



Global Entrepreneurship Monitor

2014-2015 Latvia Report

Marija Krūmiņa
Anders Paalzow

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



Global Entrepreneurship Monitor

2014-2015 Latvia Report

Marija Krūmiņa
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.

Design by **Apgāds MANTOJUMS**

ISBN: 978-9934-8097-6-7

© TeliaSonera Institute at SSE Riga

FOREWORD

The Global Entrepreneurship Monitor (GEM) 2014-2015 Latvia Report marks the tenth 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 the Report briefly presents the first results of the Latvian enterprise export survey conducted within the National Research Program SUSTINNO.

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.

Anders Paalzow
Rector, SSE Riga

Alf Vanags
Director, BICEPS

TABLE OF CONTENTS

About the authors	7
Acknowledgements	8
Executive summary	9
Introduction	13
1. Entrepreneurial Attitudes, Activity and Aspirations in Latvia and other European countries	14
1.1. Entrepreneurial Attitudes and Perceptions	14
1.1.1. Social attitudes towards entrepreneurship	15
1.1.2. Individual attitudes towards entrepreneurship	17
1.2. Entrepreneurial Activity	22
1.2.1. Stages of entrepreneurial activity	23
1.2.2. Motivational reasons for entrepreneurship	26
1.2.3. Inclusiveness of entrepreneurship	30
1.2.4. Established business ownership and business discontinuation	35
1.3. Entrepreneurial Aspirations	37
1.3.1. Growth orientation	37
1.3.2. Internationalization	38
1.3.3. Innovation	40
2. Employee Entrepreneurial activity	42
3. Entrepreneurial framework conditions	44
Conclusions	47
References	48
Annexes	49

LIST OF FIGURES

Figure 1:	National attitudes towards entrepreneurship by country, 2014	16
Figure 2:	National attitudes towards entrepreneurship in the Baltic states, 2012-2014	17
Figure 3:	Perceived capabilities, perceived opportunities and fear of failure by country, 2014	18
Figure 4:	Perceived capabilities, perceived opportunities, fear of failure and total early-stage entrepreneurial activity rate by country, 2014	19
Figure 5:	Correlation of perceived capabilities with the level of TEA in Europe, 2014 ..	20
Figure 6:	Entrepreneurial perceptions in the Baltic states, 2012-2014	20
Figure 7:	Stages of the entrepreneurial process in GEM	23
Figure 8:	Nascent entrepreneurship rate, new business ownership rate and TEA by country, 2014	25
Figure 9:	TEA rate and its components in the Baltic states, 2012-2014	25
Figure 10:	Motivation Indexes in GEM Europe countries in 2014	28
Figure 11:	Percentage of entrepreneurs motivated by necessity and improvement-opportunity in the Baltic states, 2012-2014	29
Figure 12:	Early-stage entrepreneurial activity rates within age groups in Europe and the Baltic states, 2014	30
Figure 13:	Total early-stage entrepreneurial activity in Europe by country and by gender, 2014	31
Figure 14:	Total early-stage entrepreneurial activity in the Baltic states by gender, 2012-2014	32
Figure 15:	Established business ownership, TEA and rate of business discontinuation by country, 2014	35
Figure 16:	Main reasons for business discontinuation in Europe and the Baltic states, 2014	36
Figure 17:	Main reasons for business discontinuation in Latvia by gender, 2014	37
Figure 18:	Growth expectation in Europe and in each of the Baltic states, 2014	38
Figure 19:	Export orientation in Europe and in each of the Baltic states, 2014	40
Figure 20:	Innovation in Europe and in each of the Baltic states, 2013-2014	41
Figure 21:	Employee entrepreneurial activity in Europe, 2014	42
Figure 22:	GEM key EFCs in the Baltic states and Europe, 2014	46

LIST OF TABLES

Table 1: Entrepreneurial Attitudes and Perceptions in Europe in 2014 (% of adult population aged 18-64)	15
Table 2: Phases of entrepreneurial activity in the GEM Europe countries in 2014 (% of adult population aged 18-24)	24
Table 3: Motivation for early-stage entrepreneurial activity in GEM Europe in 2014	27
Table 4: Aspiration level: growth, innovation, internationalization as % of EEA and % of TEA, Latvia in 2014	43
Table 5: GEM's key entrepreneurial framework conditions	44
Table 6: Entrepreneurship framework conditions main indicators	45

LIST OF BOXES

Box 1: More skills than opportunities	21
Box 2: Dynamics of entrepreneurship in Latvia, 2005-2014	29
Box 3: Latvia and the GEDI Female Entrepreneurship Index	33
Box 4: Note on exporting firms and the shadow economy in Latvia: Data mining investigation	39

ABOUT THE AUTHORS

Marija Krūmiņa is a research fellow at the Baltic International Centre for Economic Policy Studies (BICEPS). Marija's research interests lie in the fields of labour market studies, entrepreneurship and welfare economics. Marija joined the Global Entrepreneurship Monitor Latvian team in 2010 and has been the lead researcher and national coordinator of the GEM project in Latvia since 2011.

Contact details:

Address: Strelnieku iela 4a, LV-1010, Riga, Latvia
Telephone: +371 6703 9319
Email: marija@biceps.org

Anders Paalzow is Rector of the Stockholm School of Economics in Riga and Chairman of the board of the Baltic International Centre for Economic Policy Studies (BICEPS).

Contact details:

Address: Strelnieku iela 4a, LV-1010, Riga, Latvia
Phone: +371 6701 5801
Email: anders.paalzow@sseriga.edu

ACKNOWLEDGEMENTS

The Latvian GEM team warmly thanks all entrepreneurs and non-entrepreneurs who participated in this research. They gave generously their time, while their insights enriched our understanding of entrepreneurship in Latvia.

We also express sincere gratitude to TeliaSonera and the TeliaSonera Institute at SSE Riga, whose generous support enabled Latvia's participation in GEM 2014.

Thanks also to "SKDS" for undertaking the adult population survey for the Global Entrepreneurship Monitor in Latvia and to Christopher Goddard for excellent editing and proofreading.

EXECUTIVE SUMMARY

The GEM 2014-2015 Report provides detailed information on the latest trends in entrepreneurship in Latvia. The Report also provides an international comparison of Latvia's entrepreneurial performance with other European countries participating in the Global Entrepreneurship Monitor project. Particular attention is paid to Latvia's two Baltic neighbours, Estonia and Lithuania.

The Report describes the Latvian entrepreneurial profile, discusses social and individual attitudes towards entrepreneurship, describes various aspects of entrepreneurial activity and aspirations, and evaluates inclusiveness of entrepreneurship. The national entrepreneurial environment captured by Entrepreneurial Framework Conditions (EFCs) is studied 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.

Compared to the previous year, Latvians in 2014 became more self-confident about their entrepreneurial skills (2014 – 50%; 2013 – 48%), but saw fewer business opportunities (2014 – 26%; 2013 – 35%), while at the same time a smaller share of Latvians who saw business opportunities were afraid of failure (2014 – 39%; 2013 – 42%).

Comparing the three Baltic states: Estonians stand out with a considerably higher opportunity perception, Lithuanians are the most afraid of failure and Latvians have the highest perceived capabilities.

About 54% of Latvians thought that entrepreneurship is a good career choice; a similar percentage of Latvians agreed that successful entrepreneurs enjoy high status and 48% thought that in Latvia the media provide a positive picture of entrepreneurship in terms of reporting on successful entrepreneurs. However, the social values of entrepreneurship decreased among Latvians compared to the previous year and are lower than on average in Europe.

Latvia ranks 1st with 12.2% of its adult population (age 18-64) involved in early stage entrepreneurial activity, Lithuania ranks 2nd and Estonia 8th out of 24 European Union countries participating in the GEM project.

The percentage of nascent entrepreneurs in Latvia decreased (2014 – 6.9%; 2013 – 8.1%), whereas the new business ownership rate stayed almost at the same level (about 5.2%). The established business ownership rate (9.2%) increased compared to the previous year (8.8%).

As for motives for going into entrepreneurship, one out of four early stage Latvian and Lithuanian entrepreneurs are driven by necessity motives. For Estonia, the figure is one out of six.

Both in Europe and in the Baltic states the most dynamic individuals in early-stage entrepreneurial activity are in the age groups 25-35 and 35-44 years and the least dynamic in the age group 55-64 years. Young (18-24 year-old) Latvians in 2014 were as active as 25-35 year-old Latvians among their age group.

Compared to 2013 a lower proportion of males were participating in early business activity in all three Baltic states. In Estonia and Lithuania females also participated, though somewhat less compared to 2013. Nonetheless, Latvian females increased their participation compared to the previous two years. Females in Latvia (14% of the female population) are the most actively involved in early-stage entrepreneurial activity compared to other European countries.

Out of one hundred Latvian females, 8 are established business owners, 7 are nascent entrepreneurs and 5 are new business owners. Out of one hundred Latvian males, 13 are established business owners, 5 are new business owners and 9 are nascent entrepreneurs.

Differences are evident in individual attitudes towards entrepreneurship between males and females in Latvia. A larger number of males perceive their skills as appropriate for business compared to females (54% of males and 46% of females). However, females see more opportunities for business (22% of males and 27% of females), but are more afraid of failure (53% of males and 57% of females) and more driven by necessity motives (19% of males and 26% of females start a business venture out of necessity).

The main reason for business discontinuation in 2014 in Europe on average (35%) as well as in each of the three Baltic states was “business non-profitability” (Estonia – 42%, Lithuania – 39%, Latvia – 35%). “Problems obtaining finance” was a reason for business discontinuation in 11% of cases in Europe as well as in the Baltic states. “The exit was planned in advance” in 17% of cases in Estonia, and 11% of all discontinuations were because of “personal reasons”. “Other reasons” and “personal reasons” were a rather common motivation for Latvian and Lithuanian entrepreneurs (Latvia – 14% and 19% and Lithuania 11% and 27% respectively). To discontinue because of “another job or business opportunity” was more common among Latvians (10%) compared to Lithuanians (5%) and Estonians (7%). “Retirement” as a reason for business discontinuation in the Baltic states was almost not mentioned at all.

“Business non-profitability” and “Problems getting finance” as the main reasons for discontinuation are more prevalent among Latvian female entrepreneurs than among Latvian male entrepreneurs, whereas “Another job or business opportunity” as a motive for discontinuation is much more common among males.

Capturing entrepreneurial aspirations and comparing the three Baltic states: Estonians are the most innovative in terms of new markets, whereas Lithuanians are the most innovative in terms of new products or services. In general Latvian entrepreneurs are the most ambitious in terms of growth expectations, with 14% of Latvian early stage entrepreneurs in 2014 expecting to create more than 20 jobs in five years. However, the share of growth ambitions among Latvian entrepreneurs is substantially smaller compared to 2013, when it amounted to 30%. In general, EU countries including Latvia, Lithuania and Estonia exhibit a rather high level of internationalization (more than 25% of customers outside the respective countries). Some 9% of early stage entrepreneurs in Estonia and Lithuania and 8% in Latvia have more than 75% of their customers outside their own country.

On average, the level of employee entrepreneurial activity is not high in Europe (about 4.7%). Comparing the three Baltic states: Lithuania ranks 1st with 5% of adult Lithuanians involved in employee entrepreneurial activity, while Latvia, with 4%, ranks second and Estonia third (3.6%).

EFCs in Latvia evaluated by national experts as being most positive are physical infrastructure, commercial infrastructure and post-secondary education. Internal market dynamics, R&D transfer and national policy regulation are the three EFCs with the lowest scores. Estonia scores notably better compared to the other two Baltic states and the EU average with respect to government policies (regulations) and government entrepreneurship programmes as well as slightly better on R&D transfer. Both Lithuanian and Estonian experts are more positive about internal market dynamics compared to Latvian ones.

INTRODUCTION

As an international research project involving 73 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.

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 on "regular" entrepreneurial activity, analysis of employee entrepreneurial activity is added in chapter 2. The Report concludes with the entrepreneurial framework conditions studied in chapter 3.

Annexes contain information on the Global Entrepreneurship Monitor project incentive, the GEM conceptual framework and entrepreneurship process, terminology and data.

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

This chapter deals with each of three main concepts of the entrepreneurial profile:

- attitudes,
- activity,
- aspirations,

based on the results of the GEM 2014 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 become 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 involve national attitudes towards entrepreneurship captured through three dimensions: the overall societal

view of entrepreneurship (whether those individuals who are successful at starting a new business enjoy a high level of status and respect in the society), the attractiveness of entrepreneurship as a career choice, and media attention to entrepreneurs and business (by promoting successful ventures).

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 track 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 this chapter with an analysis of social values and will continue with individual attitudes towards entrepreneurship.

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 social values towards entrepreneurship in different countries (see Table 1).

Table 1 also shows individual attitudes towards entrepreneurship to complete the analysis of perceptions at the end of this chapter, as well as the percentage of individuals who believe that opportunities exist 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 some of those who see good business opportunities are deterred from entrepreneurship because of fear of failure.

1.1.1. SOCIAL ATTITUDES TOWARDS ENTREPRENEURSHIP

We start our analysis with three measures that assess the attractiveness and visibility of entrepreneurship in a given society – (i) **social impressions about entrepreneurship as a career choice**, (ii) **the status of entrepreneurs in society** and (iii) **media attention to business**.

