



GEM



# Global Entrepreneurship Monitor

*2013-2014 Latvia Report*

**Marija Krūmiņa**  
**Anders Paalzow**

Sponsored by TeliaSonera  
The TeliaSonera Institute at the Stockholm School of Economics in Riga



# **Global Entrepreneurship Monitor**

2013-2014 Latvia Report

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**Anders Paalzow**

Founding and Cooperating Institutions:

TeliaSonera Institute at the Stockholm School of Economics in Riga  
Baltic International Centre for Economic Policy Studies (BICEPS)  
SKDS

*While this work is based on data collected by the GEM consortium, responsibility for analysis and interpretation of those data is the sole responsibility of the authors.*

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## FOREWORD

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The Global Entrepreneurship Monitor (GEM) 2013-2014 Latvia Report marks the ninth year of Latvia's participation in the GEM research project. GEM is a major international research project aimed at describing and analysing the entrepreneurial process across a wide range of countries. It is our belief that the Latvian GEM will not only contribute to an understanding of the factors influencing entrepreneurship in Latvia but that it will also contribute to an informed debate on Latvian entrepreneurship and the opportunities and challenges it is facing.

This year's Report sees a few changes with the aim of facilitating reading. The description of the GEM project, its methodology and definitions are all put in an Annex. Furthermore, the findings from GEM research are presented in a different and hopefully more informative way in comparison to recent years' reports. In each of the sections, the discussion starts with a report of the European GEM findings, covering both EU and non-EU GEM countries. This is followed by a discussion of Latvian performance, using Estonia and Lithuania as comparators.

As usual, the Report also briefly presents results from research within the field undertaken at SSE Riga and the TeliaSonera Institute at SSE Riga. This year's research update features discussions on the Latvian microenterprise tax and reasons for business failure.

Latvian participation in the GEM project would not have been possible without the generous support of TeliaSonera through the TeliaSonera Institute at the Stockholm School of Economics in Riga.

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## EXECUTIVE SUMMARY

The current GEM Latvia 2013-2014 Report provides detailed information on entrepreneurial attitudes and perceptions, entrepreneurial activity and entrepreneurial aspirations prevailing among adults in Latvia. The Report provides an international comparison of Latvia's entrepreneurial performance with other European countries participating in the Global Entrepreneurship Monitor project, particularly emphasising similarities and differences between the three Baltic states.

The Report describes a picture of the Latvian entrepreneur. A brief discussion on whether there should be more entrepreneurs in Latvia appears at the end of the Report.

We believe that the analysis included in this Report will be informative for the business and academic community as well as for policymakers.

In 2013, the average early-stage Latvian entrepreneur was a 34 year old male, living in Riga, ethnically Latvian with vocational secondary education and his business was in consumer services.

Generally, Latvians in 2013 saw more business opportunities compared to the previous year (2013 – 35%; 2012 – 33%) and became more self-confident about their entrepreneurial capacity, whereas at the same time they also became more afraid of failure. Some 48% of Latvians perceived that they possess the required capabilities. However, of the 35% of Latvians who perceive that entrepreneurial opportunities exist, around 40% of those think that they do not possess the skills needed, clearly suggesting an untapped potential were they given the opportunity to develop their capabilities.

Some 61% of Latvians think that entrepreneurship is a good career choice, while the same

percentage of Latvians agrees that successful entrepreneurs enjoy high status and 59% think that in Latvia the media provide a positive picture of entrepreneurship in terms of reporting on successful entrepreneurs. The percentage of Latvians not already entrepreneurially active but expecting to start a business within three years is 23%, about the same as in 2012 (22%): the third highest result for GEM European countries and the highest result among the three Baltic states.

Compared to her Baltic neighbours Latvia is doing better than Lithuania and not as well as Estonia in terms of opportunity recognition. As for perceived capabilities Latvia is doing better compared to both Estonia and Lithuania. As to fear of failure, no significant differences appear between the three Baltic states. In Latvia and Lithuania more people self-assess their skills as appropriate than those who see business opportunities. The opposite applies to Estonians. Given a time perspective, fewer Estonians and Lithuanians (but more Latvians) assess their skills as being appropriate for entrepreneurship compared to the previous year. More people in the Baltics among those who see business opportunities admitted that they are deterred by fear of failure, but at the same time more adults in the Baltics are planning to get involved in new venture creation within the next three years.

The same as a year ago, Lithuanians are the most favourable in terms of seeing entrepreneurship as a good career choice with Latvians ranking second and Estonians third. In terms of status of the successful entrepreneur, no significant differences appear between Latvia and Estonia, with Lithuania standing out with a smaller result. The media, the same as a year ago, do a better job in terms of reporting on positive entrepreneurs in Latvia than in Estonia and Lithuania.

Latvia ranks 1<sup>st</sup> with a total of 13.3% of its population aged 18–64 involved in early stage entrepreneurial activity, Estonia (13.1%) ranks 2<sup>nd</sup> and Lithuania (12.4%) 3<sup>rd</sup> out of 28 European countries participating in the GEM project. No significant changes have occurred in terms of the nascent and new-business ownership rate in Latvia and Estonia, whereas in Lithuania both rates increased compared to the previous year, allowing Lithuania to catch up with two other Baltic states.

A decrease in the shares of necessity-driven early stage entrepreneurs and an increase in improvement-driven opportunity entrepreneurship were observed in all three Baltic states. The share of Latvian early-stage entrepreneurs motivated by opportunity increased to 53% in 2013 compared to 46% in 2012. One out of five Latvian early-stage entrepreneurs were driven by necessity motives in 2013, compared with one out of four in 2012.

Females in Latvia (10% of the female population), Estonia (9%) and Lithuania (8%) are the most actively involved in TEA compared to other European countries. However, the highest difference between the shares of male and female involvement is observed in Lithuania. Fewer males in Latvia and fewer males and also females in Estonia participated in TEA in 2013 compared to 2012. Latvian females and both Lithuanian males and females increased their participation.

As to distribution of TEA (total early-stage entrepreneurial activity) by age groups for all three Baltic states the share of people aged 55-64 and 45-54 involved in TEA is the smallest compared to other age groups and average participation of these groups observed in European countries. In contrast, participation of young people (18-24) is comparatively higher.

At 8.8% the established business ownership rate (EBO) in Latvia has increased compared to the previous year (7.9%) and is one of the highest among European countries.

In 2013 “Unprofitable business” is still the main reason for business discontinuation in Latvia. The same is true for Lithuania. The main reasons for discontinuation in Estonia are not only “business unprofitability”, but also “personal reasons”.

Capturing entrepreneurial aspirations and comparing the three Baltic states: Estonians are the most innovative in terms of new markets, whereas Latvians are the most innovative in terms of new products or services. Most Europeans are not very ambitious in terms of expected job growth, whereas almost 30% of Latvian entrepreneurs expect to create 20 or more jobs in 5 years.

In terms of internationalization Latvia and Estonia have equal shares (10%) of early-stage entrepreneurs with high export orientation (75%-100% of customers outside the country) compared with 8% in Lithuania.

Finally, although not explicitly addressed in the GEM survey, the current GEM Latvia Report provides evidence that Latvian policies pursued with the aim of supporting early-stage entrepreneurship have had limited success. This includes a wide range of policy measures that range from aiming to improve Latvia’s performance in the World Bank Group’s “Ease of Doing Business” index to the microenterprise tax introduced in 2010. In particular the administrative burden and the frequently changing and unpredictable regulatory framework seem to prevent Latvians and hence Latvia to realize the nation’s full entrepreneurial potential.

## EXECUTIVE SUMMARY IN LATVIAN

Latvijas 2013./2014. gada GEM Ziņojums piedāvā detalizētu informāciju par uzņēmējdarbības garu un jaunākajām uzņēmējdarbības aktivitātes tendencēm Latvijā. Ziņojums sniedz starptautisku salīdzinājumu ar pārējām Eiropas valstīm, kas piedalās Uzņēmējdarbības Globālā Monitoringa projektā, īpaši akcentējot līdzības un atšķirības starp trim Baltijas valstīm.

Mēs ceram, ka ziņojumā iekļautā analīze būs informatīva uzņēmējiem un akadēmiskās vides pārstāvjiem, kā arī politikas veidotājiem.

Vidējais agrīnās stadijas uzņēmējs Latvijā 2013. gadā bija 34 gadus vecs vīrietis, kurš dzīvo Rīgā, pēc tautības ir latvietis, ar vidējo profesionālo izglītību un uzņēmumu, kas darbojas pakalpojumu sektorā.

Salīdzinot ar iepriekšējo gadu, Latvijas iedzīvotāji kopumā ir spējusi saskatīt vairāk biznesa iespēju (2013. gadā – 35%, 2012. gadā – 33%) un ir guvuši lielāku pārliecību par savām spējām uzņēmējdarbībā, tomēr arī bailes no neveiksmes ir palielinājušās. 48% Latvijas iedzīvotāju uzskata, ka viņiem piemīt nepieciešamās prasmes, lai vadītu uzņēmumu. Tomēr no 35% iedzīvotāju, kas spēj saskatīt uzņēmējdarbības iespējas, tikai 40% uzskata, ka viņiem piemīt nepieciešamās biznesa vadības prasmes, kas skaidri norāda uz neizmantotā uzņēmējdarbības potenciāla esamību.

61% Latvijas pieaugušo iedzīvotāju ir pārliecināti, ka uzņēmējdarbība ir laba karjeras izvēle, tikpat liels procents iedzīvotāju piekrīt, ka veiksmīgi uzņēmēji ieņem augstu statusu sabiedrībā, un 59% uzskata, ka mediji Latvijā pozitīvi atspoguļo uzņēmējdarbības vidi, veidojot rakstus un raidījumus par veiksmīgiem uzņēmējiem. 23% Latvijas iedzīvotāju, kuri vēl nav iesaistījušies uzņēmējdarbībā, plāno to darīt tuvāko trīs gadu laikā. Rezultāts ir līdzīgs

2012. gada rādītājam (22%) un tas ir trešais augstākais rādītājs starp GEM ES valstīm un augstākais Baltijas valstu vidū.

Salīdzinot ar Baltijas kaimiņiem, Latvijas iedzīvotāju spējas saskatīt biznesa iespējas, ir augstākas nekā Lietuvā un zemākas nekā Igaunijā. Uzņēmējdarbības spēju un prasmju pašnovērtējuma rādītājs Latvijas iedzīvotāju vidū ir audzis un ir augstākais starp trim Baltijas valstīm. Attiecībā uz bailēm no neveiksmes, ievērojamo šī rādītāja atšķirību triju Baltijas valstu vidū nav. Latvijā un Lietuvā cilvēki biežāk novērtē savas prasmes kā atbilstošas uzņēmuma vadīšanai, bet retāk spēj saskatīt biznesa iespējas, Igaunijā situācija ir pretēja. Salīdzinot ar iepriekšējo gadu, Igaunijas un Lietuvas iedzīvotāji retāk (bet Latvijas iedzīvotāji biežāk) novērtē savas prasmes kā pietiekošas, lai veiksmīgi iesaistītos uzņēmējdarbībā. Ir pieaugušas bailes no neveiksmes to Baltijas valstu iedzīvotāju vidū, kuri spēj saskatīt biznesa iespējas, tomēr pieaugušo iedzīvotāju skaits Baltijā, kas plāno iesaistīties jaunas uzņēmējdarbības veidošanā tuvāko trīs gadu laikā pieaug.

Līdzīgi kā iepriekšējā gadā, Lietuvas iedzīvotāji visbiežāk atzīst uzņēmējdarbību par labu karjeras izvēli, ierindojojot Latviju otrajā un Igauniju trešajā vietā. Kas attiecas uz veiksmīgu uzņēmēju augsto statusu sabiedrībā, Latvijas un Igaunijas rādītāju atšķirības ir nenozīmīgas, bet Lietuvas rādītājs ir nedaudz zemāks. Latvijas mediji arī šogad plašāk atspoguļo uzņēmēju pozitīvo pieredzi un veiksmes stāstus, nekā to dara Igaunijas vai Lietuvas mediji.

Pēc agrīnās stadijas uzņēmējdarbības aktivitātes rādītāja, Latvija ar 13.3% Latvijas pieaugušo iedzīvotāju (vecumā no 18 līdz 64 gadiem), kuri ir iesaistījušies agrīnās stadijas uzņēmējdarbībā, ierindojas pirmajā vietā starp 28 Eiropas

valstīm, kas piedalās GEM projektā, otrajā vietā atstājot Igauniju (13.1%), bet trešajā – Lietuvu (12.4%). Topošo un jauno uzņēmumu īpašnieku rādītāji Latvijā un Igaunijā nav būtiski mainījušies, savukārt Lietuvā abi šie rādītāji ir pieauguši, salīdzinot ar iepriekšējo gadu, ļaujot Lietuvai panākt pārejās Baltijas valstis.

Nepieciešamības spiesto agrinās stadijas uzņēmēju skaita samazināšanās un iespēju motivētas uzņēmējdarbības pieaugums tika novērots visās trijās Baltijas valstīs. Latvijā iespēju motivēto agrinās stadijas uzņēmēju skaits 2013. gadā ir palielinājies līdz 53%, salīdzinot ar 46% 2012. gadā. 2013. gadā katrs piektais Latvijas agrinās stadijas uzņēmējs bija iesaistījies uzņēmējdarbībā nepieciešamības spiests, 2012. gadā nepieciešamības spiests bija katrs ceturtais uzņēmējs Latvijā.

Salīdzinot ar citām Eiropas valstīm, dzimumu griezumā visaktīvāk KAA iesaistās sievietes Latvijā (10% no visām sievietēm valstī), Igaunijā (9%) un Lietuvā (8%). Tomēr vislielākā atšķirība starp vīriešu un sieviešu KAA rādītājiem ir novērojama Lietuvā. Salīdzinot ar 2012. gadu, 2013. gadā KAA iesaistījās mazāks skaits vīriešu Latvijā un mazāks skaits vīriešu un sieviešu Igaunijā. Savukārt Latvijas sieviešu KAA rādītājs ir pieaudzis, līdzīgi kā sieviešu un vīriešu KAA rādītāji Lietuvā.

Kopējās agrinās stadijas uzņēmējdarbības aktivitātes (KAA) rādītājs pa vecuma grupām visās trijās Baltijas valstīs vecākajām iedzīvotāju grupām, t.i. 55-64 gadi un 45-54 gadi, ir zemākais, salīdzinot ar citām vecuma grupām un vidējiem šo grupu aktivitātes rādītājiem citās Eiropas valstīs. Savukārt jaunu cilvēku (vecumā no 18-24 gadiem) aktivitāte ir salīdzinoši augsta.

Nobriedušo uzņēmumu īpašnieku skaita rādītājs Latvijā kopš pagājušā gada ir pieaudzis

(2013. gadā – 8.8%, 2012. gadā – 7.9%), un ir viens no augstākajiem starp Eiropas valstīm. Uzņēmējdarbības pārtraukšanas galvenais iemesls Latvijā joprojām ir peļņu nenesošs uzņēmums. Līdzīga situācija novērojama arī Lietuvā. Savukārt Igaunijā uzņēmējdarbības pārtraukšanas iemesls ir ne vien peļņu nenesošs uzņēmums, bet arī personīgie iemesli.

Apskatot uzņēmējdarbības centienus un salīdzinot triju Baltijas valstu rādītājus, var secināt, ka Igaunijas uzņēmēji visvairāk apgūst jaunus tirgus, savukārt Latvijas uzņēmēji ir visinovatīvākie attiecībā uz jauniem produktiem un pakalpojumiem.

Lielākā daļa Eiropas uzņēmēju pieticīgi vērtē sava uzņēmuma iespējas palielināt nodarbināto skaitu nākotnē, tikmēr Latvijā gandrīz 30% uzņēmēju paredz radīt vismaz 20 jaunas darba vietas tuvāko piecu gadu laikā. Runājot par uzņēmumu orientāciju uz ārējiem tirgiem, Latvijas un Igaunijas agrinās stadijas uzņēmēju skaits, kuru ārzemju klienti sastāda 75% līdz pat 100% no visiem klientiem, ir vienāds un sastāda 10% no visiem agrinās stadijas uzņēmējiem, Lietuvā tie ir 8%.

Visbeidzot, kaut arī tas nav detalizēti apskatīts GEM apsekojumā, GEM Latvija Ziņojums sniedz pierādījumus, ka uzņēmējdarbības veicināšanas instrumentiem (sākot ar plašu politikas pasākumu loku vērstu uz Latvijas Pasaules Bankas „Ease of Doing Business” snieguma uzlabojumu līdz mikrouzņēmuma nodoklim, kas tika ieviests 2010. gadā) ir bijusi ierobežota ietekme uz agrinās stadijas uzņēmējdarbības aktivitātes līmeni valstī. It īpaši administratīvais slogs, kā arī bieži mainītais un neprognozējams tiesiskais regulējums, traucē Latvijas iedzīvotājiem pilnībā realizēt savu uzņēmējdarbības potenciālu.

## INTRODUCTION

As an international research project involving 70 countries, the Global Entrepreneurship Monitor (GEM) provides a unique opportunity to compare the Latvian entrepreneurial profile with those of other countries. The following analysis centres around three main concepts or dimensions: (i) **entrepreneurial attitudes and**

**perceptions**, (ii) **entrepreneurial activity** and (iii) **entrepreneurial aspirations**.

The first chapter concentrates on analysis and compares results between European countries participating in the GEM project, subdividing them into the following categories (see Table 1).

**Table 1:** GEM Europe economies by geographic region and economic development level

Region	Efficiency-Driven Economies <sup>1</sup>	Innovation-Driven Economies <sup>2</sup>
Europe – EU28	Croatia*, Estonia*, Hungary*, Latvia*, Lithuania*, Poland*, Romania, Slovak Republic*	Belgium, Czech Republic, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia, Spain, Sweden, United Kingdom
Europe – Non-EU28	Bosnia and Herzegovina, Macedonia, Russian Federation*, Turkey*	Norway, Switzerland

Source: GEM Executive Report 2013

In discussion and benchmarking particular attention is paid to Latvia's two Baltic neighbours, Estonia and Lithuania.

