	9,03	4,48	1,33	4,64	1,13
Latvia	6,57	9,41	3,92	5,69	8,12	3,41	1,04	5,05	1,98
Serbia									
Croatia	8,58	12,35	4,87	4,12	5,8	2,46	3,81	4,41	1,81
Slovenia	4,63	6,93	2,29	4,44	6,42	2,44	0,47	4,05	1,02
Romania									
China	16,19	18,46	13,79	8,98	11,56	6,26	6,27	9,59	6,18
India	10,42	11,6	9,16	5,6	7,26	3,84	2,86	6,71	15,02
Brazil	11,65	13,74	9,61	12,09	14,77	9,45	5,55	5,99	4,55
Chile	9,19	11,38	7,02	6,79	9,2	4,4	2,59	6,57	3,03
Colombia	22,48	27,97	17,3	10,41	14,19	6,85	8,74	13,68	10,52
Venezuela									
UAE	3,74	5,87	0,29	1,39	2,19	0,1	0,32	2,95	4,71

Table 3.2.
Indicators of entrepreneurial activity among participating countries in 2007

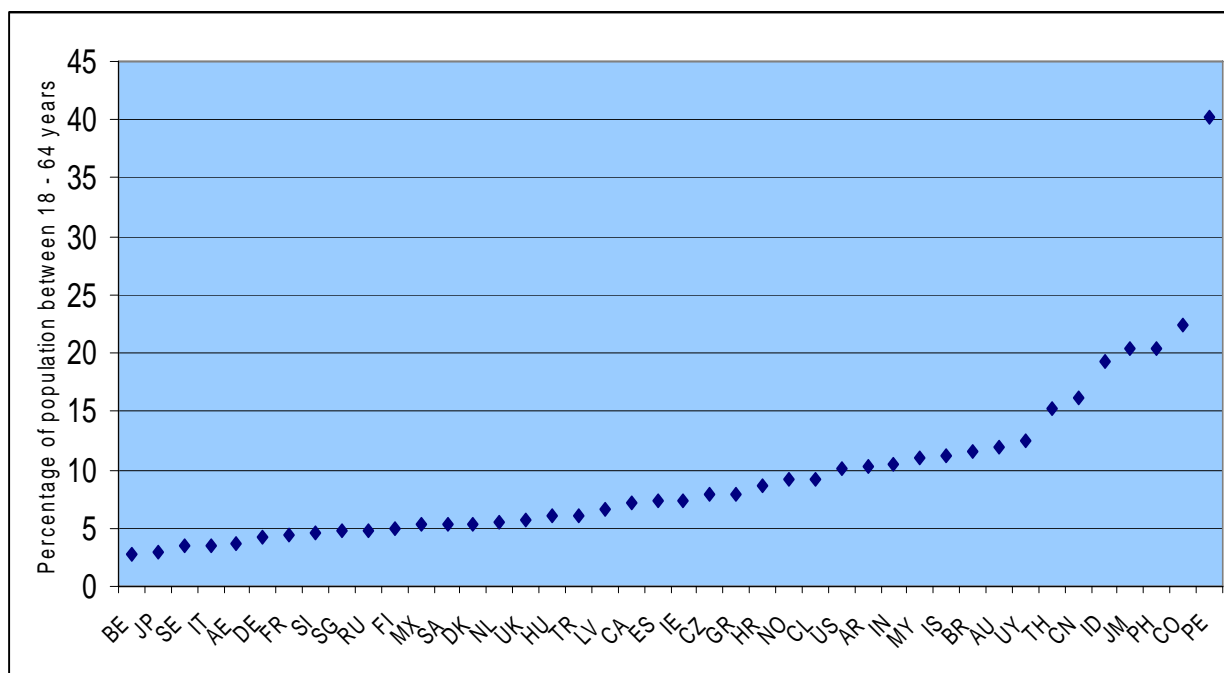
Country	Early-stage			Established			Early-stage		Failed
	Total	Men	Women	Total	Men	Women	Voluntary	Involuntary	
Russia	2,67	3,79	1,64	1,68	1,63	1,73	0,51	1,92	1,09
Hungary	6,86	9,29	4,52	4,83	5,88	3,81	1,6	5,01	1,56
Latvia	4,46	7,7	1,41	3,41	4,9	2,02	0,67	3,67	0,74
Serbia	8,56	12,11	5,06	5,27	7,74	2,83	3,94	4,02	2,75
Croatia	7,27	9,44	5,13	4,22	5,79	2,67	2,9	4,16	2,95
Slovenia	4,78	6,84	2,68	4,59	6,84	2,31	0,46	4,24	1,56
Romania	4,02	4,95	3,09	2,51	3,34	1,7	0,56	2,68	2,52
China	16,43	19,27	13,43	8,39	9,66	7,04	6,21	9,84	10,34
India	8,53	9,51	7,49	5,53	8,69	2,18	1,67	5,51	15,13
Brazil	12,72	12,73	12,71	9,94	12,7	7,24	5,29	7,23	6,44
Chile	13,43	16,45	10,43	8,73	11,89	5,59	3,2	9,79	4,92
Colombia	22,72	26,91	18,77	11,56	15,49	7,84	9,28	12,57	8,86
Venezuela	20,16	23,5	16,81	5,39	5,87	4,9	6,46	13,33	3,77
UAE	8,55	10,62	5,27	3,42	4,76	1,32	1,47	6,69	8,44

Trends in key indexes of the development of entrepreneurial activity

International comparisons conducted during this study (see Table 3.1 and 3.2 and figure 3.1) show that while the average TEA Index value remained stable at around 9%, the

country-level indicators – which were only moderately varied in 2006 – demonstrated a significant level of variation in 2007 (with a variation coefficient of more than 70%).

Figure 3.1. Level of early-stage entrepreneurial activity in GEM countries in 2006¹



K-means cluster analysis identified various clusters on the TEA index in 2006. In conducting international comparisons of GEM data, the number of groups for the first phase of cluster analysis was determined using Sturge's formula. The composition of the resulting groups was then optimized through an iterative process of determining that k value, which would yield a step-like increase in the maximum inter-group dispersion of the σ^2_{MTP} value, going from minimum to maximum

values (on aggregate). The result was the identification of a *stable 6-cluster structure*.

The results of cluster analysis placed *Russia practically in the center (at a distance of 0.07 from the center) of the cluster of the 18 most typical countries by TEA value, with below-average levels of early-stage entrepreneurial activity*, while Russia's TEA Index value was half of the average for all participating countries. Other countries in this cluster (see Figure 1) included countries with

¹ Data on indices of entrepreneurial activity in countries of the world in 2006 (here and further) are drawn from: Niels Bosma and Rebecca Harding GEM 2006 Results / LBS, Babson College, 2007

similar TEA values, from Singapore (SG) to Norway (NO), and including Croatia (HR), Latvia (LV), Hungary (HU), the Czech Republic (CZ), and Greece (GR). Thus, Russia is joined in its TEA-value cluster by several Central and Eastern European countries, as well as a number of countries with highly developed market economies.

Among countries seen as potential leaders of the global economy by the middle of the 21st century – the so-called BRIC group – Brazil and Russia have below-average levels of early-stage entrepreneurial activity, while China is in the middle group and India is in the more distant group of countries with high TEA Index values.

Thus, first of all, Russia, based on levels of development of early-stage entrepreneurial activity, is in the most typical group of countries. Secondly, this group includes countries that have experienced more successful market-economic development (Central and Eastern Europe), as well as one of the most highly developed economies in the world, Norway. This, at first glance, suggests that there is no direct relationship between levels of overall economic development and levels of early-stage entrepreneurial activity.

However, more detailed analysis finds support for *a statistically significant relationship between the level of entrepreneurial activity and levels of socio-economic development*. This concerns primarily the quality of entrepreneurial activity, specifically the proportion of voluntary vs. involuntary entrepreneurship.

In countries with high levels of involuntary entrepreneurship, entrepreneurial activity does not yield high labor productivity or high-quality macroeconomic dynamics. To the contrary, in countries with high levels of economic development (as measured by per capita GDP) entrepreneurial activity is built on a qualitatively different foundation: it is dominated by voluntary entrepreneurship, with higher levels of creativity and making a greater contribution to economic growth.

Statistical analysis of data on levels of early-stage entrepreneurial activity gathered during the study, when put together with data on per capita GDP, support *a non-linear relationship* (the regression parameters are significant at a confidence level of 0.95; see Figure 2). Moreover, the statistical criteria demonstrate that highly developed countries form a tight cluster, while countries with developing or transition economies show significant entropy. This is most clearly seen in regards to established businesses, since these are already well formed and thus the advantages enjoyed by countries whose entrepreneurial potential is developed more intensively (and dominated by voluntary entrepreneurship) are clearly visible.

Thus, cluster analysis on the Established Business (EB) Index using the k-means method places Russia on its 2006 results outside the typical group, falling instead into the cluster with low EB Index values, together with the six other countries shown below (see Figure 3.3). These include one other ‘oil’ country, the UAE.

A large number of Russia’s neighbors in Central and Eastern Europe (including the Czech Republic, Latvia, Croatia and Slovenia) are concentrated by EB values in the neighboring priority group with below-average values (with a distance from the center of 3.5). This large group also includes such countries as the USA, the Netherlands, Great Britain and Japan.

The group with average levels of established entrepreneurship is likewise varied on levels of economic development, but is more homogenous by classification. This group includes, for example, Argentina and Greece, Chile and Israel, Malaysia and Australia. These countries are in the dominant group, with a distance from the center of the lower cluster of 5.43.

The center of the cluster with above-average EB values – which includes Brazil, China, Colombia, Peru and others – is significantly removed from the center of Russia’s cluster (at a distance of 9.162).

Figure 3.2. Index of early-stage entrepreneurial activity and per capita GDP in GEM countries in 2006²

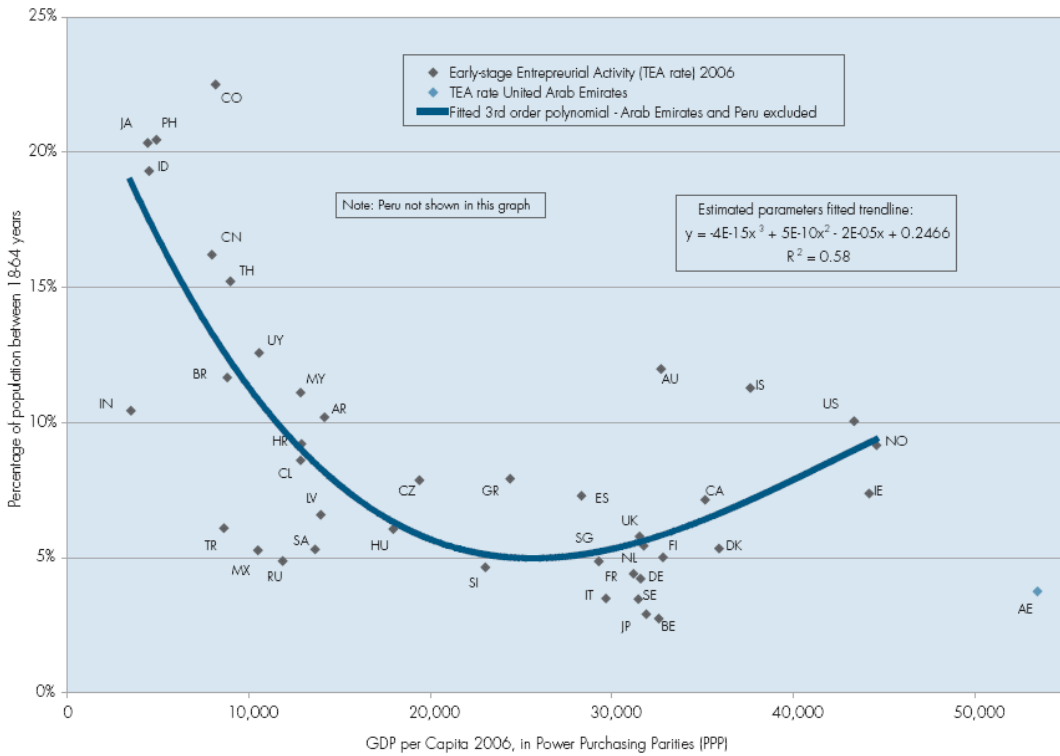
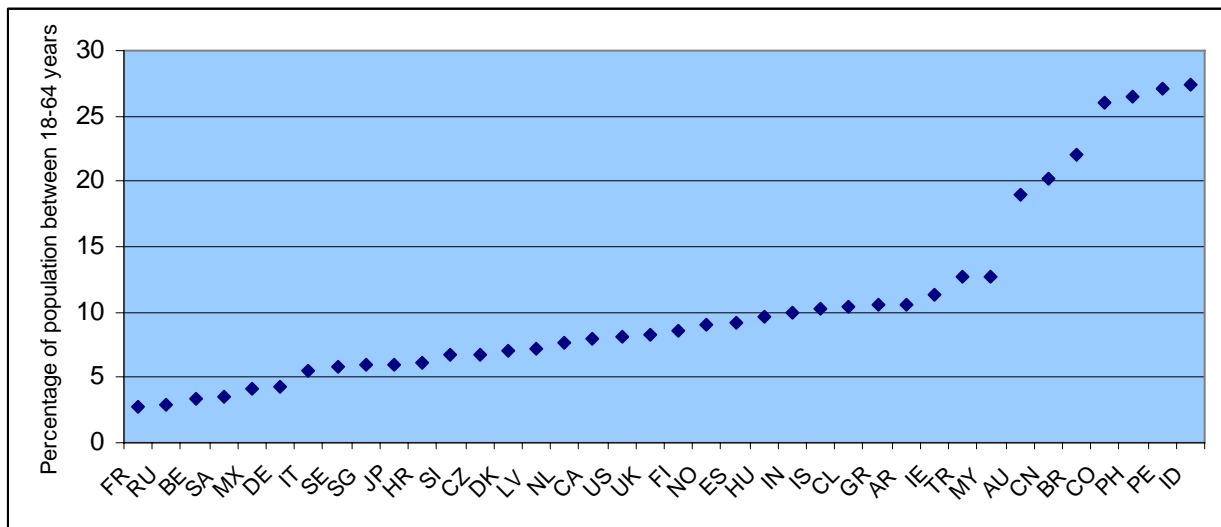