Table 1: Entrepreneurial Attitudes and Perceptions in Europe in 2014 (% of adult population aged 18-64)

	Entrepreneurship as a good career choice	High status to successful entrepreneurs	Media attention for entrepreneurship	Perceived opportunities	Perceived capabilities	Fear of failure*
Austria	-	-	-	44.4	48.7	34.9
Belgium	52.4	51.7	50.8	35.9	30.4	49.4
Croatia	63.3	46.0	40.4	18.4	45.9	30.3
Denmark	-	-	-	59.7	34.9	41.0
Estonia	55.6	64.9	43.3	49.4	42.5	41.8
Finland	41.2	84.4	66.9	42.4	34.9	36.8
France	59.0	70.4	39.0	28.3	35.4	41.2
Germany	51.7	79.1	51.4	37.6	36.4	39.9
Greece	58.4	66.4	45.8	19.9	45.5	61.6
Hungary	47.4	72.4	33.5	23.4	40.9	42.0
Ireland	49.4	76.9	75.7	33.4	47.2	39.3
Italy	65.1	72.1	48.3	26.6	31.3	49.1
Latvia	54.7	54.9	48.4	26.4	50.3	39.4
Lithuania	68.8	58.3	55.1	31.7	33.4	44.8
Luxembourg	40.7	68.2	43.5	42.5	37.6	42.0
Netherlands	79.1	67.8	55.7	45.6	44.3	34.8
Poland	63.3	56.5	54.5	31.3	54.3	51.1
Portugal	62.2	62.9	69.7	22.9	46.6	38.4
Romania	73.6	75.2	71.3	32.4	48.4	41.3
Slovakia	45.4	58.1	52.6	23.5	54.4	36.0
Slovenia	53.4	72.3	57.6	17.2	48.6	29.0
Spain	53.9	49.0	46.3	22.6	48.1	38.0
Sweden	51.6	70.9	60.3	70.1	36.7	36.5
United Kingdom	60.3	75.0	58.4	41.0	46.4	36.8
Average(unweighted)	56.8	66.1	53.1	34.4	42.6	40.6

*Denominator: 18-64 age group perceives good opportunities to start a business

Source: GEM Executive Report 2014 and Adult Population Survey 2014

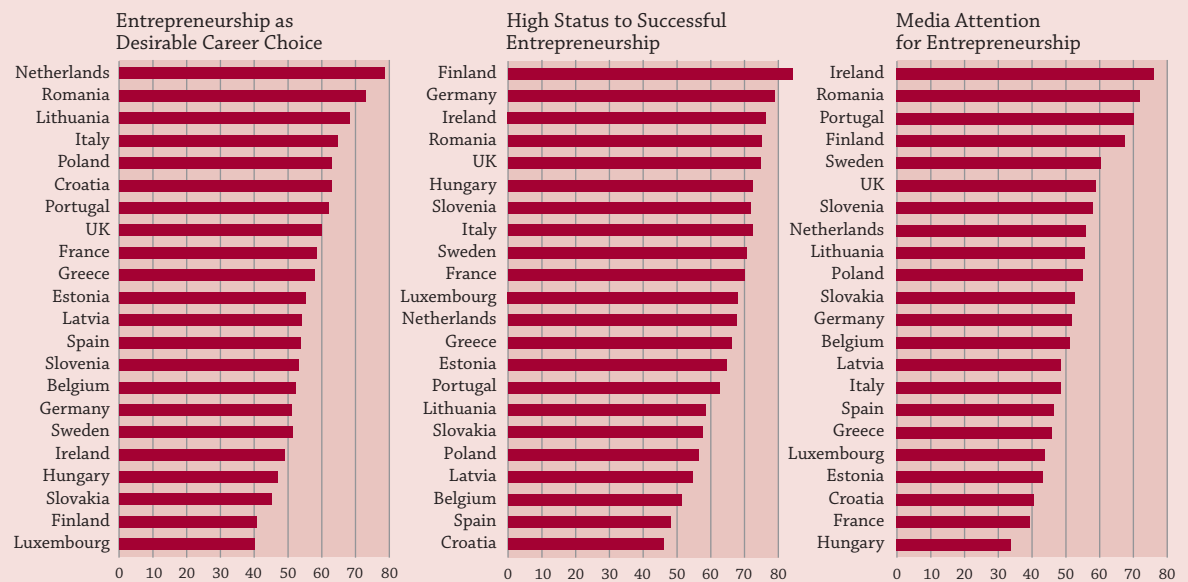
As Table 1 shows, the share of Europeans who claim that entrepreneurs in society enjoy high status (66% on average) is higher compared to the share of Europeans who consider entrepreneurship as a good career choice (57% on average). This is true for almost all observed countries with the exception of Belgium, Croatia, Lithuania, the Netherlands, Poland and Spain, where more people think that entrepreneurship is a good career choice than those who claim high status for entrepreneurs.

As in the previous two years, Germany, Finland and Ireland have the widest gap between people's respect for entrepreneurship as a profession and their belief that entrepreneurship

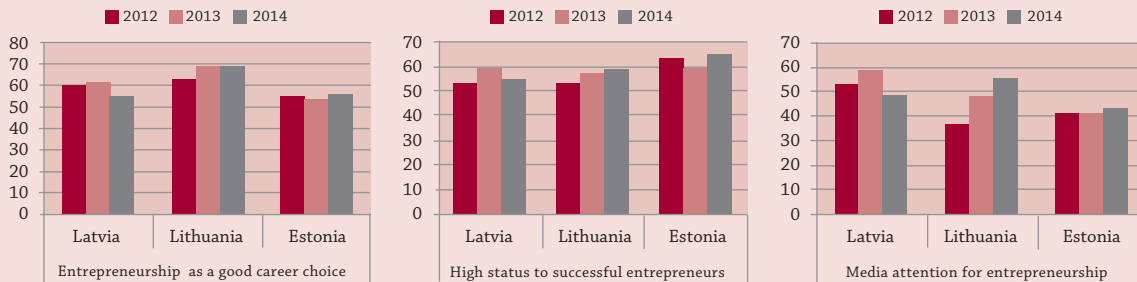
is a good career choice. Belgium, Portugal and Latvia, on the other hand, are countries with a similar proportion of the population who agree that entrepreneurship is a good career choice and believe that successful entrepreneurs enjoy high status. Half of Latvians consider entrepreneurship as a good career choice and half think that entrepreneurs are highly regarded in society.

Analysing media attention to entrepreneurship, we see almost the same picture observed in 2013, i.e. the highest media attention to entrepreneurship in Ireland and the lowest in Hungary.

Figure 1: National attitudes towards entrepreneurship by country, 2014



Source: GEM Adult Population Survey 2014

Figure 2: National attitudes towards entrepreneurship in the Baltic states, 2012-2014

Source: GEM Adult Population Surveys 2012-2014

If we compare the three Baltic states (see Figure 2), the analysis reveals positive developments in social attitudes towards entrepreneurship among Lithuanians. All three dimensions show an upward trend. Lithuanians are the most favourably disposed in terms of seeing entrepreneurship as a good career choice as well as a new leader in media coverage of successful entrepreneurs. A slight improvement of all dimensions

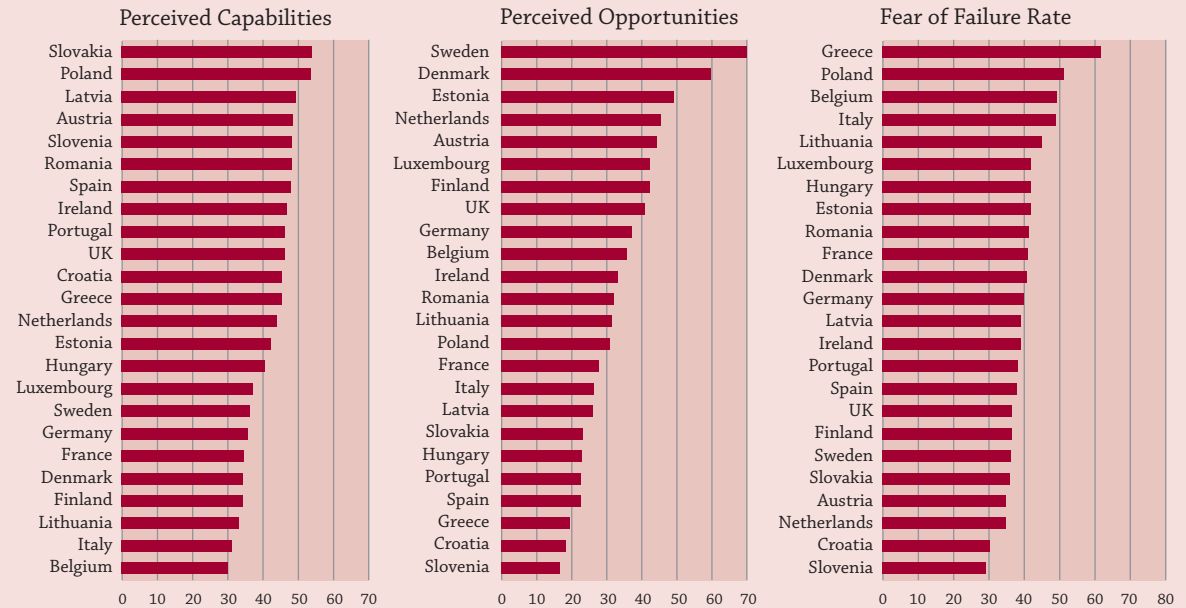
covering social attitudes towards entrepreneurship was also observed in Estonia. However, the picture is not so bright in Latvia this year. Fewer Latvians see entrepreneurship as a good career choice, even fewer give high status to successful entrepreneurs and the media seem to do a worse job in terms of positive reporting on successful entrepreneurs in 2014 compared to 2013.

1.1.2. INDIVIDUAL ATTITUDES TOWARDS ENTREPRENEURSHIP

To complete the understanding of overall attitudes towards entrepreneurship we continue with analysis of (i) **perceived opportunities**, (ii) **capabilities** and (iii) **fear of failure**. The general belief is that high percentages for all the above variables except for fear of failure (observed (legal and financial) consequences of failure) have a positive impact on willingness to go into entrepreneurship. Different combinations of these parameters lead to country-specific patterns in terms of early-stage entrepreneurial activity.

Comparing countries, we have to be aware that individuals in different countries can have different types of business in mind when they express their perceptions.

A large 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. An existing gap between perceived opportunities and perceived capabilities may influence the overall rate of involvement in entrepreneurial activity in a given country.

Figure 3: Perceived capabilities, perceived opportunities and fear of failure by country, 2014

Source: GEM Adult Population Survey 2014

The European country with the highest rate of perceived opportunities among adults is Sweden, where about 70% of the adult population see business opportunities and believe in the possibility that the occasion to start a venture may arise in the next six months in the area they live. This is followed by Denmark with 60% and Estonia with 49% respectively (see Figure 3). One may think that this will lead Swedes to be highly involved in early-stage entrepreneurial activity but this is not the case, as we see (Figure 3).

It is interesting to note that for those countries with the highest indicator of perceived opportunities, the indicator of perceived capabilities is lower compared to the indicator of perceived opportunities. In other words, Swedes, Danes and Estonians see good business opportunities but are much less confident in their skills and knowledge being appropriate to engage in entrepreneurial activities. On the other hand, in countries with the highest rates of perceived ca-

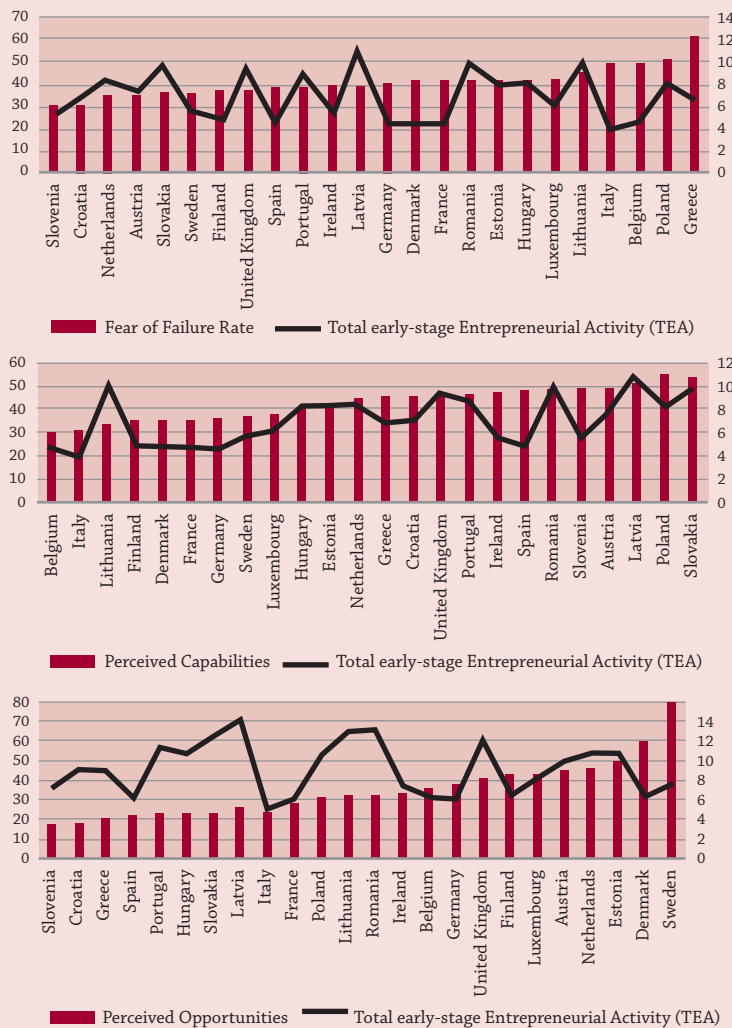
pabilities - Slovakia, Poland and Latvia, where more than half of all adults think that their skills are appropriate for business activities - good opportunities are seen by a substantially smaller share of adults.

On average in the European countries observed 41% of adult individuals who see business opportunities admit that fear of failure deters them from getting involved in entrepreneurial activities. Greeks (61%), Poles (51%), Italians (49%) and Belgians (49%) are more afraid of failure; on the other hand Slovenians (29%) and Croatians (30%) are less afraid of failure compared to other European nations.