After obtaining a clearer picture of Latvia's comparative performance, a portrait of the Latvian entrepreneur is sketched in chapter 2. The dynamics of entrepreneurship is studied in chapter 3 and a brief discussion on whether Latvia actually needs more entrepreneurs is provided

in chapter 4. The Report concludes with a research update on the Latvian microenterprise tax.

The Annex contains information on the Global Entrepreneurship Monitor project incentive, the GEM conceptual framework and entrepreneurship process, terminology and data; as well as information on entrepreneurship and stages of economic development.

<sup>1, 2</sup> See Annex 5: Entrepreneurship and stages of economic development

\* In transition phase between Efficiency-Driven and Innovation-Driven

# 1. ENTREPRENEURIAL ATTITUDES, ACTIVITY AND ASPIRATIONS IN LATVIA AND OTHER EUROPEAN COUNTRIES

This chapter deals with each of three main concepts of entrepreneurial profiles (attitudes, activity and aspirations) based on the results of the GEM 2013 Global Adult Population Survey. Before proceeding with the analysis, we briefly present these concepts.

**Entrepreneurial attitudes and perceptions** reveal the degree to which individuals in different countries tend to value entrepreneurship – How many individuals see opportunities for entrepreneurship, believe they have appropriate skills to get involved in entrepreneurial activity and how many of those who see business opportunities in the area where they live are deterred from business activity because of fear of failure.

Other aspects of attitudes towards entrepreneurship involve the overall societal view on entrepreneurship, the attractiveness of entre-

preneurship as a career choice, and media attention to entrepreneurs and business.

Involvement in entrepreneurial activities at different phases is measured by **entrepreneurial activity** indicators: the nascent entrepreneurship rate, new-business ownership rate, established business ownership rate and the rate of discontinuation. GEM data also tracks the degree to which involvement in entrepreneurial activities is driven by opportunity and necessity motives as well as capturing different reasons for business discontinuations.

In order to address the socioeconomic impact of entrepreneurial activity in different countries **entrepreneurial aspirations** measures are used: the expected level of job creation, involvement in international trade and the rate of innovativeness of products and/or services.

## 1.1. ENTREPRENEURIAL ATTITUDES AND PERCEPTIONS

We will start with entrepreneurial attitudes and perceptions. Fostering positive attitudes towards entrepreneurship as well as raising entrepreneurial awareness feature high on the policy agenda of many countries. Changes in the public perception of entrepreneurship, investment in business education and support to groups that are underrepresented among entrepreneurs are highlighted areas in the European Commission Entrepreneurship 2020 Action Plan<sup>3</sup>.

Table 2 shows the percentage of individuals who believe there are opportunities to start a business in the area where they live (**perceived**

**opportunities**) and the percentage of individuals who believe they have the required skills, experience and knowledge to start a new venture (**perceived capabilities**). The measure of **fear of failure** applies only to those who see business opportunities and shows that a part of those who see good business opportunities are deterred from entrepreneurship because of fear of failure. Finally, Table 2 shows **entrepreneurial intentions** to start a new venture measured among those who are not already entrepreneurially active, and indicates how many are planning to start a new venture in the following three years.

<sup>3</sup> [http://ec.europa.eu/enterprise/policies/sme/entrepreneurship-2020/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/entrepreneurship-2020/index_en.htm)



**Table 2:** Entrepreneurial Attitudes and Perceptions in Europe in 2013 (% of adult population aged 18-64)

		Perceived opportunities	Perceived capabilities	Fear of failure	Entrepreneurial intentions	Entrepreneurship as a good career choice	High status to successful entrepreneurs	Media attention for entrepreneurship
Europe – EU28	Belgium	31.5	33.8	46.6	7.8	54.8	52.2	43.9
	Croatia	17.6	47.2	35.2	19.6	61.5	43.1	42.9
	Czech Republic	23.1	42.6	35.8	13.7		47.8	
	Estonia	46.1	40.0	38.8	19.4	53.2	58.6	40.7
	Finland	43.8	33.3	36.7	8.3	44.3	85.5	68.5
	France	22.9	33.2	41.1	12.6	55.3	70.0	41.4
	Germany	31.3	37.7	38.6	6.8	49.4	75.2	49.9
	Greece	13.5	46.0	49.3	8.8	60.1	65.1	32.4
	Hungary	18.9	37.5	44.8	13.7	45.7	74.1	28.4
	Ireland	28.3	43.1	40.4	12.6	49.6	81.2	59.9
	Italy	17.3	29.1	48.6	9.8	65.6	72.4	48.1
	<b>Latvia</b>	<b>34.8</b>	<b>47.8</b>	<b>41.6</b>	<b>22.7</b>	<b>61.4</b>	<b>59.5</b>	<b>58.6</b>
	Lithuania	28.7	35.4	41.7	22.4	68.6	57.2	47.6
	Luxembourg	45.6	43.3	42.9	14.1	39.4	70.6	36.3
	Netherlands	32.7	42.4	36.8	9.1	79.5	66.2	55.2
	Poland	26.1	51.8	46.7	17.3	66.8	59.9	58.5
	Portugal	20.2	48.7	40.1	13.2			
	Romania	28.9	45.9	37.3	23.7	73.6	72.6	61.3
	Slovakia	16.1	51.0	33.2	16.4	49.2	58.5	51.7
	Slovenia	16.1	51.5	29.6	12.4	57.4	68.1	50.5
Spain	16.0	48.4	36.3	8.4	54.3	52.3	45.6	
Sweden	64.4	38.8	36.6	9.5	52.0	71.5	58.5	
United Kingdom	35.5	43.8	36.4	7.2	54.1	79.3	49.6	
	<b>Average (unweighted)</b>	<b>28.7</b>	<b>42.3</b>	<b>39.8</b>	<b>13.5</b>	<b>56.9</b>	<b>65.5</b>	<b>49.0</b>
Europe – Non EU28	Bosnia and Herzegovina	23.3	50.5	26.1	21.8	82.3	71.9	39.2
	Macedonia	37.2	49.7	35.6	29.1	69.5	67.9	66.8
	Norway	63.7	34.2	35.3	5.2	49.3	75.5	56.9
	Russia	18.2	28.2	29.0	2.6	65.7	68.0	49.0
	Switzerland	41.5	44.7	28.2	9.8	40.5	65.0	47.8
	<b>Average (unweighted)</b>	<b>36.8</b>	<b>41.5</b>	<b>30.8</b>	<b>13.7</b>	<b>61.5</b>	<b>69.7</b>	<b>51.9</b>

Source: GEM Executive Report 2013

Whereas measures that show how many adults see entrepreneurship as a good **career choice**, how many agree that successful entrepreneurs enjoy **high status** in society and how much

**media attention** entrepreneurs are receiving, allow us to capture and compare national attitudes towards entrepreneurship in different countries.



### 1.1.1. PERCEIVED OPPORTUNITIES, PERCEIVED CAPABILITIES, FEAR OF FAILURE AND ENTREPRENEURIAL INTENTIONS

Different combinations of perceived opportunities, capabilities and fear of failure lead to country-specific patterns in terms of early-stage entrepreneurial activity.

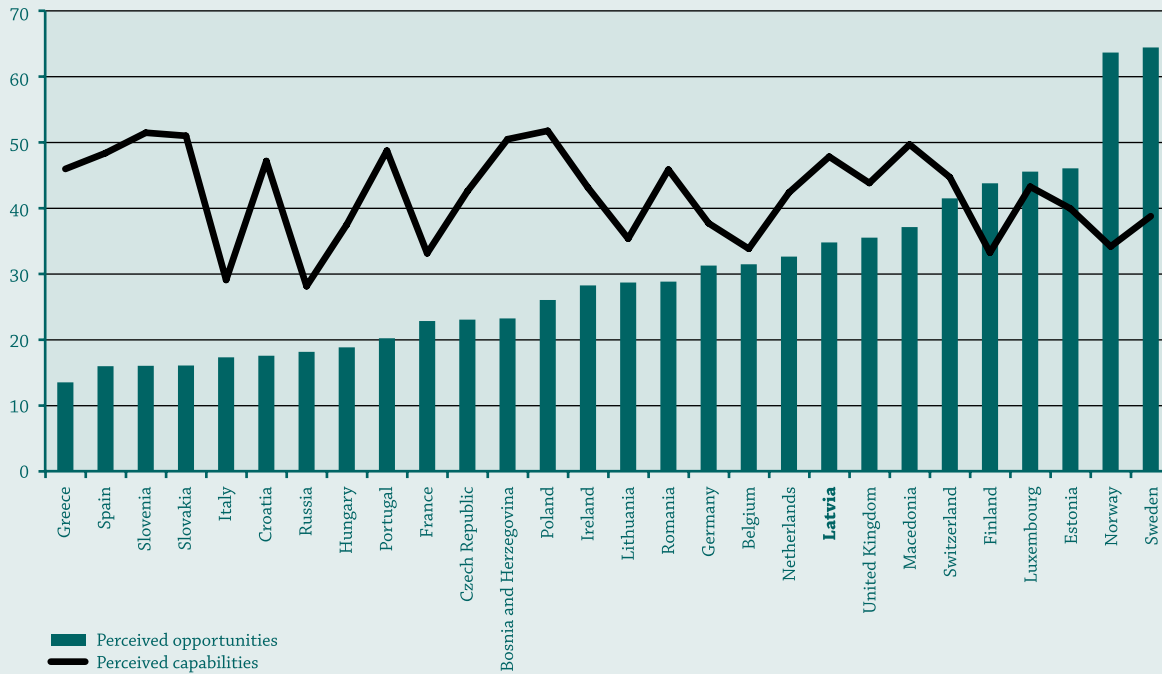
High prevalence rates of perceived opportunities are not always accompanied by high prevalence rates of perceived capabilities (see Figure 1) thus illustrating a gap between perceived opportunities and perceived capabilities. A big proportion of the adult population can see good business opportunities in the country where they live, but at the same time a much smaller proportion of people may evaluate their skills as appropriate for entrepreneurial activities, and vice versa. In the following we will compare European countries, but have to keep in mind that individuals in different European countries can have different types of businesses in mind. Before looking into European countries in general, we take closer look at Latvia and how it scores in terms of entrepreneurial opportunities and perceived capabilities. As seen from Figure 1, 48% of Latvians perceive they possess the capabilities needed whereas 35% perceive entrepreneurial opportunities. If we look at the 35% of Latvians who perceive that there are entrepreneurial opportunities, around 60% of those think that they have the skills needed. Accordingly, around 40% think that they do not possess the skills, clearly suggesting an untapped potential were they given the opportunity to develop their capabilities.

The European countries with the highest rates of perceived opportunities among adults are Sweden and Norway, where about 64% of the adult population see business opportunities, followed by Estonia and Luxembourg, each with 46%. In contrast, countries with the highest rates of perceived capabilities are different: Poland, Slovenia, Slovakia and Bosnia, where

rather over half of all adults think that their skills are appropriate for business activities. Finns, Norwegians, Swedes, and Estonians are the only ones in Europe who see good opportunities for business but are much less confident about their capabilities. In all other European countries more people tend to value their entrepreneurial skills as being appropriate and fewer adults see business opportunities. Belgium, Luxembourg and Switzerland are European countries where about the same percentage of the adult population see opportunities and consider themselves to have appropriate characteristics for business start-ups (not necessary the same people). The highest difference between prevalence rates is seen in Slovenia where about half the adult population considers they have appropriate characteristics to become an entrepreneur but only 16% see business opportunities. Even taking into account the rather small proportion of those who are afraid of failure (see Figure 2) Slovenia still has a comparatively low rate of early entrepreneurial activity (see Table 2). Therefore for Slovenia it is true that even if the adult population in the country highly evaluate their entrepreneurial skills and are not so much afraid of failure, nonetheless, not seeing business opportunities can lead to rather low rates of involvement in entrepreneurial activity. On the other hand, analysing the country with the second highest proportion of individuals seeing good business opportunities (Norway), one can expect it to have a high rate of early-stage business activity, but a rather low rate of self-estimation of own entrepreneurial skills and an average level of fear of failure leading to comparatively low early-stage entrepreneurial activity rate in that country.

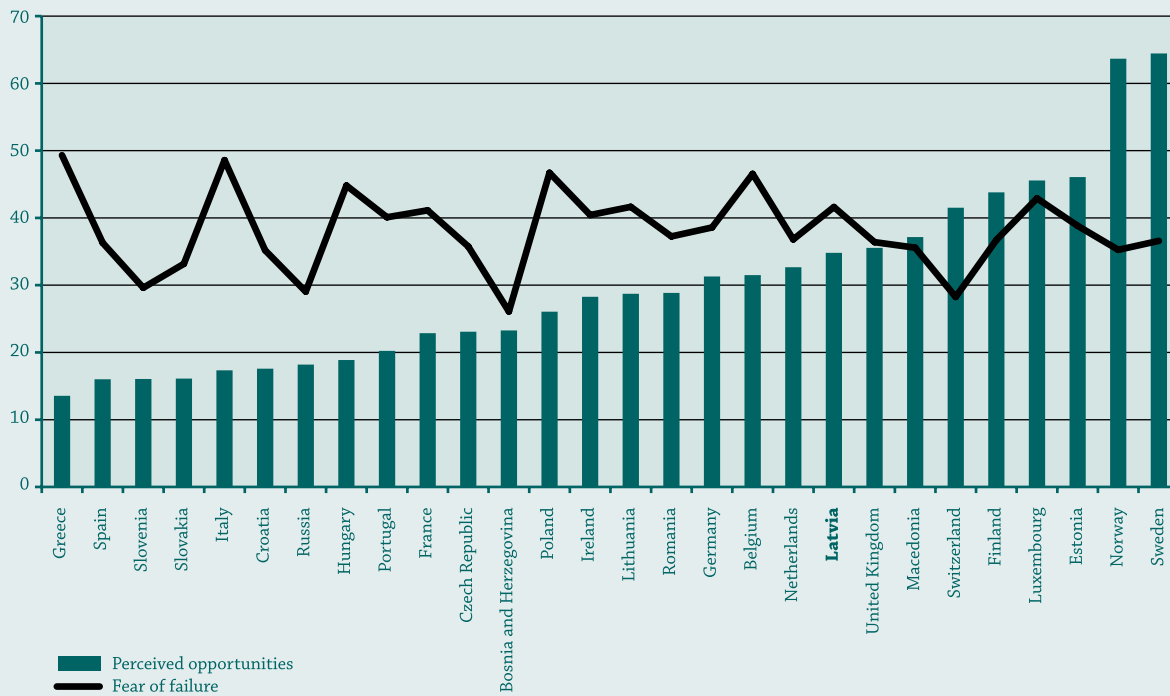
Fear of failure and observed (legal and financial) consequences of failure may prevent individuals from exploiting good business opportunities.

**Figure 1:** Perceived opportunities and perceived capabilities by country, 2013 (%)



Source: GEM Adult Population Survey 2013

**Figure 2:** Perceived opportunities and fear of failure by country, 2013 (%)



Source: GEM Adult Population Survey 2013

Looking at how many of those individuals who see business opportunities are deterred by fear of failure, we see (Figure 2) that Greeks, Italians, Poles and Belgians are more afraid of failure; on the other hand Bosnians, Swiss, Slovenians and Russians are less afraid of failure compared to other European nations. On average 40% of adult individuals in Europe-EU28 countries who see business opportunities admit that fear of failure deters them from getting involved in entrepreneurial activities, whereas in Europe-Non-EU28 countries (i.e. taking into account Bosnia, Macedonia, Turkey, Norway, Russia and Switzerland) this share is smaller, amounting to 30%.

Greece, Italy and Hungary are countries not only with a small shares of people who see business opportunities but also with rather small shares of people who are not afraid of failure. On the other hand, adult individuals in Sweden and Norway, in addition to seeing business opportunities, are not afraid of failure.

As seen from the discussion so far, attitudes and perceptions differ among the European countries studied, leading to country-specific patterns of early-stage entrepreneurial activity. For example, in Italy adults mostly do not consider themselves as having entrepreneurial skills, do not see business opportunities, and are also afraid of failure. Therefore, it is no surprise that in Italy the level of early-stage entrepreneurial activity is the lowest among all European countries. A different picture emerges in Bosnia, where despite the fact that not so many people see business opportunities, many evaluate their skills as appropriate and are not so much afraid of failure, leading to a high level of early-stage entrepreneurial activity prevailing in that country.

