

# *Entrepreneurship and the business cycle in Latvia*

Marija Krumina

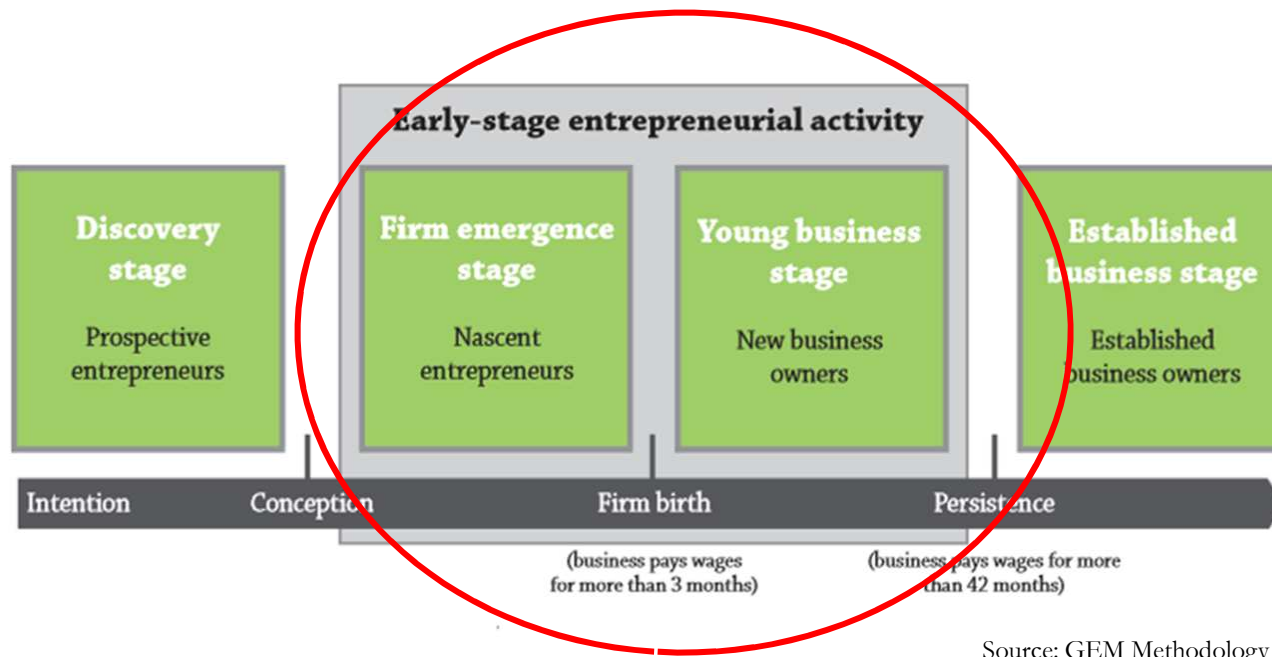
University of Latvia

Baltic International Centre for Economic Policy Studies (BICEPS)

## Structure

- Dynamics of Early-stage entrepreneurial activity, 2005-2013
- Methodology
- Results
  
- Theoretical framework
- Contribution

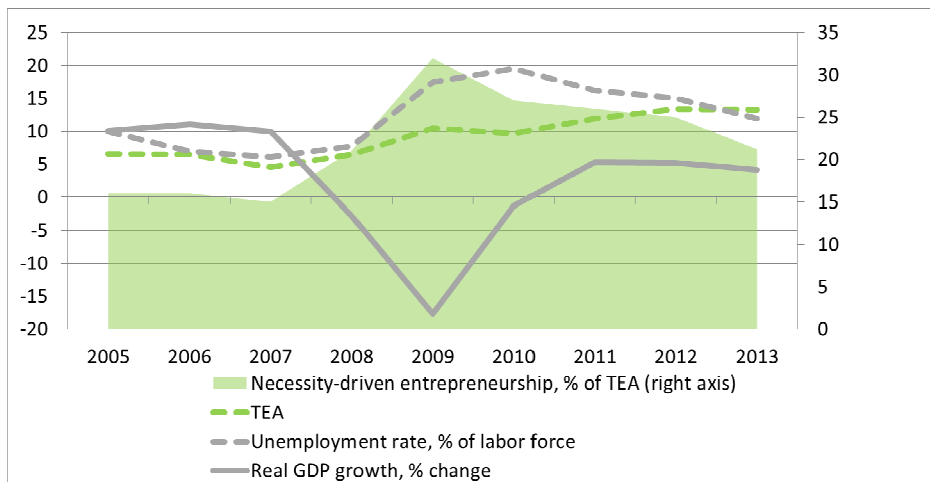
# Stages of entrepreneurial process in GEM