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.

Even if the adult population in a country sees many business opportunities and are not so

Figure 4: Perceived capabilities, perceived opportunities, fear of failure and total early-stage entrepreneurial activity rate by country, 2014



Source: GEM Adult Population Survey 2014

Note: TEA is on the right vertical axis, fear of failure, perceived capabilities and perceived opportunities are on the left vertical axis.

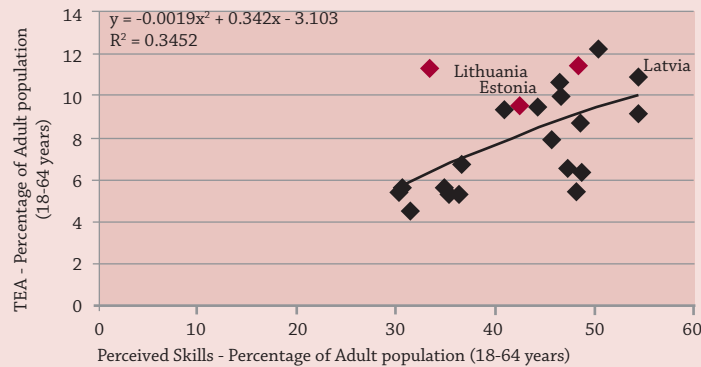
afraid of failure, a rather low rate of self-estimation of own entrepreneurial skills can lead to comparatively low rates of involvement in entrepreneurial activity, exactly as we see in the case of Sweden.

On the other hand, countries with an average level of perceived opportunity prevailing among adults and an average level of fear of failure but accompanied by high self-esteem end up being highly active in the early-stages of entrepreneurship, as we see to be the case for example in Slovakia and Latvia.

Building on the analysis of social attitudes towards entrepreneurship and individual attitudes, several correlations were calculated¹.

Perceived capabilities (skills) are positively correlated with the level of TEA (see Figure 5).

Figure 5: Correlation of perceived capabilities with the level of TEA in Europe, 2014



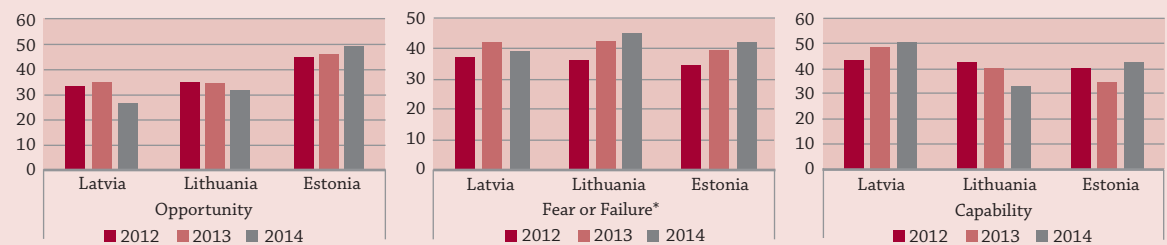
Source: GEM Adult Population Survey 2014

Of course there is a question of causality. A strong correlation between perceived capabilities and early-stage entrepreneurial activity may signal the high importance of self-evaluation of one's skills in the decision to become involved in entrepreneurial activity but might also signal that those adults who become involved in early-

stage entrepreneurial activity have a high self-regard of their skills as a result.

Figure 6 shows perceived capabilities and opportunities as well as the rate of fear of failure among Latvians, Lithuanians and Estonians and captures the changes for the last three years.

Figure 6: Entrepreneurial perceptions in the Baltic states, 2012-2014



Source: GEM Adult Population Surveys 2012-2014

¹ The correlation of perceived opportunity and fear of failure with TEA was not strong (figures are not included in the Report).

Box 1: More skills than opportunities

A closer look at perceived capabilities and opportunities² as presented in Figure 3 reveals that Latvians in relative terms see themselves as highly capable. Perceived opportunities, on the other hand, are relatively low. In short, Latvia is “full of capable people but short of opportunities”. To get a further understanding of this “mismatch”, we need to look a bit deeper into the numbers. Those who perceive themselves as possessing entrepreneurial capabilities are slightly better than the population in general in terms of spotting opportunities: roughly 30% of them perceive opportunities, whereas the share is around 25% for the population in general.

Observed opportunities are naturally affected by the business cycle. GEM data for Latvia the year before the crisis hit the Latvian economy indicated that around 32% of the population saw opportunities. A year later, i.e. when the crisis had hit the Latvian economy, the share was down to 22%. In a historical perspective looking at 10 years of GEM data for Latvia, the 30% of the population that perceive opportunities is at the higher end. Hence, the mismatch between skills and opportunities cannot be explained by the business cycle. An explanation for the relatively low level of perceived opportunities has to be found elsewhere.

In addition to individual, e.g. cognitive, characteristics, the perception of opportunities is also affected by the overall institutional framework. For example, what might be perceived as an opportunity in a country with strong protection of intellectual property rights might not be considered an opportunity at all in a country with weaker protection. In other words, a nation’s institutional framework directly affects the opportunities perceived.

For Latvia, whose population has more skills than there are opportunities, the challenge for policy makers is to improve the overall entrepreneurial framework (or external enablers) to make it more ‘entrepreneurship friendly’. Examples of measures to be considered include reforming the legal and overall judicial system, reforming the tax system and reducing the shadow economy.³ These policies should be seen as a necessary supplement or support to policies to raise entrepreneurship awareness by introducing entrepreneurship in curricula at all levels of education.

² Opportunities and opportunity recognition are concepts frequently used in the literature on early stage entrepreneurship. As discussed in Davidson (2015), “Entrepreneurial opportunities and the entrepreneurship nexus: A re-conceptualization”, *Journal of Business Venturing*, 30, 674-695, three constructs can be used to facilitate the understanding of “opportunities”. These are, first, external enablers, i.e. aggregate circumstance, e.g. the business cycle, regulatory framework and technological changes; next, new venture ideas or imagined future ventures, i.e. capturing new combinations of products, services and markets, and ways of bringing these offerings into the actual market; third, opportunity confidence, referring to a potential entrepreneur’s subjective evaluation of an opportunity.

³ All these factors are highlighted in Cunska et al. (2012), *Latvia Competitiveness Report*, available at: <http://www.sseriga.edu/en/research/lcr/>.

A comparison of the three Baltic states immediately highlights three differences - (i) Estonians stand out with a considerably higher opportunity perception, (ii) Lithuanians are the most afraid of failure and (iii) Latvians have the highest perceived capabilities.

On average more Estonians perceived opportunities than Estonians who considered themselves as having the capability to start entrepreneurship. An almost equal share of Lithuanians (~30%) see business opportunities and consider their capabilities suitable for entrepreneurship. For Latvia the opposite applies: more people self-assessed their skills as appropriate than people who saw business opportunities.

Looking at the dynamics, the fear of failure rate and opportunity perception increased compared to the previous year in Lithuania and Estonia, but decreased in Latvia. This means that more adults in Lithuania and Estonia see opportunities for business but at the same time also means that more people among those who see business opportunities in these two Baltic states admit that they are deterred by the fear of fail-

ure. At the same time fewer Latvians see business opportunities but also fewer of those who see business opportunities are afraid of failure. Speaking about perceived opportunities, we see that fewer Lithuanians, but more Latvians and Estonians, assessed their skills and characteristics as being appropriate for entrepreneurship.

We finish the first chapter with a small summary on social and individual attitudes towards entrepreneurship in Latvia. Compared to the previous year Latvians in 2014 saw fewer business opportunities while at the same time they also became less afraid of failure and more self-confident about their entrepreneurial skills. About 54% of Latvians think that entrepreneurship is a good career choice, the same percentage of Latvians agree that successful entrepreneurs enjoy high status and 48% think that in Latvia the media provide a positive picture of entrepreneurship in terms of reporting on successful entrepreneurs. However, social values of entrepreneurship decreased among Latvians compared to the previous year and are lower than on average in Europe.

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** (EBO). Some new 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.

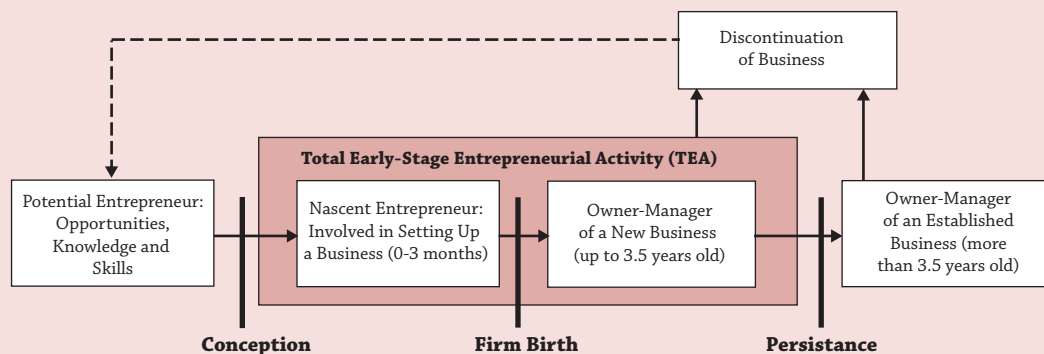
1.2.1. STAGES OF ENTREPRENEURIAL ACTIVITY

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.⁴ There-

fore, 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: GEM 2014 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 – those who are committing resources to start a business, but the business has not yet yielded wages), 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.

The cut-off of 42 months for differentiating between new businesses and established firms has been made by combining theoretical and practical considerations (Reynolds et al., 2005) and has consistently been used from the very beginning of the GEM survey.

Table 2 shows these indicators for European countries participating in the GEM adult population survey in 2014.

⁴ The main differences between enterprise register data and GEM data are discussed in Annex 4.

Table 2: Phases of entrepreneurial activity in the GEM Europe countries in 2014 (% 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
Austria	5.8	3.1	8.7	9.9	2.7
Belgium	2.9	2.5	5.4	3.5	2.3
Croatia	6.0	2.0	8.0	3.6	3.8
Denmark	3.1	2.5	5.5	5.1	2.2
Estonia	6.3	3.5	9.4	5.7	2.0
Finland	3.4	2.3	5.6	6.6	2.3
France	3.7	1.7	5.3	2.9	1.7
Germany	3.1	2.3	5.3	5.2	1.7
Greece	4.6	3.4	7.9	12.8	2.8
Hungary	5.6	3.9	9.3	7.9	3.1
Ireland	4.4	2.5	6.5	9.9	1.9
Italy	3.2	1.3	4.4	4.3	2.1
Latvia	6.9	5.2	12.2	9.2	3.1
Lithuania	6.1	5.3	11.3	7.8	2.9
Luxembourg	4.9	2.3	7.1	3.7	2.6
Netherlands	5.2	4.5	9.5	9.6	1.8
Poland	5.8	3.6	9.2	7.3	4.2
Portugal	5.8	4.4	10.0	7.6	3.0
Romania	5.3	6.2	11.3	7.6	3.2
Slovakia	6.7	4.4	10.9	7.8	5.2
Slovenia	3.8	2.7	6.3	4.8	1.5
Spain	3.3	2.2	5.5	7.0	1.9
Sweden	4.9	1.9	6.7	6.5	2.1
United Kingdom	6.3	4.5	10.7	6.5	1.9
Average(unweighted)	4.9	3.3	8.0	6.8	2.6

Source: GEM Executive Report 2014 and Adult Population Survey 2014

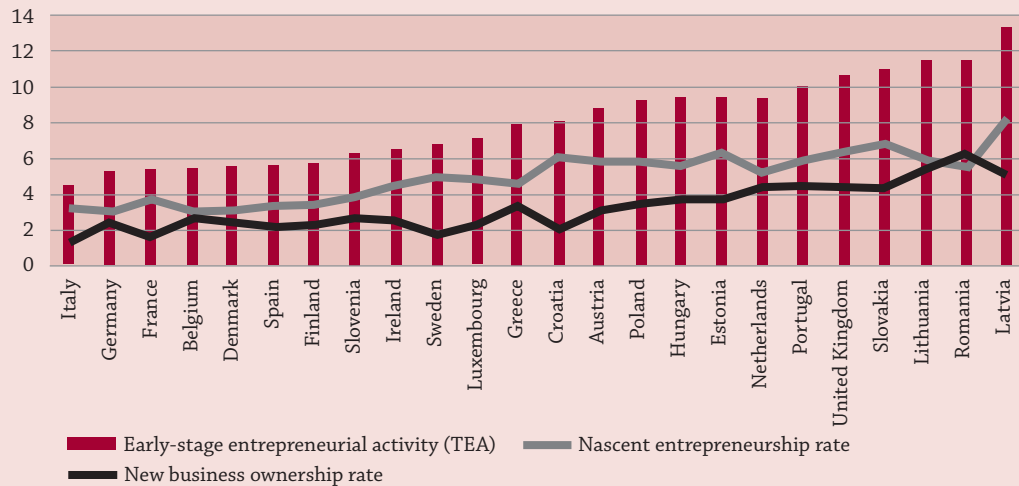
We start our analysis with nascent entrepreneurs, new business owners and total early-stage entrepreneurial activity.

The highest TEA rates among all European countries are observed in two of the Baltic states – Latvia (12.2%) and Lithuania (11.3%) – and in Romania (11.3%). The lowest early stage entrepreneurial activity prevails in Italy, where only 4.4% of adults are involved in early stage entrepreneurial activity. This can be explained by low capability evaluation, low opportunity perception and high fear of failure that prevail among adults in this country.

To broaden the analysis we subdivide the TEA rate into its two components, i.e. nascent entrepreneurship and new business ownership (Figure 8). Romania is the only country where the new business ownership rate is higher compared to the nascent entrepreneurship rate.

