



# Global Entrepreneurship Monitor

*2011 Latvia Report*

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

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





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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.*

## FOREWORD

The Global Entrepreneurship Monitor (GEM) is a major international research project aimed at describing and analysing entrepreneurial processes across a wide range of countries. In 2011 Latvia participated in the GEM project for the seventh time. This volume represents the Latvian Country Report based on original data collected in Latvia for GEM. We believe that the Latvian GEM will contribute to the knowledge and understanding of factors influencing entrepreneurial activity in Latvia. This year the Report discusses the Latvian entrepreneurial profile, with an overview of entrepreneurial activity and the Latvian business cycle. This Report features a special topic on employee entrepreneurial activity. It provides information on entrepreneurial framework conditions (EFCs) based on interviews with national experts. In addition the Report goes beyond the borders of the GEM project as such by addressing Latvian entrepreneurial performance in an international context using data from the Global Entrepreneurship and Development Index (GEDI) and the Global Innovation Policy Index. It also presents findings from original research undertaken at SSE Riga that has a bearing on entrepreneurship in Latvia.

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## EXECUTIVE SUMMARY

The GEM 2011 Latvia Report provides detailed information on the entrepreneurial spirit and the latest trends in entrepreneurial activity in Latvia. The report offers an international comparison with other countries participating in the GEM project. It describes the Latvian entrepreneurial profile, discusses various aspects of entrepreneurial activity and the impact of the Latvian business cycle on entrepreneurial activity. As an additional feature, the Report presents findings from entrepreneurship research undertaken at the Stockholm School of Economics in Riga. We believe that the analysis included in this report will be informative for policy makers as well as for the business and academic community.

According to the Latvian GEM survey 11.9% of the Latvian adult population (age 18–64) were involved in early stage entrepreneurship (TEA)<sup>1</sup> in 2011, which corresponds to about 158 thousand persons. In comparison with the 2010 GEM findings the proportion of the population involved in early stage entrepreneurship has increased by 2.2 percentage points or to almost 23%.

Close to 24% of the Latvian adult population perceives good opportunities for starting a business over the next six months. This is less than in 2010 when 29% of Latvians perceived good opportunities but considerably higher than in the trough of the Latvian business cycle in 2009 when just 18% perceived good opportunities.

The 2011 findings indicate that Latvians are quite 'self-confident' in terms of entrepreneurial abilities, but at the same time, and somewhat paradoxically, are afraid of failure and perceive not too many opportunities in the current

economic situation. The latter appears to hold them back from actively engaging in entrepreneurial activity, suggesting scope for policy intervention aimed at reducing the perceived risks associated with entrepreneurship.

The percentage of Latvians not already entrepreneurially active but expecting to start a business within three years is almost 25%, up from 21% in 2010 and from 10% in 2009, the latter clearly reflecting the impact of the business cycle on entrepreneurial intentions. However it remains to be seen whether these plans will grow into real entrepreneurship and whether developments will lean towards necessity-based self-employment or towards high aspiration and internationally oriented innovative entrepreneurship.

Latvia together with Lithuania exhibits the highest proportion of the population involved in early-stage entrepreneurial activity (TEA) as compared with GEM EU countries (i.e. the EU countries that participate in GEM). In many cases the TEA rate for Latvia is twice as high as in comparator countries. Decomposing TEA into its two components, nascent entrepreneurship and new business ownership, shows that Latvia and Lithuania do particularly well in terms of new business ownership.

The evidence of the last seven years suggests that Latvian early-stage entrepreneurial activity is counter-cyclical, i.e. decreases in good times and increases during recessions. Much of the variation over the business cycle seems to stem from variation in necessity-driven entrepreneurship.

The distribution of TEA by age groups suggests that generally, early-stage entrepreneurs are

<sup>1</sup> Total early stage entrepreneurial activity.

often young to middle-aged (25–44 years). However, in Latvia TEA is particularly skewed towards the younger age group: i.e. age groups 18–24 and 25–34. For the age-groups 35 and above the Latvian prevalence-rate is lower than that of countries belonging to the same stage of economic development, i.e. efficiency-driven economies, but higher when compared with GEM EU countries. Part of the explanation for this age structure is surely connected to the Soviet heritage – the older age groups were brought up and spent a considerable period of their professional life in the Soviet system, which did not encourage business and entrepreneurship.

At slightly above 8% Latvia has a high female TEA rate and with Lithuania (which has a slightly higher rate) this is the highest among the EU countries participating in GEM. However, the difference in terms of prevalence rates between females and males, i.e. the gender gap (measured as the ratio between female and male early stage entrepreneurial activity), is around 0.5. This indicates that about twice as many males as females in Latvia are involved in early-stage entrepreneurial activity. For comparison, the lowest gender gap in GEM EU countries is observed for Germany (0.66). Hence, even though the share of Latvian females in early stage entrepreneurship is high compared to other GEM EU countries, the gender gap indicates that Latvia could still do better in terms of female participation in entrepreneurial activities. This entrepreneurial gender gap indicates an ‘untapped resource’ and could, if properly addressed, positively affect the overall performance of the Latvian economy.

Education and family wealth also affect entrepreneurial activity. For Latvians with a comparatively higher level of education the probability of involvement in early-stage entrepreneurial activity is higher compared with those with less education. Moreover, the wealthier the household of an individual the likelier it is that individual

will be involved in early-stage entrepreneurial activity. Indeed, the probability of an individual from a high income household participating in early-stage entrepreneurial activity is four times higher than for an individual from a low income household.

Data on motivation to start a business for early stage entrepreneurs in Latvia suggest that a slightly smaller proportion of early stage entrepreneurs have been driven by the necessity motive (26% of TEA) in 2011 compared with the previous year. This is still higher than the GEM EU median (18.6% of TEA) and is also substantially higher compared to the pre-recession level of necessity-driven entrepreneurship in Latvia (15% in 2007).

Unprofitability and problems in obtaining finance together accounted for about 50% of business discontinuations in Latvia in 2011 which is down from the previous two years, when 70% of all business discontinuations were because of financial problems. This trend is surely a consequence of the improving economic situation.

Latvian (and Lithuanian) early-stage entrepreneurs are rather ambitious in their growth expectations. Both countries have not only a comparably high TEA level but also a relatively high share of early-stage entrepreneurs with high job creation expectations compared with innovation-driven GEM EU countries. About 16% of all early-stage entrepreneurs in Latvia expect to increase their personnel by more than 20 employees in the next 5 years and 35% expect to create between 5 to 19 new jobs over the same period.

Employee entrepreneurial activity (EEA) is defined as the share of employees involved in entrepreneurial activities (also known as intrapreneurship) and is a special feature of the 2011 Report. In Latvia this indicator is rather low

standing at about half of the average level of employee entrepreneurial activity observed in the 19 GEM EU countries. The Latvian level of employee entrepreneurial activity is also the lowest within the group of GEM EU efficiency-driven countries. Employee entrepreneurial activity in Latvia is most prevalent in small and medium organizations and not-for-profit organizations and the activity rates are highest for 25–34 old employees, for highly educated individuals and for high income individuals. Again a fairly large gender gap is observed – male employees are almost twice as likely to be involved in EEA compared to female employees.

However, entrepreneurial employees in Latvia have higher job expectations for their new business activity than nascent entrepreneurs and owner-managers of young enterprises. This could be explained by better access to resources for growth via organisational channels. Entrepreneurial employees also appear to be highly innovative. About 75% of entrepreneurial employees introduce products or services that are new to at least some of the organisation's customers and about 75% of entrepreneurial employees regard their product and service as so unique as to have very few competitors.

The GEM National Expert Survey and the Global Entrepreneurship and Development Index (GEDI) offer complementary assessments of entrepreneurship based on qualitative indicators.

One GEDI area where Latvia performs strongly is internationalisation measured by the share of output sold outside national boundaries. For Latvia this indicator is more than 25% which is high compared with most GEM EU innovation-driven economies. The data reveal that compared to innovation-driven countries Latvia stands in a relatively good position in respect of National Policy-General Policy and Internal Market Openness conditions. Primary and Secondary Education and Commercial and Services Infrastructure are valued highly by Latvian national experts. On the other hand, R&D, Cultural and Social Norms, Physical Infrastructure, Post School Education and Availability of Finance are dimensions that still require considerable improvement.

As for the impact of the shadow economy on entrepreneurial activity, there are strong reasons to believe that the large size of the Latvian shadow economy has an overall negative impact on Latvian entrepreneurial activity and that it discourages entrepreneurship in high growth areas.

## EXECUTIVE SUMMARY IN LATVIAN

### KOPSAVILKUMS

Latvijas 2011. gada GEM Ziņojums sniedz detalizētu informāciju par uzņēmējdarbības garu un jaunākajām uzņēmējdarbības aktivitātes tendencēm Latvijā. Ziņojums piedāvā starptautisku salīdzinājumu ar pārējām GEM projekta dalībvalstīm. Tajā sniegts Latvijas uzņēmējdarbības profila raksturojums, apspriesti dažādi uzņēmējdarbības aktivitātes aspekti un Latvijas uzņēmējdarbības cikla ietekme uz uzņēmējdarbības aktivitāti. Papildus tam šajā ziņojumā iekļauti rezultāti, kas iegūti Rīgas Ekonomikas augstskolas uzņēmējdarbības pētījumos. Mēs uzskatām, ka ziņojumā iekļautā analīze būs noderīga gan politikas veidotājiem, gan uzņēmējiem un pētniekiem.

Saskaņā ar Latvijas GEM aptauju, 2011. gadā 11.9% no visiem pieaugušajiem Latvijas iedzīvotājiem (vecumā no 18–64 gadiem), kas ir aptuveni 158 tūkstoši iedzīvotāju, bija iesaistījušies agrīnās stadijas uzņēmējdarbībā (KAA)<sup>1</sup>. Salīdzinot ar 2010. gada GEM rezultātiem, iedzīvotāju daļa, kuri iesaistījušies agrīnās stadijas uzņēmējdarbībā, ir pieaugusi par 2.2 procentu punktiem vai gandrīz 23%.

Gandrīz 24% no Latvijas pieaugušajiem iedzīvotājiem saskata labas biznesa uzsākšanas iespējas tuvāko 6 mēnešu laikā. Tas ir mazāk nekā 2010. gadā, kad labas biznesa iespējas saskatīja 29% no Latvijas iedzīvotājiem, tomēr tas ir ievērojami vairāk nekā 2009. gadā, kad Latvijas uzņēmējdarbības cikla zemākajā punktā tikai 18% indivīdu saskatīja labas biznesa iespējas.

2011. gada rezultāti liecina, ka Latvijas iedzīvotāji ir diezgan pašpārliecināti attiecībā uz savām

uzņēmējdarbības vadīšanas spējām, tomēr tai pat laikā, kas ir nedaudz paradoksāli, baidās no neveiksmes un nesaskata daudz labu iespēju šī brīža ekonomiskajā situācijā. Minētais tos atur no aktīvas iesaistīšanās uzņēmējdarbībā. Šī varētu būt vieta politikas instrumentiem ar mērķi samazināt iespējamus riskus saistībā ar uzņēmējdarbību.

Tie Latvijas iedzīvotāji, kuri pagaidām nav iesaistījušies uzņēmējdarbībā, bet gatavojas to uzsākt tuvāko trīs gadu laikā, sastāda gandrīz 25%, palielinoties no 21% 2010. gadā un no 10% 2009. gadā, kas ļauj novērtēt uzņēmējdarbības cikla ietekmi uz uzņēmējdarbības nodomiem. Tomēr joprojām nav zināms, vai šie plāni tiks realizēti un attīstīti līdz uzņēmējdarbībai, kā arī, vai tā būs nepieciešamības spiesta pašnodarbinātība vai mērķtiecīga un starptautiski orientēta inovatīva uzņēmējdarbība.

Salīdzinot ar pārējām GEM ES valstīm (t.i. ES valstis, kas piedalās GEM projektā), Latvijā un Lietuvā ir novērojams augstākais agrīnās uzņēmējdarbības stadijā iesaistīto iedzīvotāju rādītājs (KAA). Daudzos gadījumos Latvijas KAA rādītājs ir pat divas reizes augstāks nekā salīdzināmās valstīs. KAA sastāv no divām daļām – topošā uzņēmējdarbība un jaunas uzņēmējdarbības vadīšana. Latvijā un Lietuvā jaunas uzņēmējdarbības vadīšanas rādītājs ir salīdzinoši augsts.

Pēdējo septiņu gadu pieredze liecina, ka Latvijas agrīnās stadijas uzņēmējdarbības tendence ir pret-cikliska, t.i. samazinās laikā, kad ekonomiskie apstākļi ir labvēlīgi, un palielinās ekono-

<sup>1</sup> Kopējā agrīnās stadijas uzņēmējdarbības aktivitāte

mikas lejupslīdes laikā. Liela daļa uzņēmējdarbības cikla izmaiņu, šķiet, rodas no pārmaiņām nepieciešamības spiestā uzņēmējdarbībā.