Figure 3.3. Levels of established entrepreneurship in GEM countries in 2006



The stability of the small and medium-sized enterprise sector depends particularly on the owners of new business ‘feeding’ into the category of established businesses. These are

formed by the ‘maturing’ of nascent entrepreneurs, whose number must in turn be sufficiently high to support the expanding reproduction of the entrepreneurial class.

² Data on per capita GDP are drawn from the IMF’s World Economic Outlook Database (October, 2006).

In Russia, however, the pace of development of early-stage entrepreneurial activity was found to be negative. Russia's TEA Index value in 2007 was 3.5 times below average, and the indicator fell by 45% over the year. That is the *largest drop found in any country*. Other sharp drops were seen in Peru (35%), Latvia (32%) and Greece (27%).

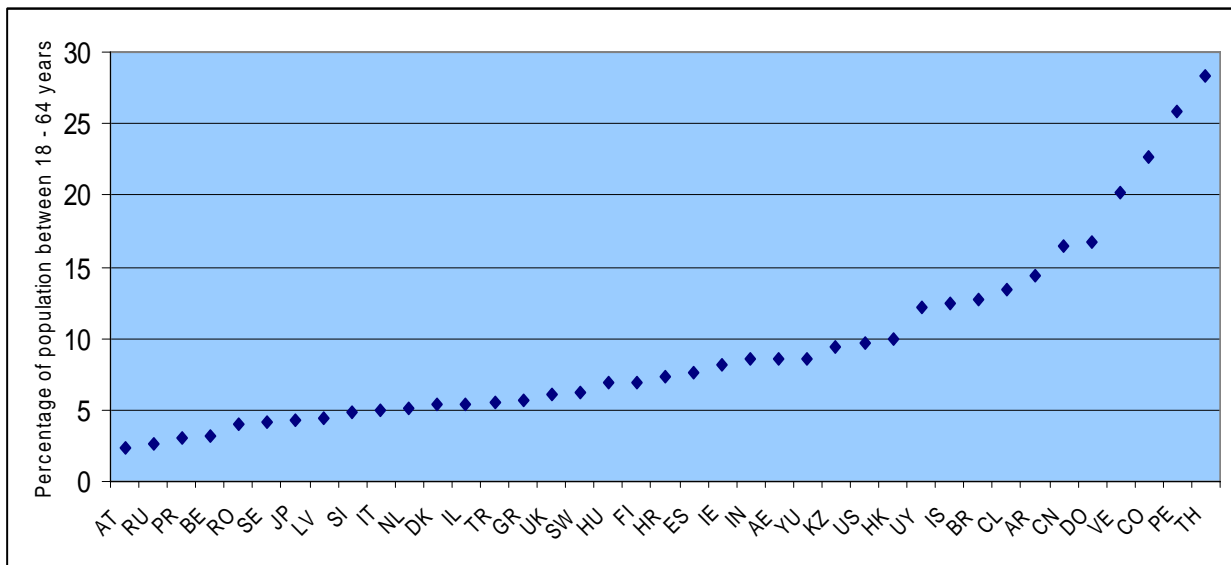
The largest increase in the indicator was seen in the UAE, which witnessed growth of almost 130%. A jump in early-stage entrepreneurial activity was also seen in Thailand (almost doubling), and Japan, Chile and Italy also saw notable growth (50%, 46% and 44%, respectively).

In the comparable group of countries, the TEA Index growth coefficients are

moderately varied, with a level of differentiation of relative variation in early-stage entrepreneurial activity, as measured by a decimal coefficient, of 2.2.

And yet the aggregate EB Index in the past year saw significant changes. The reference groups by growth coefficient for the EB Index are likewise highly heterogeneous (with variation coefficients of more than 120%), while the relative value of the gap between countries with high levels and low levels of established entrepreneurship increased by almost 2.5 times. A Spearman's-rank calculation of ranked correlation supports significant variation between key indicators in 2006 and 2007.

Figure 3.4. Levels of early-stage entrepreneurship in GEM countries in 2007



As a result, countries participating in the GEM demonstrated different trajectories on the indexes of the various stages of entrepreneurial development (see Figures 4 and 5).

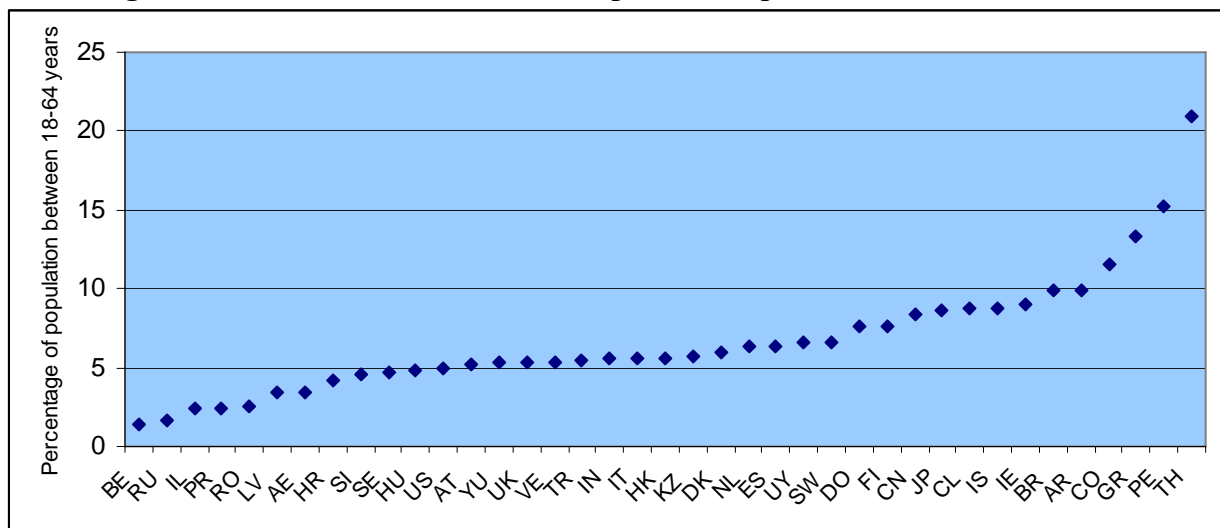
Thus, a moderate drop in the weighted average level of **early-stage entrepreneurial activity**, from 9.47% to 9.35%, was accompanied by growth of variation on the TEA Index (from 68% to 75%). Russia, as in 2006, remains in the priority group, but this has become the lower group, and Russia is almost in last place.

Russia is joined in the lower cluster primarily by countries with developed industrial economies, primarily countries of 'Old Europe' (including, for example, Austria, Belgium, Great Britain, Denmark and Sweden, but also Japan). The group also includes tree new EU member states (Romania, Latvia and Slovenia), as well as Puerto Rico.

On levels of **established business**, meanwhile, GEM participants became more homogeneous (an absolute drop in the average EB Index value of 25% was accompanied by a

drop in the variation coefficient for the EB Index on aggregate).

Figure 3.5. Levels of established entrepreneurship in GEM countries in 2007



Thus, the development of various categories of entrepreneurial potential is not synchronized, and the various entrepreneurial strata yielded clusters that were characterized

by varying levels of socio-economic development and types state policy vis-à-vis entrepreneurship.

The impact of macroeconomic indicators on levels of entrepreneurial activity in socio-economic and demographic strata

No support was found for the dependence of established entrepreneurship on per capita GDP as an aggregate indicator of socio-economic conditions.

It seems logical to suggest that what is important is *not* the *aggregate indicator* of early-stage entrepreneurial activity (including, beyond established businesses, nascent entrepreneurship), but rather the *structure*: the higher the proportion of voluntary entrepreneurship within already realized entrepreneurial potential (new and established entrepreneurship), the higher – *ceteris paribus* – the likelihood of falling into the cluster with high levels of economic development. The closeness of the relationship between entrepreneurial activity and levels of economic development is also found to be higher.

A finding of parabolic correlation between the EB Index and per capita GDP would explain the heterogeneous composition of the clusters. However, a finding of non-linear dependence of levels of established entrepreneurship on per capita GDP was not supported (with an R^2 of 0.114, the null hypothesis was not rejected to a significance level of 5%). It is possible that the issue is not only in the *level*, but also in the *pace of development* of entrepreneurial activity, given the dominance of voluntary entrepreneurship among the owners of established businesses. Clarification of this question could be made possible by data collection in further rounds of the study.

It is understood that early-stage entrepreneurial activity includes two categories of people: nascent entrepreneurs and the owners of new businesses. For each of

these categories, expected relationships were evaluated on the basis of non-parametric statistics, due to the impossibility as yet of formulating well grounded hypothesis about the form of potential causal relationships. Independent variables included per capita GDP growth rates in constant prices, consumer price indices, and GDP deflators. Dependent variables included indices of entrepreneurial activity on all indicators developed by the GEM methodology, tested consecutively.

The only statistically significant positive correlation found for all categories of early-stage entrepreneurs (nascent and new, voluntary and involuntary, male and female) was found with the GDP deflator. Moreover, the closeness of the relationship is somewhat higher for almost all entrepreneurial strata if the factor and result variables are lagged by one year. Thus, For early-stage entrepreneurs as a whole, the Spearman coefficient was 0.613 and 0.626, respectively, significant at 5%, while the result for early-stage non-voluntary entrepreneurs was 0.697 and 0.714, respectively, significant at 1%. Nascent entrepreneurs were an exception, with a closer relationship between entrepreneurial activity levels and the GDP deflator when measured in the same year: the activity of nascent entrepreneurs is most directly connected with macroeconomic conditions in their country,

while for those entrepreneurial groups who have already created their business, improvement or deterioration of macroeconomic conditions (i.e., increased prices on oil and other raw materials, or food, or currency rates) is an important but not determining factor in deciding whether to continue to develop an enterprise or to close it immediately.

Given this, it becomes understandable why the relationship with macroeconomic factors is statistically insignificant for established entrepreneurs and for the level of business exit. In general, *the only statistically significant relationship to intensive business exit is found with the activity levels of entrepreneurial strata.* For the category of established entrepreneurs, the only statistically significant relationship is with the entrepreneurial activity of various categories of early-stage entrepreneurs.

Interestingly, the consumer price index as an independent variable has a statistically significant relationship at a confidence level of 5% with only one of the 69 indicators of entrepreneurial activity: early-stage entrepreneurs using in their business new technologies (developed in the past one to five years). The relationship is negative, with a Spearman coefficient of -0.615.