The highest difference between these two rates is observed in Croatia, Sweden, Latvia and Estonia. Some nascent entrepreneurs discontinue at this stage and never develop further to the phase of a new business.

Figure 8: Nascent entrepreneurship rate, new business ownership rate and TEA by country, 2014

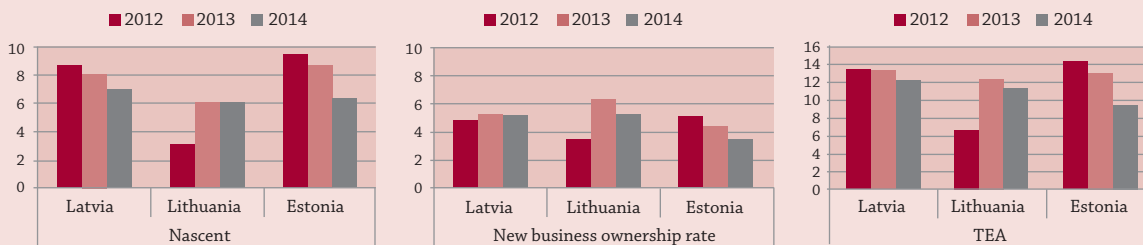


Source: GEM Adult Population Survey 2014

Comparing the dynamics of the main activity indicators (See Figure 9) for the three Baltic states, we see that fewer Latvians and Estonians were nascent entrepreneurs in 2014. Almost the same share of Lithuanians were involved in nascent entrepreneurship, but the share of new business owners decreased in Lithuania in 2014 as well as in Estonia.

All these changes have led to a decrease in the overall level of early-stage entrepreneurial activity in all three Baltic states. Estonia, from being the country with the highest rate of early-stage entrepreneurial activity not only among its Baltic neighbours but also among all GEM European countries in 2012, became the country with the lowest activity level among the Baltic states and rates eight from the top in GEM Europe.

Figure 9: TEA rate and its components in the Baltic states, 2012-2014



Source: GEM Adult Population Surveys 2012- 2014

With a substantial drop in the new business ownership rate and an increase in the established business ownership rate (5 % in 2013 and 6% in 2014), one may speculate and say that some new business owners continued to the next stage and became established business owners. However, the increase in EBO is much smaller compared to the drop in the new business ownership rate (9% in 2013 and 3.5% in 2014), which therefore may also signal that not so many entrepreneurial attempts in Estonia were successful, with many dropping out.

Analysing the situation in Latvia, we see that the nascent entrepreneurship rate decreased and the new business ownership rate stayed the same. If we combine this information with changes in the established business ownership rate (8.8% in 2013 and 9.2% in 2014) and the rate of discontinuation (3.5% in 2013 and 3.1% in 2014) [considered in more detail later in the report] we may speculate and conclude that some new business owners managed to become established business owners while a proportion of nascent entrepreneurs evolved to the next stage of new business ownership.

1.2.2. MOTIVATIONAL REASONS FOR ENTREPRENEURSHIP

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 becoming involved in entrepreneurial activity.

A necessity-driven entrepreneur is an individual who indicates that they started the business because there were no better options to obtain resources for living, rather than starting their business as a result of opportunity recognition. Those who indicated that their motive in starting the business was a recognised opportunity (rather than no other options for work) were additionally asked about the nature of the opportunity identified. **Improvement-driven opportunity** entrepreneurs are those who either started the business because they wanted to earn more money or to be more independent.

Motivation for involvement in TEA matters considerably for the future economic development of a given economy. Opportunity-driven entrepreneurship (i.e. focusing on improvement) is believed to contribute much more to growth of the economy through innovation 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.

Table 3 below shows necessity-, opportunity- and improvement-driven opportunity prevalence rates in European countries participating in the GEM 2014 Adult Population Survey. The Motivation Index is also presented as a ratio between necessity-driven entrepreneurs and improvement-driven entrepreneurs.

Table 3: Motivation for early-stage entrepreneurial activity in GEM Europe in 2014

	Necessity-driven (% of TEA)	Improvement-driven opportunity (% of TEA)	Motivational Index*
Austria	11.0	37.4	3.4
Belgium	30.7	43.1	1.4
Croatia	46.6	28.7	0.6
Denmark	5.4	60.2	11.1
Estonia	15.1	41.2	2.7
Finland	15.6	63.1	4.0
France	16.1	69.2	4.3
Germany	23.2	53.7	2.3
Greece	34.8	30.5	0.9
Hungary	33.2	36.3	1.1
Ireland	29.7	48.6	1.6
Italy	13.6	38.6	2.8
Latvia	18.0	45.0	2.5
Lithuania	19.6	43.8	2.2
Luxembourg	11.8	59.8	5.1
Netherlands	15.7	62.8	4.0
Poland	36.8	47.1	1.3
Portugal	27.4	49.3	1.8
Romania	28.9	49.8	1.7
Slovakia	32.6	51.8	1.6
Slovenia	25.5	44.8	1.8
Spain	29.8	33.5	1.1
Sweden	7.9	56.2	7.1
United Kingdom	12.9	52.7	4.1
Average(unweighted)	22.6	47.8	2.9

* Ratio between improvement-driven opportunity and necessity-driven entrepreneurs.

Source: GEM Executive Report 2014 and Adult Population Survey 2014

The highest share of improvement-driven opportunity motivated entrepreneurs among early-stage entrepreneurs are in France, Finland and the Netherlands and the lowest in Spain and Croatia. Countries with the highest ratio of necessity-driven entrepreneurs are Croatia, Poland and Greece, and the lowest Denmark and Sweden.

The Motivation Index contributes to a better understanding of the entrepreneurial capacity of a country. A high motivation index indicates

a high share of improvement-driven entrepreneurs, This in turn brings longer-term and more ambitious expectations related to the venture. The highest motivation index appears in Denmark (11.1). The second highest is in Sweden (7.1).

A Motivation Index below 1 warns that the majority of early-stage entrepreneurs started their business out of necessity. This is what we observe in Croatia and Greece.

Figure 10: Motivation Indexes in GEM Europe countries in 2014⁵

Source: GEM Adult Population Survey 2014

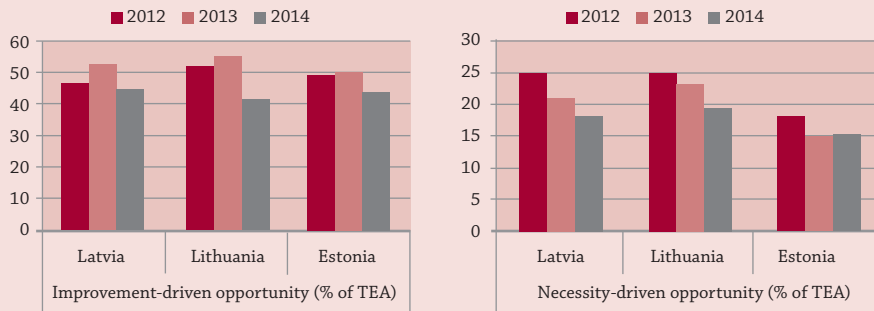
All three Baltic states have average motivation indexes. The share of necessity-driven entrepreneurs in all three Baltic states is below average level in Europe. However, the share of improvement-driven opportunity motivated entrepreneurs among early-stage entrepreneurs is also below the European average.

If we compare the dynamics of individual motivation in Latvia, Lithuania and Estonia (see Figure 11) we observe a decrease both in neces-

sity-driven entrepreneurship in Lithuania and Latvia (no significant changes were observed in Estonia) and a decrease in improvement-driven opportunity entrepreneurship in all three Baltic states this year compared to the previous year. This result may be explained by an increase in entrepreneurship defined as driven by both necessity and opportunity motives as well as driven by opportunity motives rather than only by improvement-opportunity motives.

⁵ Denmark is excluded from the graph.

Figure 11: Percentage of entrepreneurs motivated by necessity and improvement-opportunity in the Baltic states, 2012-2014

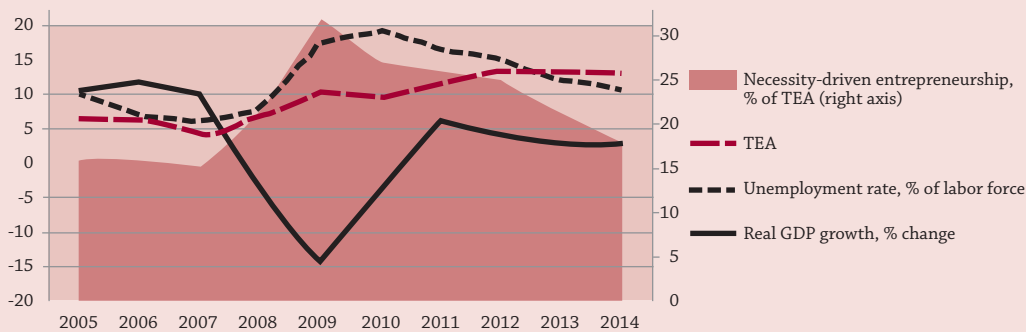


Source: GEM Adult Population Surveys 2012-2014

Box 2: Dynamics of entrepreneurship in Latvia, 2005-2014

Combining GEM data on TEA and necessity driven entrepreneurship with EUROSTAT data on real GDP growth and unemployment, Figure below 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 14 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 over 10% in 2009. It also seems clear that the increased total-early stage entrepreneurial activity 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.

TEA, unemployment and real GDP growth, 2005-2014



Source: GEM Adult population Surveys and EUROSTAT
 Based on GEM Latvia Report 2013-2014 and GEM Latvia Report 2012

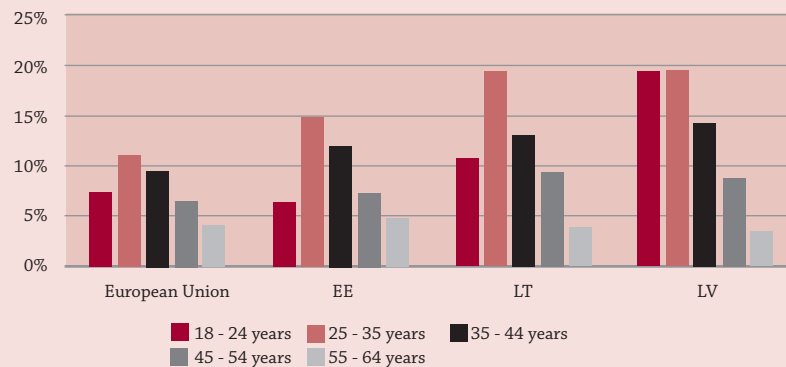
1.2.3. INCLUSIVENESS OF ENTREPRENEURSHIP

After obtaining a picture of early-stage entrepreneurial activity in Europe as well as motivations for involvement in TEA we will analyse the inclusiveness of early-stage entrepreneurial activity. First of all we will study age inclusiveness and then proceed with gender aspects of TEA.

A note on regional and educational aspects at the end of the chapter will broaden the analysis.

As it observed in the GEM Executive Report “being entrepreneurial is not exclusive of a specific age group. Due to many reasons (lack of resources among younger persons, lack of regulatory conditions for entrepreneurial activity of 60+), some age groups are less presented in early-stage entrepreneurial activity...this is a complex policy issue (involving many aspects of entrepreneurial framework conditions, like access to finance, taxation policy, retirement policy, etc...)”

Figure 12: Early-stage entrepreneurial activity rates among age groups in Europe and the Baltic states, 2014



Source: GEM Adult Population Survey 2014

In general both in Europe and in the Baltic states the most dynamic individuals in early-stage entrepreneurial activity are in the age groups 25-35 and 35-44 years and the least dynamic in the age group 55-64 years. The first easily noticeable peculiarity is the comparatively large share of early-stage entrepreneurs among young (18-24 year old) Latvians. They are as active as 25-35 year old Latvians among their age group. The second (not so easily noticeable) is the fact that

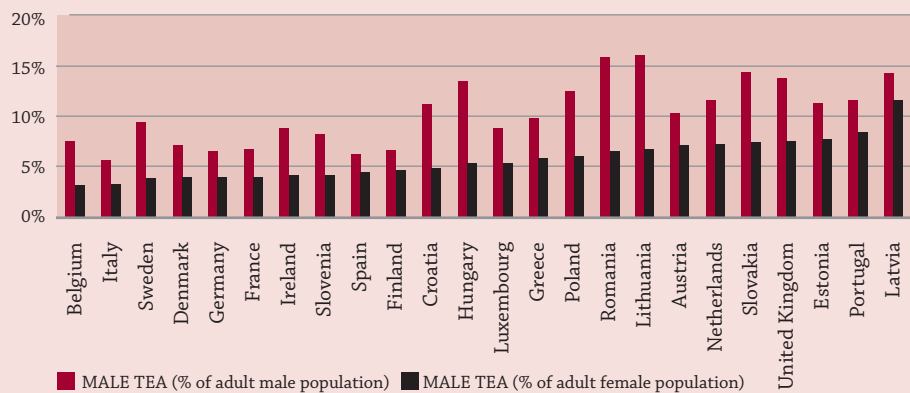
45-54 year old Estonians among their age group are more entrepreneurially active compared to 18-24 year olds among the age group. The other way round holds for Latvia and Lithuania.

Now we will proceed with Figure 13 which 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 are the most actively involved in early-stage entrepreneurial activity compared to other European countries, with Belgium showing the lowest rate of female participation. The highest difference between the

shares of male and female involvement are observed in Romania and Lithuania, where about 7% of females and 16% of males are involved in TEA in each country.