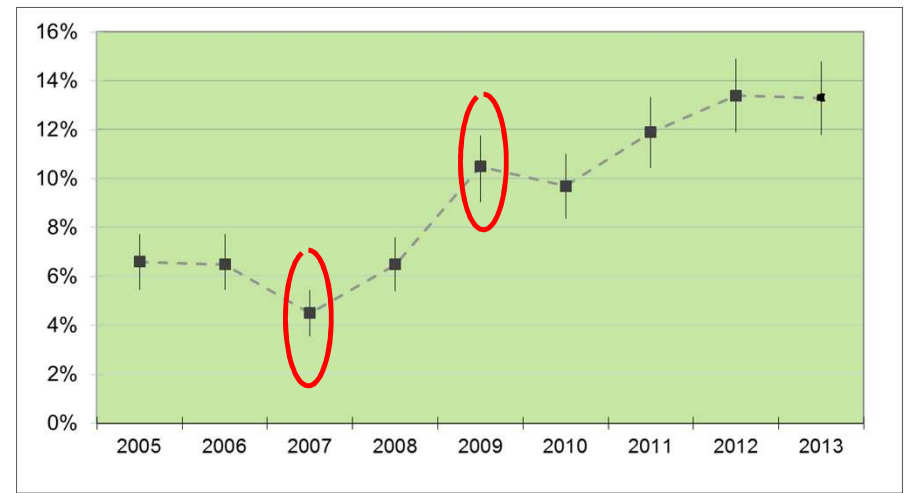
**Nascent entrepreneurs + New firm owners = Early-stage entrepreneurs (TEA)**

# Recent trends: Latvia, 2005-2013

Dynamics of the early-stage entrepreneurial activity in Latvia, 2005-2013.



Source: GEM APS 2005-2013 survey data, Eurostat



95% confidence interval  
 % of adult population in Latvia aged 18-64  
 Source: GEM APS 2005-2013 survey data

- What are the relationship between individual, socioeconomic and perceptual variables; and decision to get involved in early-stage entrepreneurial activity?
- Whether the relationship is different for individuals involved in early-stage entrepreneurship by necessity and individuals driven by opportunity motives?

# Methodology

- Pooled GEM APS data 2005-2012
- Logistic regression models (reference group non-entrepreneurs)
- Separate regressions for necessity driven entrepreneurs and opportunity driven entrepreneurs
- Year dummies
- Controls for gender, income, age, the level of education, social networks, perceived skills, opportunity recognition and fear of failure

# Determinants of early-stage entrepreneurial activity, Latvia, 2005-2012

Average marginal effects of logistic regressions

The issue of simultaneous causality:

It might not necessarily be the case that knowing other entrepreneurs has increased one's chances to get involved into entrepreneurship, it might be that launching an enterprise helped to get to know other entrepreneurs