KAA sadalījums pa vecuma grupām norāda, ka agrīnās stadijas uzņēmējdarbībā visbiežāk ir iesaistīti cilvēki vecumā no 25–44 gadiem. Tomēr Latvijā KAA izteikti attiecas uz jaunākām vecuma grupām: t.i. 18–24 gadi un 25–34 gadi. Vecuma grupas no 35 gadiem un uz augšu izplatības rādītājs ir zemāks, nekā uz efektivitāti balstītās valstīs, bet augstāks, salīdzinot ar pārējām GEM ES valstīm. Daļēji šāds sadalījums pa vecuma grupām ir skaidrojams ar Padomju Savienības atstāto mantojumu – vecāko vecuma grupu pārstāvji uzauga un ievērojamu laika periodu no savas profesionālās dzīves pavadīja padomju sistēmā, kas neveicināja un neatbalstīja uzņēmējdarbību.

Latvijas sieviešu KAA rādītājs, kas ir nedaudz virs 8%, līdz ar Lietuvas sieviešu KAA rādītāju (kas ir nedaudz augstāks) ir augstākie starp ES valstīm, kas piedalās GEM projektā. Tomēr izplatības rādītāju atšķirība starp sievietēm un vīriešiem, t.i. dzimumu plaša (vīriešu un sieviešu proporcija agrīnās stadijas uzņēmējdarbībā) ir aptuveni 0.5. Tas norāda, ka Latvijā agrīnās stadijas uzņēmējdarbībā iesaistās divreiz vairāk vīriešu, nekā sieviešu. Salīdzinājumam, zemākais dzimumu atšķirības rādītājs Eiropas Savienības GEM valstu vidū ir novērojams Vācijā (0.66). Neskatoties uz to, ka, salīdzinot ar citām GEM ES valstīm, Latvijā agrīnās stadijas uzņēmējdarbībā iesaistās liels skaits sieviešu, dzimumu plaša liecina, ka Latvijā joprojām būtu vairāk jāatbalsta sieviešu līdzdalība uzņēmējdarbības aktivitātēs. Šī uzņēmējdarbības dzimumu plaša norāda uz neizmantotiem resursiem un, pareizi pielietoti, tie varētu pozitīvi ietekmēt Latvijas ekonomikas kopējo sniegumu.

Arī izglītība un ģimenes turība ietekmē uzņēmējdarbības aktivitāti. Latvijā indivīdiem ar augstāku izglītības līmeni pastāv lielāka varbūtība iesaistīties agrīnās stadijas uzņēmējdarbībā nekā indivīdiem ar zemāku izglītības līmeni. Jo turīgāka ir indivīda mājsaimniecība, jo lielāka varbūtība, ka viņš iesaistīsies agrīnās stadijas uzņēmējdarbības aktivitātēs. Varbūtība, ka indivīds ar augstiem ienākumiem iesaistīsies agrīnās stadijas uzņēmējdarbības aktivitātēs, ir četras reizes augstāka, salīdzinot ar indivīdu, kura mājsaimniecība ir ar zemiem ienākumiem.

Balstoties uz Latvijas datiem par agrīnas stadijas uzņēmēju motivāciju uzsākt biznesu, 2011. gadā salīdzinājumā ar iepriekšējo gadu nedaudz mazāku agrīnās stadijas uzņēmēju proporciju virzīja nepieciešamības motīvs (26% no KAA). Tas joprojām ir augstāks rādītājs nekā GEM ES vidējais rādītājs (18.6% no KAA) un arī ievērojami augstāks salīdzinājumā ar nepieciešamības spiestas uzņēmējdarbības līmeni Latvijā pirms krīzes (15% 2007. gadā).

2011. gadā Latvijā gandrīz puse no visiem iemesliem uzņēmējdarbības pārtraukšanai bija peļņu nenesošs uzņēmums un problēmas iegūt finansējumu, kas ir mazāk nekā pirms diviem gadiem, kad problēmas ar finansējumu bija uzņēmējdarbības pārtraukšanas iemesls 70% gadījumā. Šī tendence viennozīmīgi ir ekonomiskās situācijas uzlabošanās rezultāts.

Agrīnās stadijas uzņēmēji Latvijā (un Lietuvā) ir visai ambiciozi attiecībā uz savām izaugsmes gaidām. Salīdzinot ar vairumu uz inovācijām balstītu GEM ES valstu, abās valstīs ir ne vien augsts KAA līmenis, bet arī agrīnās stadijas uzņēmēju daļa, kuri sagaida darba vietu pieaugumu savā uzņēmumā. Aptuveni 16% no agrīnās stadijas uzņēmējiem Latvijā paredz palielināt savu personālu par vairāk kā 20 darbiniekiem piecu gadu laikā un 35% plāno radīt 5 līdz 19 jaunas darbavietas tādā pat laika periodā.

Darbinieku uzņēmējdarbības aktivitāte (DUA) ir definēta kā daļa darbinieku, kuri iesaistīti uzņēmējdarbības aktivitātēs (saukta arī par organizāciju iekšējo uzņēmējdarbību) un ir 2011. gada ziņojuma īpašais temats. Latvijā šis rādītājs ir diezgan zems un sastāda aptuveni pusi no vidējā darbinieku uzņēmējdarbības aktivitātes līmeņa visās 19 GEM ES valstīs. Latvijas darbinieku uzņēmējdarbības aktivitātes līmenis ir zemākais arī GEM ES uz efektivitāti balstītu valstu grupā. Darbinieku uzņēmējdarbības aktivitāte Latvijā biežāk ir izplatīta mazos un vidējos uzņēmumos un bezpeļņas organizācijās. Augstākais aktivitātes rādītājs ir novērojams vecuma grupā no 25–34 gadiem, indivīdiem ar labu izglītību un indivīdiem ar augstiem ienākumiem. Arī šeit ir novērojama diezgan liela dzimumu plaisa – vīrieši gandrīz divreiz biežāk iesaistās DUA, nekā sievietes.

Tomēr darbiniekiem uzņēmējdarbībā Latvijā ir lielākas gaidas attiecībā un sava jaunā biznesa aktivitāti, nekā topošajiem uzņēmējiem un jaunu uzņēmumu īpašniekiem – vadītājiem. Tas varētu būt skaidrojams ar labāku piekļuvi izaugsmes resursiem caur organizatoriskajiem kanāliem. Darbinieki uzņēmējdarbībā šķiet arī ļoti novatoriski. Aptuveni 75% uzņēmējdarbības darbinieku ievieš produktus vai pakalpojums, kas ir jauni vismaz daļai uzņēmuma klientu, un aptuveni 75% no uzņēmējdarbības darbiniekiem uzskata, ka viņu produkts vai pakalpojums ir unikāls, un tam ir ļoti maz konkurentu.

GEM Nacionālo Ekspertu Aptauja un Globālais Uzņēmējdarbības un Attīstības Indeks (GEDI – Global Entrepreneurship and Development Index) piedāvā papildus uzņēmējdarbības novērtējumus, kas balstīti uz kvalitatīviem indikatoriem.

Viena no GEDI indeksa jomām, kurā Latvija uzrāda labu sniegumu, ir internacionalizācija, mērīta pēc produkcijas daļas, kas pārdota ārpus valsts robežām. Latvijai šis indikators ir virs 25%, kas ir augsts rādītājs, salīdzinot ar lielāko daļu GEM ES uz inovācijām balstītu ekonomiku. Šie dati liecina, ka Latvija, salīdzinot ar valstīm, kas balstītas uz inovācijām, atrodas salīdzinoši labā stāvoklī attiecībā uz nacionālās un vispārējās politikas un iekšējā tirgus atvērtības nosacījumiem. Latvijas nacionālie eksperti augstu novērtē pamatizglītības un vidējās izglītības, kā arī tirdzniecības un pakalpojumu infrastruktūru. No otras puses, pētniecība un attīstība (P&A), kultūras un sociālās normas, fiziskā infrastruktūra, postpadomju skolu izglītība un finanšu pieejamība ir jomas, kur joprojām nepieciešami ievērojami uzlabojumi.

Attiecībā uz ēnu ekonomikas ietekmi uz uzņēmējdarbību, pastāv nopietni iemesli uzskatīt, ka Latvijas ēnu ekonomikas lielajam izmēram ir vispārēja negatīva ietekme uz Latvijas uzņēmējdarbības aktivitāti un ka tā attur indivīdus iesaistīties uzņēmējdarbībā augstas izaugsmes jomās.



# 1. INTRODUCTION TO THE GEM PROJECT AND GEM TERMINOLOGY

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 54 countries in 2011. Out of the three Baltic countries Latvia has participated since 2005, Lithuania participated for the first time this year, and Estonia is supposed to join in 2012. GEM is the largest single study of entrepreneurial activity in the world with the most geographically and economically diverse sample. Its contribution to the knowledge and understanding of the entrepreneurial process in a global context is unique.

The three main objectives of the Global Entrepreneurship Monitor are:

- To measure differences in the level of entrepreneurial activity between countries.
- To uncover factors determining levels of entrepreneurial activity.
- To identify policies that may enhance the level of entrepreneurial activity.

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

the adult population, entrepreneurial spirit, and attitudes to entrepreneurship.

GEM takes a comprehensive approach and considers the degree of involvement in entrepreneurial activity within a country, identifying different types and phases of entrepreneurial activity. GEM views entrepreneurship as a process and distinguishes entrepreneurs at different stages of their life-cycle: from the very early phase when the business is in gestation to the established phase and possibly 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 the society can be considered. The present GEM Report 2011 contains a first attempt to design a typology for classification of countries into groups with similar dimensions of medium-high job expectation early-stage entrepreneurial activity, solo and low job expectation early-stage entrepreneurial activity and level of Entrepreneurial Employee Activity. Finally, GEM offers a framework for conducting research on special topics in entrepreneurship (e.g. entrepreneurial employee activity – a special additional topic this year), social entrepreneurship, entrepreneurial education and others in an international context as well as enabling comparisons of entrepreneurial activities within and across geographic regions and specific groups of countries with similar characteristics.

An important advantage of GEM is its reliance on high-quality data, collected via adult population surveys (APS) in each participating country. Representative samples of not less than 2000 randomly selected adult individuals were collected in each of the 54 countries participating in GEM in 2011.

A professional survey vendor, “SKDS”, conducted the GEM adult population survey in Latvia in 2011.

Via telephone interviews, a total of 2000 adults aged 18–64 years old were surveyed during May–July 2011.

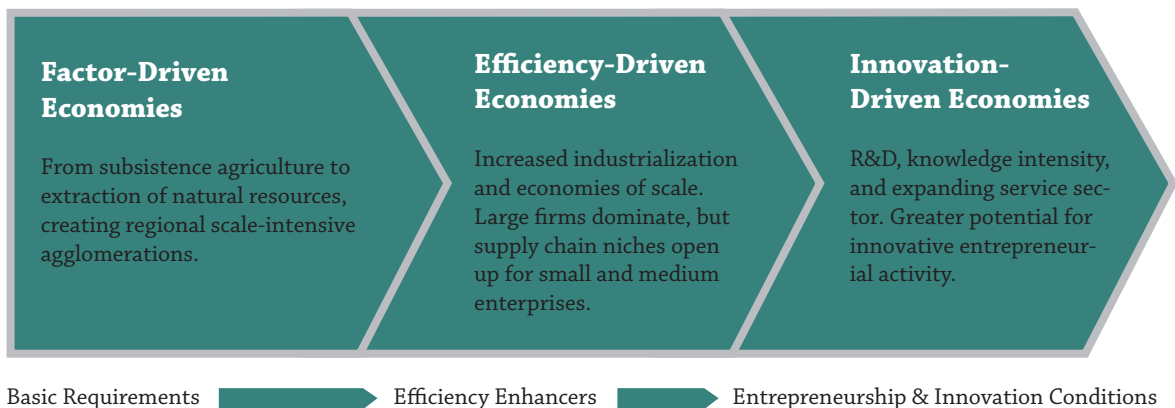
In addition to the adult population survey a national expert survey (NES) was undertaken in each of the participating countries.

### 1.1 ENTREPRENEURSHIP AND STAGES OF ECONOMIC DEVELOPMENT

GEM groups countries into three stages of economic development as defined by the World Economic Forum Global Competitiveness Report 2011–2012 (Schwab, 2011) – Factor-Driven, Efficiency-Driven and Innovation-Driven. This division is based on the level of GDP per capita and the extent to which countries are factor-driven in terms of the share of exports of primary goods in total exports. It is important to keep in mind that all three types of economic activity are present in all national economies, but their input to economic development and relative dominance varies. Figure 1 shows the characteristics of

these economic groups and the key development focus at each level. This classification of countries is discussed in more detail in the Global Competitiveness Report. Latvia, according to the 2011–2012 Global Competitiveness Report, is in transition between being Efficiency-Driven and Innovation-Driven, i.e. in the same group as Estonia and Lithuania and several other Eastern European EU member states – notable exceptions being the Czech Republic and Slovenia at the third stage, Innovation-Driven, with Bulgaria and Romania at the second stage, Efficiency-Driven Economies.