Some of the data used in this analysis are presented in Table 3.3.

Variation in levels of entrepreneurial activity by type of activity

Quantitative measurements of entrepreneurial potential in Russian society made within the GEM framework can certainly be augmented by studying qualitative characteristics. In this context, the structure of entrepreneurial strata by economic activity is of foremost importance.

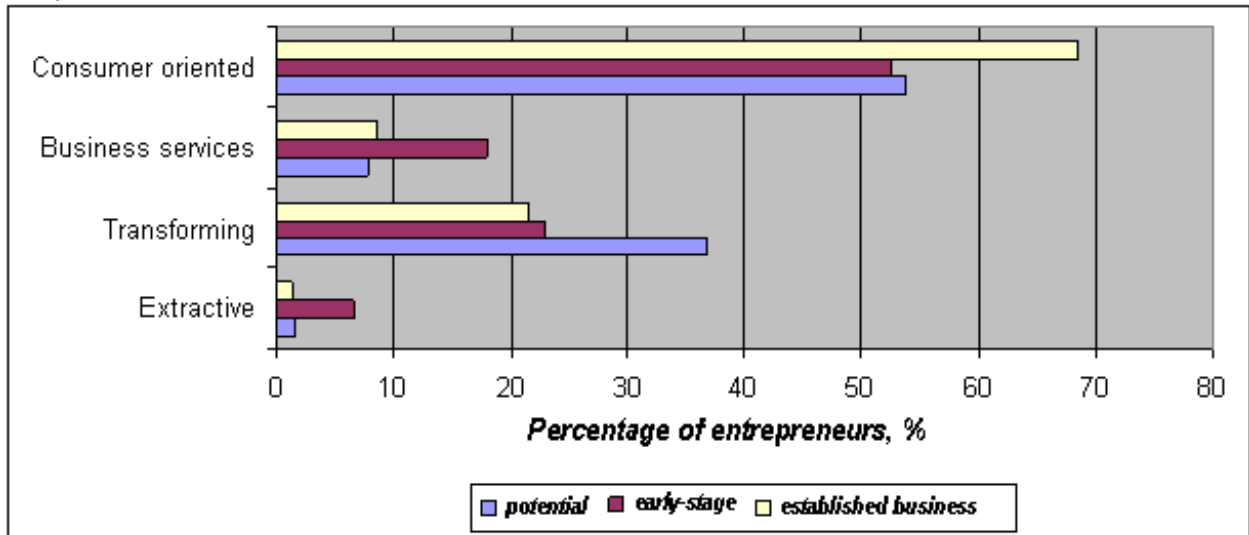
Below (in Section 5), we describe the results of a grouping of Russian entrepreneurs as sorted by the Russian classification of

economic activity (OKVED). Bringing the OKVED into harmony with the the international standard (ISIC) allows a comparison of the economic structure of Russian early-stage and established entrepreneurship with analogous indicators in other countries participating in the GEM, including those with high and low levels of development.

Table 3.3.
Indicators of the development of entrepreneurship in comparison with key macroeconomic indicators

Country	Early-stage entrepreneurship				Established entrepreneurship		GDP growth, as % of previous year		Deflator		CPI		Per capita GDP growth, as % of previous year	
	Nascent		New		2006	2007	2005	2006	2005	2006	2005	2006	2005	2006
	2006	2007	2006	2007										
Russia	3,46	1,33	1,71	1,34	1,19	1,68	6,4	6,7	100	116,093	10,9	9	6,92	7,22
Hungary	3,18	3,77	3	3,1	6,72	4,83	4,2	3,9	131,942	136,823	3,3	6,5	4,37	4,07
Latvia	4,03	2,18	2,65	2,28	5,69	3,41	10,6	11,9	128,655	142,931	7	6,8	11,21	12,47
Serbia		4,75		4,01		5,27	6,2	5,7	145,341	168,063	17,7	6,6	6,10	5,53
Croatia	6,38	5,31	2,49	1,96	4,12	4,22	4,3	4,8	141,506	146,307	3,6	2	4,22	4,79
Slovenia	2,91	3,02	1,79	1,76	4,44	4,59	4,1	5,7	121,381	123,796	2,3	2,8	3,88	5,35
Romania		2,9		1,32		2,51	4,1	7,7	197,51	217,99	8,6	4,9	4,43	8,08
China	6,67	6,89	10,52	10,01	8,98	8,39	10,4	11,1	232,781	240,295	1,4	2	9,75	10,55
India	5,42	6,03	5,31	2,59	5,6	5,53	9	9,7	124,191	130,506	5,3	6,7	7,36	8,02
Brazil	3,5	4,29	8,62	8,72	12,09	9,94	2,9	3,7	183,216	191,059	5,7	3,1	1,49	2,27
Chile	5,74	7,28	3,89	6,53	6,79	8,73	5,7	4	116,197	129,786	3,7	2,6	4,45	2,72
Colombia	10,92	8,02	12,55	15,53	10,41	11,56	4,7	6,8	325,225	342,01	4,9	4,5	3,10	5,16
Venezuela		14,45		7,06		5,39	10,3	10,3	650,425	760,564	14,4	17	8,16	8,16
UAE	1,71	4,38	2,2	4,42	1,39	3,42	8,2	9,4	136,593	153,315			-0,90	6,21

Figure 3.6. Structure of early-stage entrepreneurship by type of economic activity in Russia (ISIC)



As can be seen (see figures 3.4, 3.5a and 3.5b), the proportion in **early-stage entrepreneurship** of extractive industries (including agriculture) is comparable in all countries, including in Russia. The proportion of reprocessing (or transforming) industries in Russian early-stage entrepreneurship is significantly lower than in other countries. The priority placed on economic activities oriented towards consumer markets in Russian early-stage entrepreneurship is comparable to that found in countries with a medium level of economic development, a group that includes Russia.

Among established entrepreneurs in Russia, the proportion of businesses oriented

towards consumer markets (first and foremost retail trading) is almost 17% higher than in other middle-income countries.

The proportion of extractive industries in Russian established entrepreneurship is an order of magnitude lower than in other countries of the world, including middle-income countries and those with higher levels of economic development.

Processing industries account for one third of established entrepreneurs in middle-income countries and 28% of established entrepreneurs in highly developed countries, while accounting for only slightly more than 20% in Russia.

Figure 3.7a. Structure of early-stage entrepreneurship by type of economic activity in GEM countries (ISIC)

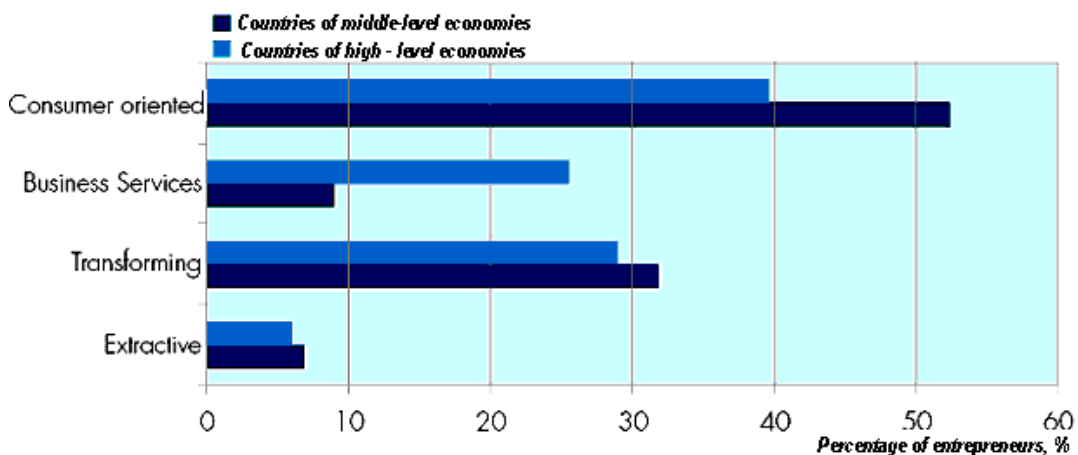
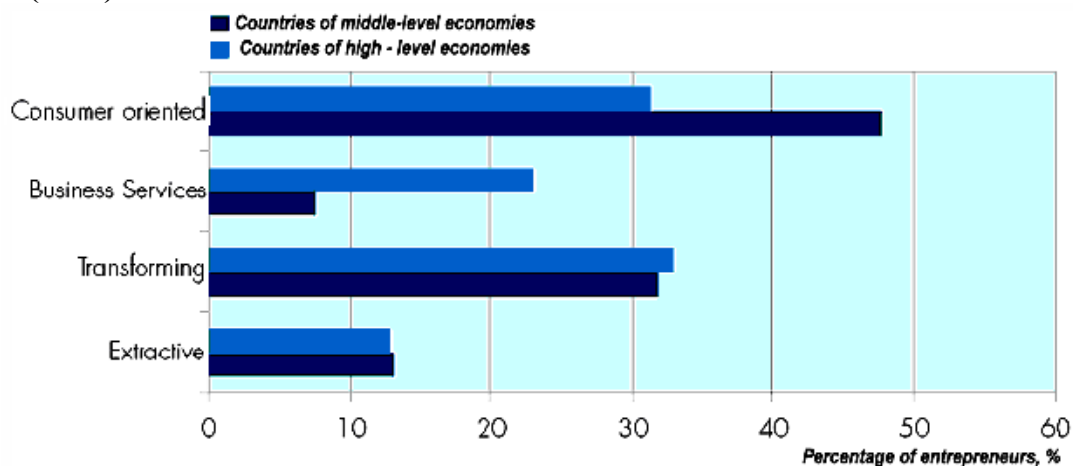


Figure 3.7b. Structure of established entrepreneurship by type of economic activity in GEM countries (ISIC)



In analyzing the qualitative characteristics of the economic structure of entrepreneurial potential, it is worth noting the factor of innovation (see Table 3.2). A comparison on parameters of innovation is drawn for countries grouped according to similarities in economic, socio-political and historic conditions:

- the countries of Central and Eastern Europe, including Latvia, given their shared historical development. These countries, including Russia, endured first an era of planned economics, followed by a complex and socially painful transition of their socioeconomic systems.
- Brazil, India and China, as members of the so-called BRIC group, which are traditionally taken together in contemporary comparative studies. Venezuela and the UAE are ‘oil’ countries, and so we feel it is instructive to compare levels of innovation in economies that are dependably backed up by energy resources.
- Finally, two Latin American countries, Chile and Colombia, were chosen as two polar examples, worth of attention in the context of Russia’s recently abandoned potential models of development, either along the lines of catch-up modernization (with clearly authoritarian government) with an emphasis on liberal market development (Chile), or the total ‘cocainization’ of social structures, with dominant economic and political roles played by criminal clans (Colombia).

In accordance with the methodology of the survey of the able-bodied adult population used in the GEM, innovation refers to economic activities by an entrepreneur that either creates a new product previously unknown to consumers, that enters a previously empty market niche on the national market, or that employs a technologically new process (for more detail, see Section 5).

Unfortunately, the project was unable to identify entrepreneurial activity in those specific economic spheres that are traditionally seen as innovative (for example, in information technology or applied scientific research, which do not demand significant start-up capital). Nonetheless, the level of self-identification of innovativeness was unexpectedly higher among early-stage entrepreneurs than among established entrepreneurs. This signals that the new generation of entrepreneurs is more oriented towards innovation than their predecessors.

It should be noted, however, that self-evaluation is not a particularly reliable source of information for drawing stable conclusions. The actual degree of innovation in products and technologies may be significantly distorted by the poor knowledge of the real ‘newness’ of technologies and the structure of the market, varying perceptions and interpretations of survey questions, the desire of respondents to ‘embellish reality’, and other factors.

To help visualize the comparison of entrepreneurial potential on qualitative characteristics by groups of countries, see Table 3.4.