Figure 13: Total early-stage entrepreneurial activity in Europe by country and by gender, 2014

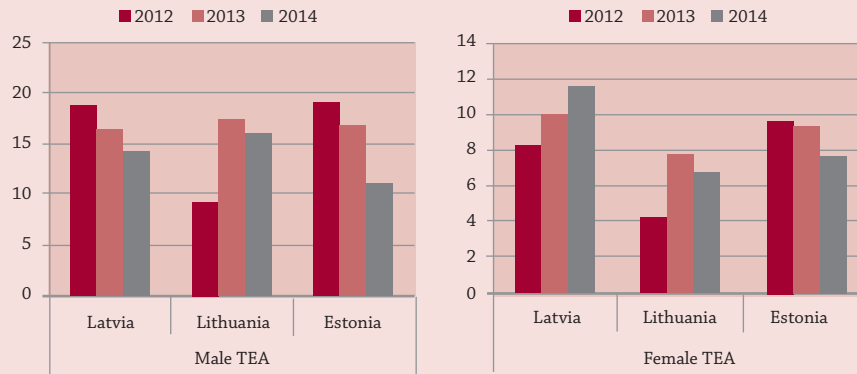


Source: GEM Adult Population Survey 2014

Figure 14 shows early-stage entrepreneurial activity by gender for the three Baltic states during the period from 2012 until 2014. We see that in all three Baltic states a lower proportion of males compared to 2013 were participating in early business activity. In Estonia and Lithuania females also participated somewhat less compared to 2013. Nonetheless Latvian females increased their participation compared to the previous two years.

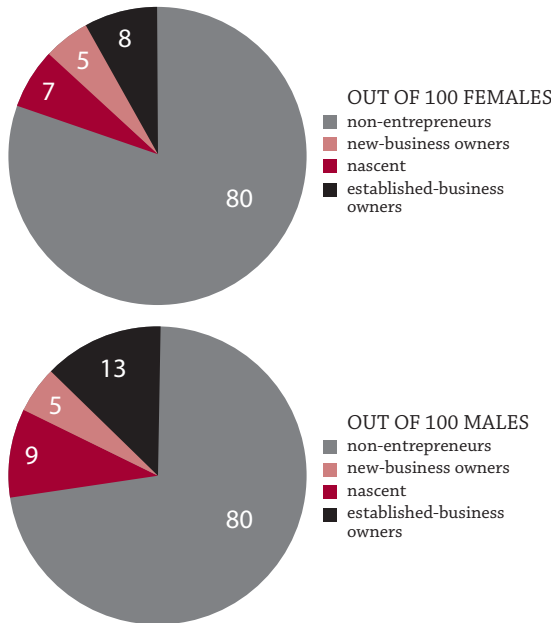
Lithuanian males are the most active in early-stage entrepreneurial activity, Latvian males score second, with Estonians coming third. At the same time, Lithuanian females are least active and Latvian females are the most active early-stage entrepreneurs.

Figure 14: Total early-stage entrepreneurial activity in the Baltic states by gender, 2012-2014



Source: GEM Adult Population Surveys 2012-2014

Due to a combination of cultural, societal and economic reasons early-stage entrepreneurial activity is gender sensitive and dominated by men.



Source: GEM Adult Population Survey 2014

Out of one hundred Latvian females, 8 are established business owners, 7 are nascent entrepreneurs and 5 are new business owners. Out of one hundred Latvian males, 13 are established business owners, 5 are new business owners and 9 are nascent entrepreneurs.

Differences are evident in individual attitudes towards entrepreneurship between males and females in Latvia. Larger number of males perceive their skills as appropriate for business compared to females (54% of males and 46% of females). However, females see more opportunities for business (22% of males and 27% of females), but are more afraid of failure (53% of males and 57% of females). In terms of social attitudes – more females than males in Latvia consider entrepreneurship a good career choice, think that successful entrepreneurs enjoy high status in society and consider that media coverage of business success stories is appropriate. When we compare motives for early-stage entrepreneurial activity in Latvia we find that women start a business venture out of necessity more often than men (19% of males and 26% of females).

Box 3: Latvia and the GEDI Female Entrepreneurship Index

The Global Entrepreneurship and Development Institute (GEDI) has compiled the 2015 female entrepreneurship index, which ranks 77 countries in terms of conditions that foster high-potential female entrepreneurship.⁶ High potential female entrepreneurship is seen as entrepreneurship involving women who are innovative, market-expanding, and export-oriented.

The focus of the GEDI Female Entrepreneurship Index is on identifying a country's strengths and weaknesses with respect to factors providing favourable conditions for high potential female entrepreneurship development. The underlying assumption is that, in comparison to men, different factors affect women's ability to start and grow ventures.

The Index comprises three sub-indices:

- entrepreneurial environment (capturing opportunity perception, start-up skills, willingness and risk, networking and cultural support);
- entrepreneurial eco-system (capturing start-up opportunity, technology, quality of human resources, competition and gender gap); and
- entrepreneurial aspirations (capturing product innovation, process innovation, high growth, internationalization and external financing).

Out of the 77 countries being ranked, Latvia is ranked 20 – slightly behind Lithuania (18) and ahead of Estonia (22). The US, Australia and the UK are the top three countries, followed by Denmark, the Netherlands, France and the remaining four Nordic countries. In terms of score, Latvia together with her two Baltic sisters belongs to the higher end of the 60-80th percentile.

As for the results, Latvia is strong in terms of education, equal rights and female role models. The weaknesses are opportunity recognition (confirming the GEM findings discussed above), new technologies, and perception of skills (cf. the GEM findings where, for the population in general, perceived skills are quite strong). The pattern is fairly similar for Estonia and Lithuania.

The analysis in the GEDI report also reveals that Latvia does better in terms of fostering female entrepreneurship than fostering entrepreneurship in general. This is a feature shared with several of the Eastern European EU countries in the study.

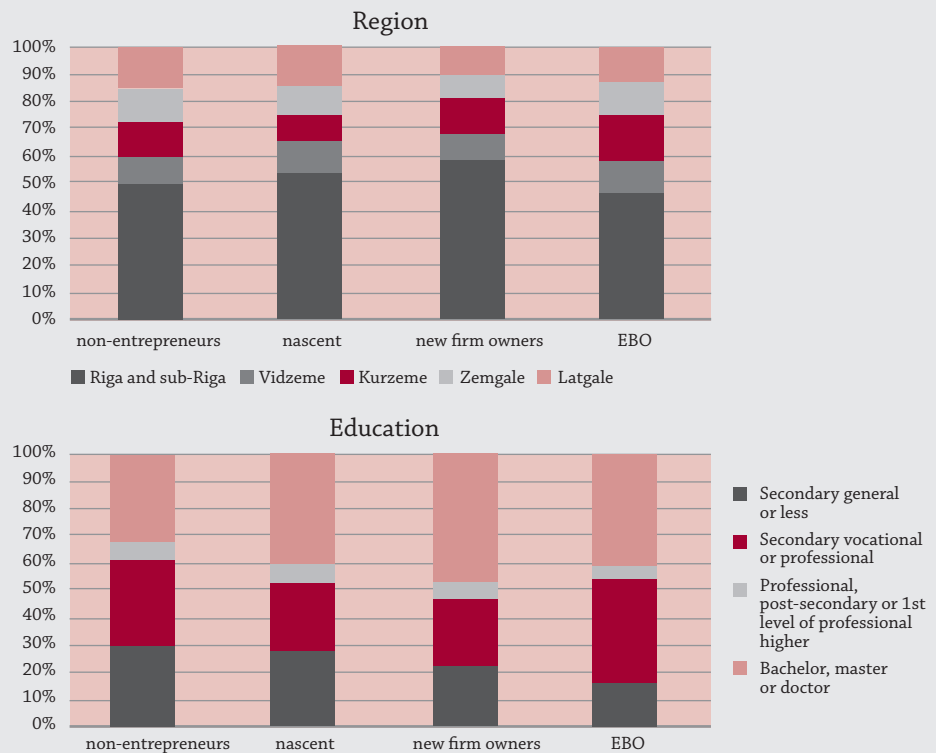
To conclude, Latvia does well in terms of female entrepreneurship relative to entrepreneurship in general within the country. Factors preventing a better performance in the Female Entrepreneurship Index ranking are to a large extent the same ones that restrict Latvia's overall performance in terms of entrepreneurship.

⁶ Terjesen, S. and A. Lloyd, (2015), "The 2015 Female Entrepreneurship Index", The Global Entrepreneurship Initiative. Available at: <http://thegedi.org/female-entrepreneurship-index-2015-report/>.

The aim of this note is to give an insight into the regional and educational profiles of Latvian entrepreneurs and non-entrepreneurs

Riga and sub-Riga are ahead in the level of both early-stage entrepreneurship and established business ownership. If we remove Riga from the analysis and compare three other of Latvia's regions, we see that more established entrepreneurs and new firm owners live in Kurzeme, while more nascent entrepreneurs are present in Latgale.

The share of individuals with higher education (bachelor, masters or doctoral) are the highest among entrepreneurs at all stages of the entrepreneurial process. The share of individuals with vocational or professional education is the second largest within the established-business owners.



Source: GEM Adult Population Survey 2014

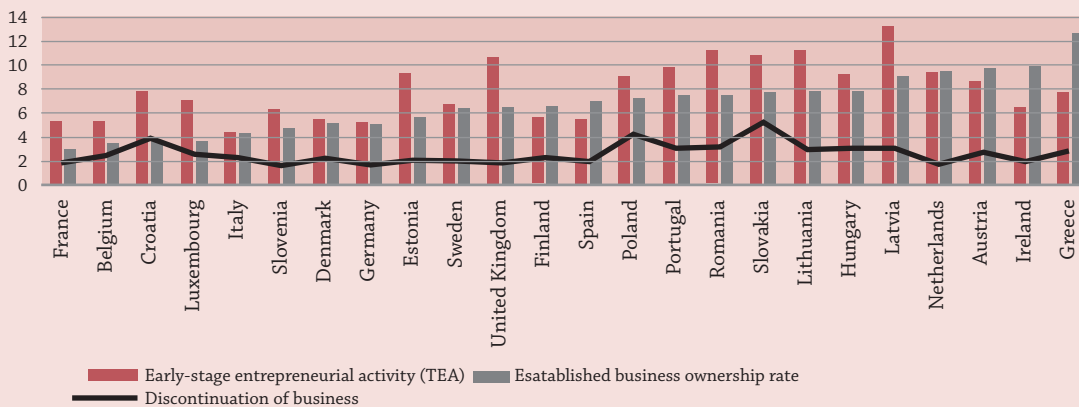
1.2.4. ESTABLISHED BUSINESS OWNERSHIP AND BUSINESS DISCONTINUATION

Analysis of established business ownership levels provides an indication of the sustainability of entrepreneurship in the countries studied. Businesses emerge, some develop into established entrepreneurship and continue to contribute to their economies, providing products and services as well as employment, whereas other businesses close – this is a natural process of the enterprise cycle. In this part of the Report, we will look at established business own-

ership rates as well as business discontinuation and the main reasons for it.

The findings are presented in Figure 15. The lowest rate of established businesses for the whole GEM Europe sample is observed in France and Belgium (3 out of 100 individuals in these countries are established business owners), whereas Greece has the highest EBO rate in Europe (13 out of 100).

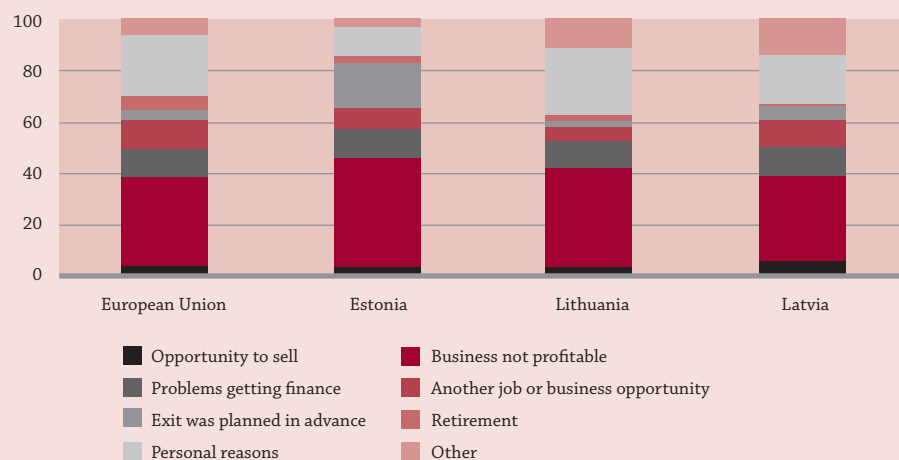
Figure 15: Established business ownership, TEA and rate of business discontinuation by country, 2014



Source: GEM Adult Population Survey 2014

Latvia has a rather high EBO rate, the highest TEA rate and a somewhat average discontinuation rate compared to other European countries. The same is to a large extent also true of Lithuania. Estonia is quite similar to both the other Baltic states in terms of TEA but differs with a lower EBO rate and lower discontinuation rate. The highest rate of business discontinuation in Europe prevails in Slovakia, Poland and Croatia.

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 reasons for doing so. To find out more about the main reasons for discontinuation, we will now look at average results for GEM Europe as well as at each of the three Baltic states.