**Figure 1: Characteristics of economic groups and key development focus**



Source: GEM 2011 Executive Report.

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

market efficiency, and financial market sophistication feature among these. For Innovation-Driven economies entrepreneurship conditions (e.g. entrepreneurial finance, government entrepreneurial policies, and entrepreneurial education) are main factors stimulating economic development.

The contribution of entrepreneurs to an economy to a large extent depends on the phase of economic development.

### Box 1: The role of entrepreneurship in different phases of economic development

#### Entrepreneurship in Factor-Driven Economies

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

#### Entrepreneurship in Efficiency-Driven Economies

As the industrial sector develops further, institutions start to emerge to support further industrialization and the build-up of scale in pursuit of higher productivity through economies of scale. Typically, national economic policies in scale-intensive economies shape their emerging economic and financial institutions to favour large national businesses. As increasing economic productiv-

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

#### Entrepreneurship in Innovation-Driven Economies

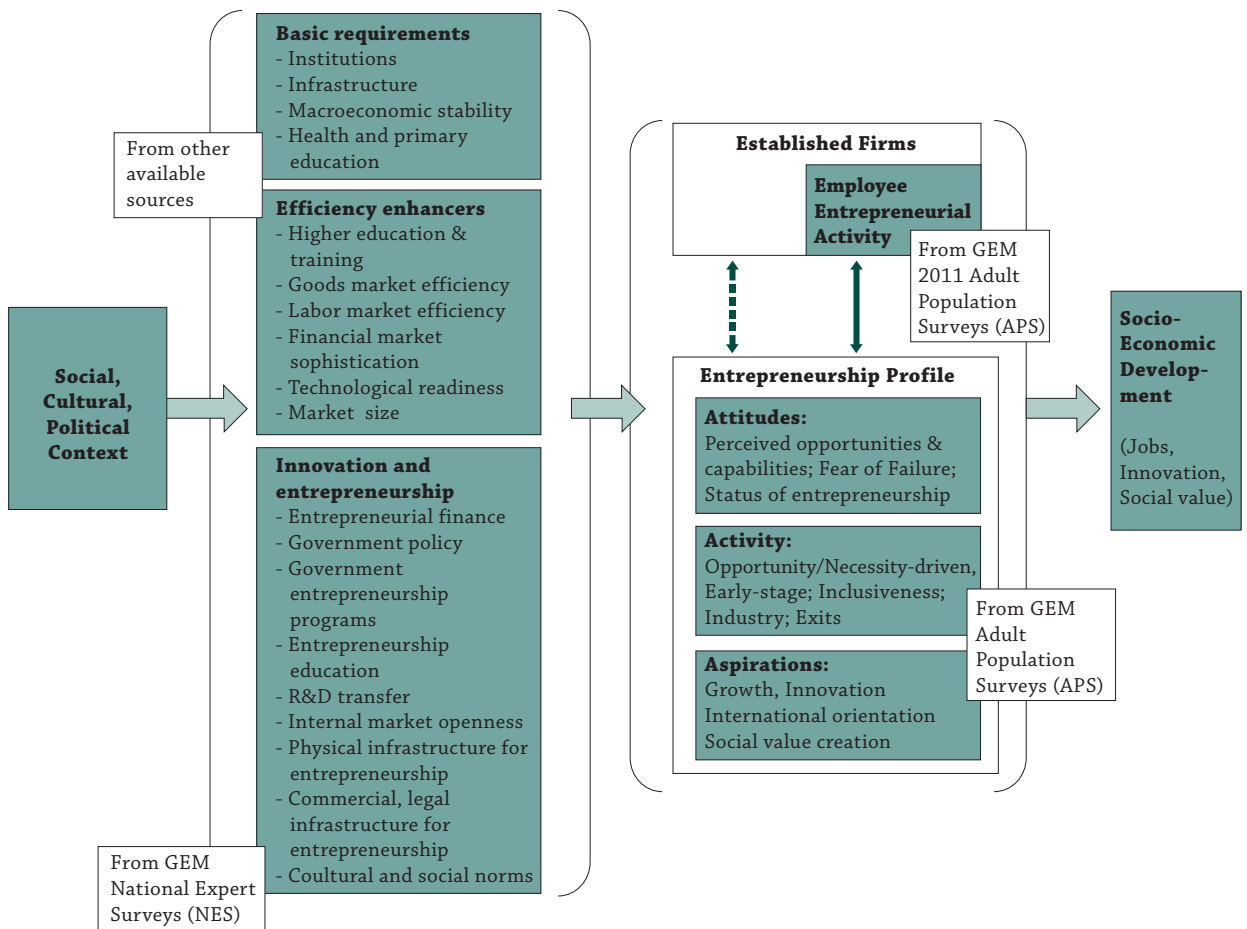
As an economy matures and its wealth increases, the emphasis in industrial activity may be expected gradually to shift toward an expanding service sector that caters to the needs of an increasingly affluent population and supplies the services normally expected of a high-income society. The industrial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

## 1.2 GEM CONCEPTUAL MODEL, TERMINOLOGY AND DATA

The GEM model maintains that, at a national level, the framework conditions that apply to established business activity differ from those that apply to entrepreneurial activity. Performance of larger established firms is influenced by general business conditions, which influence firms' ability to compete effectively, to start new or ancillary businesses and to create jobs (von Broembsen et al., 2005). An additional set of factors, referred to as Entrepreneurial Framework

Conditions, influence individuals' decisions to pursue entrepreneurial initiatives. Both national and entrepreneurial framework conditions are dependent on the social, political and economic context in which they exist. These contexts are influential in creating unique business and entrepreneurial environments, and should therefore be taken into account when analysing cross-national differences and national developments over time.

Figure 2: The GEM model



Source: GEM Executive Report 2011.

The GEM conceptual model (see Figure 2) is a dynamic entity that is progressively developed to incorporate advances in understanding the entrepreneurial process and to allow for further exploration of patterns detected in previous GEM studies.

The basic GEM terminology employed throughout the Report is presented in Box 2, while Box 3 discusses how GEM data differ from data obtained from enterprise registers.

## Box 2: GEM Terminology

### **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 he or she will fully or partially own. This new business has already passed the stage of being merely an idea, because the individual has taken active steps over the last 12 months to help launch the business, such as looking for equipment or a location, organizing a start-up team, working on a business plan, or beginning to save money. However, the business is not yet fully operating, since it has not paid wages to its owners for more than three months.

### **New firm owners**

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

### **Established business owners**

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

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

An early-stage entrepreneur is an adult individual who is either a nascent entrepreneur or a new firm owner. The

early-stage entrepreneurship phase covers entrepreneurial activity from the first active step taken to start up a business until the moment when the enterprise has paid salaries to its owners for 42 months (3.5 years).

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

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

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

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

### **Prospective entrepreneurs**

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

### **Employee Entrepreneurial Activity (EEA)**

Percentage of the 18-64 age group currently involved in developing new entrepreneurial activities for their employer.

In order to provide reliable comparisons across countries, GEM data are obtained using a research design that is harmonised over all participating countries. The data are gathered annually 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. The 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 directly with each country's chosen APS vendor. The raw data are sent directly to analysts at London Business School for checking and uniform statistical calculations before being made available to the participating countries.

- *National Expert Survey (NES)*

The GEM National Expert 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 a minimum of 50% must be professionals.
- Additional aspects such as geographical distribution, gender, public sector versus private sector, and level of experience should also be taken into account when balancing the sample.

### Box 3: 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.

### 1.3 PATTERNS OF ENTREPRENEURSHIP: COUNTRY CLASSIFICATION

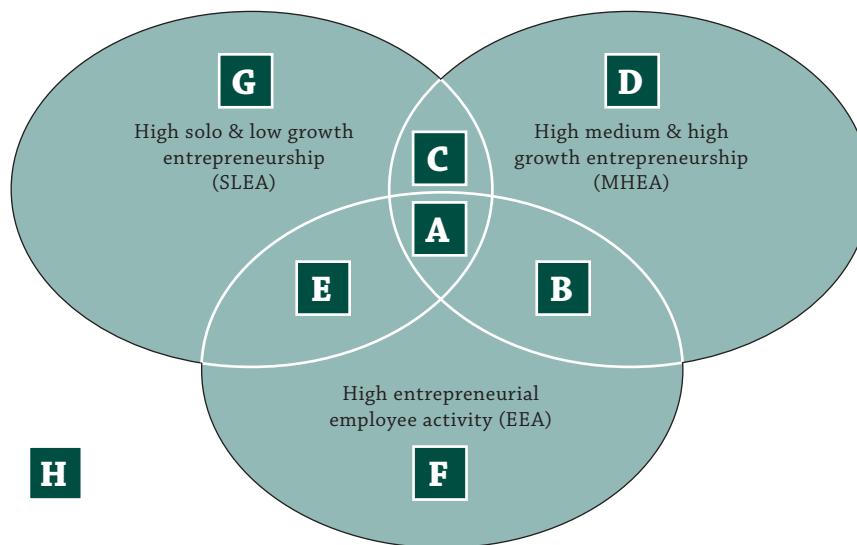
Starting from this year, GEM also classifies countries into groups along three main dimensions:

- Medium & high expectation of five or more jobs, early-stage entrepreneurial activity (MHEA), as a reflection of ambitious entrepreneurship.
- Solo & low five year job expectation of none to four jobs, early-stage entrepreneurial activity (SLEA). As a reflection of less ambitious entrepreneurship, this dimension represents two components:
  - social component (people pursue their need for independence or have no alternative options for work),
  - economic component (some self-employed contribute to the flexibility of the overall economy, but others could be more productive by working as employees).
- Entrepreneurial employee activity (EEA).

A classification of different types of economy is based on country prevalence rates in these three entrepreneurial dimensions, i.e. prevalence of medium/high job expectations, early stage entre-

preneurial activity (MHEA); prevalence of solo/low job expectation, early-stage entrepreneurial activity (SLEA); and prevalence of entrepreneurial employee activity (EEA). In the present GEM Report, as a first attempt towards designing a typology, countries are classified as having high prevalence in a dimension if the corresponding rate is above the median score and as having low prevalence if the corresponding rate is below this score. The resulting eight possible combinations of these three dimensions then range from high/high/high to low/low/low. These combinations or types of economy may be numbered A through H, as visualised in Figure 3.

Type A, for example, harbours countries with a high prevalence in all three types of entrepreneurship, while countries with high prevalence in both solo/low job expectation entrepreneurship (SLEA) and medium/high job expectation entrepreneurship (MHEA) but a low rate of entrepreneurial employee activity (EEA) are in group Type C, countries with high prevalence in EEA but low rates of MHEA and SLEA are Type F, and countries with low prevalence in all three types of entrepreneurship are type H.

**Figure 3: Typology of economies along three types of entrepreneurship**

Where:

- A = high overall entrepreneurial activity (high SLEA, MHEA and EEA)
- B = high entrepreneurial employee activity (EEA) and high ambitious entrepreneurship (MHEA)
- C = high non-ambitious entrepreneurship (SLEA) and high ambitious entrepreneurship (MHEA)
- D = high ambitious entrepreneurship (MHEA) only
- E = high non-ambitious entrepreneurship (SLEA) and high entrepreneurial employee activity (EEA)
- F = high entrepreneurial employee activity (EEA) only
- G = high non-ambitious entrepreneurship (SLEA) only
- H = low overall entrepreneurial activity (low SLEA, MHEA and EEA)

Source: GEM 2011 survey.



Table 1 represents the grouping results based on the GEM 2011 survey.

**Table 1: Grouping of GEM country participants based on three dimensions of entrepreneurial activity, 2011.**

	SLEA: high	SLEA: low
<b>MHEA: high EEA: high</b>	<b>A</b>	<b>B</b>
	Argentina (c) Australia (b) Chile (c) Lithuania (b) Netherlands* (a) Slovakia (c) United States Uruguay	Czech Republic (a,b,c) Hungary (a,c) Ireland (a) Romania (c) Singapore (a,c) Taiwan* (c) UAE (c)
<b>MHEA: high EEA: low</b>	<b>C</b>	<b>D</b>
	Algeria (a) Brazil (a) China Colombia Iran Latvia (b,c) Peru Poland (b) South Africa (b) Thailand Trinidad & Tobago Turkey* (b) Venezuela (a)	
<b>MHEA: low EEA: high</b>	<b>E</b>	<b>F</b>
		Belgium (b) Croatia (a) Denmark Finland (b) France Germany Japan (c) Portugal (a,b,c) Slovenia Sweden (b) Switzerland (b,c) UK (a,b)
<b>MHEA: low EEA: low</b>	<b>G</b>	<b>H</b>
	Bangladesh (a) Barbados (a) Greece Jamaica Mexico (a) Pakistan Panama	Bosnia & Herzegovina (a,b,c) Korea Rep. (a,b,c) Malaysia Russia Spain (c)

Source: Global Entrepreneurship Monitor 2011.