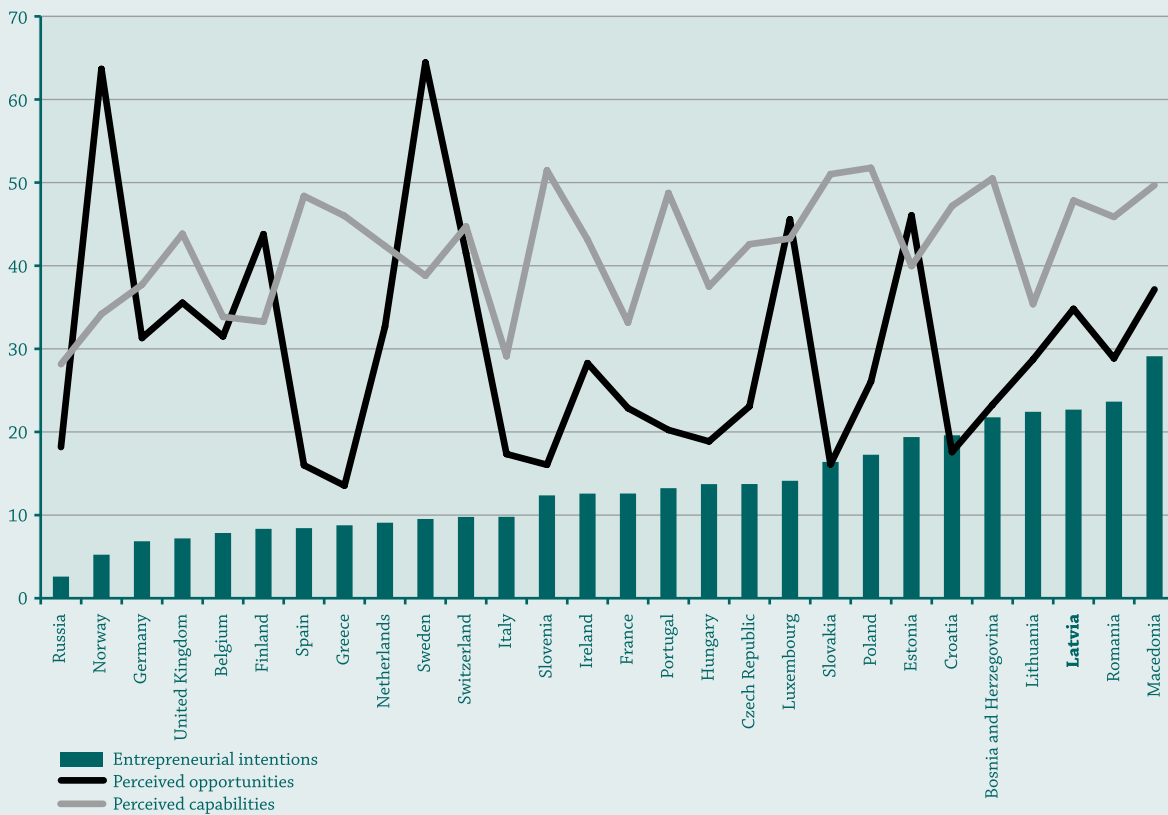
Seeing opportunities, low fear of failure and having the capabilities for entrepreneurship is not enough: an individual has to have the intention to get involved in entrepreneurial activity in the near future. Even so, not all those who affirm that they have the intention actually end up being entrepreneurs. However, the measure of intentions can be a very valuable indicator for analysis.

Figure 3 below shows the measure of **Entrepreneurial intentions** – the percentage of individuals (excluding those who are already entrepreneurially active) who expect to start a business within the next three years.

Figure 3 discloses that Latvians not only score fairly well in terms of perceiving entrepreneurial opportunities, they also rank very high in terms of entrepreneurial intentions. On average the entrepreneurial intentions of Europeans are not very high, about 14%, but differ widely across countries<sup>4</sup>. The highest intentions to start a new venture are captured in Macedonia (30%) and the lowest in Russia (6%). It is also worth mentioning that seeing good business opportunities does not definitely lead to a high rate of entrepreneurial intentions. In both countries (Norway and Sweden) with the highest rate of the adult population seeing business opportunities, a rather low level of entrepreneurial intentions prevails. On the other hand, Slovakia and Slovenia, both having a low proportion of people seeing business opportunities, are among the countries having a high proportion of the adult population intending to get involved in new venture creation.

<sup>4</sup> According to the GEM Global Report 2013, in 2013 12.2% of adult individuals in the US had intentions to start a business within the next three years.

**Figure 3:** Entrepreneurial intentions, perceived opportunities and perceived capabilities by country, 2013 (%)



Source: GEM Adult Population Survey 2013

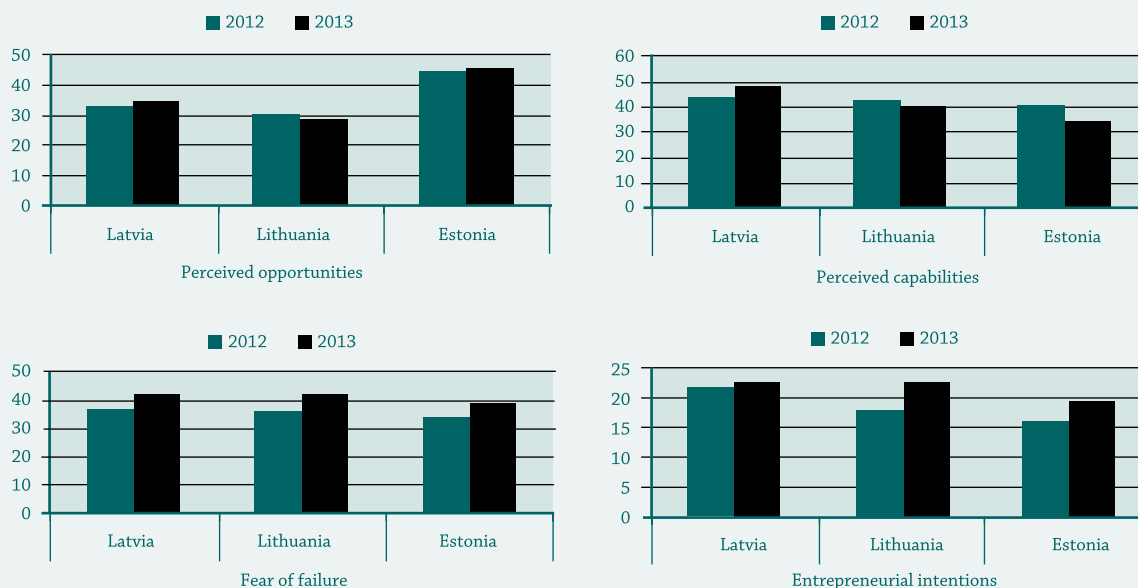
### 1.1.2. ENTREPRENEURIAL ATTITUDES IN THE BALTICS 2012-2013

Figure 4 /next page/ shows entrepreneurial intentions, perceived capabilities and opportunities as well as the rate of fear of failure among Latvians, Lithuanians and Estonians and captures the changes for 2012 and 2013.

A comparison of the three Baltic states immediately highlights three differences - Estonians (i) stand out with a considerably higher opportunity perception, but (ii) have less in terms of entrepreneurial intentions and (iii) lower perceived capabilities. In terms of fear of failure, all three Baltic states show rather similar results. Similar patterns were also observed in 2012,

when on average more Estonians perceived opportunities than Estonians who considered themselves as having the capability to start entrepreneurship. For Latvia and Lithuania the opposite applies: more people self-assessed their skills as appropriate than people who saw business opportunities.

Looking at the dynamics, for all three Baltic states the fear of failure rate increased compared to the previous year, but the entrepreneurial intentions rates increased as well. This means that more people in the Baltics among those who see business opportunities admitted

**Figure 4:** Entrepreneurial perceptions in the Baltic states, 2012-2013 (%)

Source: GEM Adult Population Survey 2013

that they are deterred by the fear of failure, but at the same time more adults in the Baltics are intending to get involved in new venture creation in the next three years. Perceived opportunities remained approximately at the same level in all three Baltic states, but perceived ca-

pabilities decreased both in Estonia and Lithuania, though not in Latvia. Fewer Estonians and Lithuanians, but more Latvians, assessed their skills and characteristics as being appropriate for entrepreneurship.

### 1.1.3. NATIONAL ATTITUDES TO ENTREPRENEURSHIP: CAREER CHOICE, STATUS AND MEDIA ATTENTION

To complete the understanding of overall attitudes towards entrepreneurship, the three remaining measures assess social impressions about entrepreneurship as a career choice, the status of entrepreneurs in society and media attention to business, thus measuring the attractiveness and visibility of entrepreneurship in a given society.

The first panel of Figure 5 shows that entrepreneurship is considered a good choice in countries as diverse as Bosnia and the Netherlands (about 80%), compared with only about 40% in Luxembourg and Switzerland. For Latvia the share is 60%, well above the EU average of around 54%. In terms of the high status of entrepreneurs in society, the picture painted by the second panel is slightly different.

**Figure 5:** National attitudes towards entrepreneurship by country, 2013 (%)



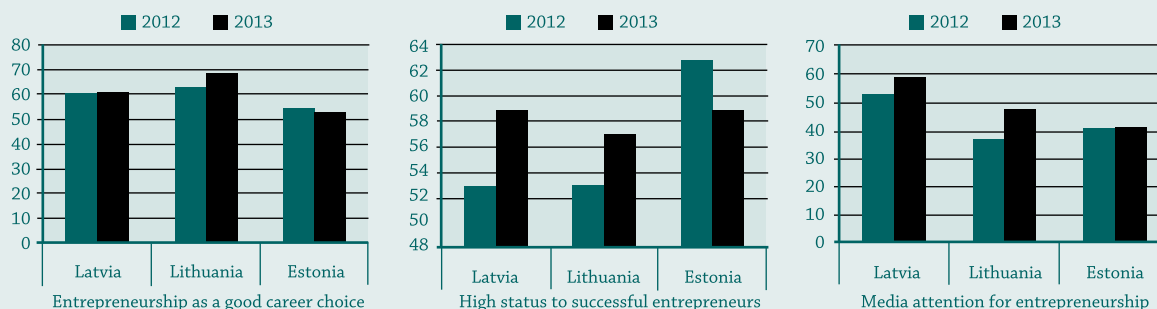
Source: GEM Adult Population Survey 2013

While Latvia falls from the upper half on career choice to the lower half in terms of status, Finns are those who mostly admit that entrepreneurs in society enjoy high status. In Croatia the situation is totally the opposite, with only 40% of the adult population believing in the high status of entrepreneurs.

As in the previous year Germany, Finland and Ireland have the widest gap between people’s respect for entrepreneurship as a profession and their belief that entrepreneurship is a good

career choice. Belgium and Spain, on the other hand, are countries with a similar proportion of the population who agree that entrepreneurship is a good career choice and believe that successful entrepreneurs enjoy high status.

Analysing coverage of entrepreneurial topics in the media, we see the same picture observed in 2012, i.e. the highest media attention to entrepreneurship in Finland and Ireland and the lowest in Hungary.

**Figure 6:** National attitudes towards entrepreneurship in the Baltic states, 2012-2013 (%)

Source: GEM Adult Population Survey 2013

A comparison of the three Baltic states reveals the same picture as in the GEM Latvia 2012/2013 Report – Lithuanians are the most favourable in terms of seeing entrepreneurship as a good career choice with Latvians ranking second and Estonians third. In terms of the status of successful entrepreneurs, Lithuania stands out, with no significant differences between Latvia and Estonia. The media, as also observed in 2012, seem to do a worse job in terms of positive reporting on successful entrepreneurs in Estonia and Lithuania than in Latvia.

Not only individual characteristics, but also contextual and institutional characteristics – perceptions of other people in the country as well as availability of desirable job alternatives – may deter individuals from business activity.

A combination of individual, social and contextual factors has an impact on the individual decision to start a new venture.

To conclude our findings so far with respect to Latvia:

*Compared to the previous year Latvians in 2013 saw rather more business opportunities and became more self-confident about their entrepreneurial capacity, while at the same time they became more afraid of failure. About 61% of Latvians think that entrepreneurship is a good career choice, the same percentage of Latvians agree that successful entrepreneurs enjoy high status and 59% think that in Latvia the media provide a positive picture of entrepreneurship in terms of reporting on successful entrepreneurs.*

## 1.2. ENTREPRENEURIAL ACTIVITY

GEM defines entrepreneurship as a continuous process that includes **nascent entrepreneurship** (individuals involved in setting up a business), entrepreneurs who own and manage a new business – **new business ownership** – and entrepreneurs who own and manage an established business – **established business ownership**. The nascent entrepreneurship rate

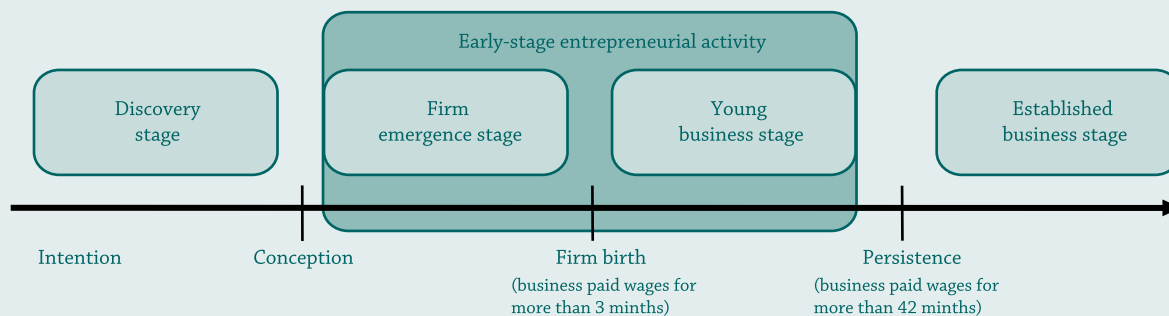
together with the new business ownership rate constitute the central measure of the GEM – **total early-stage entrepreneurial activity (TEA)** – the phase that is considered to be crucial for most entrepreneurs, the phase where most growth and innovation can be expected. This is also the most crucial period in the life of a new venture, decisive as to whether a business will

thrive or perish. Official data based on the Enterprise Register often do not completely cover early-stage activity, since nascent entrepreneurs may not yet have registered their businesses.<sup>5</sup> Therefore, research on early-stage business activity based on official data may suffer from serious selection bias because it looks only at successful start-ups. GEM overcomes this problem

by identifying nascent entrepreneurs (as well as entrepreneurs at other stages of engagement in the entrepreneurial process) through screening the adult population of the country.

Figure 7 illustrates the stages of the entrepreneurship process as seen in the GEM analytical framework.

**Figure 7:** Stages of the entrepreneurial process in GEM



Source: Developed by Rastrigina (2010) and inspired by Klyver (2008) and the GEM 2008 Executive Report.

**The total early-stage entrepreneurial activity (TEA)** rate is defined as the prevalence rate of individuals in the working-age population who are actively involved in business start-ups, either the phase in advance of birth of the firm (nascent entrepreneurs), or the phase spanning 42 months after birth of the firm (owner-managers of new firms). As such, GEM takes payment of wages for more than three months as the “birth event” of the firm.

Motivations for starting a business also differ – some individuals become involved in entrepreneurial activity out of **necessity** while others enter entrepreneurship to exploit a business **opportunity**, GEM tries to capture these patterns by assessing individual motivation for getting involved in entrepreneurial activity.

<sup>5</sup> The main differences between enterprises register data and GEM data are discussed in the Annex 4.



**Table 3:** Phases of entrepreneurial activity in the GEM Europe countries in 2013 (% of adult population aged 18-24)

		Nascent entrepreneurship rate	New business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of businesses	Necessity-driven (% of TEA)	Improvement-driven opportunity (% of TEA)
Europe – EU28	Belgium	3.1	1.9	4.9	5.9	1.9	29.0	43.9
	Croatia	6.3	2.0	8.3	3.3	4.5	37.4	29.8
	Czech Republic	4.9	2.7	7.3	5.3	3.4	22.7	60.3
	Estonia	8.8	4.5	13.1	5.0	2.1	14.8	50.1
	Finland	2.7	2.7	5.3	6.6	2.0	17.9	66.0
	France	2.7	1.8	4.6	4.1	1.9	15.7	60.9
	Germany	3.1	2.0	5.0	5.1	1.5	18.7	55.7
	Greece	3.3	2.3	5.5	12.6	5.0	23.5	35.8
	Hungary	6.0	3.7	9.7	7.2	2.9	28.0	38.7
	Ireland	5.5	3.8	9.2	7.5	2.5	18.0	43.8
	Italy	2.4	1.1	3.4	3.7	1.9	18.7	18.4
	<b>Latvia</b>	<b>8.1</b>	<b>5.3</b>	<b>13.3</b>	<b>8.8</b>	<b>3.5</b>	<b>21.2</b>	<b>52.7</b>
	Lithuania	6.1	6.4	12.4	8.3	3.5	23.3	55.2
	Luxembourg	6.0	2.8	8.7	2.4	2.8	5.6	56.6
	Netherlands	4.7	4.8	9.3	8.7	2.1	8.0	67.1
	Poland	5.1	4.3	9.3	6.5	4.0	47.4	32.7
	Portugal	4.2	4.2	8.2	7.7	2.8	21.4	50.7
	Romania	6.2	4.2	10.1	5.3	4.3	31.6	31.6
	Slovakia	6.1	3.6	9.5	5.4	5.5	40.2	40.2
	Slovenia	3.6	2.9	6.5	5.7	2.6	24.1	53.4
Spain	3.1	2.2	5.2	8.4	1.9	29.2	33.2	
Sweden	5.9	2.5	8.2	6.0	2.4	9.7	58.4	
United Kingdom	3.6	3.6	7.1	6.6	1.9	16.1	45.2	
<b>Average (unweighted)</b>	<b>4.8</b>	<b>3.3</b>	<b>8.0</b>	<b>6.4</b>	<b>2.9</b>	<b>22.7</b>	<b>47.0</b>	
Europe – Non EU28	Bosnia and Herzegovina	5.8	4.6	10.3	4.5	6.2	58.9	22.0
	Macedonia	3.4	3.5	6.6	7.3	3.3	61.0	22.9
	Norway	2.9	3.4	6.3	6.2	1.6	4.0	60.8
	Russia	3.0	2.8	5.8	3.4	1.6	35.4	42.0
	Switzerland	4.5	3.7	8.2	10.0	2.3	7.5	67.2
	<b>Average (unweighted)</b>	<b>3.9</b>	<b>3.6</b>	<b>7.4</b>	<b>6.3</b>	<b>3.0</b>	<b>33.4</b>	<b>43.0</b>

Source: GEM Executive Report 2013

Some ventures develop into an established entrepreneurship whereas others close – this is a natural process of the enterprise life-cycle. In order to evaluate the indicator of **business discontinuance**, GEM tracks the number of individuals who discontinued their business in the

last twelve months as well as the main reason for doing so.