Table 3.4. Innovation in early-stage and established entrepreneurship

Country	Levels of innovation in early-stage entrepreneurship				Levels of innovation in established entrepreneurship			
	By product		By technology		By product		By technology	
	2006	2007	2006	2007	2006	2007	2006	2007
Russia	9,68	17,96	18,8	22,78	6,85	21,18	13,47	4,34
Hungary	3,28	0,93	12,26	10	2,01	2,25	3,91	2,26
Latvia	8,81	10,4	17,62	29,23	16,98	1,63	12,83	11,92
Serbia		7,81		34,83		8,87		29,75
Croatia	13,44	10,47	51,62	51,42	17,38	2,74	36,87	26,75
Slovenia	17,01	16,64	37,42	31,37	10,76	10,07	17,03	17,06
Romania		6,49		23,13		3,99		6,68
China	9,25	13,82	60,61	31,31	10,28	11,98	44,02	11,28
India	32,98	5,58	39,42	39,1	15,55	8,76	33,64	40,16
Brazil	13,7	3,24	21,63	18,06	14,12	0,55	10,9	10,4
Chile	29,1	23,01	42,19	22,93	18,97	18,81	22,05	9,55
Colombia	23,26	21,38	44,98	51,5	21,86	13,7	20,3	21,95
Venezuela		14,73		18,13		14,06		10,71
UAE	28,95	48,87	43,09	61,82	37,39	33,72	37,49	77,98

Cluster arrangements of countries by levels of entrepreneurial activity

№	Country	Cluster	Distance
1	RU	1	10,709
2	HU	2	15,650
3	RO	2	7,234
4	BR	2	7,151
5	CL	1	8,462
6	CO	1	16,751
7	CN	1	5,818
8	IN	2	11,540
9	LV	2	4,903
10	YU	2	10,027
11	HR	2	7,935
12	SI	1	7,298
13	VE	1	11,107
14	AE	3	,000

Motivation of entrepreneurial activity

The motivational structure of Russian early-stage entrepreneurship does not in general differ greatly from that found in the countries of Central and Eastern Europe (CEE) and is significantly more favorable than in Brazil, for example, which is important from the point of view of qualitative evaluations of Russia's entrepreneurial potential (see Tables 3.1 and 3.2).

Of Russia's early-stage entrepreneurs, 54% can be characterized as voluntary entrepreneurs (including 60% of nascent entrepreneurs and a bit more than a third of new business owners): their economic activity is driven by the search for advantages that are provided by opening their own business.

Voluntary entrepreneurship is most often pursued by people younger than 44 years of age, with higher or professional education. For more than 40% of new business owners and 25% of nascent

entrepreneurs, going into business for themselves was necessitated either by lack of any or any suitable alternatives for employment.

Entrepreneurship is involuntary for almost 50% of early-stage entrepreneurs with secondary education and for 40% of those with professional education, as well as for 54% of respondents older than 45 years of age.

Thus, higher levels of education attainment are positively correlated with voluntary motives for entrepreneurship, while the role of involuntary motivation grows after a person reaches 45 years of age. Women are more likely to be forced into entrepreneurship. Among **new business owners**, a bit more than a third of men and women can be characterized as opportunistic entrepreneurs, driven by the search for new opportunities and towards the realization of their own values.

Brief conclusions

1. In 2006, Russia was practically in the center (at a distance of 0.07 from the center) of the cluster of the 18 most typical countries by TEA Index value with below-average levels of entrepreneurial activity, while Russia's TEA Index value was half of the average for all participants in the GEM.
2. Russia is joined in this group by countries that have experienced more successful market economic development (including CEE countries), as well as Norway, one of the leading countries in terms of economic development. This, at first glance, suggests that there is no direct relationship between levels of early-stage entrepreneurial activity and overall levels of economic development.
3. There is support for a statistically significant relationship between the level of entrepreneurial activity and levels of socio-economic development. At issue here is the quality of entrepreneurial activity, particularly the proportion of voluntary vs. involuntary entrepreneurship. Statistical analysis of the data on levels of early-stage entrepreneurial activity from the study, combined with data on per capita GDP, supports the finding of non-linear causality.
4. Cluster analysis of the level of established entrepreneurship (the EB Index) using the k-means method places Russia (based on

- 2006 results) in the cluster of countries with low EB Index values, rather than in the typical group.
5. The pace of development of entrepreneurial activity in Russia is negative. In 2007, Russia's TEA Index value is 3.5 times below average and 45% lower than the year before. This is the largest drop experienced by any country.
 6. Russia's neighbors in the lower cluster are predominantly countries with developed industrial economies, particularly countries of 'Old Europe' (for example, Austria, Belgium, Great Britain, Denmark and Sweden, as well as Japan). The group also includes three new EU member states (Romania, Latvia and Slovenia), as well as Puerto Rico.
 7. The only statistically significant relationship between all categories of early-stage entrepreneurs (nascent and new, voluntary and involuntary, male and female) and a macroeconomic indicator is found with the GDP deflator.
 8. The proportion of reprocessing industries among early-stage Russian entrepreneurs is significantly lower than in other countries. The priority placed on consumer-oriented activities among early-stage Russian entrepreneurs is comparable to that found in middle-income countries, a category that includes Russia.
 9. The self-evaluation of innovation was unexpectedly high among early-stage entrepreneurs. Moreover, new business owners were more likely to self-identify as innovative than established entrepreneurs, suggesting that the new generation of entrepreneurs is more oriented towards innovation than their predecessors.
 10. The motivational structure of early-stage entrepreneurship does not differ greatly from that found in the countries of CEE and is significantly more favorable than in Brazil, for example, which is important from the point of view of the qualitative evaluation of Russia's entrepreneurial potential.

4. Gender characteristics of Russian early-stage entrepreneurship

The gender makeup of early-stage entrepreneurship in Russia does not differ greatly from that usually found in countries with mature market economies and high levels of female employment. Thus, in 2007, the proportion of men to women in early-stage entrepreneurship was approximately 173 to 100. Given current levels of early-stage entrepreneurial activity, that means that, among the economically active population, every 15th man and only every 27th woman is an early-stage entrepreneur.

The gap between male and female entrepreneurship remained practically unchanged from 2006 to 2007; the proportion of men increased by 1.3%, to 64.3%.

It should be noted that, while the ratio of men to women among potential entrepreneurs is approximately 2:1, it grows to 2.5:1 among nascent entrepreneurs and to 4:1 among new business owners. This means that not only do women more rarely consider the possibility of becoming entrepreneurs, but they also much more rarely than men realize those opportunities and are less successful in pursuing entrepreneurship in the early stages (see Table 4.1).

Table 4.1.

Index of entrepreneurial activity by stages of entrepreneurship and gender (% of economically active population)³:

Index of entrepreneurial activity	Potential entrepreneurs		Nascent entrepreneurs		New business owners		Established business owners	
	2006	2007	2006	2007	2006	2007	2006	2007
Men	19,7	13,7	3,6	2,2	3,0	1,5	1,9	1,2
Women	12,4	6,5	1,6	0,6	0,7	0,7	0,8	1,7
Total	15,2	9,2	2,4	1,2	1,6	1	1,2	1,5

The past year saw changes to the key socio-demographic characteristics of the male and female strata among potential, early-stage and established entrepreneurs.

Age. The average age of female potential entrepreneurs was 37.1 years in

2006 and fell by 1.5 years in 2007, while the average age of male potential entrepreneurs remained practically unchanged at 33.5 years (see Table 4.2).

Table 4.2.

Distribution of potential entrepreneurs by gender and age cohorts in 2006 and 2007

Age	2006			2007		
	Men	Women	Total	Men	Women	Total
18-24	29,4	25,5	27,4	32	24,1	28,5
25-34	30,8	19,4	25	27	26,5	26,8
35-44	16,1	24,8	20,5	21	19	20,1
45 and older	23,7	30,3	27,1	20	30,4	24,6
Total	100	100	100	100	100	100

The picture for nascent entrepreneurs is somewhat different: the gender gap in the

average age of nascent entrepreneurs was lower than in the group of potential

³ These data differ somewhat from the calculations made by the GEM consortium and presented in the collective report from 2006 for all participating countries, due to a re-sorting of the sample that we performed.

entrepreneurs, coming in at 2.1 years in 2007 (see Table 4.3).

Table 4.3.**Distribution of nascent entrepreneurs by gender and age cohorts in 2006 and 2007**

Age	2006			2007		
	Men	Women	Total	Men	Women	Total
18-24	42,3	21,1	33,3	43,7	42,8	43,5
25-34	30,8	21,1	26,7	43,7	28,6	39,1
35-44	15,4	47,4	28,9	6,3	28,6	13,1
45 and older	11,5	10,4	11,1	6,3	-	4,3
Total	100	100	100	100	100	100

For new business owners, the age of just more than 60% of men varied in 2006 between 25 and 34, while the age for the same proportion of women was between 35 and 44. However, it is notable that not one woman from this group was in the oldest age

cohort, as opposed to 32% of men. In 2007, the owners of new businesses became significantly younger, while the gender gap in the average age grew by 1.5 years (or by a factor of 2.5).

Table 4.4.**Distribution of new business owners by gender and age cohort in 2006 and 2007**

Age	2006			2007		
	Men	Women	Total	Men	Women	Total
18-24	4,7	-	3,3	27,2	12,5	21,1
25-34	63,9	37,5	56,7	45,5	50	47,3
35-44	-	62,5	16,7	9,1	12,5	10,5
45 and older	31,4	-	23,3	18,2	25	21,1
Total	100	100	100	100	100	100

A significantly different age structure is seen among established business owners. The vast majority of men (85.7%) and women (two thirds) are invariably found in the group older than 35 years of age.

However, the proportion of women found in the age group under 35 years is higher than for men. The gender gap in the average age increased by more than three times in 2007, to 3.3 years.

Table 4.5.**Distribution of established business owners by gender and age cohort in 2006 and 2007**

Age	2006			2007		
	Men	Women	Total	Men	Women	Total
18-24	7,1	-	4,3	-	9,5	6,7
25-34	7,1	33,3	17,4	22,2	19,1	20
35-44	57,2	33,3	47,8	33,3	33,3	33,3
45 and older	28,6	33,3	30,5	44,5	38,1	40
Total	100	100	100	100	100	100

Thus, in all groups of entrepreneurs the proportion of women found in the older age cohorts is significantly higher than for men. This tendency can be explained by the higher levels of involuntary entrepreneurship motivations among women, who are, evidently, likely to start their own businesses only when the chances for finding suitable employment are minimal, i.e. in the older age categories.

Education.

The structure of entrepreneurial strata by educational attainment remained unchanged over the past year. In all groups of entrepreneurs, the majority of both men and women have either professional secondary or higher education. Nonetheless, the proportion of women with higher education among potential and early-stage entrepreneurs is higher than for men:

the gender gap ranges from 7% (among new business owners) to 22% (among nascent entrepreneurs). Only among the owners of established businesses is the proportion of men and women with higher education more or less equal. Moreover, in all four entrepreneurial categories the proportion of men with only secondary

education is significantly higher than for women: the difference ranges from a factor of 1.7 (among potential entrepreneurs) to a factor of 2.9 (among new business owners). In the category of nascent entrepreneurs, not one woman had only secondary education, as opposed to 23% of men (see Tables 4.6a, b, c and d).

Table 4.6.a
Distribution of potential entrepreneurs by gender and educational attainment in 2006 and 2007

Education	2006			2007		
	Men	Women	Total	Men	Women	Total
Primary or secondary	25,1	15,9	19,4	24	11,4	18,4
Professional	42	38,6	40,3	37	43	39,7
Higher	32,9	45,5	39,3	39	45,6	41,9
Total	100	100	100	100	100	100

Table 4.6.b
Distribution of nascent entrepreneurs by gender and educational attainment in 2006 and 2007

Education	2006			2007		
	Men	Women	Total	Men	Women	Total
Primary or secondary	23,1	-	13,3	25	14,2	21,7
Professional	30,8	31,6	31,1	50	42,9	47,8
Higher	46,1	68,4	55,6	25	42,9	30,5
Total	100	100	100	100	100	100

Table 4.6.c
Distribution of new business owners by gender and educational attainment in 2006 and 2007

Education	2006			2007		
	Men	Women	Total	Men	Women	Total
Primary or secondary	36,4	12,5	30	45,5	25	36,8
Professional	45,5	62,5	50	9	25	15,8
Higher	18,1	25	20	45,5	50	47,4
Total	100	100	100	100	100	100

Table 4.6.d
Distribution of established business owners by gender and educational attainment in 2006 and 2007

Education	2006			2007		
	Men	Women	Total	Men	Women	Total
Primary or secondary	21,4	11,1	17,4	11,1	14,2	13,3
Professional	21,4	33,3	26,1	11,1	42,9	33,3
Higher	57,2	55,6	56,5	77,8	42,9	53,4
Total	100	100	100	100	100	100

The educational structure of early-stage entrepreneurs in general reflects the

educational structure of Russian society as a whole.