Figure 16: Main reasons for business discontinuation in Europe and the Baltic states, 2014

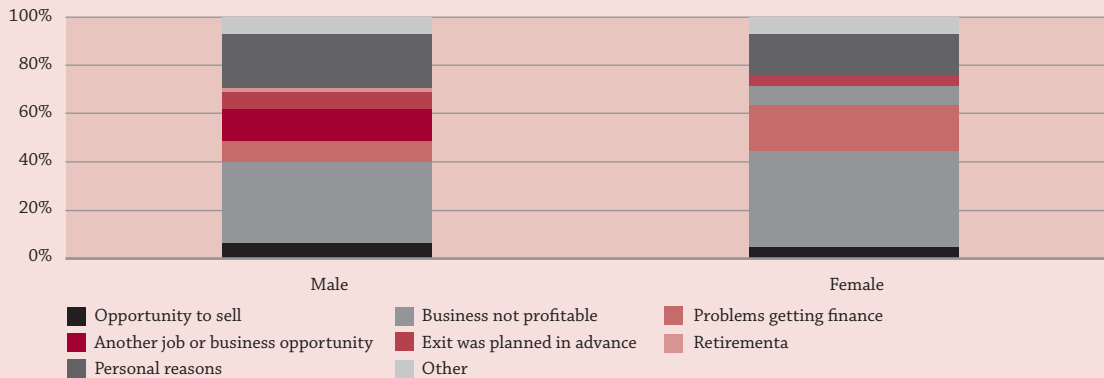
Source: GEM Adult Population Survey 2014

The main reason for discontinuation in 2014 in Europe on average (35%) as well as in each of the three Baltic states was “business non-profitability” (EE – 42%, LT – 39%, LV – 35%). “Problems obtaining finance” was a reason for business discontinuations in 11% of cases in Europe as well as in the Baltic states. In Estonia “the exit was planned in advance” in 17% of cases and 11% of all discontinuations were because of “personal reasons”. It is rather striking information that exits planned in advance (with the exception of Estonia) are among the last reasons for discontinuation in Europe as well as in both Latvia and Lithuania. “Other reasons” and “personal reasons” were rather common for Latvia and Lithuania. (LV – 14% and 19% and LT 11% and 27% respectively). To discontinue because of “another job or business opportunity” was more common among Latvians (10%) compared to Lithuanians (5%) and Estonians

(7%). “Retirement” as a reason for business discontinuation in the Baltic states was almost not mentioned at all.

Trying to get a broader picture of business discontinuations in Latvia in 2014, we include the gender aspect in our analysis (Figure 17).

“Business non-profitability” is the main reason for business discontinuation both for males and females. However this reason is more prevalent among female entrepreneurs than male entrepreneurs (40% and 30% respectively). “Problems getting finance” is the second main reason for business discontinuation among females whereas among males “personal reasons” is the second most common motive. “Another job or business opportunity” as motivation for discontinuation is much more common among males compared to females.

Figure 17: Main reasons for business discontinuation in Latvia by gender, 2014

Source: GEM Adult Population Survey 2014

It can be concluded that in order to help women to realise their entrepreneurial goals, more consistent long-term interlinked policy measures as well as institutional framework and supply

of services are needed (from better access to finance to provision of services that help families care for children and elderly family members).

1.3. ENTREPRENEURIAL ASPIRATIONS

GEM measures the aspiration levels of entrepreneurs as to development of their enterprises using three main measures: **job (growth) expectations, level of internationalization** and **product and/or market innovation,**

These measures, while interesting as such, are closely related to economic development and therefore provide insights into the overall impact of entrepreneurship on the economy.

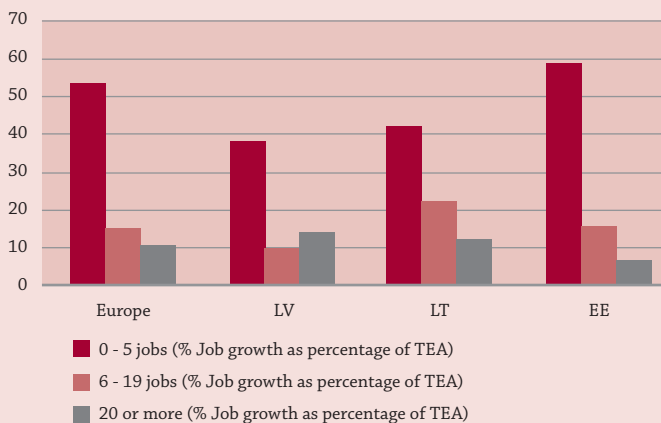
1.3.1. GROWTH ORIENTATION

To obtain a measure of **growth expectations** (linked to the one of the main objectives of policymakers – new job creation) the GEM survey asks early-stage entrepreneurs to indicate the number of expected jobs in five years from now. We have to keep in mind that this measure re-

flects ambitions in the shape of expectations of job creation that may not be actually realized. Nevertheless, this measure can be used as a good proxy for the potential growth of a given venture.

Figure 18 shows the findings divided into three different levels of expected growth:

- solo (no employees – just the entrepreneur in person) and low (1-5 employees);
- medium (6-19 new employees); and
- high (20 or more new jobs created over the coming five years).

Figure 18: Growth expectation in Europe and in each of the Baltic states, 2014

Source: GEM Adult population Survey 2014

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. For Estonians, it is even more common compared to average Europeans 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. Despite the fact that the highest share of individuals expecting to create more than 20

jobs in five years appears among Latvian entrepreneurs, the share is significantly smaller compared to 2013. About 14% of Latvian entrepreneurs in 2014 are expecting to create more than 20 jobs, but the share was as much as 30% in 2013. A substantial share of Lithuanians (22%), that is, more compared to Europe and the other two Baltic states, have medium expected job growth (6 to 19 new jobs) over the coming five years.

1.3.2. INTERNATIONALIZATION

The second measure of entrepreneurial aspirations is the **level of internationalization**. It is clear that open economies with limited capacity on their internal market are thinking more about international markets compared to territorially larger countries.

To assess the level of internationalization GEM uses a categorization of four levels of intensity in internationalization measured by the share of customers living outside the early-stage entrepreneur's country. Figure 19 shows the intensity of internationalization in Europe and in each of the three Baltic states.

Box 4: Note on exporting firms and the shadow economy in Latvia: Data mining investigationFIRST RESULTS OF ENTERPRISE SURVEY⁷

by S. Gubins



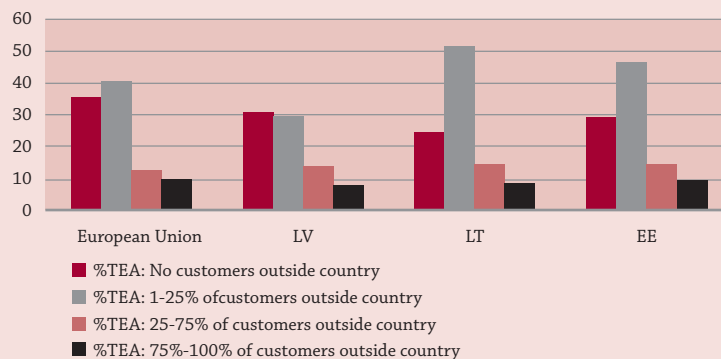
Recent economic literature pays considerable attention to the effect that trade has on economy-wide growth and productivity in the presence of firms' heterogeneity. A seminal paper by Melitz (2003)⁸ establishes the microeconomic foundation of intra-industry productivity growth due to reallocations of resources, e.g., labour, from less productive firms to more productive ones as a result of export market entry and subsequent expansion of firms' scale. The main transmission channel for the impact of trade on aggregate productivity is self-selection of more productive firms into exporting ones, because exporting yields higher returns to more productive firms. Stronger competition for input resources leads less productive firms to exit.

One potential implication of this dependency is an ability of exporting firms to incur higher production costs while remaining profitable. Abiding by legal rules and tax legislation might be less problematic from a firm's profitability point of view if the firm is more productive than competitors. Thus, exporting firms, which survive both domestic and foreign competition, potentially might be less prone to tax evasion and bribery than non-exporting firms. It is also conceivable that the relationship might have an opposite effect – firms that pay bribes and avoid taxes more often than competitors might receive preferential treatment from the authorities and as a result have lower costs and higher chances to succeed in exporting. Thus, the more a firm exports the more it might be prone to tax evasion and hiring undeclared workers. The relationship between the shadow economy and exporting is thus an empirical question.

This data mining exercise aims to shed light on the association between export and the shadow economy in Latvia at the firm level. One of the main difficulties lies in establishing the direction of causality. However, initial data investigation is performed as an essential first step for analysis. The results show that the differences between exporting and non-exporting firms with regard to the perception of the shadow economy in Latvia are largely insignificant. However, statistically significant differences exist within exporting firms, which provides weak support for the hypothesis. The most interesting result shows that firms which export in large volumes have a more positive view on general obedience to the law.

⁷ This research was generously supported by the National Research Programme SUSTINNO.

⁸ Melitz, M. J. (2003). The impact of trade on intra-industry reallocations and aggregate industry productivity. *Econometrica*, 71(6), 1695-1725.

Figure 19: Export orientation in Europe and in each of the Baltic states, 2014

Source: GEM Adult population Survey 2014

EU countries including Latvia, Lithuania and Estonia exhibit a rather high level of internationalization (more than 25% of customers outside the respective countries).

If we compare the three Baltic states we see a rather similar picture in the share of entrepreneurs with high export orientation: this share is 9% in Estonia and Lithuania and 8% in Lat-

via. One third of all early-stage entrepreneurs in Latvia and Estonia claim not to have customers outside the country. The share of non-export oriented early-stage entrepreneurs in Lithuania is smaller and amounts to 25%. At the same time, 46% of entrepreneurs in Estonia, 30% in Latvia and 52% in Lithuania claim to have up to 25% of customers from abroad.

1.3.3. INNOVATION

The last measure of entrepreneurial aspirations is 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*).

A high degree of innovativeness among entrepreneurs is an important source of productivity growth and future wealth generation.

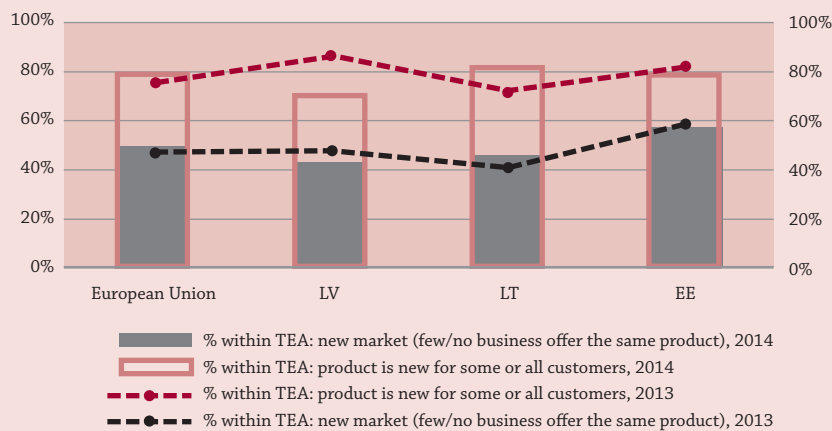
Figure 20 below shows innovation profiles for all three Baltic states and the average results for GEM European countries prevailing in 2013 and 2014. Rows represent parameters for 2013, and columns - for 2014. The vertical axis on the left show innovation captured by new market as shares in TEA (black), and the vertical axis on the right represents innovation captured by new product shares in TEA (pink).

Comparing countries we have to bear in mind that what might be considered innovative in one country may not be new in another. Yet, observing the situation in 2014, we see that early-stage entrepreneurs in Estonia continue to be 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 (same share in 2013). Lithuanians on the other hand tend to be more innovative in terms of product innovation compared to the other two Baltic states and on average in Eu-

rope. About half of all early-stage entrepreneurs in Lithuania think that their product is new to all or some customers.

The main changes compared to the previous year were observed in Latvia and Lithuania. Compared to the previous year, Latvia has substantially fewer early-stage entrepreneurs who state that their product is new for some or all customers (52% in 2013, 42% in 2014). On the other hand more Lithuanians (43% in 2013, 49% in 2014) think that their product is new.

Figure 20: Innovation in Europe and in each of the Baltic states, 2013-2014



Source: GEM Adult population Survey 2013, GEM Adult population Survey 2014

2. EMPLOYEE ENTREPRENEURIAL ACTIVITY

A major distinction in the entrepreneurship field is between independent entrepreneurship and ‘entrepreneurship within existing organizations’.

“The broader and best-known definition that “entrepreneurship is the process by which individuals pursue opportunities without regard to the resources they currently control” (Gartner and Baker, 2010) is the basis to look for entrepreneurial behaviour everywhere” (GEM Executive Report 2014).

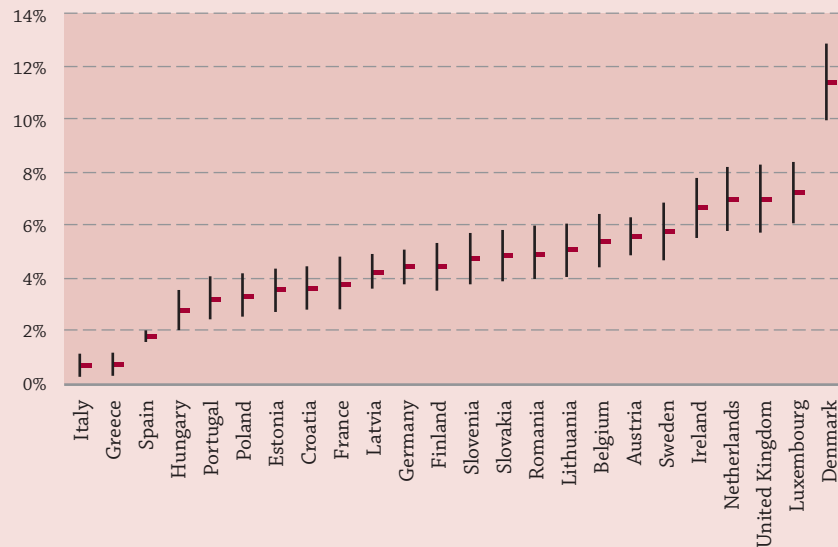
GEM defines **employee entrepreneurial activity** (EEA) as the share of employees in the adult population 18-64 years who were actively in-

involved in and played a leading role either in idea development for a new activity or in preparing and implementing a new activity (employee activities aiming mainly at internal work process optimization are excluded).