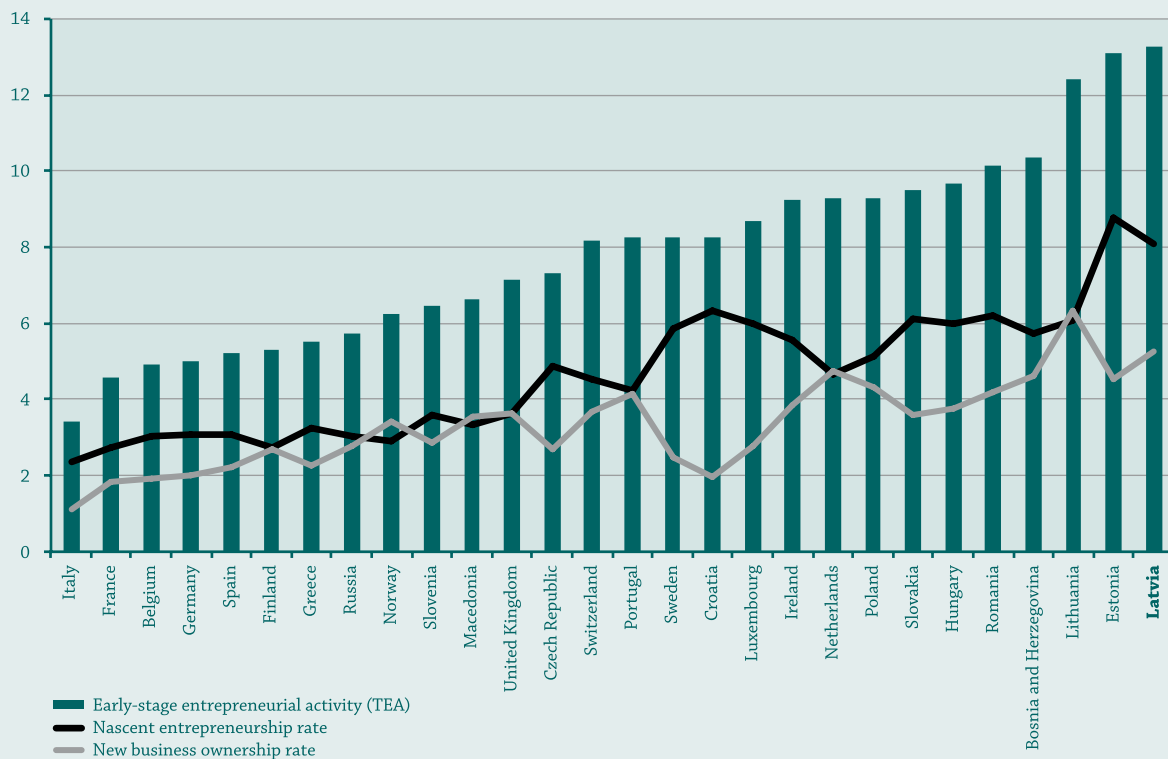
Table 3 shows these indicators for the European countries participating in the GEM adult population survey in 2013.

### 1.2.1. NASCENT ENTREPRENEURS, NEW BUSINESS OWNERS AND TEA

The highest TEA rates among all European countries are observed in the three Baltic states – Latvia, Lithuania and Estonia<sup>6</sup>. The lowest TEA rate is observed in Italy. As already discussed in the previous section, the low level of

TEA for Italy is a rather predictable outcome taking into account low capability evaluation, the low opportunity perception and high fear of failure that prevail among Italians.

**Figure 8:** Nascent entrepreneurship rate, new business ownership rate and TEA by country, 2013 (%)



Source: GEM Adult Population Survey 2013

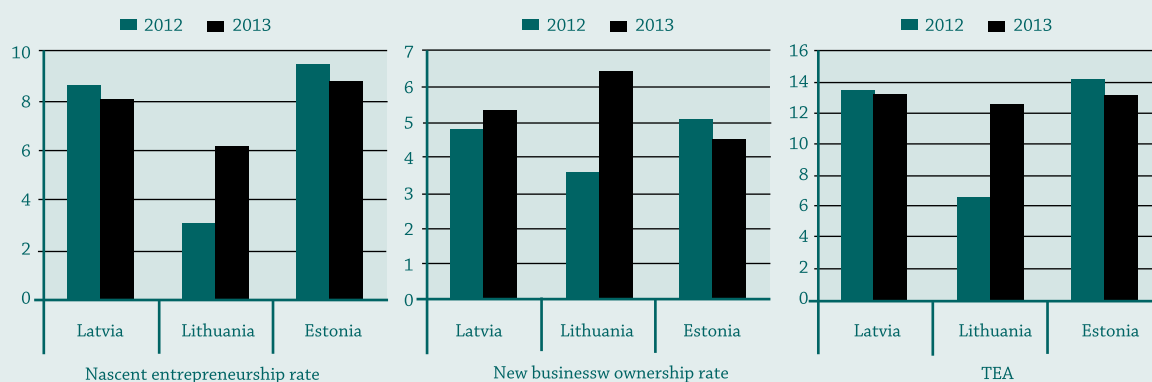
<sup>6</sup> According to the GEM Executive Report 2013, 12.7% of adult individuals in the US were involved in TEA in 2013 (nascent entrepreneurs - 9.2%, new business ownership - 3%).

If we subdivide the TEA rate into its two components, i.e. nascent entrepreneurship and new business ownership (Figure 8 previous page), we see that in most European countries the nascent entrepreneurship rate is higher compared to the new-business ownership rate. Some nascent entrepreneurs discontinue at this stage and never develop further to the phase of a new business. The highest difference between these two rates is observed in Croatia and Estonia. Nevertheless in some countries both rates are very similar - Norway, Macedonia, the UK, the Netherlands and Lithuania.

Comparing the Baltic states (See Figure 9) and looking at the dynamics of the main activity indicators, we see a substantial increase in nas-

cent, new business ownership and therefore also in TEA rates in Lithuania. For Latvia and Estonia the changes were not so significant. A small decrease in the nascent entrepreneurship rate and a small increase in the new business ownership rate in Latvia led to about the same TEA rate as observed in the previous year. A decrease in the nascent entrepreneurship rate accompanied by a decrease in the new business ownership rate in Estonia resulted in a slight decrease in the TEA rate. Lithuania caught up with Latvia and Estonia, so that in 2013 all three Baltic states were the countries with the highest TEA rates among others in Europe, with Estonia and Latvia being the European countries having the highest TEA in 2012.

**Figure 9:** TEA rate and its components in the Baltic states, 2012-2013 (%)



Source: GEM Adult Population Survey 2013

### 1.2.2. MOTIVATION FOR ENTREPRENEURSHIP

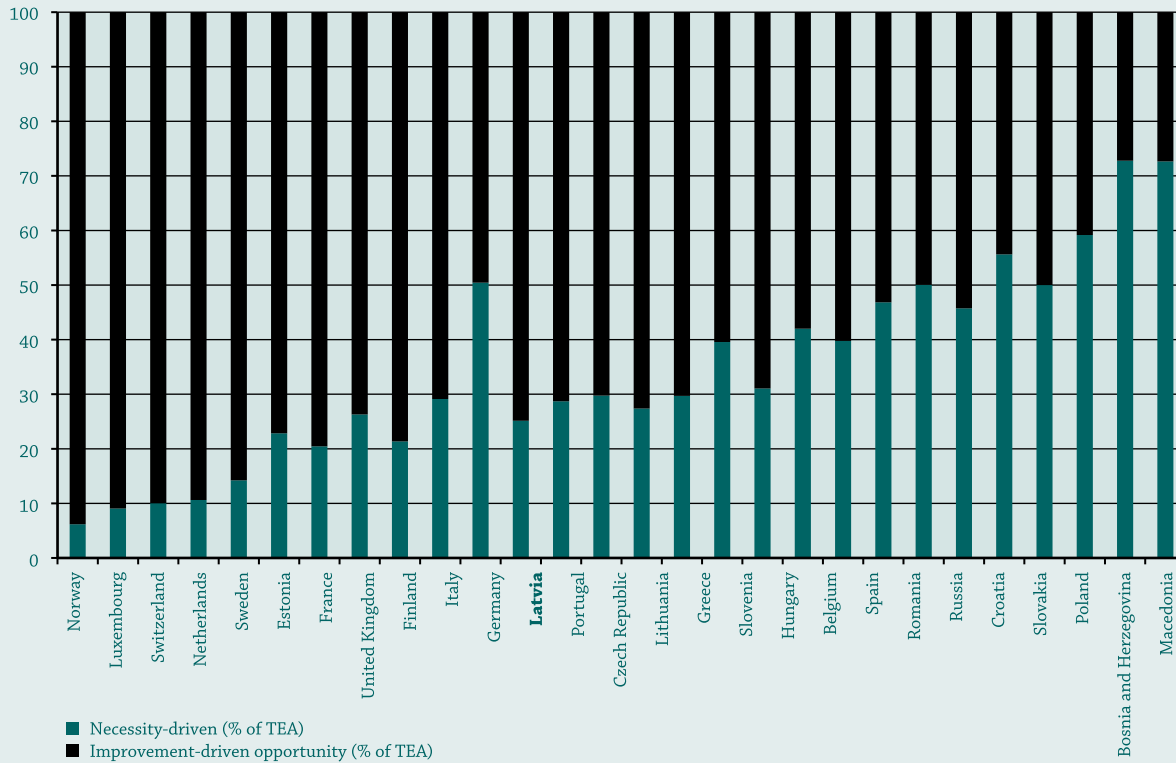
Motivation for involvement in TEA matters considerably for the future economic development of a given economy. It is believed that opportunity-driven entrepreneurship (i.e. focusing on improvement) contributes much more to growth of the economy through innovations and job creation compared to necessity-driven entrepreneurship. Therefore it is vital to study

the structure and dynamics of individual motivation for new venture creation. Figure 10 below shows the proportions of these two types of motivation in TEA. Norway, Luxembourg, Switzerland, the Netherlands and Sweden are the European countries with the lowest share of necessity entrepreneurship in TEA. Macedonia, Bosnia and Herzegovina, Poland, Croatia

and Italy are the European countries with the highest shares of necessity entrepreneurship in TEA. It should be no surprise that in general there seems to be a positive correlation between

the level of economic development (efficiency-driven and innovation-driven economies) and the share of opportunity-driven TEA.

**Figure 10:** Share of necessity and opportunity-driven entrepreneurs in TEA by country, 2013 (%)

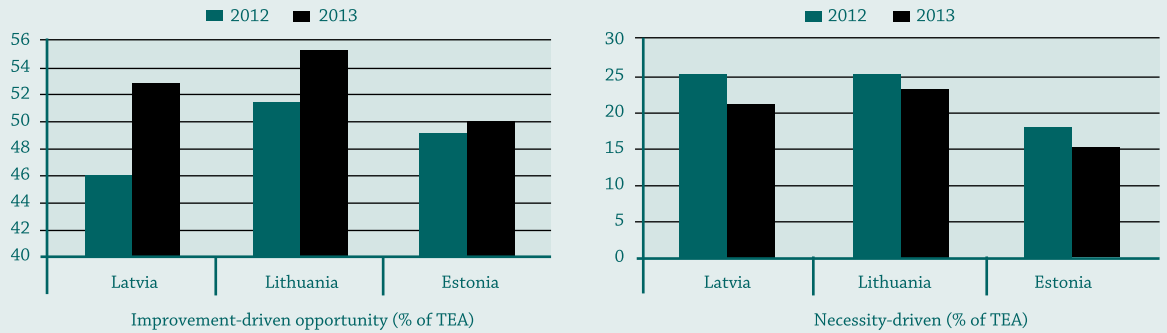


Source: GEM Adult Population Survey 2013

If we compare the dynamics of individual motivation in Latvia, Lithuania and Estonia (see Figure 11 below) we observe a decrease in necessity-driven entrepreneurship and an increase in improvement-driven opportunity entrepre-

neurship in all three Baltic states this year compared to the previous year. Therefore we can conclude that an increase in TEA observed in Lithuania in 2013 was driven to a large extent by opportunity motives.

**Figure 11:** Percentage of entrepreneurs motivated by necessity and opportunity in the Baltic states, 2012-2013



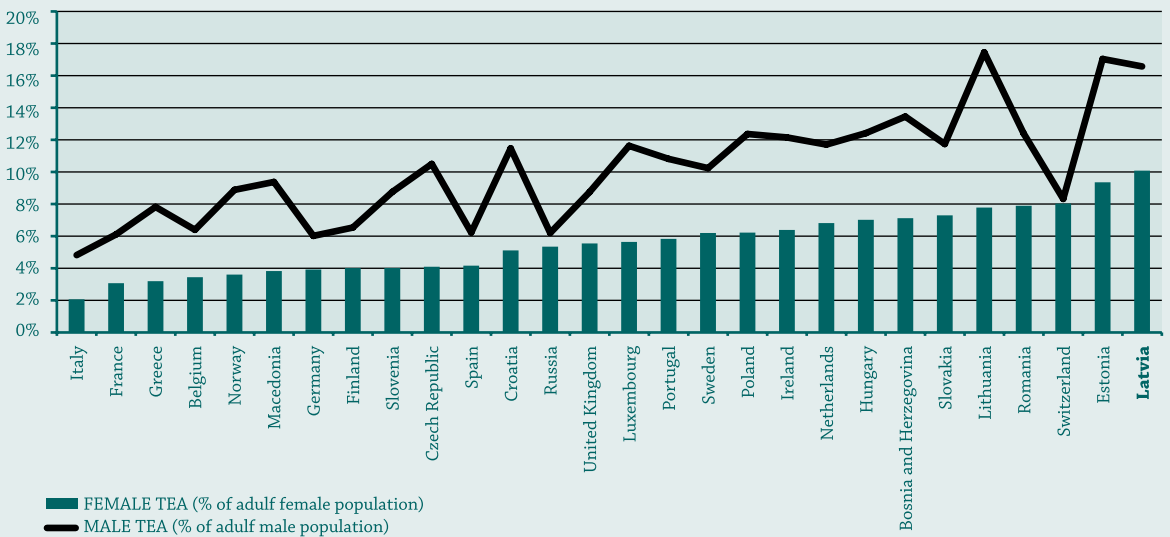
Source: GEM Adult Population Survey 2013

### 1.2.3. AGE AND GENDER OF AN ENTREPRENEUR

Figure 12 presents the gender dimension of TEA in Europe, showing what proportion of the female and male population in a given country are involved in early-stage entrepreneurial activity. Females in Latvia and Estonia are the

most actively involved in early-stage entrepreneurial activities compared to other European countries, with Italy having the lowest rate of female participation.

**Figure 12:** Total early-stage entrepreneurial activity in Europe by country and by gender, 2013



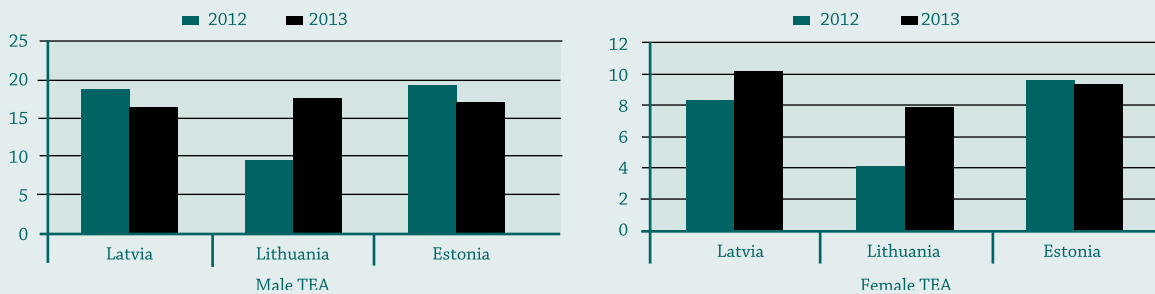
Source: GEM Adult Population Survey 2013

The highest difference between the shares of male and female involvement is observed in Lithuania, where 8% of females and 17% of males are involved in TEA.

However, in Switzerland and Russia similar shares of females and males are involved in TEA, about 8% in Switzerland and 5-6% in Russia respectively.

Focusing on the Baltic states, both in Latvia and Estonia a lower proportion of males compared to 2012 was participating in early business activity. In Estonia females also participated somewhat less compared to 2012. Latvian females and Lithuanian males and females increased their participation compared to the previous year.

**Figure 13:** Total early-stage entrepreneurial activity in the Baltic states by gender, 2012-2013 (%)

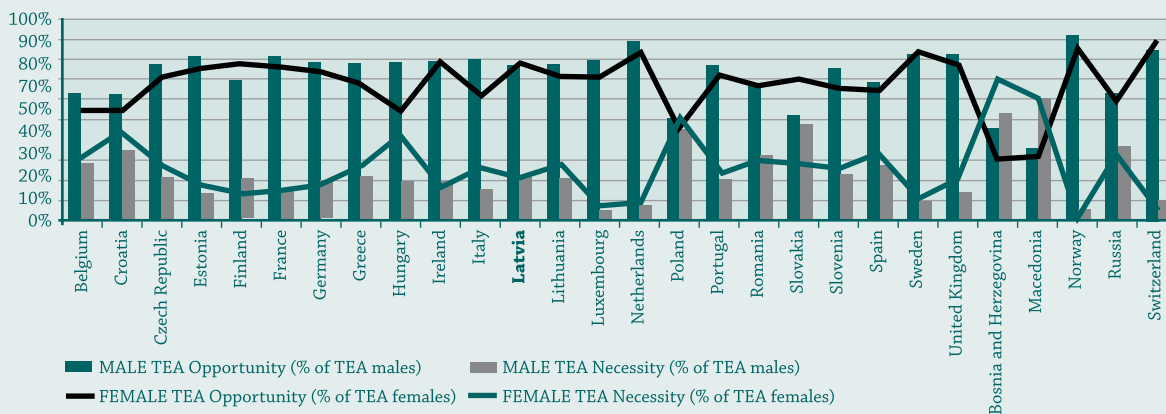


Source: GEM Adult Population Survey 2013

Figure 14 below, provides a picture of male and female motivations for involvement in entrepreneurial activity in Europe. As we see, in Bosnia and Macedonia the necessity-motive

prevailed among females, i.e. far more females were driven by necessity compared to opportunity motivation. The same is actually true also for males living in these two countries.