Brief conclusions

1. The gap between male and female entrepreneurship remained practically unchanged from 2006 to 2007, with men making up approximately two thirds of entrepreneurs.
2. Not only are women less likely to consider the possibility of entrepreneurship, but they are much less likely to pursue entrepreneurship, and they are more likely to fail in the early stages.
3. Women, evidently, are likely to open their own business only when the chances of finding suitable employment are minimal, i.e. in the older age cohorts.

5. Women early-stage entrepreneurship in Russia

Age. Among early-stage entrepreneurs, the most active portion of women is in the age group from 35 to 44. In general, a high level of entrepreneurial activity is found among business owners from 25 to 44, while activity falls off

significantly among women older than 45 years of age.

It is important to mention that, among women who own new businesses, there are practically no representatives of the youngest and oldest age groups, while the owners of established businesses include women in the oldest age groups (see table 5.1).

Table 5.1.

Distribution of women by stage of entrepreneurship and age (% of economically active women) in 2006 and 2007

Age	Potential entrepreneurs		Nascent entrepreneurs		New business owners		Established business owners	
	2006	2007	2006	2007	2006	2007	2006	2007
18-24	17,4	13,9	1,9	2,7	-	1,1	-	0,5
25-34	12,5	11,2	1,8	2,1	1,3	2,1	1,3	1,4
35-44	13,7	9,8	3,4	0,8	1,9	0,5	1,1	2,7
45-54	8,4	7,3	0,4	-	-	0,9	0,8	2,1
55-64	10,6	3,7	0,5	0,3	-	-	0,5	0,8
Total	12,4	9,2	1,6	1,2	0,7	1	0,8	1,5

Education. The highest level of entrepreneurial activity among early-stage and potential entrepreneurs is found among the most highly educated women (most frequently with higher education).

The highest level of entrepreneurial activity among women is found in the category of potential entrepreneurs (see Table 5.2).

Table 5.2.

Distribution of women by stage of entrepreneurship and educational attainment (% of economically active women) in 2006 and 2007

Educational attainment	Potential entrepreneurs		Nascent entrepreneurs		New business owners		Established business owners	
	2006	2007	2006	2007	2006	2007	2006	2007
Incomplete secondary	8,7	-	-	-	-	-	-	-
Secondary	6,9	3,3	-	0,4	0,3	0,7	0,3	1,1
Professional	11,1	6,2	1,2	0,5	1	0,4	0,6	1,6
Higher	19,7	9,8	3,9	0,8	0,6	1,1	1,5	2,5
Total	12,4	6,5	1,6	0,6	0,7	0,7	0,8	1,7

It is noteworthy that a significant role in the decision to start one's own business is played by the current economic

status of potential female entrepreneurs. Almost two thirds already have their own enterprise, and one third are self-employed.

That suggests that entrepreneurship, for a variety of reasons, is almost completely

closed off for women who are salaried employees (see Table 5.3).

Table 5.3.

Distribution of women by stage of entrepreneurship and employment status (% of economically active women) in 2006 and 2007

<i>Employment status</i>	<i>Potential entrepreneurs</i>		<i>Nascent entrepreneurs</i>		<i>New business owners</i>		<i>Established business owners</i>	
	2006	2007	2006	2007	2006	2007	2006	2007
Unemployed	10,5	3,7	1,1	0,7	-	-	0,2	-
Employed full-time	14	7,9	1,1	0,5	0,2	0,2	0,6	0,9
Employed as a contractor	13	9,3	4,3	-	-	0,8	-	1,7
Employed on an oral contract	12,8	2,3	4,3	-	-	-	-	4,7
Employed in my own business	18,2	7,7	9,1	-	27,3	15,4	36,4	69,2
Employed as a sole proprietor	13,3	27,8	-	5,6	26,7	22,2	6,7	16,7
Total	12,4	6,5	1,6	0,6	0,7	0,7	0,8	1,7

A significant role in the development of female entrepreneurship is played by the type of locality in which women live. Evidently, large cities provide women with more stimuli to try to open their own business (potential entrepreneurship). On the one hand, in large cities there are better conditions for pursuing these aims, as well as more resources for overcoming the difficulties of the early stages of entrepreneurship. Finally, Moscow and St.

Petersburg lead in the proportion of women among established business owners, followed closely by medium-sized cities. Overall, the worst results for all stages of business initiation were found in villages and small towns. It should be noted that the levels of early-stage entrepreneurship among women fell in all types of localities, while increasing for owners of established businesses (see Table 5.4).

Table 5.4.

Distribution of women by stage of entrepreneurship and size of locality (% of economically active women) in 2007

<i>Size of locality</i>		<i>Potential entrepreneurs</i>	<i>Nascent entrepreneurs</i>	<i>New business owners</i>	<i>Established business owners</i>
Moscow & St. Petersburg	Number	15	3	1	8
	%	5,6%	1,1%	0,4%	3,0%
Large cities	Number	20	1	2	0
	%	9,9%	0,5%	1,0%	0,0%
Medium-sized cities	Number	14	1	3	6
	%	6,4%	0,5%	1,4%	2,8%
Small cities	Number	18	2	0	4
	%	6,8%	0,8%	0,0%	1,5%
Villages	Number	12	0	2	3
	%	4,7%	0,0%	0,8%	1,2%
Total	Number	79	7	8	21
	%	6,5%	0,6%	0,7%	1,7%

Brief conclusions

1. Women on average enter entrepreneurship at an older age and (perhaps for that reason) with higher levels of educational attainment than men among early-stage entrepreneurs.

2. Evidently, large cities provide women with more stimuli for seeking to open their own business, and thus they lead in the proportion of women among potential entrepreneurs (especially Moscow and St.

Petersburg) and particularly in the proportion of women among established entrepreneurs. The least favorable conditions for women seeking to run their own business are found in villages and small cities, which evidently stems from the underdeveloped infrastructure and resources available there.

6. The financial behaviour and resources of early-stage entrepreneurship in Russia

In various studies of the state and problems of entrepreneurship in Russia in the 1990s, the lack of sources of self-financing and the lack of access to external financial resources were generally seen as the primary barriers to the development and growth of business. This results of the project presented here show that the situation has changed dramatically. Evidently, individuals starting a business

can generally rely on the resources of entrepreneurial networks. In any case, more than half of respondents who in 2006 were planning to start or had already started their own business had sufficient capital to finance it. The proportion of such respondents among early-stage entrepreneurs was stable from 2006 to 2007 at around 60%.

6.1. Nascent entrepreneurs: makeup, sources and structure of financing, expected returns

Self-financing vs. borrowed capital. Some 60% of nascent entrepreneurs in 2006 (but 39.1% in 2007) reported the amount of money they needed to start their business. Moreover, in 2006, 16.4% declared that they would need no money at all (there were no such responses in 2007). We should note that one third of respondents in 2006 and one fifth in 2007 refused to answer. Some 29.1% of nascent entrepreneurs in 2006 (21.7% in 2007) declared how much they intended to invest of their own money. However, 49.1% of respondents in 2006 (and 78.3% in 2007) refused to answer the question about the amount of their own resources they intended to invest in the new business.

Table 6.1.

Amount of start-up capital and personal funds needed for investment by nascent entrepreneurs, in rubles

Average amount in rubles	Amount of start-up capital needed				Investment of personal funds			
	2006	2007	Rate of growth	Absolute value of 1% growth	2006	2007	Rate of growth	Absolute value of 1% growth
Men	637 739	515 625	-19,15%	6377,39	145 000	38 636	-73,35%	1450
Women	2 109 177	900 000	-57,33%	21091,77	347 625	75 000	-78,43%	3476,25
Total	683 015	632 609	-7,40%	6830,15	234 235	48 333	-79,37%	2342,35
Typical amount in rubles	Amount of start-up capital needed				Investment of personal funds			
	2006	2007	Rate of growth	Absolute value of 1% growth	2006	2007	Rate of growth	Absolute value of 1% growth
Men	53 543	51 031	-4,69%	535,43	27 862	25 714	-7,71%	278,62
Women	58 476	50 562	-13,53%	584,76	31 268	25 000	-20,05%	312,68
Total	54 458	50 883	-6,56%	544,58	28 752	25 532	-11,20%	287,52
Median values in rubles	Amount of start-up capital needed				Investment of personal funds			
	2006	2007	Rate of growth	Absolute value of 1% growth	2006	2007	Rate of growth	Absolute value of 1% growth
Men	95 958	72 727	-24,21%	959,58	45 200	30 556	-32,40%	452
Women	807 143	70 000	-91,33%	8071,43	183 333	33 333	-81,82%	1833,33
Total	212 500	71 875	-66,18%	2125	100 000	31 250	-68,75%	1000

Table 6.1 shows the relationship between the expected investment of personal funds and the amount of start-up capital needed in the category of nascent entrepreneurs on aggregate. The declared amount of start-up capital needed in 2007 was significantly less than in 2006, at 72,000 rubles, compared to 212,000 rubles. The change is particularly dramatic among female early-stage entrepreneurs, for whom the value fell from 800,000 rubles to 79,000 rubles.

Meanwhile, the striking gap in the proportion of personal funds that male and female nascent entrepreneurs were prepared to invest in 2006 almost disappeared by 2007, converging at 40-45% of the total start-up cost of the business.

As concerns the variation of personal investments, the study found significant

variation in the dispersion of the indicator in 2006 and 2007.

The amount of money needed to begin entrepreneurial activity varies significantly, first and foremost in relation to the type of activity involved: thus, the amount of start-up capital needed to start a retail business (the most common type of activity in the sample) was generally no more than 100,000 rubles in 2007 (see Table 6.2). However, using Student's criteria, we can determine that on aggregate the average investment by nascent entrepreneurs did not change significantly from 2006 to 2007. And an analysis using Bartlett's criteria shows that the distribution of the size of start-up capitalization likewise did not change significantly over the two-year period.

Table 6.2

Distribution of nascent entrepreneurs by expected size of start-up capital and type of activity

	3,000-100,000 rubles		100,000-1,000,000 rubles		More than 1,000,000 rubles		No money needed	
	2006	2007	2006	2007	2006	2007	2006	2007
Transportation	0,00%	66,67%	50,00%	33,33%	0,00%	0,00%	50,00%	0,00%
Construction	42,86%	33,33%	42,86%	0,00%	0,00%	66,67%	14,29%	0,00%
Retail	50,00%	86,67%	10,00%	6,67%	20,00%	6,67%	20,00%	0,00%
Various services*	25,00%	87,50%	37,50%	0,00%	12,50%	0,00%	25,00%	12,50%
Other	21,43%	20,00%	50,00%	40,00%	7,14%	40,00%	21,43%	0,00%

The proportion of respondents who planned to take loans to start their business remained surprisingly stable, at 68.9% in 2006 and 68.2% in 2007.

Sources of business financing among nascent entrepreneurs. Table 6.3 shows significant growth from 2006 of the proportion of unemployed respondents who planned to seek loans in starting their own business. Meanwhile, the number of self-employed respondents planning to take out loans fell to zero, while there was some growth in the proportion of salaried employees preparing to seek loans.

Table 6.4 shows that the majority of nascent entrepreneurs who are employed full

time and thus have a stable income do seek loans, unlike those who have no income or only an unstable income. Statistical analysis confirms the hypothesis that a consistent source of income positively affects readiness to seek external financing. The relationship is moderate, with a correlation coefficient of 35% in 2006, falling to 30% in 2007.

As concerns the proportion of personal vs. external funds, there is a negative correlation: given a low amount of internal financing (up to 25,000 rubles), a significant proportion of nascent entrepreneurs (37%) intend to seek external funds.