Notes: (a) indicates border case MHEA, (b) indicates border case SLEA, (c) indicates border case EEA.

\* The Netherlands was originally placed in group E, while Taiwan and Turkey were originally placed in group D.

## 2. LATVIAN ENTREPRENEURSHIP PROFILE

According to the Latvian 2011 GEM survey 11.9% of the Latvian adult population (age 18–64) were involved in early stage entrepreneurship, which corresponds to about 158 thousand persons. In comparison with the 2010 GEM findings the proportion of the population involved in early stage entrepreneurship has increased by 2.2 percentage points or to almost 25%.

The current chapter aims at analysing the process of early stage entrepreneurship as well as some of the factors that influence the decision on whether to engage in entrepreneurship. Throughout the analysis a subset of European Union countries participating in the GEM project is used to benchmark Latvia's performance. This subset is divided into two groups according to the stage of economic development in line with the terminology employed in the World Economic Forum Global Competitiveness Report when characterizing a nation's stage of economic development: factor-driven economies, efficiency-driven economies and innovation-driven economies. Latvia belongs to the second group, i.e. it is an efficiency-driven economy. The countries against which it is benchmarked have reached either the efficiency-driven stage or the innovation-driven stage of economic

development. In an efficiency-driven economy like Latvia, efficient production practices are the main source of competitiveness whereas in an innovation-driven economy innovative products and the most advanced methods of production and organisation are the main source of competitiveness. In some cases Latvia will also be benchmarked against all GEM efficiency-driven and innovation-driven countries.

The next section is forward looking, giving a view on perceived opportunities and intentions as well as factors restraining potential entrepreneurs from going into entrepreneurship. The section following it provides a snapshot of the actual situation in terms of entrepreneurial activity in Latvia and selected comparator countries and starts with an overview of the theoretical framework. The section also includes a discussion of motives for going into entrepreneurship – necessity-driven or opportunity-driven entrepreneurship; the demographics of early-stage entrepreneurship including gender aspects; levels of education and household income; established business ownership; and business discontinuation or reasons for business exit.

### 2.1 ENTREPRENEURIAL PERCEPTIONS AND INTENTIONS

Entrepreneurship starts with potential entrepreneurs. However, individuals with belief in their abilities to become entrepreneurs may or may not venture into entrepreneurial activity. Several factors affect this decision. Although perception of opportunities for start-ups or of (matching) personal capabilities with a business idea might be an important factor, it is not necessarily the key or main factor determining

whether a potential entrepreneur actually goes into entrepreneurship. Factors such as fear of failure or risk aversion and the availability of attractive employment opportunities could make entrepreneurship look less attractive in the eyes of a potential entrepreneur, thereby discouraging engagement in entrepreneurial activity.

Hence, while in some societies attitudes and perceptions toward entrepreneurship may be instrumental in terms of encouraging new entrepreneurial activities and eventual establishment of a new venture, in others they are certainly not, on their own, sufficient reason for potential entrepreneurs to choose to engage in entrepreneurial activity. In other words, to understand a nation's or a culture's entrepreneurial potential it is of interest to look at perceptions and intentions towards entrepreneurship, as is done in Table 2. This involves four dimensions:

- perceived opportunities;
- perceived capabilities;
- fear of failure; and
- entrepreneurial intentions.

When discussing and trying to interpret these variables it is important to keep in mind that they are affected by cultural factors (e.g. the attitude towards risk and self-confidence), institutional factors (such as bankruptcy legislation), and the overall economic performance of the economy (e.g. more opportunities might be perceived in a booming economy).

Table 2 analyses these characteristics for Latvia and the other European Union countries participating in the GEM 2011 cycle. The variable “perceived opportunities” reflects the percentage of the population age 18–64 that believe opportunities exist to start a business in the area where they live. A first glance at the first column of Table 2 reveals that more perceived

**Table 2: Perceptions and intentions towards entrepreneurship in GEM participating EU countries, by phase of economic development, 2011<sup>2</sup>**

	Perceived Opportunities	Perceived capabilities	Fear of failure*	Entrepreneurial intentions **
<b>Efficiency-driven economies</b>				
Hungary	14.2	40.0	34.9	19.5
Latvia	23.6	46.5	41.0	24.8
Lithuania	23.2	35.4	39.9	16.8
Poland	33.1	52.0	42.9	22.7
Romania	36.1	41.6	36.1	24.7
<i>average (unweighted)</i>	26.0	43.2	39.0	21.8
<b>Innovation-driven economies</b>				
Belgium	43.0	44.0	40.7	10.9
Czech Republic	23.9	39.2	34.6	13.9
Denmark	46.6	35.0	40.5	6.7
Finland	60.8	37.3	32.0	7.1
France	34.9	38.4	37.1	17.7
Germany	35.2	37.1	42.0	5.5
Greece	10.9	49.7	37.8	10.5
Ireland	25.6	45.5	33.2	5.8
Netherlands	47.8	41.9	35.1	8.5
Portugal	16.7	46.7	39.6	12.2
Slovenia	18.4	50.8	31.1	9.2
Spain	14.4	50.9	38.9	8.0
Sweden	71.5	40.3	34.6	9.8
United Kingdom	33.3	42.5	36.1	8.9
<i>average (unweighted)</i>	34.5	42.8	36.7	9
<i>average EU (unweighted)</i>	32.3	42.9	37.3	12.8

Source: GEM 2011 Executive Report.

\*Denominator 18-64 age group perceiving good opportunities to start business

\*\*Respondent expects to start a business within three years. Denominator is the 18–64 age group currently not involved in entrepreneurial activity (including involvement in early-stage and established entrepreneurship).

<sup>2</sup> The phases of economic development follow the definitions used by the World Economic Forum in the Global Competitiveness Report. See Box 1 in Chapter 1.

opportunities seem to exist in efficiency-driven countries than in the more advanced innovation-driven ones. This is 'natural' since for many potential entrepreneurs 'importing' a business idea from innovation-driven economies is an obvious way of filling a gap in the local market, whereas entrepreneurs in innovation-driven economies cannot in many cases replicate existing business ideas but have to develop new ones.

Furthermore it is reasonable to assume that "perceived opportunities" varies with respect to the business cycle – in good times more business opportunities are perceived than in bad times. This is confirmed by the observations for Greece, Hungary, Portugal and Spain, which display some of the lowest opportunity perceptions across the EU member states participating in the GEM project – this should be no surprise since these countries are experiencing a severe economic downturn. On the other hand, Finland and Sweden (whose economies are doing well) have the highest opportunity perceptions in this reference group.

For Latvia the 2011 findings indicate that close to 24% of the Latvian adult population perceives good opportunities for starting a business over the next 6 months in the area where they live. This is less than in 2010 when 29% of Latvians perceived good opportunities but considerably higher than in the trough of the Latvian business cycle in 2009 when a mere 18% perceived good opportunities.

The second column of Table 2 shows the percentage of the adult population claiming to possess the knowledge, skills and experience required to start up a business. In other words this indicator captures the subjectively assessed capabilities of a country's population to start a business.

Combining the findings of the first two columns reveals that for Finland and Sweden an interesting observation is that the indicator of perceived capabilities is lower than the indicator of per-

ceived opportunities. This is opposite to what is observed for almost all other EU countries represented in the table. Put differently, Finns and Swedes perceive many opportunities but they are not very 'self-confident' in terms of entrepreneurial capabilities. For most other European Union countries presented in the table (Latvia included) the situation is the opposite: individuals have confidence in their own skills but not too many opportunities in the current economic situation. However, this observation could be interpreted as a sign of the existence of hidden entrepreneurial potential among the population that is not being exploited at the present time because of currently unfavourable economic conditions but that might be released once macroeconomic conditions improve.

The third column reports the share of persons who perceive good business opportunities but fear the risk of failure, i.e. it captures their attitude towards risk or fear of failure. The rationale for looking at this number is that, everything else being equal, the higher the share of people fearing the risk of failure, the fewer actual start-ups will occur. For the country sample presented in Table 2, the overall results reported for 2011 are fairly similar to those reported in the 2009 and 2010 GEM surveys. It is worth noting that the proportion of Latvians fearing failure is at the higher end. As for the dynamics of this variable, the Latvian proportion has been steady at around 40% during the last three years.

The fourth and final column reports entrepreneurial intentions. These are defined as the percentage of individuals not already entrepreneurially active and who expect to start a business within the next three years. The 2011 percentage for Latvia is almost 25% – up from 21% in 2010 and from 10% in 2009 – the latter capturing the impact of the business cycle on entrepreneurial intentions. However, it is important to keep in mind that these are plans and it remains to be seen whether these plans will grow into real entrepreneurship and whether it will develop into necessity-based

self-employment or high aspiration and internationally oriented innovative entrepreneurship. It is also worth noting that the percentage of the population with entrepreneurial intentions in Latvia is (with Romania) the highest among the GEM EU countries. Given that Latvia and Romania are the poorest countries (in terms of GDP/capita) in the sample, this might indicate that a fairly large share of entrepreneurial intentions could be attributed to necessity-driven entrepreneurship.

Finally, a closer look at the variables capturing perceived capabilities and risk of failure reveals that Latvia (and Poland) stand out *vis-à-vis* most of the other countries in the table, scoring high in terms of both perceived capabilities and fear of failure. Put differently: “Latvians are quite self-confident about their entrepreneurial capacity, while at the same time are afraid of failure”. Even though this might sound paradoxical

several explanations for these observations might be available. One might be cultural, i.e. the way failure is perceived in society in general. Another might be the costs associated with business failure, e.g. the way in which bankruptcies are perceived and handled by the legal system; or the amount of personal financial risk (in terms of liabilities) a failing entrepreneur faces. Taken together this suggests that one way for Latvian policymakers to address entrepreneurship would be to identify and implement policy measures that reduce the risk of failure and measures addressing the consequences of failure. Examples of the latter include changes in bankruptcy legislation as well as other legislation affecting the individual entrepreneur in the case of failed entrepreneurship. If these issues were properly addressed, a higher share of Latvians perceiving opportunities might actually realize their entrepreneurial intentions and the entrepreneurial potential of the Latvian population could be better used.

## 2.2 ENTREPRENEURIAL ACTIVITIES

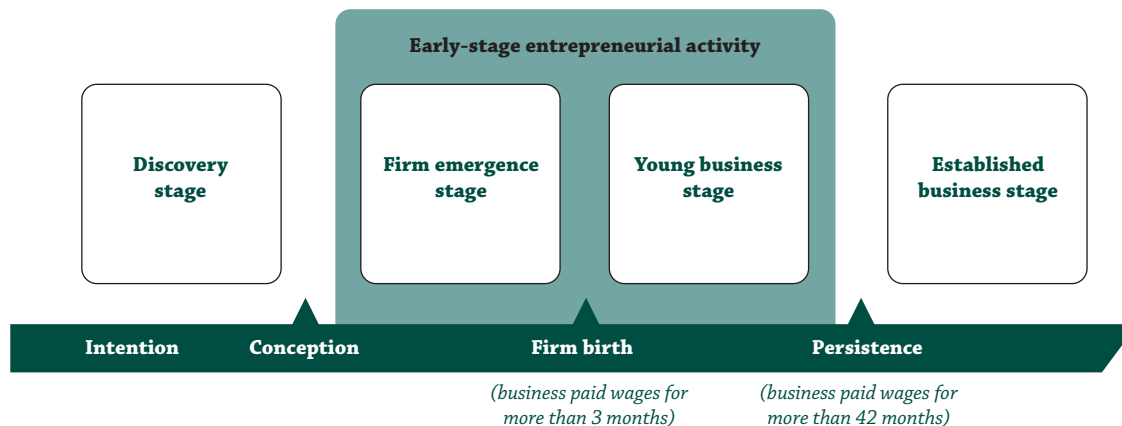
### 2.2.1 THE ENTREPRENEURIAL PROCESS

The theoretical basis upon which the entire GEM project rests is, as discussed in Chapter 1, conceptualisation of entrepreneurship as a continuous process that includes: nascent entrepreneurs involved in setting up a business, entrepreneurs who own and manage a new business, and entrepreneurs who own and manage an established business. In addition, GEM assesses the rate and nature of business discontinuations. As a result, indicators are available for several phases of the entrepreneurial process. In the remainder of this section, we elaborate on these phases of entre-

preneurial activity. Naturally, most of the focus of the discussion is on the situation in Latvia, its development over recent years, and comparison with EU member states that are GEM project participants. The current section can, as discussed above, be seen as providing a snapshot of the current state of entrepreneurial activity in Latvia.