**Figure 14:** Shares of entrepreneurs motivated by necessity and opportunity by country and by gender, 2013



Source: GEM Adult Population Survey 2013

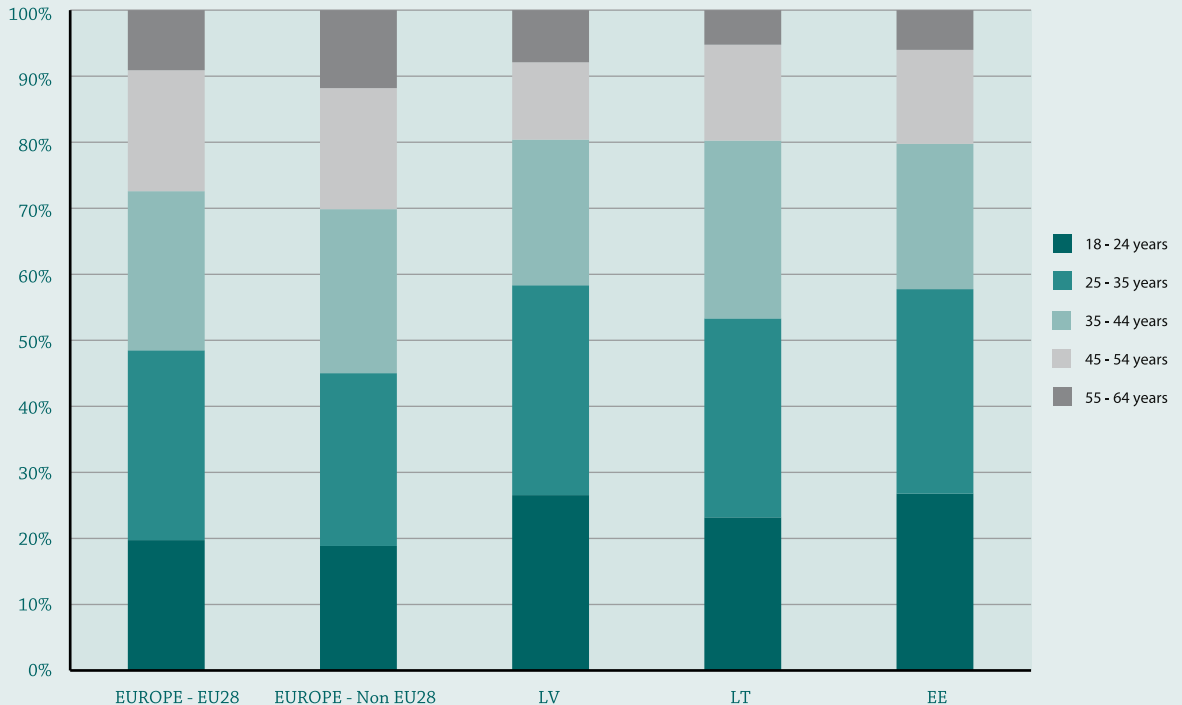
Necessity is not a typical motive for starting a new venture either for males or females in Luxembourg, the Netherlands, Norway and Sweden. In Finland and Slovakia the share of females driven by opportunity motives is higher compared to the share of males with the same motivation, while the share of females driven by necessity motives is smaller compared to the share of males with the same motivation. In most other European countries the share of females driven by opportunity is either lower than or similar to the share of males, while the share of females driven by necessity is either higher than or similar to those of the other gender.

A society might benefit not only from the involvement of individuals of both genders in

entrepreneurial activity but also from entrepreneurs of different age groups. Young people can bring fresh ideas, whereas older people have relative experience and knowledge.

For all three Baltic states the share of people aged 55-64 and 45-54 involved in entrepreneurial activity is the smallest compared to other age groups as well as compared to average participation of these groups observed in the EU-28 and European non-EU28 countries (Figure 15). On the other hand, participation by young people aged 18-24 is comparatively higher. Hence, there is reason to believe that policies specifically targeting those aged 45-64 can release their entrepreneurial potential and have a positive impact on their future participation rates.

**Figure 15:** Share of early-stage entrepreneurs in Europe by age groups, 2013



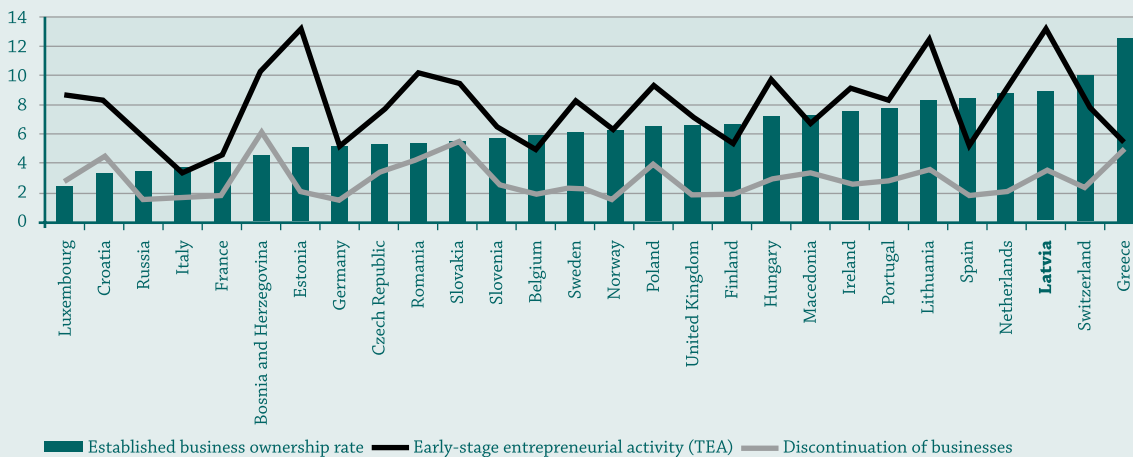
Source: GEM Adult Population Survey 2013

#### 1.2.4. ESTABLISHED BUSINESS OWNERSHIP AND BUSINESS DISCONTINUATION

Observing levels of established business ownership, in this part of the Report we will analyse the sustainability of entrepreneurship in Europe. To do so, we will look at business discontinuation as well as the main reasons for it.

Despite a comparatively high rate of business discontinuation and a rather low rate of early-stage entrepreneurial activity, Greece has the highest rate of established businesses (EBO) in Europe. The lowest EBO rates prevail in Luxembourg and Croatia.

**Figure 16:** Established business ownership, TEA and rate of business discontinuation by country, 2013 (%)



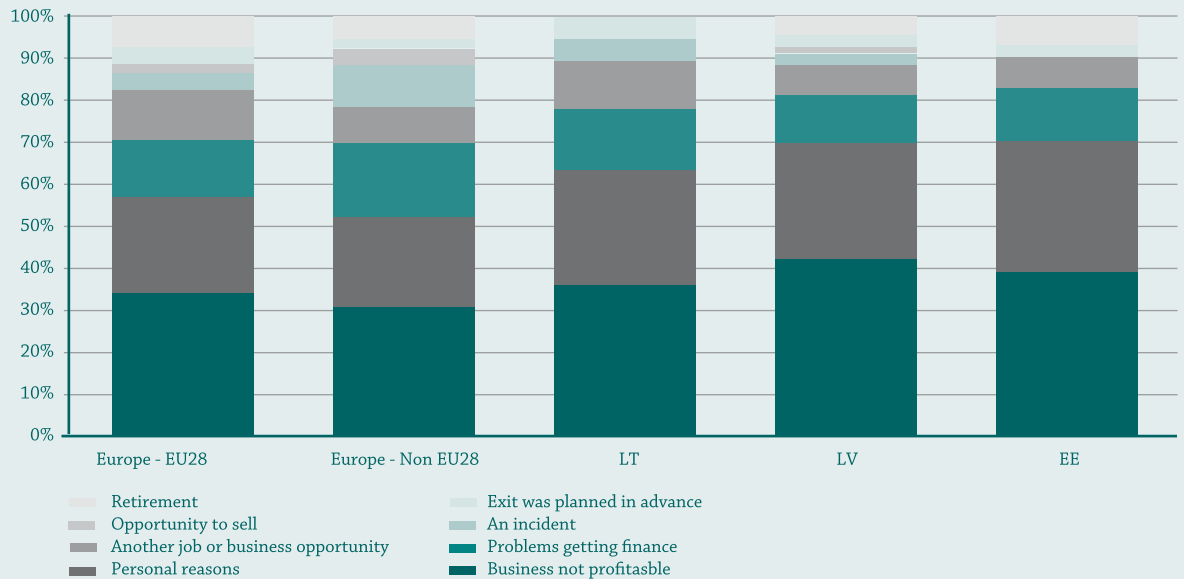
Source: GEM Adult Population Survey 2013

Latvia has one of the highest EBO rates, a high TEA rate and a somewhat average discontinuation rate compared to other European countries. The same is true of Lithuania. Estonia is quite similar to both other Baltic countries in terms of TEA and discontinuation rate, but differs with a lower EBO rate. The highest rate of business discontinuation in Europe prevails in Bosnia and Herzegovina and Slovakia.

One factor contributing in particular to the high Latvian EBO is the rapid growth of the Latvian economy following the economic crisis. The increased level of economic activity also 'spins off' in terms of higher entrepreneurial activity as seen in EBO.

To find out more about the main reasons for discontinuation, we will now look at average results for Europe-EU and Europe-non-EU countries as well as at each of the three Baltic states.



**Figure 17:** Main reasons for business discontinuation in Europe and the Baltic states, 2013

Source: GEM Adult Population Survey 2013

In Latvia the main reason for discontinuation was “business non-profitability”. The share of businesses discontinued for this reason is larger in Latvia compared to the other Baltic states as well as compared to average results observed for other European countries (both EU and non-EU). The main reason for discontinuation in Estonia is “personal reasons”. In Lithuania, compared to other countries, the “opportunity to sell” and “retirement” as reasons for business

discontinuation were almost not mentioned at all. On the other hand, “another job or business opportunity” as a reason for discontinuation was more prevalent in Lithuania than in Estonia and Latvia, and rather similar to the average level for EU countries. “An incident” as a reason for discontinuation was most frequently mentioned in Lithuania compared to other Baltic states, while in Estonia this reason for discontinuation was not mentioned at all.

**Box 1:** Research update: Business insolvencies and failures in Latvia

In a paper recently published in the *Journal of Baltic Studies*, Sauka and Welter (2014), examine the determinants of business insolvencies in Latvia during the recent periods of economic growth and recession. Based on face-to-face interviews with insolvency administrators in 2007 and a survey of the same respondents in 2009, the paper aims at identifying factors specific to Latvia in terms of explaining business insolvencies/failures.

In a GEM context an understanding of what drives business insolvencies and failures is therefore of interest when analysing Latvian TEA performance.

In a general context the literature identifies a number of factors contributing to business failure and ultimately insolvency. Among the general (non-specific Latvian ones) are: lack of working capital, lack of knowledge and experience, and overconfidence of the entrepreneur. As seen from the discussion in 1.2.4 in general and figure 17 on the main reasons for business discontinuation most of these general factors are already captured in the GEM research. By interviewing insolvency administrators, Sauka and Welter take the analysis one step further by identifying factors not captured in the GEM survey.

The authors highlight two factors specific to the Latvian context and not, so to say, seen in the GEM data. Firstly, during periods of economic growth as well as during the

recession, the main reason (all categories) for insolvency was company fraud. In other words, a relatively high number of insolvencies occur due to either illegal or unethical behaviour. In particular the economic downturn saw an increasing number of companies being involved in various forms of informal activities and various forms of cheating.

Secondly, their discussion highlights the regulatory aspects of the business environment and entrepreneurs' inability to adapt or adjust to frequently changing business regulations and to an overall unstable business environment. This factor became particularly pronounced during the economic crisis. However, irrespective of good times or not, the inability of the policymaker and hence of its agencies to establish predictable and sustainable 'rules of the game' is seen as a factor substantially contributing to Latvian business failures and insolvencies.

In their conclusions, Sauka and Welter, emphasise the need for policymakers to reduce all possible administrative constraints facing an entrepreneur. This includes a wide range of constraints ranging from general bureaucracy and red tape, and other barriers to entry to tax issues and overall tax administration – constraints that prevent individual entrepreneurs from running their business effectively.

To conclude this subsection we summarise the results for Latvia:

*Latvia, with 13.3% of its adult population (aged 18–64) involved in early-stage entrepreneurship in 2013, ranks 1<sup>st</sup> out of 28 European countries participating in the GEM project. The established business ownership rate has increased compared to the*

*previous year 8.8% (7.9% - 2012) and is also one of the highest among other European countries.*

*One out of five early-stage entrepreneurs in Latvia are driven by necessity motives.*

*“Unprofitable business” is still the main reason for business discontinuation.*

### 1.3. ENTREPRENEURIAL ASPIRATIONS

Not only entrepreneurial activity level matters for the future economic development of a given country. Equally and most likely even more important is the “quality” of entrepreneurial activity (entrepreneurial aspirations). “High quality” entrepreneurship may speed up the process of economic growth.

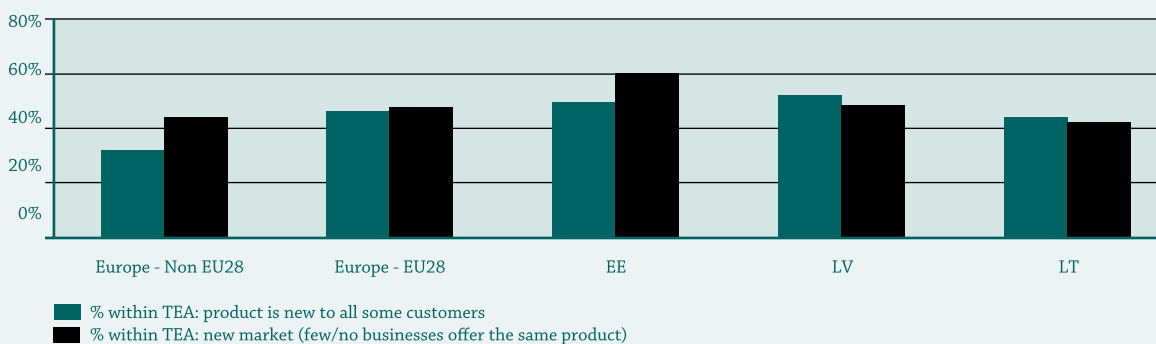
GEM measures entrepreneurial quality assessing **product or/and market innovation, job (growth) expectations** and **level of internationalization**.

#### 1.3.1. INNOVATION

In the GEM framework **innovation** is measured by assessing the degree to which a product or service is new to customers (*product innovation*) and whether other businesses offer the same product or service (*market/industry innovation*). Comparing countries we have to bear in mind that what might be considered innovative in one country may not be new in another. Yet, a high degree of innovativeness among entrepreneurs will have a positive impact on the future growth of the economy leading to structural change in the long run.

Figure 18 below shows innovation profiles for all three Baltic states and the average results for EU and non-EU European countries. Entrepreneurs in Estonia are more innovative in terms of new markets. Almost 60% of early-stage entrepreneurs in Estonia believe that few or no businesses in the market offer the same product or services as they are offering. Latvians on the other hand tend to be the most innovative in terms of product innovation compared to the other two Baltic states and on average in Europe. About half of all early-stage entrepreneurs in Latvia think that their product is new to all or some customers.

**Figure 18:** Innovation in Europe and each of the Baltic states, 2013



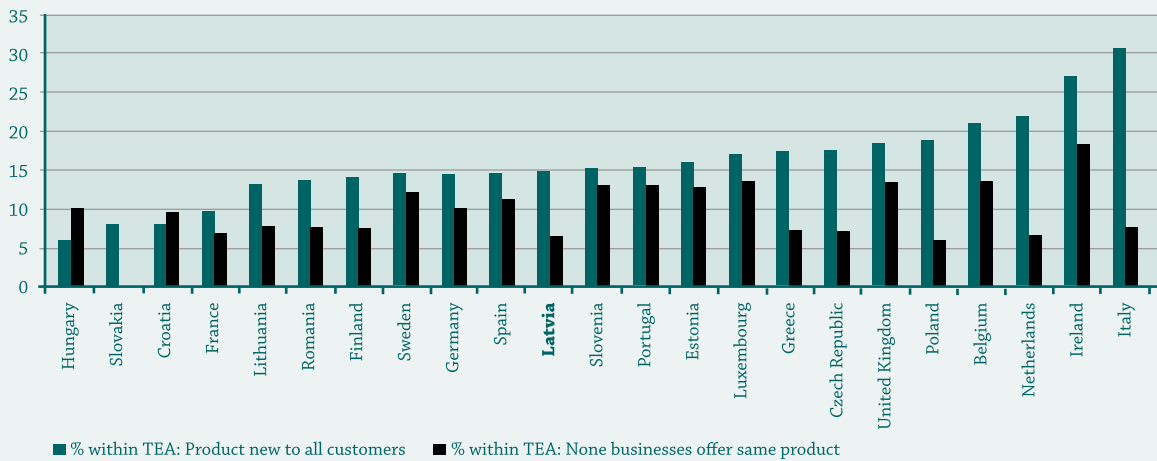
Source: GEM Adult population Survey 2013

If we narrow our analysis and focus on entrepreneurs that think they have products new to **all** customers and those believing that **no** businesses are offering the same product (Figure 19), we see that Europeans are mostly product-innovative rather than industry-innovative, with the exception of Hungary. The most product-innovative are Italy and Ireland. Some 30% of Italian early-stage entrepreneurs believe that

their product is new to all customers and 27% of entrepreneurs in Ireland think the same. Ireland is also the most industry-innovative among European countries, with 18% of Irish entrepreneurs considering that no businesses offer the same product.