Table 6.3

Proportion of nascent entrepreneurs planning to seek external loans, by type of activity

<i>Type of activity</i>	<i>Loan financing</i>	
	<i>2006</i>	<i>2007</i>
Unemployed	9%	17,39%
Employed full time	16,30%	39,13%
Employed as a contractor or on an oral contract	14,50%	8,70%
Employed by my own enterprise or as a sole proprietor	9%	0,00%
All nascent entrepreneurs	100,00%	100,00%

Structure of expected sources of borrowing. The data in Table 6.5 illustrate, first of all, growing expectations vis-à-vis borrowing from institutional sources,

including commercial banks and state programs, by nascent entrepreneurs in the period from 2006 to 2007. Secondly, this trend is strongest among male nascent

entrepreneurs, up to one third of whom expect to receive funds from formal sources of financing. That said, it should be noted that analysis using Student's criteria shows a consistent proportion of nascent entrepreneurs intending to apply to formal sources of financing over the two years in the study.

There is some relationship between the structure of the sources of loan financing (formal vs. informal sources) and the amount of the loan required, but the statistical relationship is fairly weak, with coefficients of correlation not exceeding 15%, although the correlation coefficient grew somewhat from 2006 to 16.4% in 2007. However, analysis using the Bartlett criteria shows that there is significant variation in the size of the of the credit required by nascent entrepreneurs from 2006 to 2007.

Table 6.4

Distribution of nascent entrepreneurs expecting to seek loan capital to finance their business, depending on income

	<i>Nascent entrepreneurs planning to seek loan capital</i>		<i>Growth rate</i>	<i>Absolute value of 1% growth</i>
	2006	2007		
No income	5	4	-20%	0,02
Consistent income	17	9	-47,06%	0,17
Inconsistent income	5	2	-60%	0,02
Other	1	0	0%	0,01
Total	28	15	-46,43%	0,28

Table 6.5

Structure of sources of financing among nascent entrepreneurs

<i>Sources of external financing</i>	<i>% of all nascent entrepreneurs</i>					
	<i>Men</i>		<i>Women</i>		<i>All nascent entrepreneurs</i>	
	2006	2007	2006	2007	2006	2007
Relatives	9,10%	18,23%	10,90%	11,39%	20,00 %	29,62%
Friends and acquaintances	9,10%	13,04%	9,10%	8,70%	18,20%	26,09%
Banks	12,70%	19,17%	16,40%	8,70%	29,10%	27,87%
State programs	7,20%	12,04%	1,80%	4,35%	9,00%	16,39%
Total	100%	100%	100%	100%	100%	100%

6.2. The population and entrepreneurs as informal investors

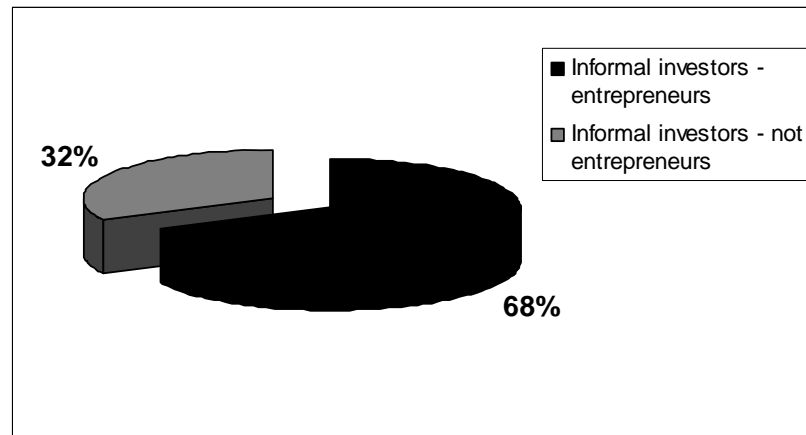
The proportion of informal investors among entrepreneurs (17 and 19 people in 2006 and 2007, respectively) was, for understandable reasons, somewhat higher than among respondents who were not entrepreneurs (8 and 9 people in 2006 and 2007, respectively).

At the same time, the proportion of entrepreneurs among people investing their

own funds in others' businesses is significantly less than the proportion of non-entrepreneurs who do the same, as seen in Figure 6.1; this stems from the relatively small number of entrepreneurs in the total population.

Figure 6.1

Structure of informal investors by type of economic activity, 2006 and 2007



Volume of informal financing.

According to data from the study, just more than 1% of respondents in 2006 among the adult, able-bodied population were informal investors, growing to 1.4% in 2007 (25 and 28 people, respectively). The average volume of their investments in early-stage entrepreneurship in 2006 was around 80,000 rubles, doubling in 2007 to 160,937 rubles.

Meanwhile, 50% of informal lenders invested not less than 35,000 rubles into other people's businesses in 2006, while that figure grew to 89,000 rubles in 2007.

According to official data from Rosstat, at the time the survey was conducted (early May 2006), the size of the able-bodied adult population of Russia was 79.3 million (growing to 90.2 million in early 2007); if we assume that the survey data are valid, then no fewer than 740,000 people in 2006 and 1.21 million in 2007 acted as informal investors in early-stage entrepreneurship.

If we work from the above-mentioned data on the average volume of entrepreneurship financing out of personal funds, then the total informal investment may have been 59.2 billion rubles in 2006 and 193.6 billion rubles in 2007. We should note that the Russian Federal Budget allocated 2.5 billion rubles to support small entrepreneurship in 2006, and a further 3.5 billion rubles in 2007.

That comparison demonstrates the tremendous gap between various sources of financing, and thus the role played by informal capital in Russian entrepreneurship.

Social networks and informal investment. Table 6.6 illustrates the distribution of resources borrowed from informal investors. Almost a half of informal funds came in 2006 and 2007 from relatives. A third up to 40% of investment came from friends etc., while less than 10% ends up going from strangers' businesses (business angels).

Table 6.6

Where are initial financing comes from (by categories of informal investors)

	2006	2007
Relatives	48%	46%
Friends, colleagues, acquaintances	32%	43%
Strangers	8%	7%
Other	12%	4%
Total	100%	100%

* The category of 'other' includes respondents who had difficulty answering the question or who did not answer it at all.

Expected returns. Expectations of returns on the part of informal investors depend moderately on the recipients of financing: relatives, friends or strangers. The correlation varies between 20% and 30% in 2006-2007. However, assumptions that relatives receive only 'love money', i.e. gift capital, are highly exaggerated: in 2006, 40% of informal investors expected to profit from their relatives' business, a number which grew to half in 2007; 20% of informal investors expected to profit from their friends' business.

On the other hand, 24% of informal investors in 2006 and 42.9% in 2007 did not expect to receive anything at all, or expected only to return their principal. Some 12% of the informal investors in 2006 and 14.3% in 2007 who invested in their relatives' business expected a return on investment of between 1.5 and 2 times the principal.

Figure 6.2 reflects the expectations of return on investment by informal investors, by category of borrower.

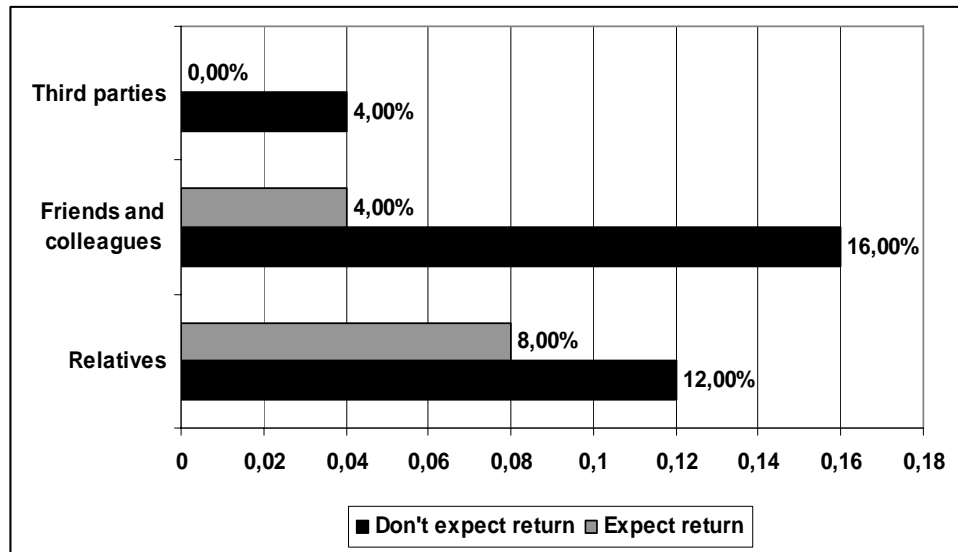
Analysis shows that the amount of expected profit from investment in someone else's business is not the most important

criteria used by informal investors in deciding whether or not to invest in a new business project.

Sources of funds for informal financing. Among informal investors, a significant proportion cited various social payments (pensions, stipends, unemployment and other benefits) as the primary source of capital. Meanwhile, the average size of loans from this category of informal investors is statistically indistinguishable from the size of financing from respondents who receive factor income (salary or gross combined income); see Table 6.8. Correlation indicators are minimal, not exceeding 1%, and the closeness of the relationship between the source of income for informal investors and the amount of investment is seen to be extremely weak (with coefficients not exceeding 10%).

This suggests, evidently, that the primary source of income plays practically no role in determining the potential size of informal investment in nascent businesses. Further, it is clear that these investors are not professionals, but people providing 'love money' to relatives and close acquaintances.

Figure 6.2
Expected return on personal funds by informal investors by category of borrower, as
% of total informal investments
2006



2007

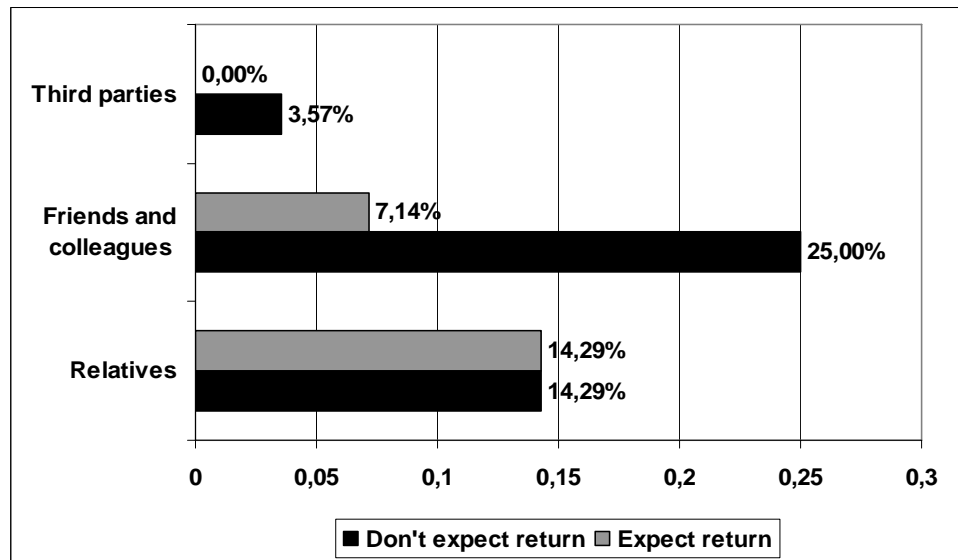


Table 6.8.

General lending characteristics by informal investors to nascent entrepreneurship, by type of income, thousand rubles

Loan amount, thousand rubles	Source and size of loan							
	Salary and gross combined income		Growth rate	Absolute value of 1% growth	Social payments		Growth rate	Absolute value of 1% growth
	2006	2007			2006	2007		
Average	88,8	51,5	-42,00%	0,888	75,8	66,7	-12,01%	0,758
Mean	28,1	25,9	-7,83%	0,281	26	25,9	-0,38%	0,26
Median	40	43,8	9,50%	0,4	30,8	32,1	4,22%	0,308
Decimal coefficient of differentiation	29	18,9	-34,83%	0,29	6,9	24,9	260,87%	0,069

The data presented in Table 6.9 confirm that the lion's share of informal lending is 'love money': more than 79% of informal investors in 2006 and around 90% in 2007 are personally acquainted with their borrowers, and only 8% and 3%, respectively, invested in strangers' projects.

Accordingly, in order to be competitive micro-crediting for new businesses must meet demands not so much for the speed of receiving money and the non-necessity of collateral (those are more important for established businesses), but rather must be inexpensive – a task that will hardly be possible in the foreseeable future.

The structure of lending from factor income is shown in Figure 6.3: the largest portion of loans is between 2,000 and 50,000 rubles, and the proportion of loans falling into this category grew from two thirds in 2006 to three quarters in 2007. However, 14% of loans are consistently no less than 150,000 rubles and in some cases reach 500,000 rubles. Some 65% of loans in 2006 did not exceed the 50,000 threshold, rising to around 75% in 2007.