We start with a conceptualisation of the entrepreneurship process.<sup>3</sup> Figure 4 illustrates the stages of the entrepreneurship process as seen in the GEM analytical framework.

<sup>3</sup> This part of the current section draws on Rastrigina (2010).

**Figure 4: Stages of the entrepreneurial process in GEM**

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

Engagement in entrepreneurial activity is frequently seen as an occupational decision with just two outcomes: a person is an entrepreneur or not. However, the choice to pursue an entrepreneurial career can be better described as a sequence of decisions or a process consisting of several stages (Reynolds, 1997). GEM distinguishes four major stages of the entrepreneurial process or business life cycle. Figure 4 demonstrates these stages. The definitions used in Figure 4 are explained in the GEM Terminology section of the previous chapter.

The first stage is the discovery stage. This includes individuals who intend to start a business within three years. In GEM these individuals are called *prospective entrepreneurs*. This is labelled “Entrepreneurial intentions” in Table 2 of the previous section.

The second stage is firm emergence. Individuals commit resources to start a business, i.e. they take active steps towards setting up a business, such as working on a business plan, securing financing, looking for equipment or a location, or organizing a start-up team. Individuals operating in this stage are called *nascent entrepreneurs*.

Payment of wages or salaries to firm owners for more than three months signals firm birth and the beginning of the young business stage. This lasts until the business has been in operation for more than 42 months (3.5 years).<sup>4</sup> Research indicates that this stage is the most vulnerable for a business.

After wages have been paid for more than 42 months a business is considered to be established and enters the established business stage.

Finally, although not shown in Figure 4, one more way exists for firms to ‘exit’ – through what in GEM terminology is labelled discontinuation of business.

The second and third stages together can be combined to define so-called *early-stage entrepreneurial activity*. Early-stage entrepreneurial activity is the hallmark of the GEM project and naturally will be in the focus of analysis. It represents dynamic new firm activity, which is probably 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

<sup>4</sup> This cut-off point of 3.5 years has been chosen by GEM based on a combination of theoretical and operational grounds. For more details on this choice see GEM 2008 Executive Report or Reynolds *et al.* (2005).

activity, since nascent entrepreneurs may not yet have registered their businesses.<sup>5</sup> Therefore, research on early-stage business activity based on official data may suffer from serious selection bias because it looks only at successful start-ups. GEM overcomes this problem by identifying nascent entrepreneurs (as well as entrepreneurs in other stages of engagement in the entrepreneurial process) through screening the adult population of the country.

### 2.2.2 TOTAL EARLY-STAGE ENTREPRENEURIAL ACTIVITY (TEA)

We now turn to the actual data illustrating entrepreneurial processes in Latvia and European Union comparator countries. Table 3 links GEM 2011 data to the stages of the entrepreneurial process described in Figure 4 and discussed above. This shows the percentage of adults in the GEM EU economies that are engaged in specific phases of entrepreneurship. Unlike Table 2, which was forward-looking in terms of entrepreneurial activity and thereby provided insights as to what to expect (e.g. by looking at opportunities as such, or at what restrains potential entrepreneurs), Table 3 provides a snapshot of the actual situation. In addition, the last two columns in Table 3 include information about necessity and opportunity motives among individuals involved in early-stage entrepreneurial activity.

Inspection of Table 3 reveals that Latvia together with Lithuania exhibits the highest proportion of the population involved in early-stage entrepreneurial activity i.e. in TEA. By decomposing TEA

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 in the phase in advance of birth of the firm (nascent entrepreneurs), or the phase spanning 42 months after birth of the firm (owner-managers of new firms). As such, GEM takes payment of wages for more than three months as the “birth event” of the firm.

into nascent entrepreneurship and new business ownership (given by the first two columns of Table 3), we see that Latvia and Lithuania stand out relative to comparator countries in the share of new business ownership.

Figure 5 shows the TEA rates for EU member states participating in the GEM project and grouped by level of development. The Latvia TEA rate is significantly higher compared to EU innovation-driven economies (in many cases the TEA rate for Latvia is twice as high). It is also significantly higher compared to Hungary and Poland. TEA rates for Romania and Lithuania are not statistically different from Latvia given the 95% confidence interval.

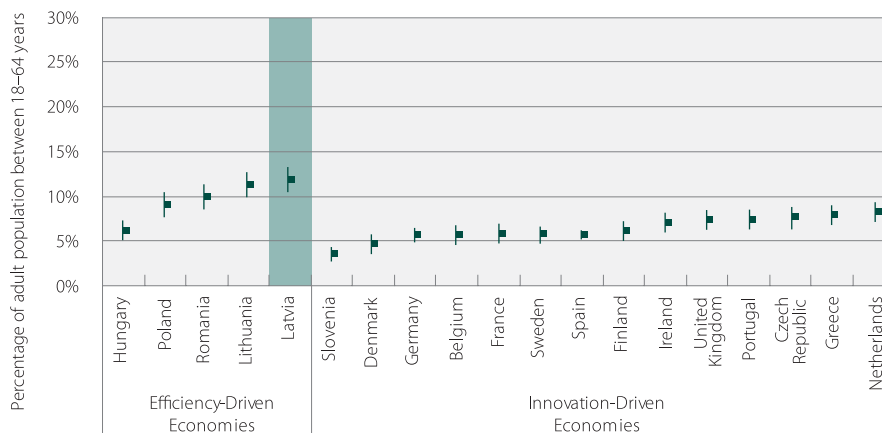
A key finding of the GEM Executive Report 2011 is the increase in TEA rates from 2010 to 2011 in many economies across all development levels. This is also true for the Latvian TEA rate.

<sup>5</sup> The main differences between enterprise register data and GEM data are discussed in Chapter 1

**Table 3: Entrepreneurial activity in GEM EU countries in 2011 by phase of economic development**

	Nascent entrepreneurship rate	New business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of business	Necessity-driven (% of TEA)	Improvement-driven opportunity (% of TEA)
<b>Efficiency-driven economies</b>							
Hungary	4.8	1.6	6.3	2.0	2.3	31.0	29.2
Latvia	6.8	5.3	11.9	5.7	3.0	25.9	46.2
Lithuania	6.4	5.0	11.3	6.3	2.9	28.4	47.2
Poland	6.0	3.1	9.0	5.0	4.2	47.6	31.5
Romania	5.6	4.5	9.9	4.6	3.9	41.3	34.4
<i>average (unweighted)</i>	5.9	3.9	9.7	4.7	3.3	34.8	37.7
<b>Innovation-driven economies</b>							
Belgium	2.7	3.0	5.7	6.8	1.4	10.4	72.4
Czech Republic	5.1	2.7	7.6	5.2	2.7	27.3	56.5
Denmark	3.1	1.6	4.6	4.9	2.3	7.1	64.0
Finland	3.0	3.3	6.3	8.8	2.0	18.3	59.4
France	4.1	1.7	5.7	2.4	2.2	14.8	70.7
Germany	3.4	2.4	5.6	5.6	1.8	18.6	54.9
Greece	4.4	3.7	8.0	15.8	3.0	25.4	36.8
Ireland	4.3	3.1	7.2	8.0	3.4	29.5	36.9
Netherlands	4.3	4.1	8.2	8.7	2.0	9.1	62.3
Portugal	4.6	3.0	7.5	5.7	2.9	17.8	58.1
Slovenia	1.9	1.7	3.7	4.8	1.5	12.1	51.2
Spain	3.3	2.5	5.8	8.9	2.2	25.9	39.3
Sweden	3.5	2.3	5.8	7.0	3.2	6.1	67.6
United Kingdom	4.7	2.6	7.3	7.2	2.0	17.2	46.3
<i>average (unweighted)</i>	3.7	2.7	6.4	7.1	2.3	17.1	55.5
<i>average EU (unweighted)</i>	4.3	3.0	7.2	6.5	2.6	21.8	50.8

Source: GEM 2011 Executive Report.

**Figure 5: Early-stage entrepreneurial activity, GEM EU countries, 2011**

Note: The vertical bars in the chart display 95% confidence intervals.  
Source: GEM 2011 Executive Report.



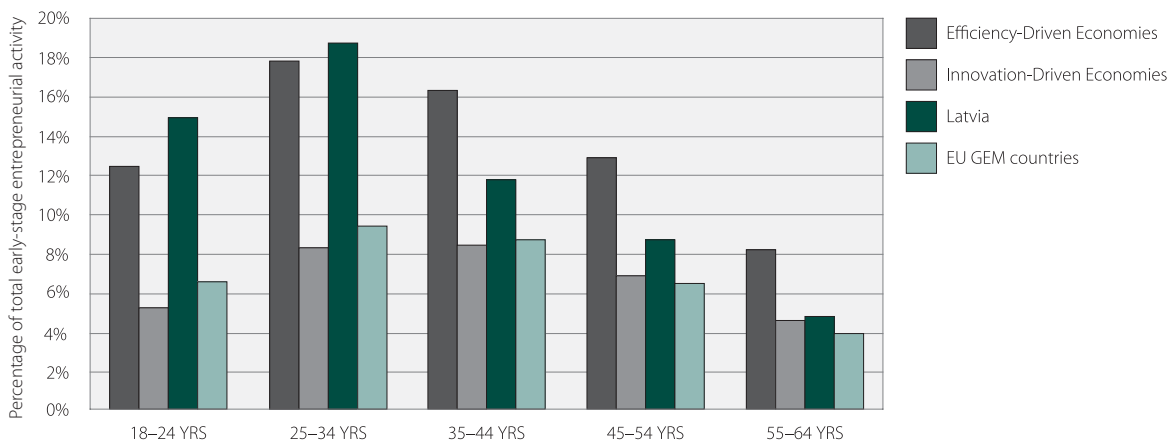
### 2.2.3 ENTREPRENEURSHIP PROFILE: AGE DISTRIBUTION

Figure 6 and Figure 7 illustrate the age distribution of early-stage entrepreneurial activity. The first figure compares Latvia's performance with the averages of the innovation-driven, efficiency-driven and EU GEM groups of countries. The second figure compares Latvia's performance with the standard set of comparator countries employed throughout the current report.

It is clearly seen that all types of economy on average present the same pattern regarding TEA distribution by age groups. In most countries, generally, early-stage entrepreneurs are often young to middle-aged (25–44 years). However, Latvia slightly deviates from this pattern in the sense that the age group of very young early-stage entrepreneurs, i.e. age 18–24, is slightly larger than the middle-aged early-stage entre-

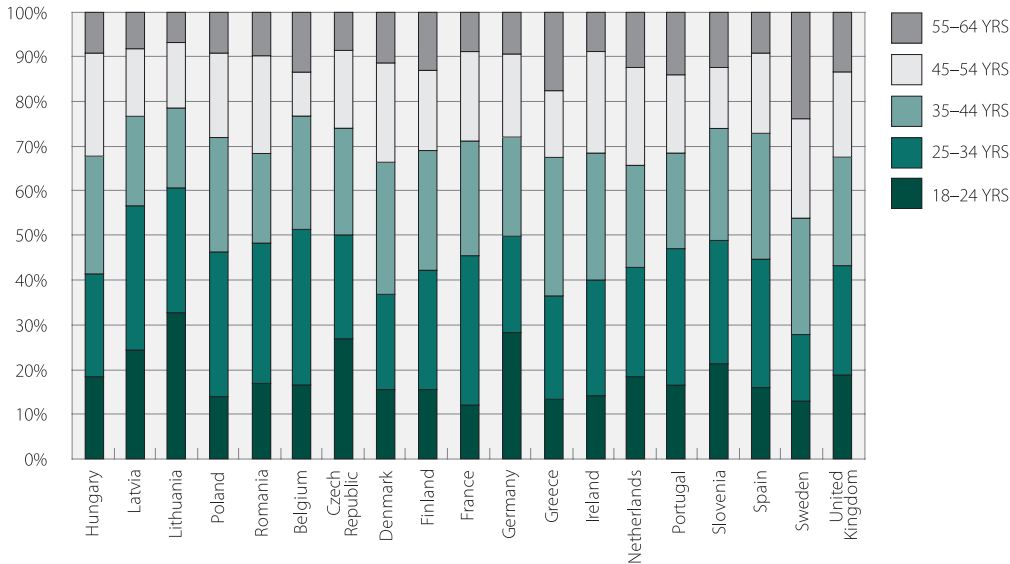
preneurs, i.e. age 35–44. As for age-groups 35 and above, the Latvian prevalence-rate is lower than that of countries belonging to the same stage of economic development, i.e. efficiency-driven economies, but higher compared with the GEM EU countries. Part of the explanation for Latvia's lagging performance within older age groups might be found in its Soviet heritage: the older cohorts were brought up and spent a considerably period of their professional life in the Soviet system, which did not encourage business and entrepreneurship. This conclusion is supported by the findings from the BestAgers project reported in Box 4. Furthermore, GEM data for Russia showing a similar, but stronger, pattern in terms of age distribution support this hypothesis.