We now proceed to job creation and growth orientation of entrepreneurs.

**Figure 19:** Early-stage entrepreneurs with a new product to all customers and share of entrepreneurs with a product offered by no other business, by country, 2013 (%)

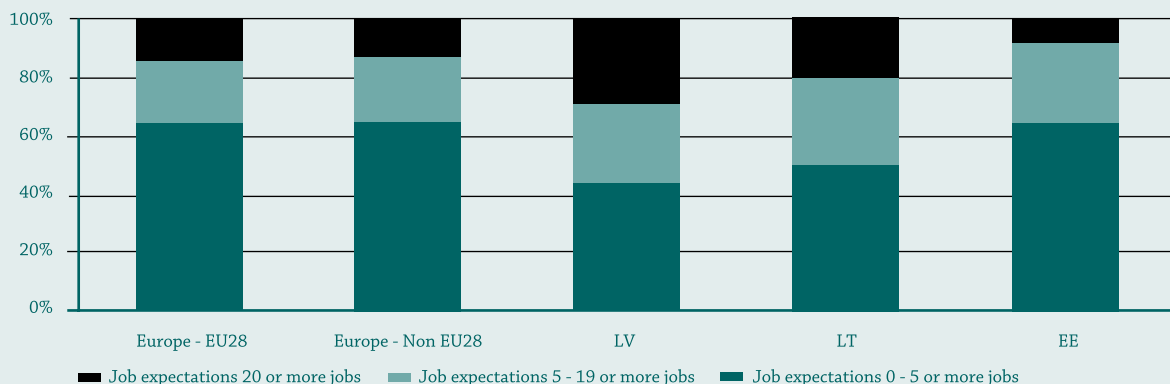


Source: GEM Adult population Survey 2013

### 1.3.2. GROWTH ORIENTATION

**Growth orientation** of entrepreneurs is one of the key measures that can be easily linked to the one of the main objectives of policymakers – new job creation. Analyzing reported growth orientation – the number of expected jobs in five years from now – one has to keep in mind that

this measure reflects ambitions, expectations of job creation that may not be actually realized. At the same time, without dreaming about growth, actual growth cannot be achieved. This measure can be used as a good proxy for the potential growth of a given venture.

**Figure 20:** Growth expectation in Europe and in each of the Baltic states, 2013

Source: GEM Adult population Survey 2013

Most European entrepreneurs are not very ambitious in terms of expected job creation; they expect to create a maximum of up to 5 jobs in five years. The highest share of individuals expecting to create more than 20 jobs in five years appears among Latvian entrepreneurs, with about 30% of Latvian entrepreneurs expecting to do so. Estonians, similarly to average Euro-

peans, tend to have very small growth expectations – not more than 5 jobs, with a very small share of Estonian entrepreneurs expecting high growth in the future. Again, perhaps Latvian optimism can be explained by the overall sentiment in Latvia stemming from the fact that Latvia is currently the fastest growing economy in the EU.

### 1.3.3. INTERNATIONALIZATION

The final measure of entrepreneurial aspirations is the **level of internationalization**. It is clear that entrepreneurs in countries with small internal markets are thinking more about international markets compared to territorially larger countries. EU countries including Latvia, Lithuania and Estonia exhibit a rather high degree of internationalization.

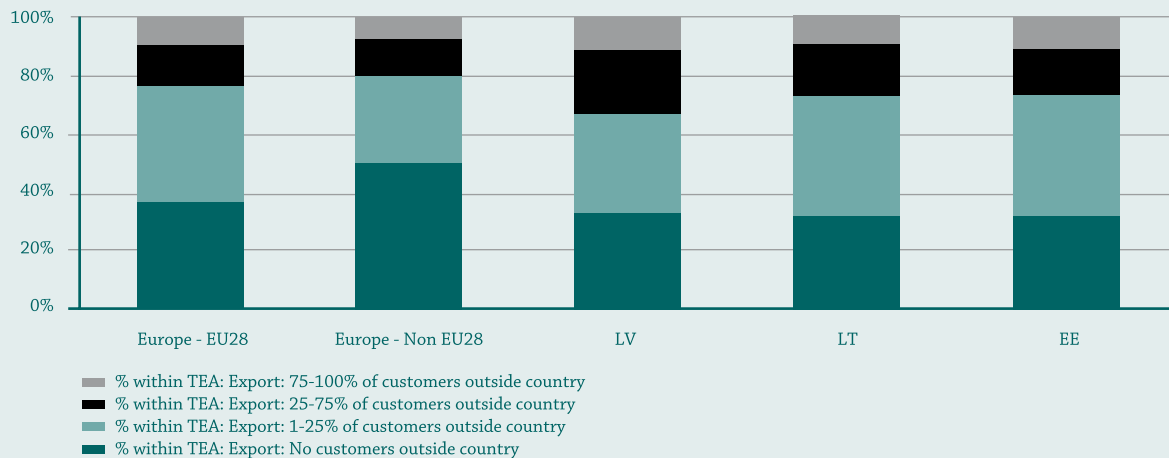
If we compare the three Baltic states we see a rather similar picture in terms of those who

claim not to have customers outside the country: in all three Baltic states about 30% of all early-stage entrepreneurs are not export oriented. Some 43% of entrepreneurs in Lithuania and Estonia and 23% of entrepreneurs in Latvia claim to have up to 25% of customers from abroad. When we compare the share of entrepreneurs with high export orientation, we observe this share to be 10% in Estonia and Latvia and 8% in Lithuania.

If we draw a portrait of a typical highly export-oriented early-stage entrepreneur<sup>7</sup> (75-100% of customers outside the country), it is a 32-year old male, Latvian, living in Riga, with higher

education (1st level of professional education) operating in business services<sup>8</sup> (i.e. the primary customer is another business).

**Figure 21:** Export orientation in Europe and in each of the Baltic states, 2013



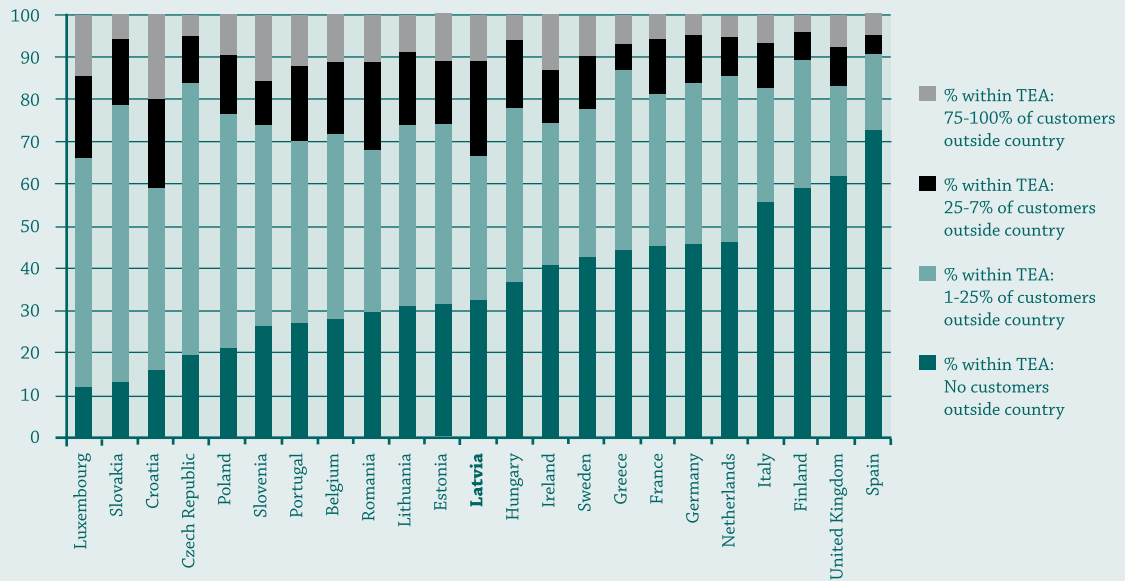
Source: GEM Adult population Survey 2013

Figure 22 presents the level of internationalization observed in EU countries by country level. We see that countries with the highest proportion of customers from abroad (with 75-100% of customers outside the country) are Luxem-

bourg, Slovenia, Croatia and countries with the highest share of new ventures that are not export orientated (no customers outside the country) are Spain, the UK, Finland and Italy.

<sup>7</sup> We used median for gender, age, and ethnicity; modes for region, education level, business activity and income.

<sup>8</sup> Activity is coded according to International Standard Industry Codes (ISIC).

**Figure 22:** Export orientation by country, 2013

Source: GEM Adult population Survey 2013

To sum up the results for Latvia:

*About half of all early-stage entrepreneurs in Latvia think that their product is new to all or some customers. About 30% of Latvian entrepreneurs expect to create 20 or more jobs in 5 years. 10% of*

*early-stage entrepreneurs in Latvia have high export orientation (75%-100% of customers outside the country).*

## 2. PORTRAIT OF THE LATVIAN ENTREPRENEUR

Entrepreneurship is ultimately about people. Researchers from various fields studying entrepreneurship agree that personal characteristics such as for example gender, age, education, income and place of residence are important factors in terms of understanding and explaining entrepreneurial activity. The aim of the current chapter is to identify and look into the Latvian entrepreneur (both early-stage and established business owner) and find out who he/she is. By doing so, we can define the average Latvian entrepreneur in demographic and socio-economic terms and see the differences in characteristics of start-uppers and established business owners. This will also allow us to identify groups who might be seen as 'under-represented' in terms of entrepreneurial activity and who hence might represent an untapped entrepreneurial potential.

In 2013 the average early-stage Latvian entrepreneur<sup>9</sup> was a 34 year old male, living in Riga, ethnically Latvian with a vocational secondary education and a business in consumer services. Most early-stage entrepreneurs in Latvia operate in consumer oriented services, where the primary customer is a physical person, i.e. retail, restaurants and bars, health, education, lodging, social services and recreation. In contrast, established entrepreneurs are particularly active in the transformation sector – construction, manufacturing, transportation and wholesale distribution.

Riga and sub-Riga has a lead in the level of both early-stage entrepreneurship and established business ownership. Compared with Latvia's other four regions, more established entrepreneurs live in Latgale but no significant differences exist between the other regions in terms of early-stage entrepreneurs.

The age profiles of established business owners and early-stage entrepreneurs are different. Established business owners are older compared to early-stage entrepreneurs. One half of all established business owners are individuals in the age group 45-64, whereas only one-fifth of all early-stage entrepreneurs are in this age group. Young people of 18-24 years are much more active in starting a business, but the share of this age group among established entrepreneurs is very small.

Out of ten established entrepreneurs only three are females. The gender gap for early-stage entrepreneurs is smaller, with four out of ten early-stage entrepreneurs being females, suggesting that gender imbalance may diminish in the future.

The share of Latvians in entrepreneurship (both in early-stage and established) is about 60%. The share of ethnic Russians in early-stage entrepreneurship is higher than in established entrepreneurship. The opposite is true for other ethnic minorities.

The largest share of established entrepreneurs has secondary vocational or professional education. Individuals with this type of education are also one of the two groups most active at the early-stage entrepreneurship level, the second group being individuals with higher education (bachelor, master or doctoral).

The largest share of early-stage entrepreneurs are either full-time employed by others or self-employed. Almost 30% of established business owners are full-time employees of others. Almost 65% of all established-business owners are self-employed.

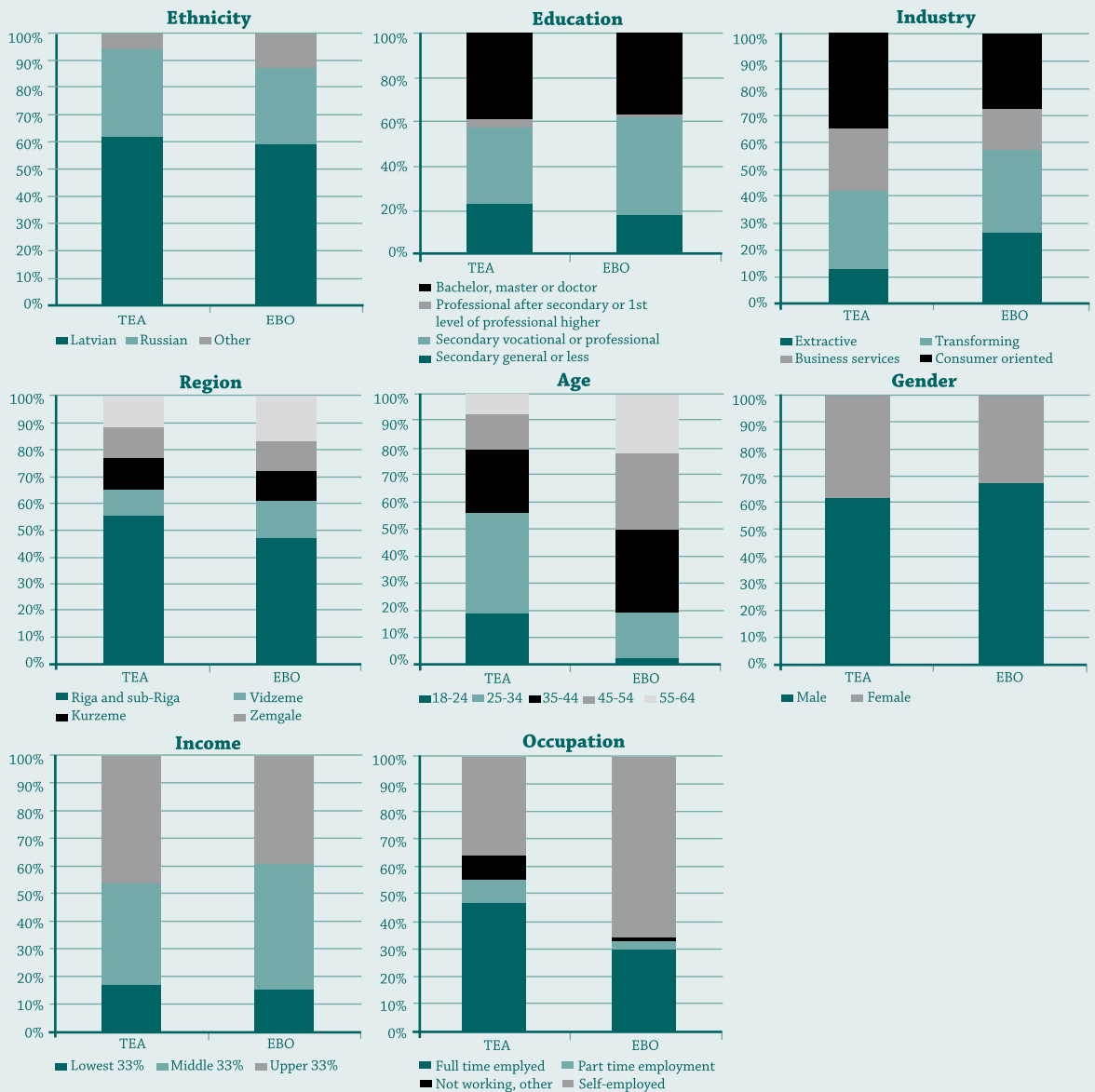
<sup>9</sup> We used median for gender, age, and ethnicity; modes for region, education level, business activity and income.



About half of all early-stage entrepreneurs and 40% of all established entrepreneurs belong to the upper 33% of household income distribution. Individuals with income that corresponds

to the lowest 33% of income distribution are least represented among both established and early-stage entrepreneurs.

**Figure 23:** Profile of the Latvian entrepreneur



Source: GEM Adult population Survey 2013

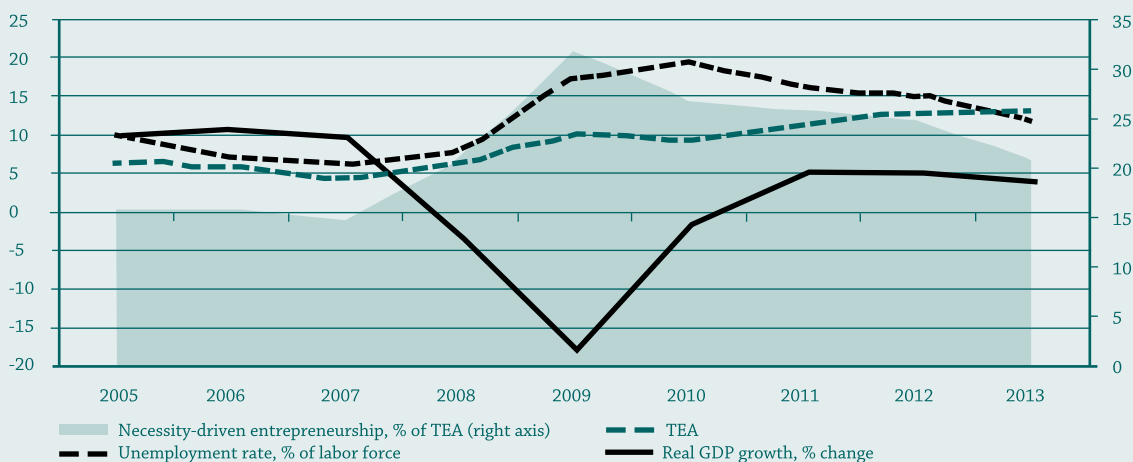
### 3. DYNAMICS OF THE ENTREPRENEURSHIP IN LATVIA 2005-2013

The dynamics of Latvian entrepreneurship as measured by GEM was discussed in detail in the previous GEM Latvia 2012/2013 Report (see Krumina and Paalzow, 2013). Combining GEM data on TEA and necessity driven entrepreneurship with EUROSTAT data on real GDP growth and unemployment, Figure 24 clearly shows the counter-cyclical nature of early-stage entrepreneurial activity in Latvia, (i.e. it decreased in the boom but increased during the recession). In 2005-2009 the Latvian economy went from real GDP annual growth rates above 10 percent to a decline of almost 18 percent in 2009. Changes in macroeconomic conditions brought substantial variation in the prevalence rate of early-stage entrepreneurs. The prevalence rate was about 6.6% in 2005-2006, dropped to 4.4% in 2007, and then sharply increased to more than 10% in 2009. It is also rather clear that the increased total-early stage entrepreneurial ac-

tivity was driven mostly by increased necessity-driven entrepreneurship. When the economic crisis hit the economy and finding a paid job became difficult, people were forced into entrepreneurship in order to survive. Data seem to support what in the literature is labelled the “refugee” or “push” effect, i.e. good years see a larger share of entrepreneurs motivated by business opportunity, whereas bad years see a larger share of necessity driven entrepreneurs motivated by adverse labour market conditions.