|   | TEA<br>dy/dx     | necessity-driven<br>dy/dx | opportunity-driven<br>dy/dx | TEA<br>dy/dx     | necessity-driven<br>dy/dx | opportunity-driven<br>dy/dx |
|---|------------------|---------------------------|-----------------------------|------------------|---------------------------|-----------------------------|
| <b>Female</b>                                   | <b>-0.052***</b> | <b>-0.011***</b>          | <b>-0.041***</b>            | <b>-0.056***</b> | <b>-0.011***</b>          | <b>-0.044***</b>            |
| <b>Age:</b>                                     |                  |                           |                             |                  |                           |                             |
| 18-24   |                  |                           |                             |                  |                           |                             |
| 25-34   | 0.012            | 0.008                     | 0.002                       | 0.012            | 0.008                     | 0.001                       |
| 35-44   | <b>-0.029***</b> | 0.001                     | <b>-0.031***</b>            | <b>-0.033***</b> | 0.001                     | <b>-0.035***</b>            |
| 45-54   | <b>-0.049***</b> | -0.002                    | <b>-0.047***</b>            | <b>-0.055***</b> | -0.002                    | <b>-0.052***</b>            |
| 55-64   | <b>-0.077***</b> | <b>-0.012***</b>          | <b>-0.065***</b>            | <b>-0.086***</b> | <b>-0.013***</b>          | <b>-0.073***</b>            |
| <b>Education:</b>                               |                  |                           |                             |                  |                           |                             |
| <i>Basic</i>                                    |                  |                           |                             |                  |                           |                             |
| Secondary, vocational secondary or professional | <b>0.03***</b>   | 0.003                     | <b>0.026***</b>             | <b>0.031***</b>  | 0.002                     | <b>0.028***</b>             |
| Higher  | <b>0.058***</b>  | 0.006                     | <b>0.051***</b>             | <b>0.064***</b>  | 0.005                     | <b>0.056***</b>             |
| <b>Income:</b>                                  |                  |                           |                             |                  |                           |                             |
| <i>Lower 33%</i>                                |                  |                           |                             |                  |                           |                             |
| Middle 33%                                      | <b>0.018***</b>  | -0.0001                   | <b>0.018***</b>             | <b>0.022***</b>  | -0.000                    | <b>0.023***</b>             |
| Upper 33%                                       | <b>0.053***</b>  | 0.004                     | <b>0.033***</b>             | <b>0.058***</b>  | 0.004                     | <b>0.053***</b>             |
| <b>Social networks</b>                          |                  |                           |                             | <b>0.054*</b>    | 0.001                     | <b>0.005***</b>             |
| <b>Business opportunity recognition</b>         |                  |                           |                             | 0.001            | 0.0005                    | -0.000                      |
| <b>Entrepreneurial skills</b>                   |                  |                           |                             | <b>0.01**</b>    | <b>0.003**</b>            | <b>0.006***</b>             |
| <b>Fear of failure</b>                          |                  |                           |                             | <b>-0.01**</b>   | <b>-0.002*</b>            | <b>-0.012***</b>            |
| <b>Year dummies:</b>                            |                  |                           |                             |                  |                           |                             |
| 2005  |                  |                           |                             |                  |                           |                             |
| 2006  | 0.011            | 0.001                     | 0.003                       | -0.011           | -0.0024                   | -0.016                      |
| 2007  | <b>-0.017*</b>   | -0.003                    | -0.017                      | <b>-0.039***</b> | -0.0008                   | <b>-0.037***</b>            |
| 2008  | 0.007            | 0.004                     | -0.002                      | 0.018            | 0.0071                    | 0.003                       |
| 2009  | <b>0.045***</b>  | <b>0.022***</b>           | 0.019                       | <b>0.059***</b>  | <b>0.032***</b>           | <b>0.022*</b>               |
| 2010  | <b>0.041***</b>  | <b>0.0168***</b>          | 0.018                       | 0.019            | <b>0.015**</b>            | -0.0002                     |
| 2011  | <b>0.064***</b>  | <b>0.021***</b>           | <b>0.038***</b>             | <b>0.045***</b>  | <b>0.019***</b>           | 0.019                       |
| 2012  | <b>0.051***</b>  | <b>0.025***</b>           | <b>0.031*</b>               | <b>0.0352**</b>  | <b>0.0213***</b>          | <b>0.0332*</b>              |

Number of observations: 15249

\*significant at 10% level, \*\* at 5% level, \*\*\* at 1% level

## Results

- **Females** have lower chances to start a business venture compared to males (holds true both for **necessity and opportunity** –driven entrepreneurship)
- More **educated** individuals compared to those with basic education have higher chances to get involved in **opportunity-driven** entrepreneurship
- Probability to get involved in **opportunity entrepreneurship** for adults older than 35 is lower compared to the ones in the **age** group 18-24.
- Individuals in the age group 55-64 compared to 18-24 years old have also lower chances to get involved in entrepreneurship driven by **necessity** motives
- Higher household **income** increases chances to get involved in entrepreneurship motivated by **opportunity**
- **Household income and level of education** have no statistically significant impact on involvement in entrepreneurship by **necessity**
- **Social networks** and self-evaluation of entrepreneurial **skills** in general are positively correlated with decision to involve in entrepreneurship by **opportunity**, and **fear of failure** – negatively.



Thank you

Questions, comments, suggestions