**Figure 6: Early-stage entrepreneurial activity rates within age groups, by economic phase of development**



Source: GEM Adult Population Survey.

**Figure 7: Early stage entrepreneurial activity within age groups for Latvia and selected countries, 2011**



Source: GEM Adult Population Survey.

As with many other EU member states Latvia has an aging population. According to Eurostat data, the proportion of people within the overall population for the age group 55–59 was rather stable at 6.1% over 2008 to 2010, but in the age groups 60–64 and 65+ the proportion has increased. For example, the proportion of people in the age group 60–64 was 4.9% in 2008 but had increased to 5.3% in 2010. Given overall demographic trends such as very low birth rates and

major emigration, mainly among young people, the proportion of older people in Latvia’s population can be expected to continue to increase.

For this reason, more engagement by and involvement of older age groups in the productive part of society is inevitable. When it comes to expecting or even fostering entrepreneurial behaviour, policymakers might therefore look to harnessing the potential of the older cohorts.

**Box 4: Best agers and entrepreneurship**

Demographic change with an ageing population has recently been defined by the European Commission as one of the four key challenges facing European regions. In the near future the age group comprising persons in their late 50s and 60s ('best agers') will experience high growth rates relative to other age groups. As a result an increasing pool of highly experienced professionals will be available. In this context, the challenge facing Latvia as well as other European nations is how to keep these individuals economically active and to draw on their experience in order to enhance economic development and growth. In addition to trying to keep them in the labour force, another way of drawing on their professional experience would be to encourage them to go into entrepreneurship. The latter is an issue which has been addressed in the BestAgers project. The project has been partly funded by the European Union (European Regional Development Fund) and the Stockholm School of Economics in Riga has been one of nineteen partners in the project.<sup>6</sup> As part of the project a survey focusing on the attitudes of best agers towards entrepreneurship was undertaken in Germany, Latvia, Lithuania, Poland and Sweden. The following discussion will provide a brief summary of project research undertaken in this field with a focus on Latvia. In general the findings were fairly similar for all countries researched. Research draws on the findings presented in Lundgren and Petersen (2011) and Petersen (2011).

In Latvia 20 semi-structured interviews were conducted with respondents whose average age was 62. In terms of attractiveness of the best agers age group

as entrepreneurs or business owners, the interviews revealed that experience counted as the single most important factor, with creativity and ability to find solutions and assume responsibility also scoring high. These are mentioned, together with the courage to take risks and acquire networks, as factors that should facilitate entrepreneurship among best agers.

Among the factors reducing the attractiveness of best agers as entrepreneurs were lack of confidence and lack of knowledge in terms of setting up and running a business. Together with attitudes towards people in the best agers age group, lack of confidence and lack of business knowledge are also seen as factors hindering best agers from going into business.

An interesting observation from the interviews is that Latvian respondents mention inner barriers from Soviet times as a source of lack of confidence – in particular emphasizing that during Soviet times initiative was often punished. This finding from interviews might at least partly explain the observed pattern in the GEM study presented in Figure 6, where Latvia scores relatively poorly in terms of TEA for the age groups 45–54 and 54–64.

Finally, to encourage and facilitate entrepreneurship among best agers the interviews reveal: a need for training focusing on business skills – training should be based on 'real experience'; an overall need for mentoring and counselling; and a need for change in society's view of best agers.

<sup>6</sup> More information about the BestAgers project can be found at [www.best-agers-project.eu](http://www.best-agers-project.eu).

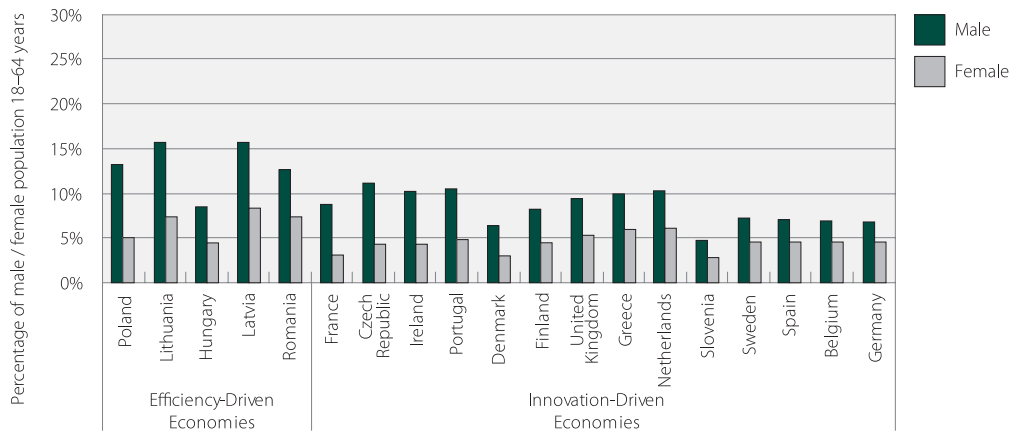
### 2.2.4 ENTREPRENEURSHIP PROFILE: GENDER

The issue of gender and entrepreneurship, although of interest in its own right, goes far beyond being ‘just’ a gender issue. The presence of significant gender imbalances is or should be an issue affecting the overall performance of a nation’s economy.

In all EU countries participating in the GEM project the number of females engaged in entrepreneurial activity is lower than for their male counterparts, which may well be explained by various social, cultural, or economic factors. Figure 8 compares Latvia’s performance in

terms of female and male early-stage entrepreneurial activity with that of comparator countries, distinguishing between efficiency-driven and innovation-driven economies. There are two immediate observations. Firstly, Latvia has a female TEA slightly above 8% – a TEA that together with the slightly lower Lithuanian female TEA is the highest among the EU countries participating in GEM. Secondly, the TEA rates for females (as well as males) are in general higher in efficiency-driven economies than in innovation-driven ones.

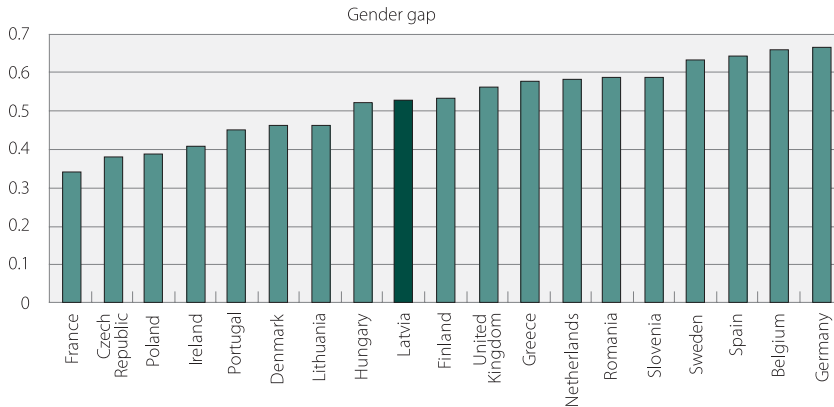
**Figure 8: Male and female TEA 2011, by EU GEM participant country and phase of economic development**



Source: GEM Adult Population Survey.

Furthermore, in terms of difference in prevalence rates between females and males, i.e. the gender gap, inspection of Figure 8 reveals that the gender gap is lower in innovation-driven

economies than in efficiency-driven ones. This observation is further explored in Figure 9 showing the gender gap, here measured as the ratio between female and male TEA.

**Figure 9: The TEA gender gap (the ratio between female and male TEA prevalence)**

Source: GEM Adult Population Survey.

For Latvia the gender gap is around 0.5 indicating that about twice as many males as females are involved in early-stage entrepreneurial activity. Furthermore, as seen from Figure 9, a number of comparator countries score better than Latvia in the sense that they have a smaller gender gap. However, most of these countries are innovation-driven.

This leaves us with the conclusion that high female participation in early-stage entrepreneurship activities seems more a consequence of overall high Latvian entrepreneurial activity rather than a high female activity level as such.

For a deeper understanding of Latvia's performance in terms of female entrepreneurship, we look into some other indicators of female economic activity broadly defined. These indicators paint a very different picture of female economic activity: the Latvian female labour force participation rate is high; almost two thirds of higher education institution graduates are women; close to 60% of doctoral grades are awarded to females; Latvia has the highest proportion of female managers in the European

Union. Hence, given these indicators showing that Latvian women have made great advances in terms of economic activity and involvement, one would expect that Latvia should have a high prevalence rate in terms of female involvement in early-stage entrepreneurial activity relative to similar Latvian male involvement. However, as seen from Figure 9 this is not the case. In other words, Latvian women have risen to the top in business as well as the public sector much more than in entrepreneurship. This suggests that Latvia has fewer firms and fewer jobs than could be the case were Latvian women's entrepreneurship on a par with men's.

For countries with weaker indicators of female economic activity part of the explanation of the gender gap observed might be that women are not really educated or active in fields 'suitable' for entrepreneurship – in particular high tech and high growth entrepreneurship. Even though women in Latvia are underrepresented in some areas such as programming, their overall 'performance' is so strong that these types of comment have little bearing on the Latvian situation.

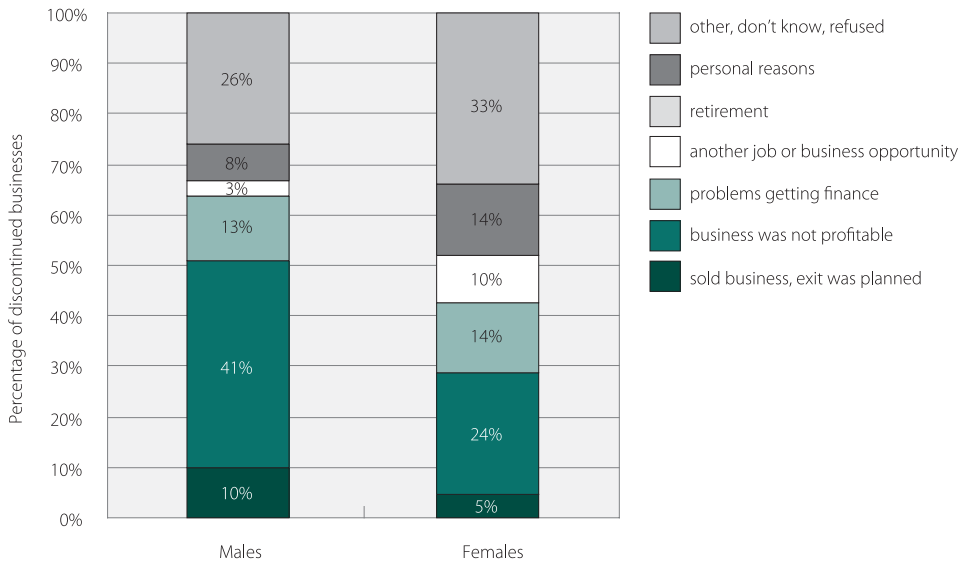
In an international perspective the Latvian situation is not unique. Mitchell (2011), who discusses the gender gap and women entrepreneurs as economic drivers in general and the US situation in particular, recognizes that women have made great strides in breaking through the glass ceiling. However, a glass wall seems to be preventing them from going into entrepreneurship. To break through this wall is a challenge facing Latvia, the United States as well as a number of other countries. In the Latvian context, until this wall is breached, women capable of starting a business will remain a major under-used economic resource. Accordingly programmes aimed at promoting early-stage female entrepreneurship can contribute to releasing this entrepreneurial potential.

Even though successful, not all entrepreneurs

(be they female or male) would like to continue with their business for ever. Some might choose to exit and hence discontinue their business involvement.

Figure 10 presents reasons for business discontinuation among female and male entrepreneurs. About twice as many males as females discontinue their business because of either planned exit or non-profitability. Females, on the other hand, quote another job or business opportunity three times as often as males as the main reason for business discontinuation. Furthermore, almost twice as many female entrepreneurs discontinue their business for personal reasons (a modest guess suggests that pregnancy and lack of childcare facilities play important roles in terms of explaining this observation). Business discontinuation is further discussed in section 2.2.9.

**Figure 10: Reasons for business discontinuation by gender**



Source: GEM Adult Population Survey.