Furthermore, as discussed in Krumina and Paalzow (2013), other variables studied within the GEM project, such as perceived opportunities and perceived capabilities, seem to exhibit a clearly cyclical pattern as well. Hence, most of the variation in TEA seems to stem from the variation in the business cycle. This, in turn, seems to indicate that many of the active policy

**Figure 24:** TEA, unemployment and real GDP growth, 2005-2013



Source: GEM Adult population Survey 2013 and EUROSTAT

measures taken by the Latvian Government in order to stimulate entrepreneurship, such as the improvement in overall business conditions and the microenterprise regime with its lower

tax and reduced administrative burden for microenterprises, seem to have little if any impact on the level of early-stage entrepreneurial activity in Latvia.

## 4. SHOULD THERE BE MORE ENTREPRENEURS IN LATVIA?

The underlying assumption of the GEM research project is that entrepreneurship is something desirable. By turning knowledge and ideas into new products and services, entrepreneurship plays a pivotal role in terms of increasing productivity, creating jobs, enhancing a country's competitiveness and economic growth and hence ultimately improving the well-being of its citizens.

Given that entrepreneurship can be seen as a desirable phenomenon, it might be 'natural' to ask the question: "Should there be more entrepreneurs in Latvia?" Needless to say, neither every Latvian can or should become an entrepreneur. Nevertheless, as this year's GEM research shows, out of somewhat more than 30% of Latvians that perceive entrepreneurial opportunities, 40% indicate that they do not have sufficient skills or capabilities. This, together with the relatively high (by European standards) perceived fear of failure as reported in Table 2, clearly indicates the existence of untapped entrepreneurial potential in Latvia since potential entrepreneurs are restrained from developing their ideas due to perceived lack of skills, or fear of failure, or both.

In other words, given the entrepreneurial aspirations among its population, Latvia probably has too few entrepreneurs. Based on the findings discussed, a policy aiming at increasing the number of Latvian entrepreneurs should address the issues of perceived entrepreneurial capabilities and perceived fear of failure.

One apparent way to do so would be to improve entrepreneurship education throughout the educational system as well improving educational measures aiming at current and potential entrepreneurs. However, education alone will not be enough. Perceived capabilities are not only influenced by education: they are also defined

in relation to the perceived requirements facing a business start-up. A start-up framework that in terms of regulation and legal requirements is more complex, everything else being equal, will reduce the number of potential entrepreneurs perceiving that they possess the capabilities needed. By the same token, a system that financially and/or socially 'punishes' an entrepreneur who fails will increase the fear of failure.

The dynamics of perceived capabilities and fear of failure for the period 2005-2013 (the period for which we have GEM data) suggests that substantial change takes place over time. However, the changes seem to mimic the business cycle. In good times the share of the Latvian population perceiving that they have capabilities goes down, whereas it increases during bad times. Fear of failure also exhibits a 'counter-cyclical' pattern, in that it goes up in bad times and falls when the economy is booming.

Although fairly speculative, these findings indicate that there seems to be very little change in terms of perceived capabilities and fear of failure when the variation stemming from the business cycle has been accounted for. This observation might be interpreted as meaning that the last decade's activities in terms of facilitating establishing a business, running a business and also educational activities in the field of entrepreneurship have not really paid off. Had they been successful one would have expected more of an increase in perceived capabilities and more of a reduction in the perceived fear of failure.

In other words, even though entrepreneurship education has been high on the Latvian policy agenda during the last decade and even though Latvia's performance in the World Bank Group's Doing Business Index as well as its ranking in the World Economic Forum Global Competi-

tiveness Report clearly indicate improvements, neither these improvement nor educational efforts have translated into improved entrepreneurial perceptions and hence increased start-up activity.

In terms of actual policy, this means that policymakers, in addition to reviewing the way en-

trepreneurship is being taught, should address legislative issues, tax reporting, and bankruptcy legislation with the clear aim of facilitating procedures, thereby lowering the barriers for potential entrepreneurs as well as reducing the fear of failure. If successfully implemented, such measures will increase total early-stage entrepreneurial activity in Latvia.

## 5. RESEARCH UPDATE: THE LATVIAN MICROENTERPRISE TAX

A recent SSE Riga Student Research Paper, Stinka and Bonda (2014), addresses the impact of the Latvian micro enterprise tax which came into effect on September 1, 2010. The introduction of the microenterprise tax can be seen in the light of the economic crisis that Latvia experienced and was introduced with the explicit aim of stimulating economic activity and hence creating new jobs. Companies that qualify for the microenterprise tax scheme pay a flat 9% of their total turnover in tax<sup>10</sup>. Accordingly, the tax substitutes personal income tax and corporate income tax for the owner. It also substitutes personal income tax and social security contributions for the employees.

In addition to offering a favourable tax treatment, the Law on Microenterprise Tax provides simplified administrative procedures, in particular with respect to tax payments where one payment substitutes a number of different taxes facing an 'ordinary' entrepreneur. To further reduce the administrative burden tax payments are due only once every third month. To qualify for the enterprise tax, the Law stipulates that the company has to meet a number of requirements including:

- ♦ Turnover cannot exceed 100 000 euros per year.
- ♦ The number of employees cannot be more than five.
- ♦ The income of each employee cannot exceed 720 euro per month.

Being very 'generous' towards the microenterprises, it should not come as a surprise that the tax as such has been criticised. The main criticisms have been along the following lines:

- ♦ The relatively low social security contributions translate into low social benefits

for individual employees.

- ♦ The cap on turnover and number of employees reduced the incentives to grow (and hence face a less favourable tax regime).
- ♦ The use of the microenterprise tax as a means for tax optimization (tax avoidance).
- ♦ Creation of an uneven playing field where slightly bigger enterprises that do not qualify for the microenterprise tax have to compete on unequal terms.

The response from the proponents of the microenterprise tax has been that despite these perceived shortcomings, the microenterprise tax has contributed positively to the Latvian economy by:

- ♦ Creating many new enterprises and hence generating new jobs and thereby reducing unemployment.
- ♦ Moving enterprises that previously were active in the shadow economy into the official economy and hence increasing the tax revenues.

With this as a background the authors try to assess the impact of the microenterprise tax with respect to the number of enterprises created thanks to the microenterprise tax and their impact in terms of job creation; the number of companies moving from the shadow economy into the official economy; and the use of the microenterprise tax for tax optimization/tax avoidance. To assess these issues the authors undertook a survey of actual microenterprise tax payers. The survey results were compared with data from other sources and supplemented by stakeholder interviews.

<sup>10</sup> The tax rate is foreseen to gradually increase from today's 9% to 11% in 2015, 13% in 2016 and eventually 15% in 2017.

In the beginning of 2014 there were in total 33 395 registered microenterprise tax payers in Latvia. The estimates provided by the authors suggest that out of these 33 395 registered companies:

- ◆ About 16% or around 5 600 new enterprises were genuinely new ones – while the other ones were economically active prior to registering as microenterprise tax payers.
- ◆ Two thirds of already existing enterprises registered as microenterprise tax payers in order to optimize their tax payments and to reduce the administrative burden.
- ◆ A total of 11 200 new jobs were created;
- ◆ Approximately one third fully or partly legalized their activities by moving them from the shadow economy into the official one.

In addition, as the authors point out, the microenterprise tax has most likely increased economic activity in terms of turnover as well as employment in the companies that already existed prior to the introduction of the microenterprise tax.

The findings above should be contrasted with those of the Latvian Ministry of Finance (2014) suggesting that around 75% of all the enterprises registered as microenterprise tax payers were new ones. At least part of the explanation for the different estimates can be found in the fact that the Ministry of Finance do not discriminate between enterprises established for tax optimization purposes and those that were ‘generically’ new ones, and that they do not take into account the effects of moving activities from the shadow economy into the official one. Even though the authors conclude that the microenterprise tax reform has been a success in terms of new ventures established, creation of new jobs, and moving activities from the shadow economy to the official one, they highlight

that their findings indicate that the reform has not been very successful in terms of one of its objectives – reducing the administrative burden facing the microenterprises.

If we try to put the discussion of the microenterprise tax in Stinka and Borda (2014) into the overall GEM context, it seems reasonable to assume that the introduction of the microenterprise tax law should be seen in the Latvian level of total early-state entrepreneurial activity (TEA) as discussed in section 3. There are several ways the implemented microenterprise tax scheme could affect TEA: through an increase in perceived opportunities by making hitherto unpromising projects financially viable; through the fact that the reduced administrative burden and simplified tax treatment lowered the bar for the perceived skills needed to launch a start-up; and through the reduced risks following the simplified tax code, reducing the perceived fear of failure. Although the impact of the microenterprise tax on these factors is not explicitly addressed by the GEM data collection, there seems to be little (indirect) evidence in the GEM data collected during the last couple of years to support the view put forward by the Ministry of Finance that around 75% of the registered microenterprise tax payers were new enterprises – this should have been seen in the observed TEA levels (where most of the variation seems to stem from the business cycle). Hence, the GEM findings support the findings in Stinka and Borda that the number of new enterprises established following the microenterprise tax is considerably lower than suggested by the Ministry of Finance. Furthermore, and as discussed in the previous sections, the perceived skills to start-up an enterprise seem to be fairly stable over time when adjusted for the business cycle. Even though fairly speculative, this might also support the finding that the reform has not been particularly successful in terms of reducing the administrative burden facing the Latvian entrepreneurs.

## CONCLUSIONS

Reflecting the improved overall economic climate in Latvia more Latvians saw new business opportunities in 2013 compared to the previous year. They also became more confident about their entrepreneurial skills and abilities during 2013, whereas at the same time the fear of failure increased.

Even though recent years' developments have shown increased early-stage entrepreneurial activity, the GEM findings indicate an untapped entrepreneurial potential in Latvia. From the policymaker's point of view this poses a challenge – a challenge that should be addressed and which should focus on reducing the overall regulatory burden facing startups combined with a more 'predictable' regulatory framework reducing the perceived risks facing early-stage entrepreneurs.

The main GEM findings could be summarized as follows:

- ◆ In 2013 the average early-stage Latvian entrepreneur was a 34 year old male, living in Riga, ethnically Latvian with a vocational secondary education and a business in consumer services.
- ◆ Latvia, with 13.3% of its adult population (aged 18–64) involved in early-stage entrepreneurship in 2013, ranks 1<sup>st</sup> out of 28 European countries participating in the GEM project. On the other hand, one out of five early-stage entrepreneurs in Latvia are still driven by necessity motives and “unprofitable business” is still the main reason for business discontinuation.
- ◆ 40% of those Latvians who perceive entrepreneurial opportunities indicate that they do not have sufficient skills or capabilities. This, together with the relatively high (by European standards) perceived fear of failure clearly indicates the existence of untapped entrepreneurial potential in Latvia.
- ◆ Females in Latvia and Estonia are the most actively involved in early-stage entrepreneurial activities compared to other European countries. The smaller gender gap for early-stage entrepreneurs compared to established entrepreneurs in Latvia also suggests that the gender imbalance may diminish in the future.
- ◆ The findings reported in this year's GEM Latvia Report indicate that measures aiming at supporting entrepreneurship have had very little impact on the Latvian TEA level. Despite measures such as introduction of the microenterprise tax and Latvia's improvement in the World Bank's Ease of Doing Business Index, most of the changes in the Latvian total early-stage entrepreneurial activity seem to be explained by the business cycle. Furthermore, what seems to be a bottleneck in terms of allowing Latvians to realize their full entrepreneurial potential is the regulatory burden combined with an overall unpredictable regulatory framework.



## CONCLUSIONS IN LATVIAN (SECINĀJUMI)

Salīdzinot ar iepriekšējo gadu, 2013. gadā lielāks skaits Latvijas iedzīvotāju spēja saskatīt biznesa iespējas, ko var skaidrot ar vispārēju ekonomikas klimata uzlabošanos Latvijā. Latvijas iedzīvotāji ir kļuvuši pārliecinātāki par savām uzņēmējdarbības spējām un prasmēm, tomēr bailes no biznesa neveiksmes ir palielinājušās.

Lai gan pēdējo gadu izaugsme ir veicinājusi agrinās stadijas uzņēmējdarbības aktivitātes palielināšanos, GEM rezultāti atklāj neizmantotu uzņēmējdarbības potenciālu Latvijā. No politikas veidotāju skatupunkta tas ir izaicinājums, kas ir jārisina un kura risinājumam būtu jāietver vispārējā reglamentējošā sloga samazināšana uzņēmumiem to uzsākšanas stadijā, kā arī labāk paredzamas normatīvās bāzes izstrāde, šādi samazinot iespējamus riskus, ar ko sastopas uzņēmēji agrinājā stadijā.

Galvenie GEM ziņojuma secinājumi ir sekojoši:

- ♦ Vidējais agrinās stadijas uzņēmējs Latvijā 2013. gadā bija 34 gadus vecs vīrietis, kurš dzīvo Rīgā, pēc tautības ir latvietis, ar vidējo profesionālo izglītību un biznesu pakalpojumu sektorā.
- ♦ Latvija ierindojas pirmajā vietā starp GEM 28 Eiropas dalībvalstīm pēc agrinās stadijas uzņēmējdarbības aktivitātes rādītāja - 13.3% no Latvijas iedzīvotājiem ir iesaistījušies agrinās stadijas uzņēmējdarbībā. No otras puses, katrs piektais agrinās stadijas uzņēmējs Latvijā joprojām ir iesaistīts uzņēmējdarbībā nepieciešamības spiests, un visbiežākais iemesls uzņēmējdarbības pārtraukšanai ir peļņu nenesošs uzņēmums.

- ♦ No tiem Latvijas iedzīvotājiem, kuri spēj saskatīt uzņēmējdarbības iespējas, tikai 40% uzskata, ka viņiem piemīt nepieciešamās biznesa vadības prasmes. Līdz ar relatīvi augstām (salīdzinājumā ar Eiropu) bailēm no biznesa neveiksmes, tas skaidri norāda uz neizmantota uzņēmējdarbības potenciāla esamību.

- ♦ Salīdzinot ar citām Eiropas valstīm, Latvijā un Igaunijā ir visaugstākais sieviešu agrinās stadijas uzņēmēju īpatsvars. Mazāka vīriešu un sieviešu īpatsvara starpība starp iesaistīto skaitu agrinās stadijas uzņēmējdarbībā salīdzinājumā ar iesaistīto skaitu nobriedušā uzņēmējdarbībā liecina, ka dzimumu plaša var samazināties arī nākotnē.

- ♦ Šī gada Latvijas GEM ziņojuma rezultāti liecina, ka uzņēmējdarbības veicināšanas instrumentiem ir bijusi ļoti neliela ietekme uz kopējo agrinās stadijas uzņēmējdarbības aktivitātes līmeni (KAA). Neskatoties uz tādiem pasākumiem kā mikrouzņēmumu nodokļa ieviešana, kā arī Latvijas pozīcijas uzlabošanos Pasauls Bankas „Ease of Doing Business” novērtējumā, lielāko daļu izmaiņu Latvijas KAA var skaidrot ar biznesa cikla ietekmi. Turklāt reglamentējošais slogs kombinācijā ar neparedzamu vispārējas tiesiskās bāzes uzbūvi traucē Latvijas iedzīvotājiem pilnībā apzināties un realizēt savu uzņēmēja potenciālu.

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## ANNEXES

### ANNEX 1: THE GEM PROJECT

The Global Entrepreneurship Monitor (GEM) is a not-for-profit academic research consortium that produces evaluation of entrepreneurial activity across the world. The goal of GEM lies in making high quality international research data on entrepreneurial activity available to a wide audience all over the world. Initiated by London Business School and Babson College (USA) in 1999 with ten countries, the GEM research consortium had expanded to 70 countries in 2013. GEM is the largest single study of entrepreneurial activity in the world with the most geographically and economically diverse sample. Its contribution to knowledge and understanding of the entrepreneurial process in a global context is unique.

The three main objectives of the Global Entrepreneurship Monitor are: (i) to measure differences in the level of entrepreneurial activity between countries; (ii) to uncover factors determining levels of entrepreneurial activity and (iii) to identify policies that may enhance the level of entrepreneurial activity.

The GEM hallmark is its focus on the role played by individuals in entrepreneurship. The unit of analysis in GEM is the entrepreneur rather than the business venture, with entrepreneurs playing the role of informant on their business. In the GEM research perspective, individuals are primary agents in setting up, starting, and maintaining businesses. The GEM approach is not about counting the number of businesses. It is largely about measuring entrepreneurial activity within the adult population, entrepreneurial spirit, and attitudes to entrepreneurship.