The results of the 2014 survey of European countries are presented in the Figure 21.

Employee entrepreneurial activity is not a very widespread phenomenon in Europe: about 4.7% of adults in Europe on average are employee entrepreneurs. However its prevalence differs noticeably across European countries, ranging from 1% in Italy to 11% in Denmark.

Figure 21: Employee entrepreneurial activity in Europe, 2014



Source: GEM Adult population Survey 2014

Note: The confidence intervals constitute the range within which the average value of 95 out of 100 replications of the survey would be expected to lie.

Comparing the performance of the Baltic states, we see that Lithuania ranks 1st with 5% of adult Lithuanians involved in employee entrepreneurial activity, while Latvia, with 4%, ranks second and Estonia third (3.6%).

Employee entrepreneurial activity shares many features with “regular” entrepreneurship. The main differences between the two occur with re-

gard to autonomy, availability of resources, type of risk and anticipated rewards.

Therefore it is very interesting to evaluate the aspirations of employee entrepreneurial activity and level its relative standing with regard to aspirations prevailing among early-stage entrepreneurs.

Table 4: Aspiration level: growth, innovation, internationalization as % of EEA and % of TEA, Latvia in 2014

	Growth, % of TEA, and EEA			Innovation, within TEA, EEA		Internationalization, % of TEA, EEA			
	0 - 5 jobs (% Job growth)	6 - 19 jobs (Job growth)	20 or more jobs (% Job growth)	product is new for some or all customers	new market (few/no businesses offer the same product)	No customers outside country	1-25% customers outside country	25-75% of customers outside country	75-100% of customers outside country
EEA	35.09	32.75	32.16	67.71	63.60	38.68	35.85	14.62	10.85
TEA	38.29	10.22	13.94	42.19	43.87	30.90	29.87	13.91	7.79

Source: GEM Adult population Survey 2014

Table 4 presents the results of this exercise. These suggest that entrepreneurial employees have higher job expectations for their new business activity compared to early-stage entrepreneurs. This result may be explained by better

access to resources for growth via intra-organizational channels. Entrepreneurial employees also appear to be more innovative and more export oriented.

3. ENTREPRENEURIAL FRAMEWORK CONDITIONS

In an attempt to assess the national entrepreneurial environment, the GEM expert survey also addresses factors of overall national socio-economic environment that are believed to have a significant impact on economic development and entrepreneurship. The GEM National Experts' Survey (NES)⁹ provides insights from ex-

perts in each economy on nine Entrepreneurial Framework Conditions (EFCs), i.e. factors that influence the overall climate for entrepreneurship and hence the level and nature of entrepreneurial activity. Table 5 presents these nine factors.

Table 5: GEM's key entrepreneurial framework conditions

1.	Entrepreneurial Finance. The availability of financial resources - equity and debt - for small and medium enterprises (SMEs) including grants and subsidies.
2.	Government Policy. The extent to which public policies support entrepreneurship. This EFC consists of two components: 2a. Entrepreneurship as a relevant economic issue and 2b. Taxes or regulations are either size-neutral or encourage new and SMEs.
3.	Government Entrepreneurship Programmes. The presence and quality of programmes directly assisting SMEs at all levels of government (national, regional, municipal).
4.	Entrepreneurial Education. The extent to which training in creating or managing SMEs is incorporated within the education and training system at all levels. The EFC consists of two components: 4a. Entrepreneurship Education at basic school level (primary and secondary) and 4b. Entrepreneurship Education at post-secondary levels (higher education such as vocational, college, business schools).
5.	R&D Transfer. The extent to which national research and development will lead to new commercial opportunities, and is available to SMEs.
6.	Commercial and Legal Infrastructure. The presence of property rights, commercial, accounting and other legal and assessment services and institutions that support or promote SMEs.
7.	Entry Regulations. This EFC contains two components: 7a. Market dynamics: the level of change in markets from year to year, and 7b. Market openness: the extent to which new firms are free to enter existing markets.
8.	Physical Infrastructure. Ease of access to physical resources – communication, utilities, transportation, land or space – at a price that does not discriminate against SMEs.
9.	Cultural and Social Norms. The extent to which social and cultural norms encourage or allow action leading to new business methods or activities that can potentially increase personal wealth and income.

Source: GEM Executive Report 2014

⁹ See Annex 3 for detailed information.

It should be noted that that reference points may differ across economies: what is perceived to be good in one country may be perceived to be poor in others.

Table 6 provides an overview of the results of each EFC for European Union countries participating in GEM in 2014. The table shows the rates on a 1-5 scale for the main EFCs analyzed in the economy. The highest-rated EFCs in each country are highlighted in green and the lowest rated EFCs are highlighted in red.

Table 6: Entrepreneurship framework conditions: main indicators

1 Finance **2a** National Policy – General Policy **2b** National Policy – Regulation **3** Government Programs **4a** Education – Primary & Secondary **4b** Education – Post-Secondary **5** R&D Transfer **6** Commercial Infrastructure **7a** Internal Market – Dynamics **7b** Internal Market – Openness **8** Physical Infrastructure **9** Cultural and Social Norms

	1	2a	2b	3	4a	4b	5	6	7a	7b	8	9
Austria	2.51	2.46	2.60	3.58	1.66	3.02	2.82	3.40	2.49	3.33	4.12	2.46
Belgium	3.38	2.62	1.98	2.71	1.95	2.75	2.99	3.74	2.50	3.19	3.79	2.15
Croatia	2.32	2.15	1.55	2.27	1.68	2.35	2.04	2.90	3.37	2.08	3.67	2.02
Denmark	2.73	3.33	3.31	3.43	3.10	3.43	2.77	3.56	2.43	3.44	4.49	2.82
Estonia	2.86	2.43	3.58	3.39	2.63	2.99	2.92	3.21	3.39	3.12	4.39	3.39
Finland	2.82	3.17	2.95	2.77	2.28	2.70	2.61	3.20	3.23	2.72	4.25	2.76
France	2.77	2.99	2.96	3.17	1.75	2.92	2.73	3.06	3.02	2.34	4.04	2.14
Germany	2.84	2.93	2.87	3.46	2.13	2.81	2.75	3.34	2.84	2.81	3.82	2.65
Greece	2.11	2.07	1.74	1.95	1.50	2.31	2.26	3.05	3.42	2.12	3.53	2.47
Hungary	2.63	2.43	1.93	2.41	1.68	2.82	2.41	3.29	3.13	2.62	3.94	2.32
Ireland	2.87	3.24	2.64	3.26	2.09	2.95	2.82	3.29	2.59	3.13	3.71	2.95
Italy	2.55	2.40	1.50	2.08	1.68	2.33	2.18	2.83	3.50	2.61	2.92	2.22
Latvia	2.55	2.60	2.50	2.75	2.51	3.17	2.33	3.74	2.27	2.78	4.00	2.85
Lithuania	3.19	2.39	2.46	2.72	2.37	3.07	2.61	3.90	3.38	2.66	4.19	3.09
Luxembourg	2.76	3.41	3.22	3.47	2.13	2.90	2.98	3.50	2.76	3.05	4.04	2.56
Netherlands	2.81	2.59	3.13	3.15	2.85	3.17	2.88	3.68	2.85	3.40	4.82	3.58
Poland	2.77	3.07	2.16	2.77	1.75	2.54	2.44	2.77	4.04	2.75	3.79	2.96
Portugal	2.73	2.57	2.01	3.00	2.04	3.04	2.76	3.34	2.40	2.75	4.43	2.55
Romania	2.43	2.53	2.24	2.51	2.34	2.68	2.59	3.09	3.14	2.86	2.89	2.61
Slovakia	2.73	2.28	2.16	2.26	2.21	2.98	2.13	3.07	2.63	2.84	3.94	2.40
Slovenia	2.33	2.13	1.92	2.43	1.77	2.34	2.29	2.71	3.04	2.56	3.56	2.06
Spain	2.14	2.50	2.40	2.88	1.84	2.61	2.45	3.03	2.87	2.47	3.64	2.64
Sweden	2.63	2.74	2.53	3.00	2.55	2.75	2.65	3.28	3.13	2.80	4.25	3.07
United Kingdom	2.77	2.90	2.33	2.62	2.44	3.02	2.20	2.95	3.28	2.73	3.54	2.83
Average	2.68	2.66	2.44	2.84	2.12	2.82	2.57	3.25	2.99	2.80	3.91	2.65

Source: GEM Executive Report 2014

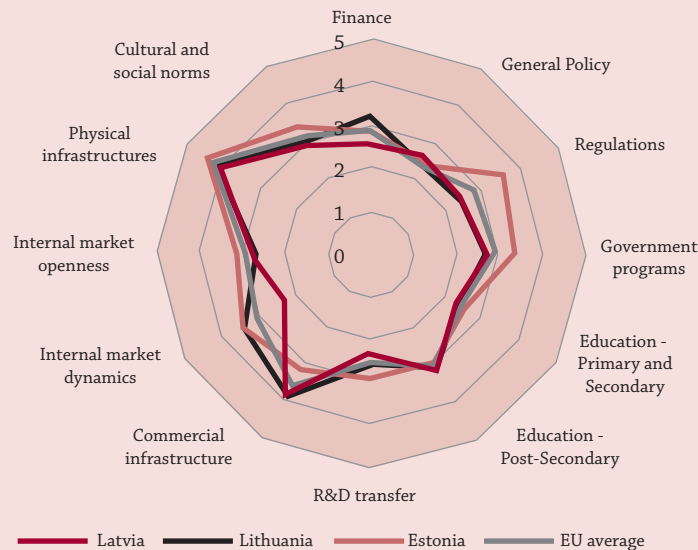
Entrepreneurial education at basic level (primary and secondary education) is rated as one of the most negative framework conditions by a majority of European countries. National Policy – both general policy and regulations and R&D transfer – also featured among negatively rated framework conditions.

Physical infrastructure (roads, utilities, communications, water disposal) obtain the highest evaluations in experts' ranking. Experts in Poland, Italy and Romania rated internal market dynamics as the most positive framework condition in these countries.

EFCs in Latvia evaluated by national experts as being most positive are physical infrastructure, commercial infrastructure and post-secondary education. Internal market dynamics, R&D transfer and national policy – regulation are the three EFCs with the lowest scores.

We continue our analysis of EFCs comparing the “entrepreneurial eco-system” in Latvia and the other two Baltic states. Figure 22 displays similarities and differences in national experts' opinion on their own countries.

Figure 22: GEM key EFCs in the Baltic states and Europe, 2014



Source: GEM Executive Report 2014

Estonia scores notably better compared to the other two Baltic states and the EU average with respect to government policies (regulations) and government entrepreneurship programmes as well as slightly better on R&D transfer. Both Lithuanian and Estonian experts are more posi-

tive about internal market dynamics. On the other hand, internal market dynamics, and to a lesser extent R&D transfer, cultural norms and finance are framework conditions where Latvia scores the least compared to the EU average and compared to both Lithuania and Estonia.

CONCLUSIONS

- Latvia has achieved a high early stage entrepreneurial activity rate. However, national attitudes towards entrepreneurship as well as high growth ambitions of early stage entrepreneurs for the next five years have declined compared to 2013.
- For Latvia, whose population has more skills than there are opportunities, the challenge for policymakers is to improve the overall entrepreneurial framework (or external enablers) to make it more 'entrepreneurship friendly'. Examples of measures to be considered include reforming the legal and overall judicial system, reforming the tax system and reducing the shadow economy. These policies should be seen as a necessary supplement or support to policies to raise entrepreneurship awareness by introducing entrepreneurship in curricula at all levels of education.
- Latvia does well in terms of female entrepreneurship relative to entrepreneurship in general within the country. The factors preventing a better score in the Female Entrepreneurship Index ranking are to a large extent the same ones that restrict Latvia's overall performance in terms of entrepreneurship.
- In order to help women to realise their entrepreneurial goals, more consistent long-term interlinked policy measures as well as an institutional framework and supply of services are needed (from better access to finance to provision of services that help families care for children and elderly family members).
- Commercial and Physical infrastructure and post-secondary education are areas most positively evaluated by national experts. Internal market dynamics, R&D transfer and national policy (regulation) are those requiring attention.

REFERENCES

- Amoros J. E., Singer S., and D. Moska (2015), *Global Entrepreneurship Monitor, 2014 Global Report*, Bab-son Park, MA, U.S.: Babson College; Santiago, CL: Universidad del Desarrollo; Kuala Lumpur, Malaysia: Universiti Tun Abdul Razak; Monterrey, Mexico: Tecnologico de Monterrey, and London, U.K.: London Business School.
- Cuncka et al. (2012), *Latvia Competitiveness Report*, Stockholm School of Economics in Riga and Baltic International Centre for Economic Policy Studies.
- Davidson (2015), *Entrepreneurial opportunities and the entrepreneurship nexus: A re-conceptualization*, *Journal of Business Venturing*, 30, 674-695.
- Krumina, M., and A. Paalzow, (2014), *Global Competitiveness Monitor, 2013/2014 Latvia Report*, Stockholm School of Economics in Riga.
- Melitz, M. J. (2003). *The impact of trade on intra-industry reallocations and aggregate industry productivity*. *Econometrica*, 71(6), 1695-1725.
- Reynolds P., Bosma, N, Autio, E., Hunt, S., De Bono, N., Servais, I., Lopez-Garcia, P and N. Chin, (2005), *Global Entrepreneurship Monitor: Data collection design and implementation, 1998-2008*, *Small Business Economics*, 24(3), 205-231.
- Schwab, K. (Ed.), (2013), *The global competitiveness report 2013–2014*, Geneva: World Economic Forum.
- Terjesen, S. and A. Lloyd, (2015), *The 2015 Female Entrepreneurship Index*, The Global Entrepreneurship Initiative.