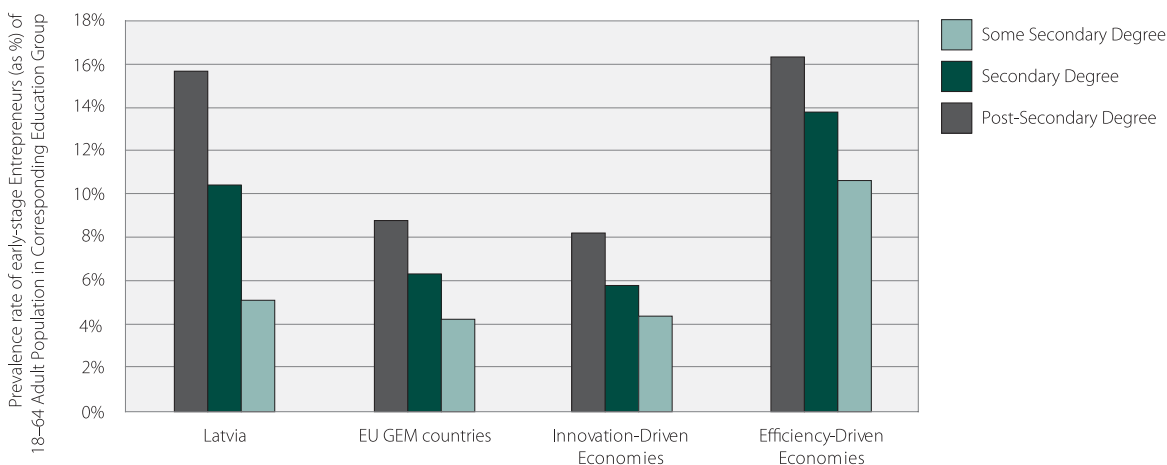
### 2.2.5 ENTREPRENEURSHIP PROFILE: EDUCATION

The effect of higher education on early-entrepreneurial activity is a priori uncertain. From one point of view the possibility of better employment opportunities that might be available in the market for those with higher education could deter them from entrepreneurship; on the other hand those with higher education may have extra knowledge, social contacts and better experience that could ease engagement in entrepreneurship. The evidence suggests that compared with innovation-driven and efficiency-driven countries the latter reason is less prominent in factor-driven economies.

Figure 11 shows that in 2011 for individuals with a comparatively higher level of education the probability of involvement in early-stage entrepreneurial activity was higher compared to those with a lower level of education. This pattern was observed not only in Latvia but also in all GEM

EU countries, innovation- and efficiency-driven countries. Although not shown in our graph, according to the GEM 2011 Executive Report the trend for factor-driven economies is different. In factor-driven economies individuals with post-secondary education as the highest qualification have a lower likelihood of engaging in entrepreneurial activities than people with only secondary education. This may be explained by the scarcity of well-educated individuals in factor-driven economies and their employment in large companies or government institutions – in other words that the opportunity cost of going into entrepreneurship is high. Educational attainment is also linked differently to different types of entrepreneurship. For example, Koellinger (2008) found that high educational attainment is especially linked to innovative types of entrepreneurial activity. This is not so prominent in factor-driven economies.

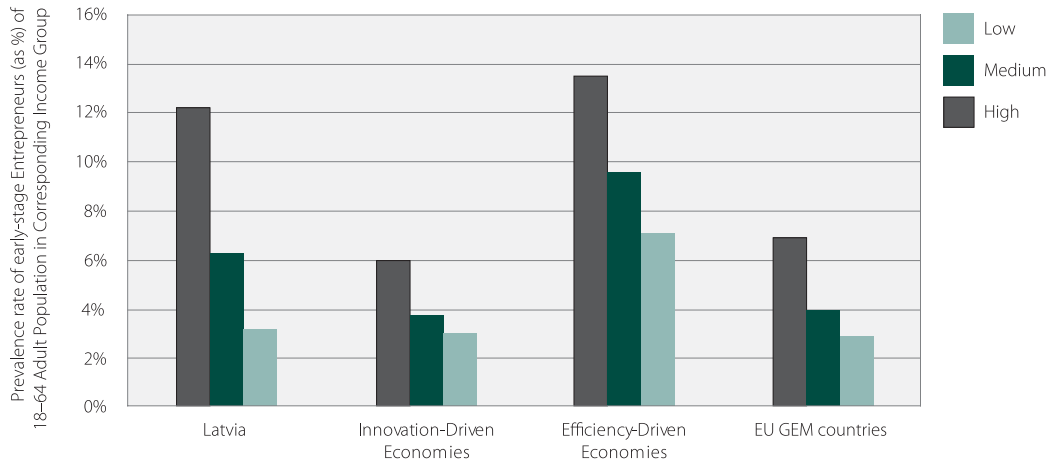
**Figure 11: Early stage entrepreneurial activity rates within education level groups, by economic phase of development and for Latvia, 2011**



Source: GEM Adult Population Survey.

## 2.2.6 ENTREPRENEURSHIP PROFILE: INCOME

**Figure 12: Early stage entrepreneurial activity rates within household income groups, by economic phase of development and for Latvia, 2011**



Source: GEM Adult Population Survey.

Figure 12 shows early stage entrepreneurial activity rates by household income groups. It reveals that the wealthier the household of the individual, the higher the probability that the individual is involved in entrepreneurial activity. This holds for all efficiency-driven and innovation-driven countries as well as for the GEM EU countries. A straightforward explanation is that wealthier households have the resources to invest in and to develop an entrepreneurial activity and that they may also have savings to

survive the early stages of entrepreneurship when the business would not yet be profitable. One has to keep in mind that this pattern will not necessarily be the same for every single individual economy. But this pattern does indeed hold for Latvia, where the probability of an individual from high income circumstances participating in early-stage entrepreneurial activity is four times higher than for an individual from a low income household.

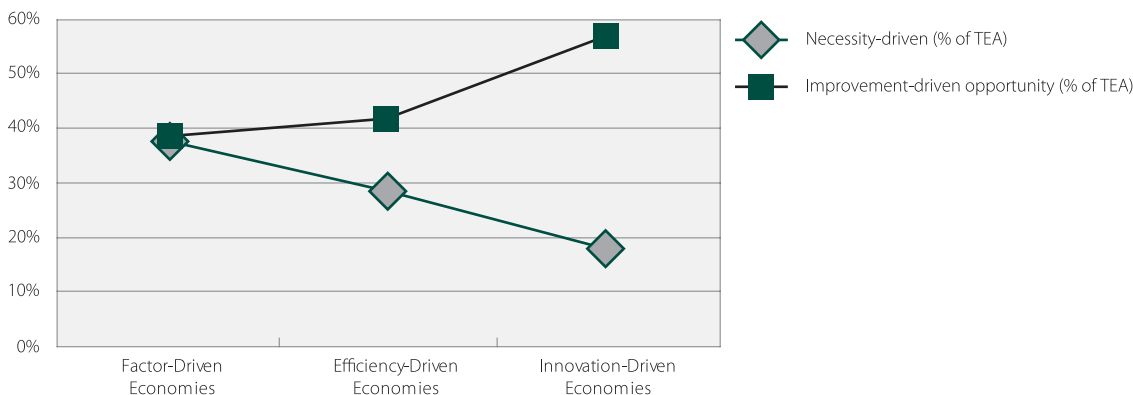


### 2.2.7 MOTIVATION TO START A BUSINESS

Motivation for starting a business differs vastly across the globe. The GEM framework traditionally captures one aspect of these individual drivers by distinguishing between necessity-driven entrepreneurship and opportunity-driven entrepreneurship. To qualify as a necessity-driven entrepreneur in the GEM Adult Population Survey, a respondent has to indicate that s/he started the business because no better options for work were available, rather than that s/he saw the start-up as an opportunity. For those who did see the start-up as an opportunity (rather than no other options for work), a

further assessment was made on the nature of this opportunity. Improvement-driven opportunity (IDO) entrepreneurs are defined as those opportunity-driven entrepreneurs who indicate that the opportunity is linked to either earning more money or being more independent, as opposed to maintaining income. As Figure 13 shows, entrepreneurs in factor-driven economies tend to be driven equally by necessity and improvement-driven opportunity motives. With greater economic development levels, necessity gradually falls off as a motivator, while IDO motives increase.

**Figure 13: Percentage of entrepreneurs motivated by necessity and opportunity reasons, by phase of economic development, 2011**



Data: GEM 2011 Executive Report.

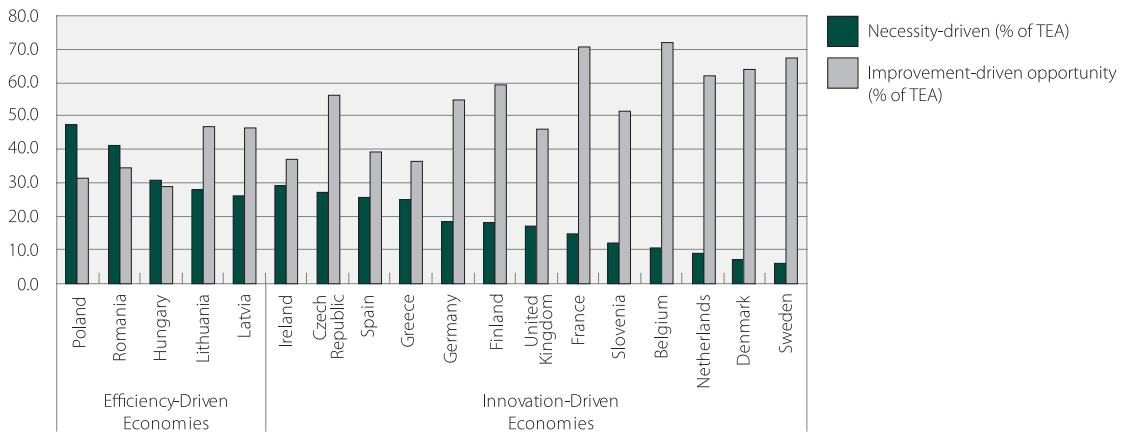
Studying data on motivation for early stage entrepreneurs in Latvia to start a business we can say that a slightly smaller (by one percentage point) proportion of early stage entrepreneurs in Latvia were driven by the necessity motive (26% of TEA) in 2011 as compared with the previous year. Despite the fact that the level of necessity-driven entrepreneurship in Latvia is the lowest among GEM EU-efficiency driven countries (see Figure 14), with more than one

out of every four early-stage entrepreneurs driven by necessity in Latvia, this indicator is still higher than the GEM EU median (18.6% of TEA). It is also substantially higher compared to the Latvian pre-recession level of necessity-driven entrepreneurship (15% in 2007). This is no surprise. Latvia was heavily affected by the economic crisis and recovery takes time. Making the comparison with GEM EU countries, one has to bear in mind that the GEM EU

sample includes such innovation-driven countries as Sweden, Denmark, the Netherlands, Belgium, countries where a knowledge-intensive economic environment allows exploration of opportunities and where the level of necessity-driven entrepreneurship is histori-

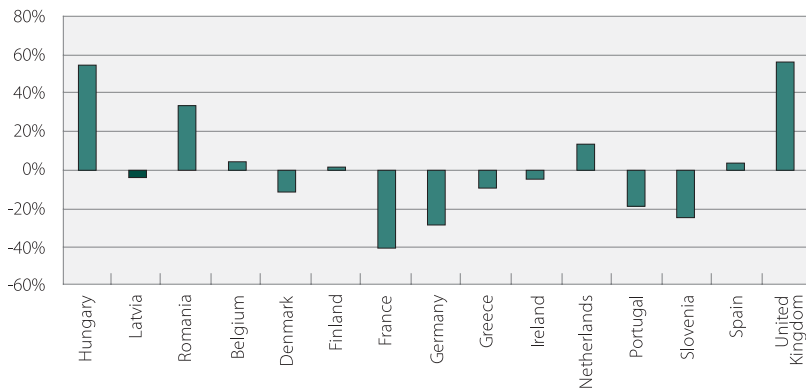
cally among the lowest (with about one out of fifteen early-stage entrepreneurs driven by the necessity motive) and improvement-driven opportunity early-stage entrepreneurship among the highest.

**Figure 14: Percentage of entrepreneurs driven by necessity - and improvement-driven opportunity motives in GEM EU countries, 2011, by phase of economic development**



Source: GEM Adult Population Survey.

**Figure 15: Percentage change in necessity-driven TEA GEM EU countries, 2010-2011**



Source: GEM Adult Population Survey.