GEM takes a comprehensive approach and considers the degree of involvement in entrepre-

neurial activity within a country, identifying different types and phases of entrepreneurial activity. GEM views entrepreneurship as a process and distinguishes entrepreneurs at different stages of their life-cycle: from the very early phase when the business is in gestation to the established phase and even discontinuation of the business. GEM looks at the main drivers behind engagement in entrepreneurial activity, and differentiates between individuals pulled into entrepreneurship because of opportunity recognition and pushed into entrepreneurship for reasons of necessity. GEM provides means by which a wide variety of important entrepreneurial characteristics such as innovativeness, export-orientation, and high-growth aspirations can be systematically studied; attitudes representing the climate for entrepreneurship in a society can be considered. Finally, GEM offers a framework for conducting research on special topics in entrepreneurship (e.g. entrepreneurial employee activity, social entrepreneurship, and entrepreneurial education) in an international context as well as enabling comparisons of entrepreneurial activities within and across geographic regions and specific groups of countries with similar characteristics. An important advantage of GEM is its reliance on high-quality data, collected via adult population surveys (APS) in each participating country. Representative samples of not less than 2000 randomly selected adult individuals were collected in each of the 70 countries participating in GEM in 2013. A professional survey vendor, "SKDS", conducted the GEM adult population survey in Latvia in 2013. Via telephone interviews, a total of 2000 adults aged 18-64 years old were surveyed during July - August 2013. In addition to the adult population survey a national expert survey (NES) was undertaken in each of the participating countries.

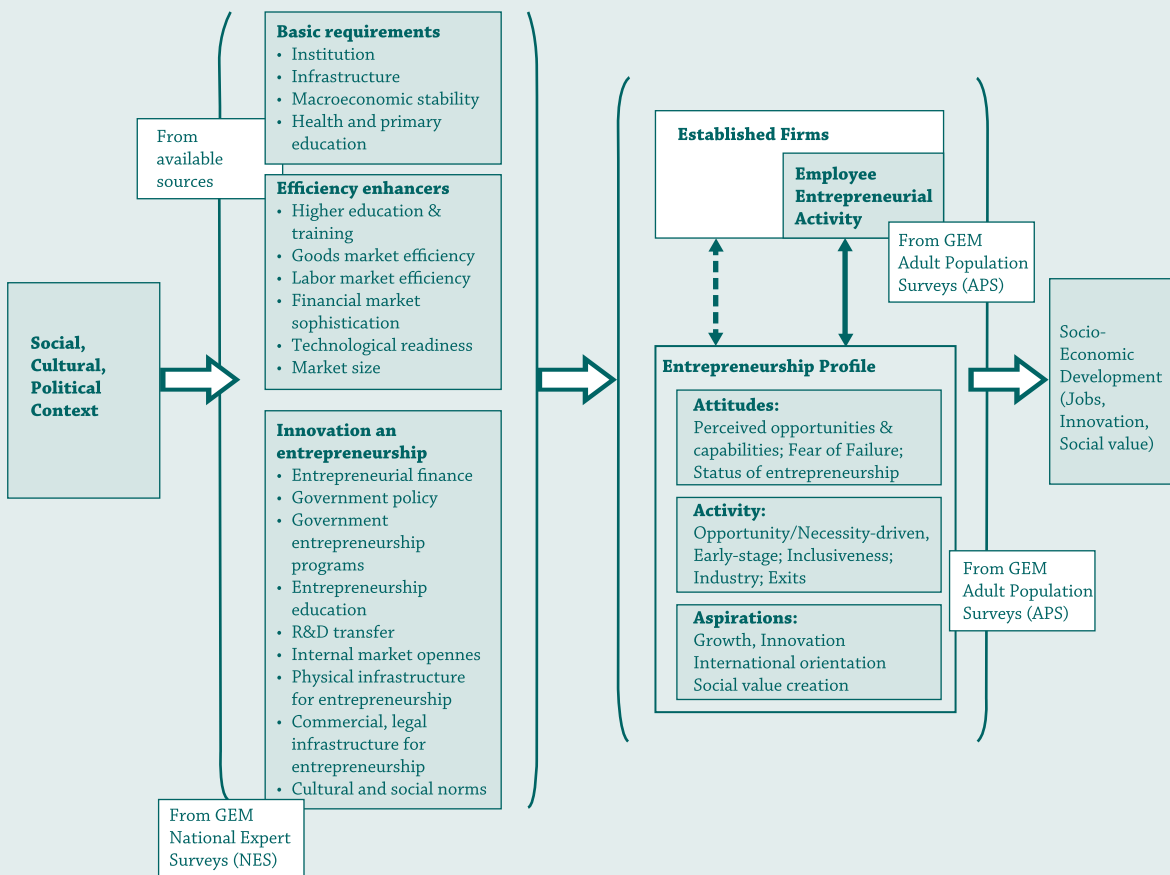
## ANNEX 2: GEM CONCEPTUAL FRAMEWORK

The framework conditions that apply to established business activity differ from those that apply to entrepreneurial activity. The performance of larger established firms is influenced by general business conditions, which influence firms' ability to compete effectively, to start new or ancillary businesses and to create jobs (von Broembsen *et al.*, 2005). An additional set of factors, referred to as Entrepreneurial Framework Conditions, influence individuals' decisions to pursue entrepreneurial initiatives. Both national and entrepreneurial framework conditions are dependent on the social, political

and economic context in which they exist. These contexts are influential in creating unique business and entrepreneurial environments, and should therefore be taken into account when analysing cross-national differences and national developments over time.

The GEM conceptual framework is a dynamic entity that is progressively developed to incorporate advances in understanding the entrepreneurial process and to allow for further exploration of patterns detected in previous GEM studies.

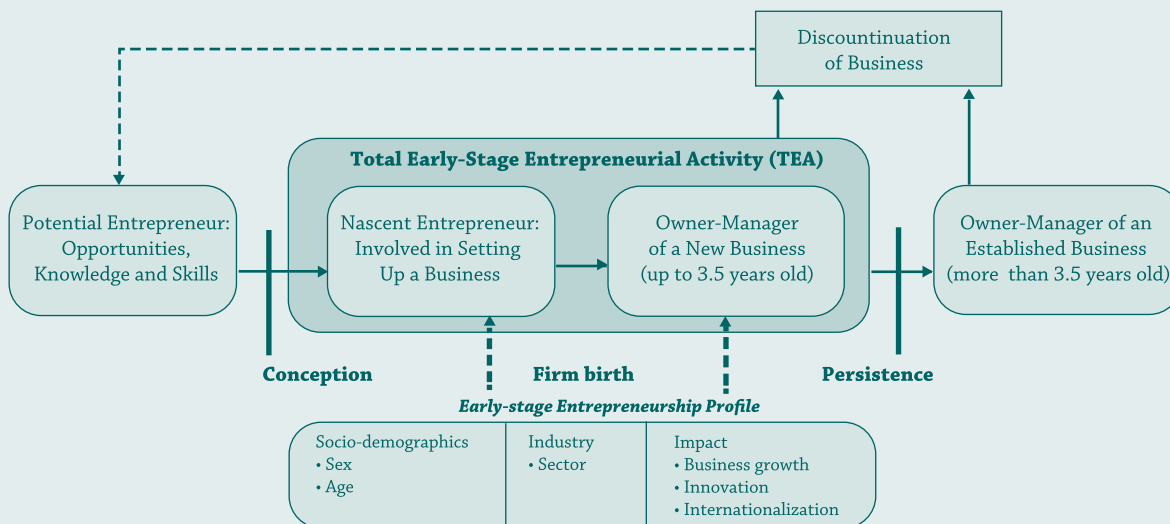
### The GEM Conceptual Framework



Source: GEM Executive Report 2013

### ANNEX 3: THE ENTREPRENEURSHIP PROCESS, GEM TERMINOLOGY AND DATA

Figure below shows the entrepreneurship process and operational definitions, as conceptualized by the GEM research framework.



Source: GEM Executive Report 2013

#### Nascent entrepreneurs

A nascent entrepreneur is an adult individual (a person between 18 and 64 years old) who is actively trying to start up a new business that they will fully or partially own. This new business has already passed the stage of being merely an idea, because the individual has taken active steps over the last 12 months to help launch the business, such as looking for equipment or a location, organizing a start-up team, working on a business plan, or beginning to save money. However, the business is not yet fully operating, since it has not paid wages to its owners for more than three months.

#### New firm owners

A new firm owner is an adult individual who manages and fully or partly owns a new business that has paid wages to its owners for more than three months but less than 42 months (3.5 years).

#### Established business owners

An established business owner is an adult individual who manages and at least partly owns a business that has paid wages to its owners for more than 42 months (3.5 years).

#### Early-stage entrepreneurs (nascent entrepreneurs + new firm owners)

An early-stage entrepreneur is an adult individual who is either a nascent entrepreneur or a new firm owner. The early-stage entrepreneurship phase covers entrepreneurial activity from the first active step taken to start up a business until the moment when the enterprise has paid salaries to its owners for 42 months (3.5 years).

**Firm owners (new firm owners + established business owners)**

A firm owner is an adult individual who manages and fully or partly owns a business. This definition includes new firm owners and established business owners.

**Overall entrepreneurial activity (early-stage entrepreneurs + established business owners)**

Overall entrepreneurial activity includes both early-stage entrepreneurs and established entrepreneurs. Therefore, this group covers all entrepreneurs at all stages of the business life-cycle.

**Prospective entrepreneurs**

A prospective entrepreneur is an adult individual who is planning to start their own business within three years.

## DATA

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In order to provide reliable comparisons across countries, GEM data are obtained using a research design that is harmonised across all participating countries. Data are gathered on an annual basis from two main sources:

**- Adult population survey (APS)**

This data set is a survey of the adult population, namely people between the ages of 18 and 64 years. Each of the participating countries conducts the survey among a random representative sample of at least 2 000 adults. Surveys are conducted at the same time of year (generally between April and early July) using a standardised questionnaire provided by the GEM consortium. In the interests of maximum uniformity and control, the international GEM project team contracts each country's chosen APS vendor directly. Raw data are sent directly to analysts at London Business School for checking and uniform statistical calculations before being made available to participating countries.

**- National experts survey (NES)**

The national experts' survey is an important component of GEM as it provides insights into the entrepreneurial start-up environment in each country. GEM provides a number of criteria which must be met when selecting experts, in order to construct a balanced and representative sample.

- Four experts from each of the entrepreneurial framework condition categories must be interviewed, making a total of 36 experts per country.
- A minimum of 25% must be entrepreneurs or business people, and 50% must be professionals.
- Additional aspects such as geographical distribution, gender, the public versus private sector, and level of experience should also be taken into account when balancing the sample.

**ANNEX 4: MAIN DISTINCTION BETWEEN GEM DATA AND BUSINESS REGISTRATION DATA**

GEM data are designed to measure entrepreneurial activity across a wide range of countries, including those where government business registration data may not provide a true and fair reflection of actual business activity. The main distinctions between GEM data and business registration data are as follows:

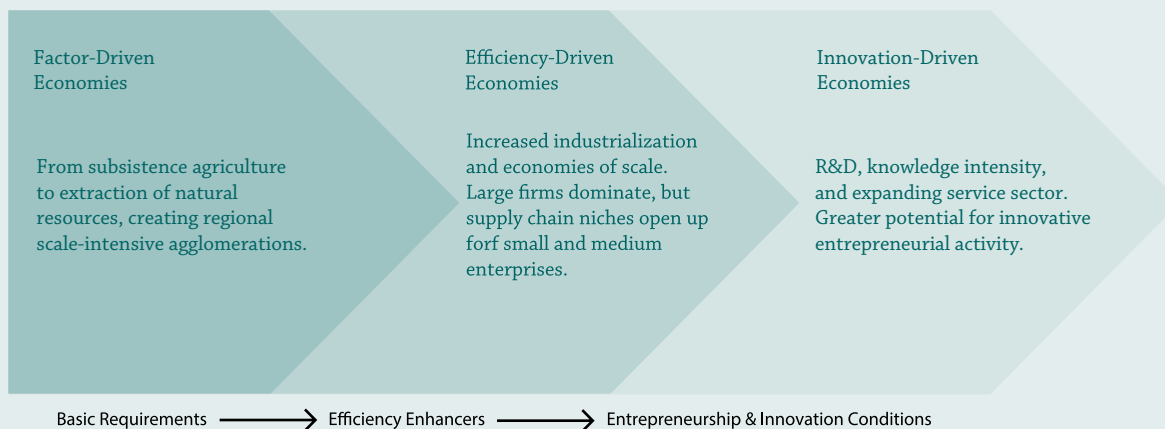
- ♦ The focus of GEM is on entrepreneurs as individuals rather than on business ventures. The primary purpose of GEM is not to count the number of new businesses in different countries. It is about measuring entrepreneurial spirit and entrepreneurial activity through different phases of the entrepreneurial process. Results of GEM research may not be directly comparable to studies based on Enterprise Register data because of different definitions used.
- ♦ GEM data are obtained using a research design that is harmonized across all participating countries. GEM data enable reliable comparisons across countries.
- ♦ The GEM research design implies statistical uncertainties in aggregate (country-level) results. This is acknowledged by publishing confidence intervals for entrepreneurship indices obtained. Business registration data are “count data” and as such do not require confidence intervals. However, the accuracy of registration data as a measure of new business activity is unclear for some countries. For example, in the UK most businesses are not (and are not required to be) registered at all, while in Spain registration is compulsory before trading can commence. In some countries, businesses may be registered purely for tax reasons without entrepreneurial activity taking place, while in other countries businesses are deliberately not registered in order to avoid paying taxes.
- ♦ GEM tracks people who are in the process of setting up a business (nascent entrepreneurs) as well as people who own and manage operational businesses. These also include freelancers or other entrepreneurs who in some jurisdictions need not register. GEM also measures attitudes and self-perceptions regarding entrepreneurship.

## ANNEX 5: ENTREPRENEURSHIP AND STAGES OF ECONOMIC DEVELOPMENT

GEM groups countries into three stages of economic development as defined by the World Economic Forum Global Competitiveness Report 2013-2014 (Schwab, 2013) – factor-driven, efficiency-driven and innovation-driven. This division is based on the level of GDP per capita and the extent to which countries are factor-driven in terms of the share of exports of primary goods in total exports. It is important to keep in mind that all three types of economic activity are present in all national economies, but their input to economic development and relative dominance varies. Figure below shows the characteristics of these economic groups and

the key development focus at each level. This classification of countries is discussed in more detail in the Global Competitiveness Report. According to the 2013-2014 Global Competitiveness Report, Latvia is in transition between being efficiency-driven and innovation-driven, i.e. in the same group as Estonia and Lithuania and several other Eastern European EU member states – notable exceptions being the Czech Republic and Slovenia, which are at the third stage, innovation-driven, and Bulgaria and Romania, which are at the second stage, efficiency-driven economies.

### Characteristics of Economic Groups and Key Development Focus



Source: GEM 2011 Executive Report.

Basic requirements such as development of institutions, infrastructure, macroeconomic stability, health, and primary education are crucial to generation of a sustainable business environment for factor-driven economies with a prevalence of necessity-driven entrepreneurship. With further progress and relevance of scale economies, conditions that ensure a proper functioning of the market become more important. These conditions are also called efficiency enhancers. Among these are higher education

and training, goods market and labour market efficiency, financial market sophistication. For innovation-driven economies entrepreneurship conditions (e.g. entrepreneurial finance, government entrepreneurial policies, entrepreneurial education) are the main factors stimulating economic development. The contribution of entrepreneurs to an economy to a large extent depends on the phase of economic development.



## The Role of Entrepreneurship in Different Phases of Economic Development

### **Entrepreneurship in Factor-Driven Economies**

Economic development consists of changes in the quantity and character of economic value added (Lewis, 1954). These changes result in greater productivity and rising per capita incomes, and they often coincide with migration of labour across different economic sectors in a society, for example from primary and extractive sectors to the manufacturing sector, and eventually, services (Gries and Naude, 2008). Countries with low levels of economic development typically have a large agricultural sector, which provides subsistence for the majority of the population who mostly still live in the countryside. This situation changes as industrial activity starts to develop, often around the extraction of natural resources. As extractive industry starts to develop, this triggers economic growth, prompting surplus population from agriculture to migrate toward extractive and emergent scale-intensive sectors, which are often located in specific regions. The resulting oversupply of labour feeds subsistence entrepreneurship in regional agglomerations, as surplus workers seek to create self-employment opportunities in order to make a living.

### **Entrepreneurship in Efficiency-Driven Economies**

As the industrial sector develops further, institutions start to emerge to support further industrialization and the build-up of scale in pursuit of higher productivity through economies of scale. Typically, national economic policies in scale-intensive economies shape their emerging economic and financial institutions to favour large national businesses. As increasing economic productivity contributes to financial capital formation, niches may open in industrial supply chains that service

these national incumbents. This, combined with the opening up of independent supplies of financial capital from the emerging banking sector, would spur opportunities for development of small-scale and medium-sized manufacturing sectors. Thus, in a scale-intensive economy, one would expect necessity-driven industrial activity to gradually fall and give way to an emerging small-scale manufacturing sector.

### **Entrepreneurship in Innovation-Driven Economies**

As an economy matures and its wealth increases, one may expect the emphasis in industrial activity to gradually shift towards an expanding service sector that caters to the needs of an increasingly affluent population and supplies the services normally expected of a high-income society. The industrial sector evolves and experiences improvements in variety and sophistication. Such a development would be typically associated with increasing research & development and knowledge intensity, as knowledge-generating institutions in the economy gain momentum. This development opens the way for innovative, opportunity-seeking entrepreneurial activity that is not afraid to challenge established incumbents in the economy. Often, small and innovative entrepreneurial firms enjoy an innovation productivity advantage over large incumbents, enabling them to operate as 'agents of creative destruction.' To the extent that the economic and financial institutions created during the scale-intensive phase of the economy are able to accommodate and support opportunity-seeking entrepreneurial activity, innovative entrepreneurial firms may emerge as significant drivers of economic growth and wealth creation.

Source: GEM Executive Report 2009



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