That is the size category in which micro-crediting programs will have to 'compete' with 'love money'.

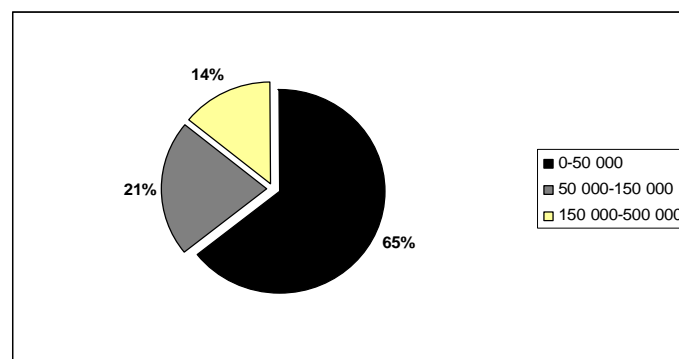
Table 6.9

Distribution of informal investors by relationship to borrowers

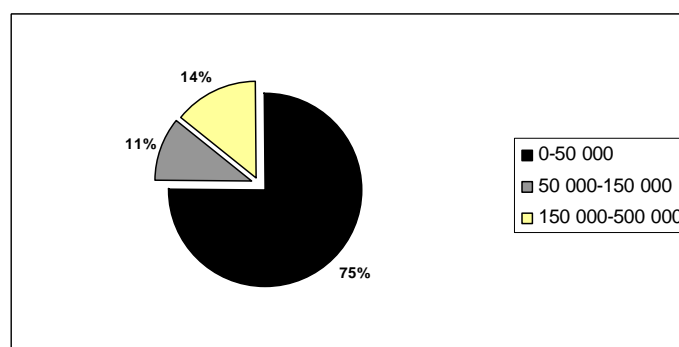
<i>Type of informal investor</i>	<i>Portion of informal investors, %</i>	
	<i>2006</i>	<i>2007</i>
Relatives	33,33	46,43
Colleagues	4,17	3,57
Friends	41,67	39,29
Strangers	8,33	3,57
Other	12,5	7,14
Total	100	100

Figure 6.3

Structure of lending by informal investors using factor come to early-stage entrepreneurs, by size of loan
2006



2007



Brief conclusions

1. A significant portion of early-stage entrepreneurial activity is financed from internal sources. At the same time, nascent entrepreneurs actively seek external sources of financing as well: external channels were used by 51% of nascent entrepreneurs in 2006 and 65.2% in 2007.

2. External sources of finance are dominated by informal lenders.

3. Loans from informal sources are most often not large, ranging from 2,000 to 50,000 rubles, which is comparable to the size of micro-loans.

4. Among informal investors, the role of 'business angels' is less significant than that of non-entrepreneurs. Nascent entrepreneurs are frequently financed by the recipients of social benefits, first and foremost pensioners.

5. Informal lending is frequently in the form of 'love money', in other words a significant portion of such investors does not expect to receive any return on their investment at all, or expects to receive an economically insignificant return. As a result, the size of the expected return on investment does not have a statistically significant impact on readiness to invest personal funds in nascent entrepreneurship.

7. Factors of failure in early-stage entrepreneurship

Entrepreneurship involves many risks. That said, exposure to various risks may be different, depending on the personality of individual entrepreneurs, the nature of their business, and the external conditions for entrepreneurial activity. In certain circumstances, risks may lead to the failure of a small business, including during the early stages of the development of a new enterprise.

This process is reflected in the trends of small-scale entrepreneurship, as failure decreases the net growth of the number of new entrepreneurial firms and individual entrepreneurs.

The number of entrepreneurs in the sample who closed their businesses over the previous year was 21 in 2006, or just over 1% of the total sample; in 2007, the number was 19, or 0.98% of the total.

Trends in the development of private entrepreneurship and the realization of the entrepreneurial potential of the population can be expressed through the *coefficient of expansion of early-stage entrepreneurship*:

$$\text{Nascent} : \text{Discent},$$

where **Nascent** is the portion of individuals who made active efforts over the previous 12 months to open their own business, and **Discent** is the portion of individuals who closed, exited or otherwise ended their business.

According to the 2006 data, the expansion coefficient was approximately 3.5 (3.5:1). That means that, on average, three and a half nascent entrepreneurs appeared during the year for every failed entrepreneur. In 2007, the coefficient fell more than by half, to 1.35 (1.33:0.98), thus there was a *negative trend in the development of entrepreneurial potential, such that exit is barely covered by the appearance of new businesses*.

The results of analysis of the answers of respondents who reported closing or suspending their business in the previous 12 months are presented below: socio-demographic and psychological characteristics as factors in business exit, as well as indirect characteristics of the business environment based on the subjective evaluations of entrepreneurs.

7.1 Reasons for exit by failed entrepreneurs and economic activity after failure

Table 7.1 presents the distribution of respondents by reasons for business exit.

As a whole, the most common reasons named by unsuccessful entrepreneurs in 2006 were personal factors, accounting for 31.8% of failures. In 2007, there were two leading answers: more than a quarter of unsuccessful respondents pointed to the lack of profitability of their business

(which can be interpreted as the result of either mistakes in planning the business or high competition). Another one fifth of unsuccessful entrepreneurs identified problems with financing as the reason for closing the business, while personal reasons fell into third place in 2007 (with just more than 15%).

Table 7.1

Distribution of failed entrepreneurs by reasons for closing the business, %

2006	Reasons for closing the business	%
	Too much competition	22,7
	Not enough customers	9,1
	Problems attracting financing	22,7
	Other employment or business opportunities arose	9,1
	Retirement	4,6
	Personal reasons	31,8

Total		100
2007	Reasons for closing the business	%
	The business was not profitable	26,3
	Problems attracting financing	21,1
	Other employment or business opportunities arose	10,5
	The business was planned to be closed	5,3
	Personal reasons	15,8
	Unforeseen circumstances	15,8
	Could not answer	5,3
	Total	100

Analysis of the economic activity of respondents after closing the business because of a lack of success allows us to gauge whether the respondent sees his or her failure as temporary, or whether it stimulated him or her to exit entrepreneurship altogether and enter a different kind of economic activity.

The majority of unsuccessful entrepreneurs in 2006 and 2007 were employed, either on a full-time basis, on a temporary contract or on the basis of an oral agreement. These made up almost half of the unsuccessful entrepreneurs in 2006 and more than 70% of them in 2007. However, whereas in 2006 almost as many of them – around 40% – were involved in entrepreneurship at their own enterprises or

as sole proprietors, the situation changed in 2007. Only a bit more than 15% of them remained in business in one form or another. A relatively small proportion remained unemployed, 14.3% in 2006 and 10.5% in 2007 (see Table 7.2).

Evidently, the lower number of unsuccessful entrepreneurs who remained in business can be interpreted as the result of a rational choice in circumstances in which, on the one hand, there is an increasing number of jobs available in major industry and the non-market sector, and, on the other hand, the entrepreneurs negatively evaluate the opportunities for conducting entrepreneurial activity in the near term.

Table 7.2

Distribution of entrepreneurs who closed, suspended or abandoned their business within the preceding 12 months, by economic status, in %

2006	<i>Economic status after closing the business</i>	%
	Unemployed	14,3
	Full-time employment	42,9
	Temporary contract employment	4,8
	Employment on the basis of an oral agreement	0
	Work at own enterprise, with hired employees	19
	Sole proprietorship	19
	Military service	0
	Total	100

2007	<i>Economic status after closing the business</i>	%	Pace of growth	Absolute value of 1% growth
	Unemployed	10,5	-33,3	0,03
	Full-time employment	47,4	0,0	0,09
	Temporary contract employment	15,8	200,0	0,01
	Employment on the basis of an oral agreement	10,5	-	0
	Work at own enterprise, with hired employees	5,3	-75,0	0,04
	Sole proprietorship	10,5	-50,0	0,04
	Military service	0	-	-
	Total	100	-9,5	0,21

Brief conclusions

1. The expansion coefficient of early-stage entrepreneurship declined by more than half, from 3.5 in 2006 to 1.35 in 2007. This means that exiting entrepreneurs are replaced by those opening new businesses, but the expansion coefficient is extremely low. In other words, the small entrepreneurship sector essentially failed to grow through the addition of newcomers in 2007.
2. Rational explanations such as low profitability and problems attracting finance were found relatively more commonly among the reasons given for business failure in 2007.
3. After closing their business, more than two thirds of unsuccessful entrepreneurs had entered regular employment (in various forms), compared to only about half in 2006. Meanwhile, only about 15% of failed entrepreneurs sought to get back into business, compared to almost 40% a year earlier. Important factors here was the growth of employment in major industry and the non-commercial sector, as well as their own negative evaluation of the opportunities for conducting entrepreneurial activities in the foreseeable future.

8. Socio-economic preconditions for early-stage entrepreneurial activity

The survey of the population, and most importantly of entrepreneurs as a component of the population, conducted through direct interviewing, allowed us to collect information elucidating just a few aspects of state policy in support of entrepreneurship. In a number of cases, these aspects are indirect in nature, acting as a peculiar nominal indicator of the entrepreneurial climate and all support measures in aggregate. In other cases, we can give a quantitative assessment of the effectiveness of specific policies. Below,

we will present the results of this analysis, highlighting general characteristics of the conditions for entrepreneurship and the results of state policy in relation to entrepreneurship, as well as indicators that describe the results of various vectors of support based on 2006 APS data. Only informational responses were used in the calculations, while answers such as 'difficult to say' or refusals to answer were not included in the calculations.

General conditions for the development of entrepreneurial activity in 2006

The most important factor for the transition to entrepreneurship is the presence of personal ties to other entrepreneurs (see Table 8.1). All respondents within the group of entrepreneurs are united by personal acquaintance, while those who do not have and do not seek a business form personal contacts beyond the realm of the entrepreneurial community (about 70% are not personally acquainted with entrepreneurs). Differences between the answers of respondents in all entrepreneurial categories when compared to non-entrepreneurs is significant only to a level below 1%.

Within the entrepreneurial community, the orientation towards personal connections with those who relatively recently started their own business is most common among nascent entrepreneurs and is somewhat weaker among the owners of established businesses (the difference between the answers given by respondents in the above-mentioned groups is significant to a level of less than 3%). As the business 'matures', the owner's personal contacts also migrate into the segment of established entrepreneurship.

Table 8.1 Personal connections with entrepreneurs

<i>Are you personally acquainted with a person who has started a new business within the last two years?</i>	<i>Nascent entrepreneurs, %</i>	<i>New business owners, %</i>	<i>Established business owners, %</i>	<i>No business or desire to own a business, %</i>
Yes, I am acquainted	100	95	76	31
No, I have no such acquaintance	0	5	24	69

Unregistered entrepreneurship is not only a headache for the tax authorities, but is also a quite effective ‘preparation class’ for the transition from non-entrepreneurship to legitimate entrepreneurship (see Table 8.2). A significantly larger number of

entrepreneurs reported such experience (approximately 30%) than non-entrepreneurs (around 5%), and the difference is statistically significant (see Table 8.2).

Table 8.2. Unregistered entrepreneurship

<i>Were you previously involved in entrepreneurship, but without official registration?</i>	<i>Nascent entrepreneurs, %*</i>	<i>New business owners, %</i>	<i>Established business owners, %**</i>	<i>Do not own or seek to own a business, %</i>
Yes, I did	9	27	33	3
No, I did not	77	64	67	94
Difficulty answering	0	4	0	2
Refusal to answer	14	5	0	1
*) <i>The difference in answers compared to the group of established business owners is statistically significant at a level of less than 1%, compared to a level of less than 5% among non-entrepreneurs.</i>				
**) <i>The difference in answers compared to the group of non-entrepreneurs is significant at a level of less than 3%.</i>				
<i>Did you in the past ever engage in activity that could be called entrepreneurial, but without official registration?</i>	<i>Nascent entrepreneurs, % *</i>	<i>New business owners, %**</i>	<i>Established business owners, %***</i>	<i>Do not own or seek to own a business, %</i>
Yes, I did	27	27	33	8
No, I did not	55	59	67	87
Difficulty answering	0	9	0	3
Refusal to answer	18	5	0	2
*) <i>The difference in answers compared to the group of established business owners is significant at a level of less than 3%; the same is true for non-entrepreneurs.</i>				
**) <i>The difference in comparison to the group of established business owners is significant at a level of less than 10%.</i>				
***) <i>The difference in comparison to non-entrepreneurs is significant at a level of less than 5%.</i>				

What prevents non-entrepreneurs from opening their own business? Judging by the results of the study, they are blocked not by primary individual personality such as fear of risk of the lack of skills, but rather by secondary, acquired qualities, such as knowledge, qualifications and experience (see Table 8.3). Approximately 80% of each group of entrepreneurs believe that they have sufficient resources to begin a business, while only 17% of non-

entrepreneurs feel the same way (differences in the answers given by various groups of entrepreneurs and non-entrepreneurs are statistically significant at a level of 1%). In our view, for nascent entrepreneurs it is precisely unregistered entrepreneurial activity that, to a significant extent, gave them the knowledge and experience they needed to make the transition to legitimate entrepreneurship.