ANNEXES

ANNEX 1: THE GEM CONCEPTUAL FRAMEWORK

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 73 countries in 2014. 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 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 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.

The GEM survey was initially conceived with the intention of detecting the interdependence between entrepreneurship and economic development. During the last 16 years, its conceptual framework and basic definitions evolved gradually without compromising the comparability of collected information, but bringing more clarity into assumed relationships.

The definition of entrepreneurship—in the context of understanding its role in economic growth—is as follows:

“Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business.” (Reynolds et al., 1999, p. 3)

Three questions that paved the way to the GEM survey were posed as follows (Reynolds et al., 1999, p. 3):

- Does the level of entrepreneurial activity vary between countries, and, if so, to what extent?
- Does the level of entrepreneurial activity affect a country’s rate of economic growth and prosperity?
- What makes a country entrepreneurial?

The major revision of this GEM conceptual framework was to open the “black box” called

Entrepreneurship Profile. Since the GEM survey's early beginnings, the implicit assumption of mutual relationships among attitudes, aspirations and activities was in-built in the conceptual framework, without spelling out the nature of these relationships. In the revised GEM conceptual framework this "black box" has been opened in order to test the characteristics of the assumed relationships between social values, personal attributes and various forms of entrepreneurial activity.

In all conceptual frameworks, basic assumptions have remained unchanged:

1. Entrepreneurial activity is not a heroic act of an individual, regardless of the environment in which the activity is performed.
2. Entrepreneurial activity is an output of the interaction of an individual's perception of an opportunity and capacity (motivation and skills) to act upon this AND the distinct conditions of the respective environment in which the individual is located.

GEM surveys confirmed that the level of entrepreneurial activity varies among countries at a fairly constant rate, thus additionally confirming that it requires time and consistency in policy interventions in order to build factors that contribute to entrepreneurial activity. Surveys also confirmed that entrepreneurial activity, in different forms (nascent, start-up, intrapreneurship), is positively correlated with the economic growth, but that this relationship differs along phases of economic development (Acs and Amoros, 2008; Van Stel et al., 2005; Wennekers et al., 2010). This is further confirmed by recent policy interventions around the world that focus on components of the GEM conceptual framework—environment (entrepreneurial framework conditions), individual capacity to identify and seize opportunities, and ability of the society to develop entrepreneurial culture. Therefore, GEM continues to focus on contrib-

uting to global economic development through surveying/researching entrepreneurship initiatives that are helping to improve research-based education and research-based design of public policies in the field of entrepreneurship. For this purpose it follows three objectives (with slight modifications as reflected in the revised GEM conceptual framework):

- Determine the extent to which entrepreneurial activity influences economic growth within individual economies.
- Identify factors which encourage or hinder entrepreneurial activity, especially the relationships between the National Entrepreneurship Conditions, social values, personal attributes and entrepreneurial activity (opening the black box of the GEM conceptual framework).
- Identify policy implications for enhancing entrepreneurial capacity in an economy.

Since 2008 (Bosma et al., 2009), GEM followed the World Economic Forum's typology of countries based on Porter's (Porter et al., 2002) definitions of economic development levels: factor-driven, efficiency-driven and innovation-driven economies. It contributed to show how the uniqueness of the GEM entrepreneurship survey (based on individuals) is complementing other major surveys on new business creation, by providing important information on individuals (attributes, values, activities) and their interaction with the environment in practicing entrepreneurial behavior (proactiveness, innovativeness and responsible choices). The following are the components of the revised GEM conceptual framework:

Social, cultural, political and economic context: This is defined by using the World Economic Forum's twelve pillars for profiling economic development phases when surveying competitiveness and nine components of the GEM National Entrepreneurial Conditions. It is

important to emphasize that those components may be dispersed in different combinations in different economies, but the levels of economic development are determined by the dominant presence of the identified group of pillars.

It should be noted that all components of the environment in which women and men act with an entrepreneurial mindset (or cannot act proactively and innovatively) are mutually dependent. This dependence demands a holistic approach not only in research but also in designing appropriate policies to build a supportive environment in which people can adopt an entrepreneurial behavior.

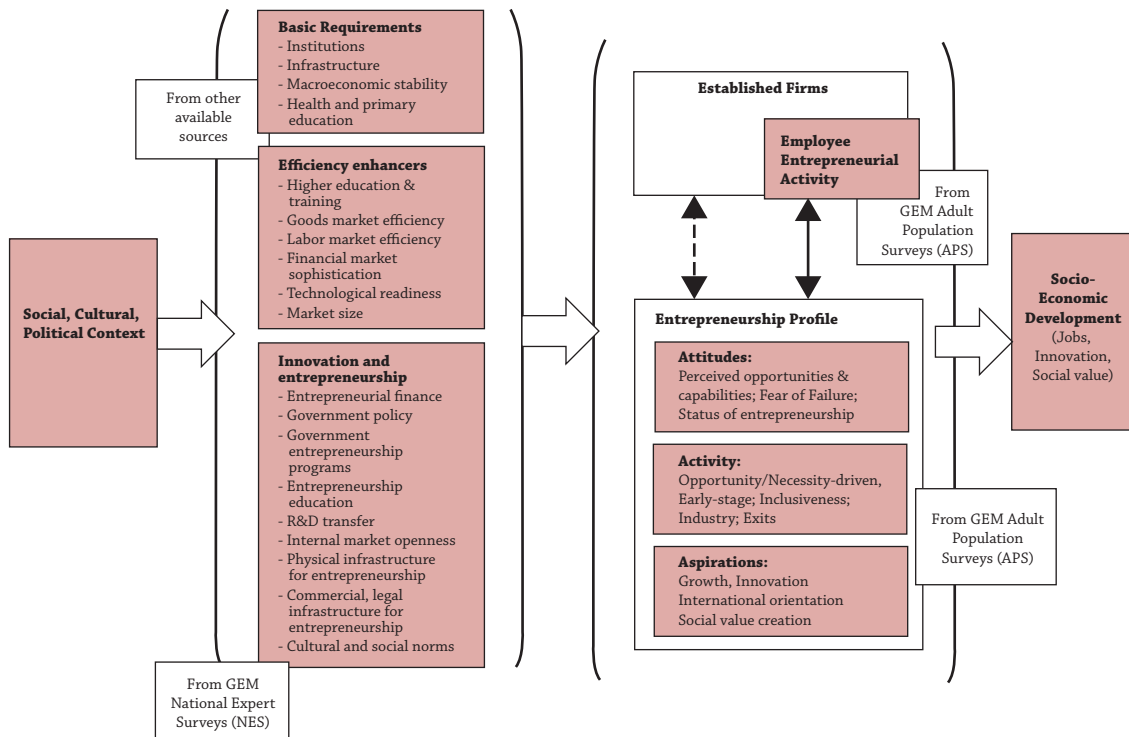
Social Values towards Entrepreneurship: including how society values entrepreneurship as a good career choice; if entrepreneurs have a high social status; and how media attention to

entrepreneurship is contributing (or not) to the development of a national entrepreneurial culture.

Individual Attributes: including several demographic factors (gender, age, geographic location), psychological factors (perceived capabilities, perceived opportunities, fear of failure) and motivational aspects (necessity-based vs. opportunity-based venturing, improvement-driven venturing, etc.).

Entrepreneurial Activity: defined according to the ventures' life cycle phases (nascent, new venture, established venture, discontinuation), the types of activity (high growth, innovation, internationalization) and the sector of the activity (Total Early-stage Entrepreneurial Activity—TEA, Employee Entrepreneurial Activity—EEA).

GEM CONCEPTUAL FRAMEWORK (USED IN GEM SURVEYS UP TO 2014)

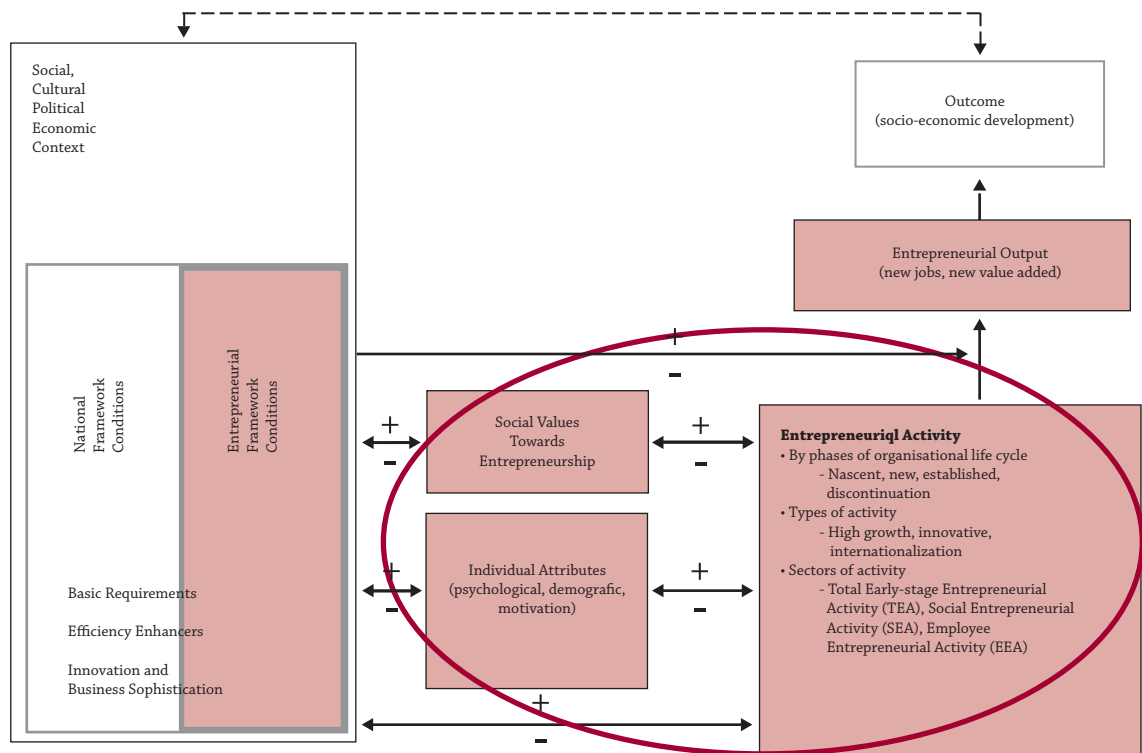


Source: GEM Executive Report 2014

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 73 countries participating in GEM in 2014. A professional survey ven-

dor, "SKDS", conducted the GEM adult population survey in Latvia in 2014. Via telephone interviews, a total of 4000 adults aged 18-64 years old were surveyed. In addition to the adult population survey a national expert survey (NES) was undertaken in each of the participating countries.

THE REVISED GEM CONCEPTUAL FRAMEWORK



Source: GEM Executive Report 2014

ANNEX 2: THE ENTREPRENEURSHIP PROCESS, GEM TERMINOLOGY AND DATA

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).

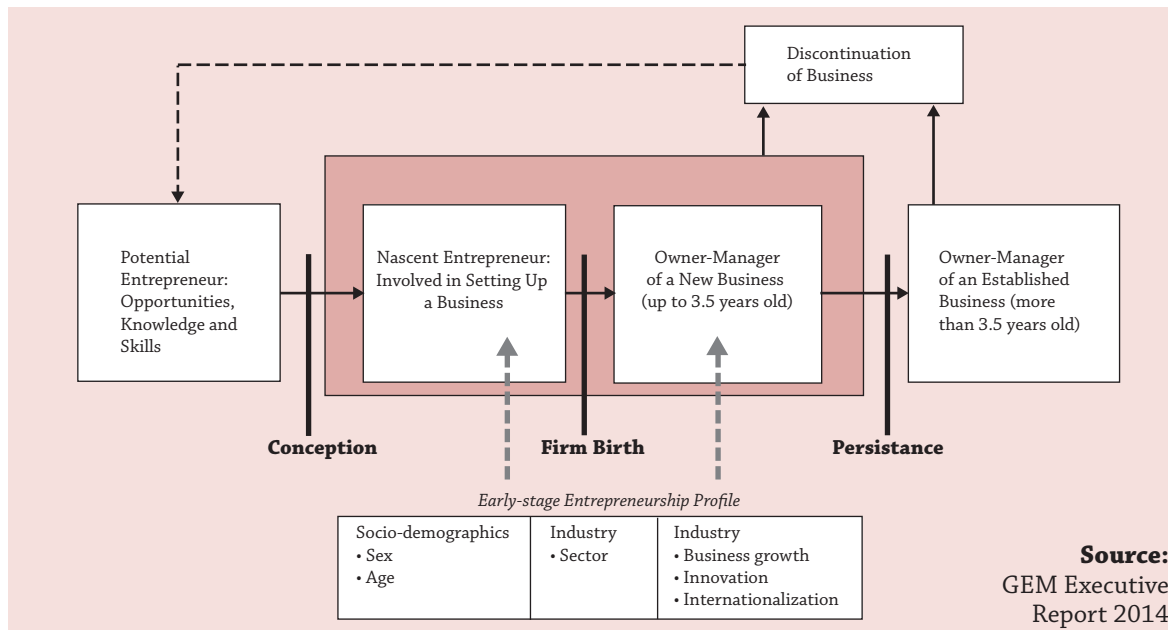
Early-stage entrepreneurs (nascent entrepreneurs + new firm owners)

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.

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



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.

ANNEX 3: DATA

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.



TeliaSonera Institute

Strēlnieku iela 4a, Rīga, LV-1010, Latvia

Baltic International Centre for Economic Policy Studies

Strēlnieku iela 4a, Rīga, LV-1010, Latvia

www.biceps.org

Stockholm School of Economics in Riga

Strēlnieku iela 4a, Rīga, LV-1010, Latvia

www.sseriga.edu