Table 8.3. Business management skills

	<i>Nascent entrepreneurs, %</i>	<i>New business owners, %</i>	<i>Established business owners, %</i>	<i>Do not own or seek to own a business, %</i>
<i>Do you agree with the statement that fear and/or a lack of skills could become an impediment to managing a business?</i>				
Yes, I agree	23	27	15	45
No, I don't agree	77	64	78	32

Difficult to say	0	9	7	21
Refusal to answer	0	0	0	3
<i>Do you agree with the statement that you have the knowledge and skills necessary to run your own business?</i>				
Yes, I agree	81	83	78	17
No, I don't agree	19	17	22	83

In what other ways do the views of entrepreneurs and non-entrepreneurs differ, impeding the transition from the latter group to the former? According to data from the survey, there is no significant (statistically meaningful) difference on issues of living standard, status and career prospects in entrepreneurial activity (see Table 8.4). However, entrepreneurs and non-entrepreneurs differ seriously in their evaluation of the conditions for starting a business. To the greatest extent, this concerns nascent entrepreneurs and new business owners, 70-70% of whom felt the conditions to be favorable, as opposed to non-entrepreneurs, only 27% of whom had a positive outlook. Differences in evaluations among the above-mentioned groups are significant at a level of less

than 1%. Owners of established businesses are more skeptical, with only 47% believing that conditions allow for starting a new business (the difference in evaluations among groups of new business owners and non-entrepreneurs is significant to a level of less than 10%.

The active 'pro-entrepreneurial' position taken by nascent entrepreneurs is reflected in an increased interest in best business practices. Some 78% of them agreed that the media often inform them about successful new businesses (see Table 8.4). The difference in evaluations compared to the owners of established businesses is significant at a level of less than 10%, or at a level of less than 1% for non-entrepreneurs.

Table 8.4. Social-psychological and economic conditions for the beginning of entrepreneurial activity

	<i>Nascent entrepreneurs, %</i>	<i>New business owners, %</i>	<i>Established business owners, %</i>	<i>Do not own or intend to own a business, %</i>
<i>Would you agree that the majority of people in Russia would prefer for everyone to have the same standard of living?</i>				
Yes, I agree	46	36	41	39
No, I do not agree	45	41	30	38
Difficulty answering	9	23	29	22
Refusal to answer	0	0	0	1
<i>Do you agree that the majority of people in Russia see the opening of a new business as a desirable career move?</i>				
Yes, I agree	61	67	50	67
No, I do not agree	39	33	50	33
<i>Do you agree that people in Russia who have started a new business enjoy a high level of social status?</i>				
Yes, I agree	70	55	63	70
No, I do not agree	30	45	37	30
<i>Do you agree that it is possible in Russia to find information frequently in the media about successful new businesses?</i>				
Yes, I agree	78	50	44	45
No, I do not agree	22	50	56	55
<i>Do you agree that there will be favorable conditions for starting a business in your home town within the next six months?</i>				
Yes, I agree	70	76	47	27
No, I do not agree	30	24	53	73

The above-mentioned barriers to the transition from the non-entrepreneurial sector to entrepreneurship are quite stable, slowing down the development of entrepreneurship not only in the short term, but also in the mid-term, out to three years. Thus, only 3% of those who today do not own or seek to own a business intend to start one within the next three years (see Table 8.5). Given that the average lifespan of a small business is five years, entrepreneurship primarily reproduces itself and is only insignificantly fed by 'young blood' from entirely new participants. One out of every five owners of new and established

business intends to start a new business within the next three years (the difference from non-entrepreneurs is significant to a level of less than 3% and 1% in 2006 and 2007, respectively). Nascent entrepreneurs are even more 'productive': four fifth of them intend to repeat the attempt to create a business within the next three years.(the difference with all groups of respondents is significant to a level of less than 1%). In our view, this is primarily explained by uncertainty in the positive outcome of the initial attempt to create one's own business and to make the transition to the group of new business owners.

Table 8.5 Potential entrepreneurship

<i>Organizing a new business in the next three years</i>	<i>Nascent entrepreneurs, %</i>	<i>New business owners, %</i>	<i>Established business owners, %</i>	<i>Do not own or seek to own a business, %</i>
Do intend	84	20	20	3
Do not intend	16	80	80	97

Thus, the non-entrepreneurial sector of the Russian population does not socio-psychologically reject entrepreneurship, but is 'reliably protected' from it by the lack of

effective state policies in such key areas as distributing knowledge about entrepreneurship to education and training.

The socio-psychological climate for the development of entrepreneurship

The data from 2006 and 2007 show that the current social status of entrepreneurs is fairly high. In 2006, the majority of respondents indicated that successful businessmen enjoy respect, and starting a new business is considered a good career move (see Table 8.6). In 2007 there was a moderate decline in the social status

of entrepreneurs. Thus, on average for all stages of business development from nascent to established, approximately 60% of respondents believed that entrepreneurial activity holds a high status, but 40% believed the status of their activity to be insufficient.

**Table 8.6
The socio-psychological climate for the development of entrepreneurship**

Do you agree with the statement?	Group of respondents, % 2006					Total sample, %
	Nascent entrepreneurs	New business owners	Owners of established businesses	Failed entrepreneurs	Do not own or intend to own a business	

In Russia, most people see opening a business as a desirable career move	Yes	63	70	65	80	72	73
	No	36	30	35	20	28	29
In Russia, those who have successfully organized a business enjoy a high social status	Yes	67	77	79	72	68	70
	No	33	23	21	28	32	30
In Russia it is frequently possible to learn from the media about successful new businesses	Yes	39**	35***	50	68	54	54
	No	61	65	50	32	46	46
<i>(**) groups of respondents for whom the difference from those 'who do not own or seek to own a business' is significant to a level up to 5%, (***) significant at a level up to 10%.</i>							
Do you agree with the statement?		Group of respondents, % 2007				Total sample, %	
		Nascent entrepreneurs***	New business owners	Established business owners	Potential entrepreneurs		
In Russia, most people see opening a business as a desirable career move	Yes	61	67	50	69	66	
	No	39	33	50	31	34	
In Russia, those who have successfully organized a business enjoy a high social status	Yes	70	55	63	70	69	
	No	30	45	37	30	31	
In Russia it is frequently possible to learn from the media about successful new businesses	Yes	78	50	44	62	46	
	No	22	50	56	38	54	
<i>(***) groups of respondents for whom the difference from the group of 'established business owners' is significant at a level up to 10%</i>							

Primary motivations for entrepreneurial activity

The entrepreneurial class is heterogeneous in terms of motivations for starting a business. There are clearly defined groups of entrepreneurs who decided to go into business voluntarily, seeking to develop themselves, and forced entrepreneurs, who could not find other work. This dichotomy should be taken into account for two reasons. First, voluntary and involuntary entrepreneurship have different development potentials (higher in

the former case) and, as a result, have different impacts on the economy. The higher the portion of voluntary entrepreneurs vs. involuntary entrepreneurs, the higher the mid-term prospects for economic growth driven by entrepreneurial activity. Secondly, the structure of demand for support by voluntary and involuntary entrepreneurs is different, and the presence or absence of various components of that demand has varying impacts on the ability of representatives of the two groups to do business.

Table 8.7

Reasons motivating the entry into business

Why did you go into business? 2006	
Nascent entrepreneurs, total, %	
To gain advantages from running my own business	26
There were no other options for employment	24
Both to gain advantages, and because there were no other options	15
There is work, but I'm looking for better opportunities	32
Other	4
New business owners, total, %	
To gain advantages from running my own business	23
There were no other options for employment	50
Both to gain advantages, and because there were no other options	13
There is work, but I'm looking for better opportunities	10
Other	3
Established business owners, total, %	
To gain advantages from running my own business	39
There were no other options for employment	26
Both to gain advantages, and because there were no other options	13
There is work, but I'm looking for better opportunities	17
Other	4
Why did you go into business? 2007	
Nascent entrepreneurs, total, %	
To gain advantages from running my own business	36
There were no other options for employment	27
Both to gain advantages, and because there were no other options	9
There is work, but I'm looking for better opportunities	23
Other	5
New business owners, total, %	
To gain advantages from running my own business	40
There were no other options for employment	15
Both to gain advantages, and because there were no other options	20
There is work, but I'm looking for better opportunities	20
Other	5
Established business owners, total, %	
To gain advantages from running my own business	33
There were no other options for employment	33
Both to gain advantages, and because there were no other options	17
There is work, but I'm looking for better opportunities	13
Other	4

The 2006 data yield a relatively high proportion of involuntary entrepreneurs, i.e., those for whom there was no other opportunity for employment: 50% for new business owners and 26% for established entrepreneurs.

The 2007 results showed a lower level of involuntary entrepreneurship in the

'new business', falling to 15%. In the 'established business' group, the proportion of forced entrepreneurs grew in 2007 to 33%, which is unsurprising given the transfer into this group of a portion of the 'forced entrepreneurs' from among the new business owners of the 2006 survey (see Table 8.7).

The proportion of involuntary entrepreneurship indirectly describes both the labor market and the system of social welfare as insufficiently flexible and effective.

On the other hand, the varying proportions of involuntary entrepreneurs among the various groups studied suggests that the external environment for entrepreneurship has somewhat improved. In any case, in 2006 the proportion of involuntary entrepreneurs among those who had begun organizing a business was only half that of those who owned a new business. Although the proportion of involuntary entrepreneurs among nascent entrepreneurs in comparison to new business owners was 27% vs. 15%, that does not change the qualitative conclusion: the structure of the Russian entrepreneurial classes is improving, and voluntary entrepreneurship dominates involuntary entrepreneurship (see Table 8.7).

Conclusions and recommendations for supporting the entrepreneurial potential of the Russian population

The results of this study are ambivalent, showing both positive and negative trends in the development of entrepreneurial potential in Russian society.

1. The socio-psychological climate is favorable for the development of entrepreneurship. Today's non-entrepreneurial classes are just as loyal to business as the entrepreneurs themselves.

2. Entry into entrepreneurial networks is an important condition both for the decision to enter business and for success in the ensuing early stages of entrepreneurship. The entrepreneurial community to a significant degree takes upon itself the basic functions of institutional and infrastructural support for its members. The knowledge, qualifications and experience needed to start a new business are concentrated within the entrepreneurial community, which is a fairly closed formation. This, on the one hand, bears witness to the underdevelopment of the institutions and infrastructure to support entrepreneurship, as well as to the limited possibilities for expanding and realizing the entrepreneurial potential of Russian society.

3. On the one hand, the macroeconomic conditions for entrepreneurial startups are gradually improving. To this end we note:

- the growing number of people planning to attract funds from banks and other financial organizations as startup capital. The changing demand structure is driven by the increased interest of banks in smaller borrowers, as well as by state efforts to stimulate lending to small businesses;
- The lower level of involuntary entrepreneurs among the potential and nascent entrepreneurs, compared to new business owners.

On the other hand, the falling expansion coefficient and the moderate growth of the number of respondents who see the conditions for entrepreneurial startups in the next six months as negative suggest that the conditions for 'entry' into entrepreneurship are evidently becoming more difficult. This is due in part to growing competition for market share.

4. It is understood that new jobs are created in the small and medium-sized enterprise sector primarily by nascent firms. That is why it is of crucial importance that the expansion coefficient grow. In 2006-2007, however, it fell by more than half, such that the number of nascent businesses exceeds the number of failed businesses only by one third.