Figure 15 shows that the level of necessity-driven entrepreneurship is substantially lower in 2011 as compared with 2010 for France, Germany, Portugal and Slovenia. The opposite result is observed in Hungary, Romania and the United Kingdom, where substantially more new entrepreneurs are driven by the necessity motive in 2011. Despite the fact that the level of necessity-driven entrepreneurship in the UK is very similar to the median for all GEM EU countries, it more than doubled in 2011 as compared

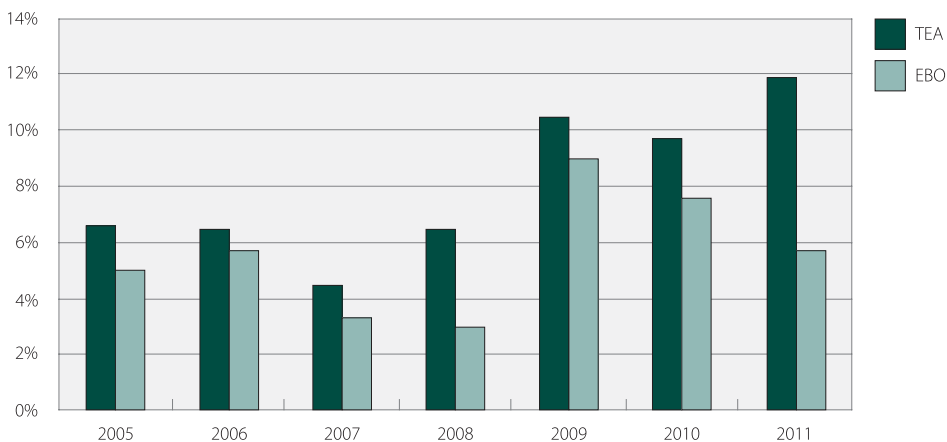
with 2010. In addition to the general impact of recession, the explanation for the UK could be the effect of a rather new (since 2010) government welfare programme “Making Work Pay” which affects, among other things, the rules for claiming benefits, making fewer people entitled to benefits. This tightening of the benefit regime combined with a continuing weak labour market may have contributed to more people seeking entrepreneurial activity as a survival option.

### 2.2.8 ESTABLISHED BUSINESS OWNERSHIP

While early-stage entrepreneurs play an important role in the economy by generating dynamism, established businesses provide stable employment, knowledge accumulation and other advantages. The established business ownership rate works as an indication of the sustainability of entrepreneurship in a particular society. For Latvia Figure 16 shows that the TEA rate consistently exceeded the established

business rate over the period 2005–11. At the same time we can see that the TEA rate and the established business ownership rate in Latvia moved in opposite directions in 2007–2008 and 2009–2011. While the TEA rate was increasing, the established business ownership rate was decreasing (Chapter 3 provides an analysis of this observation).

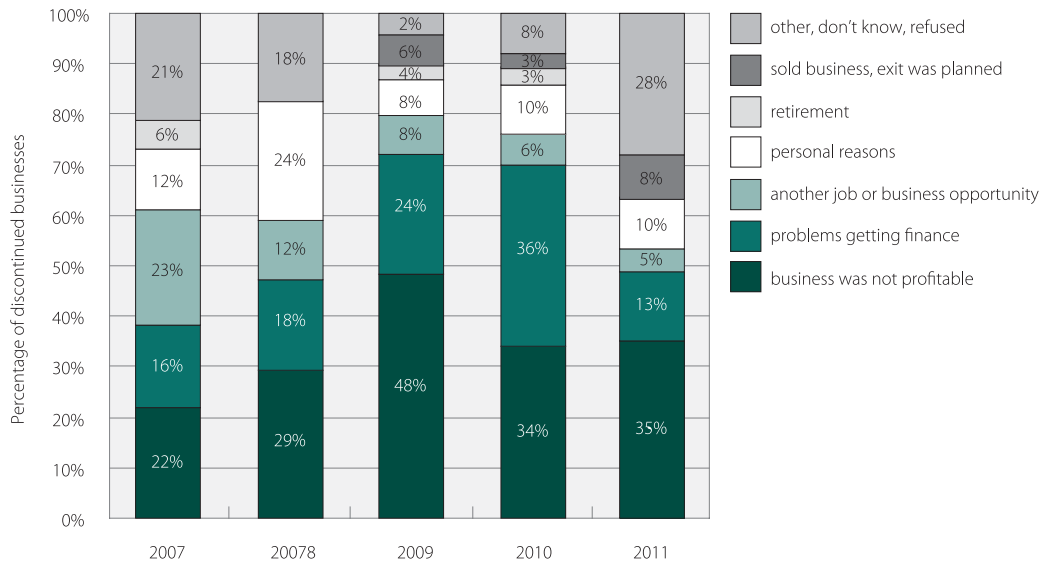
**Figure 16: Established business ownership and total early-stage entrepreneurial activity (TEA) in Latvia, 2005–2011**



Source: GEM Adult Population Survey.

### 2.2.9 DISCONTINUATION

**Figure 17: Reasons for business exit in Latvia, 2007–2011**



Source: GEM Adult Population Survey.

Discontinuation of a business along with early-stage entrepreneurial activities and the established businesses stage may be considered as a component of entrepreneurial dynamism in an economy. Respondents to the GEM survey who had discontinued a business in the previous 12 months were asked to give the main reason for doing so. Overall, unprofitable businesses and

problems obtaining finance accounted for about 50% of business discontinuations in Latvia in 2011 (See Figure 17 above)<sup>7</sup>. The share attributed to these factors is lower than in the previous two years, when 70% of all business discontinuations were because of financial problems. This is a reflection of the improving macro-economic situation.

## 2.3 ENTREPRENEURIAL ASPIRATIONS

In order to measure the impact of entrepreneurship on the economy, the growth expectations of entrepreneurs (in terms of jobs), innovation (especially in terms of products/services and markets) and international orientation are

analysed. These factors are all closely related to economic development (Wennekers et al., 2010; Bosma, 2011) and are thus used in the GEM framework as impact factors.

<sup>7</sup> The gender aspects of business discontinuation have been discussed in section 2.2.4.

### 2.3.1 GROWTH EXPECTATIONS

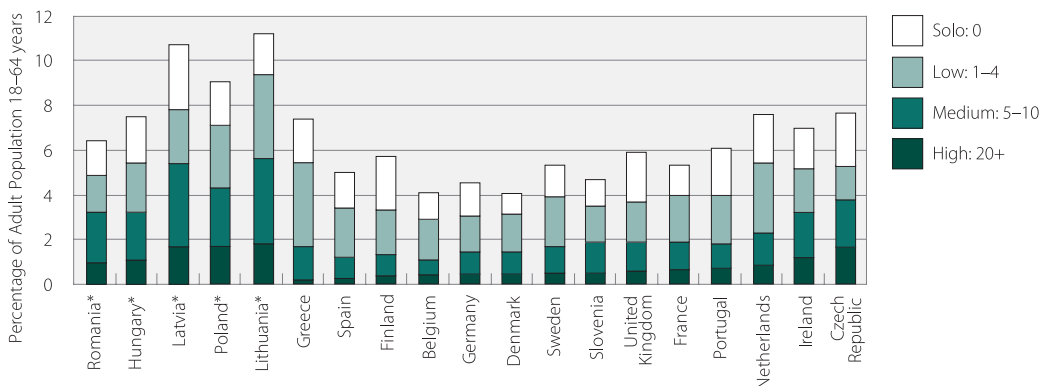
Growth aspirations are a key dimension of the impact profiles of early-stage entrepreneurs that can be directly linked to job creation – a major objective of nearly all governments. While it should be recognised that realised growth will not necessarily coincide anticipated growth, variations in anticipated growth provide an approximation of potential realised job creation. In the GEM framework, growth projections measure the number of additional people an entrepreneur expects to employ in five years. These are categorised in the following four groups:

- Solo early-stage entrepreneurial activity (SEA): expects no jobs (i.e. other than the entrepreneur).
- Low job expectations early-stage entrepreneurial activity (LEA): expects between 1–4 jobs.
- Medium job expectations early-stage entrepreneurial activity (MEA): expects between 5–19 jobs.
- High job expectations early-stage entrepreneurial activity (HEA): expects 20 jobs or more.

The distinction between these four categories is relevant, because essential differences exist between the characteristics of these groups and the underlying reasons for job creation. The first group consists of entrepreneurs who are self-employed and do not aim at creating any employment (SEA). This group includes both necessity-driven entrepreneurs as well as those who are very satisfied working as an independent professional. Low job expectation early-stage entrepreneurs are modest job creators and often employ people from their own personal network (such as family members and friends). Medium job expectation entrepreneurs are keen to employ people, though some of them may want to keep their business manageable and do not desire further growth. High job expectation entrepreneurs are very ambitious; even if they overestimate the number of jobs they expect to generate, as a group their impact on job creation will probably be substantial.

Figure 18 illustrates breakdown of TEA into these four categories for Latvia and comparator countries.

**Figure 18: Growth expectation in GEM participating EU member states, 2009–2011**



Source: GEM 2011 Executive Report.

We can see that Latvia (and Lithuania) not only have a relatively high level of TEA, but also a high share of early-stage entrepreneurs with high job expectations compared to most innovation-driven GEM EU countries. About 16% of all early-stage entrepreneurs in Latvia expect to

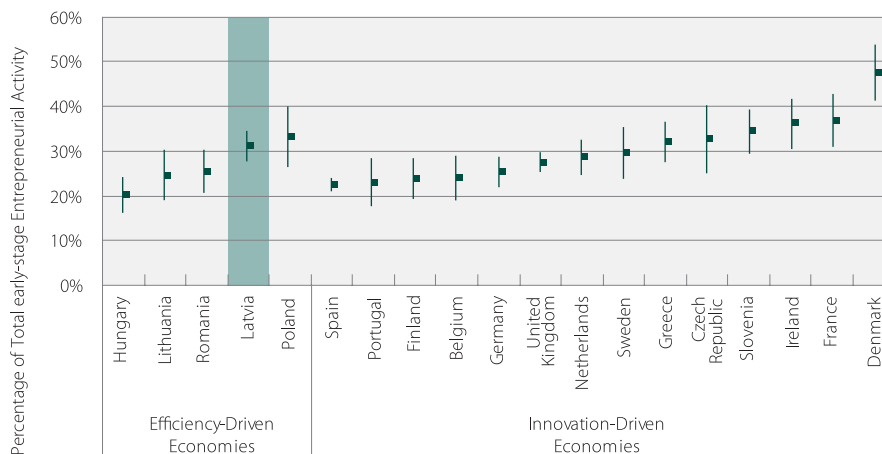
increase their personnel by more than 20 employees in 5 years and 35% expect to have between 5 to 19 new jobs in five years. In other words, both Latvian and Lithuanian early-stage entrepreneurs are rather ambitious in their growth expectations.

### 2.3.2 INNOVATION

While job growth expectations and realisations constitute the most visible medium term impact of entrepreneurship, innovative orientation impacts structural renewal in the long run. GEM evaluates innovation from the perspective of market and industry. This measure represents the extent that an entrepreneur's product or service is new to some or all customers and

where few or no other businesses offer the same product. Innovativeness is context-dependent because it is not perceived in the same way in all economies. When comparing countries it has to be kept in mind that what may seem to be new to customers in one country may be already familiar to customers in some other country.

**Figure 19: Percentage of total early-stage entrepreneurs (TEA) with innovative orientation in 19 EU member states, 2011**



Source: GEM 2011 Executive Report.

Note: The vertical bars in the chart display 95% confidence intervals.

Among innovation-driven EU countries Denmark shows the highest percentage of early-stage entrepreneurs with innovative products and services. Latvia shows the second best result within the group of efficiency-driven EU economies and somewhat average results in terms of innovations compared to all GEM EU member states. To get a better understanding of Latvia's performance in this respect, the findings presented in Figure 19 should be contrasted with the findings from the GEM National Expert Survey and the Global Entrepreneurship and Development Index presented in Chapter 6 and the Global Innovation Policy Index presented in Box 5. Process innovation is one of the most poorly scored variables for Latvia in the context of the GEDI index. Furthermore, according to the GEM National Expert Survey Data, R&D trans-

fer is also one of the indicators on which Latvia has to work hard to improve. These findings provide clear evidence that the innovative orientation among Latvian entrepreneurs is more geared towards introducing products, services and processes that already exist outside Latvia and less geared towards introducing entirely new products etc. For an economy at Latvia's stage of economic development this is, at least to some extent, 'natural' since it is catching-up with the more developed innovation-driven economies and hence a number of products, services, and processes simply could be taken to the Latvian market. See Chapters 5 and 6 for more details. Box 5 further provides additional information based on the Global Innovation Policy Index and Latvia's score in comparison to other Baltic and EU countries.

### Box 5: The Global Innovation Policy Index

To obtain an understanding of the Latvian environment for innovative entrepreneurship we briefly look at the Global Innovation Policy Index, GIPI, (Atkinson, Ezell and Stewart, 2012) which is produced by the Information Technology & Innovation Foundation (ITIF) in conjunction with the Ewing Marion Kauffman Foundation. The Index is calculated for 55 countries and assesses the effectiveness of national innovation policies. In doing so it analyses seven different policy areas: 1) open and non-discriminatory market access, trade, and foreign direct investment; 2) science, and research and development policies that spur innovation; 3) domestic market competition and new firm entry; 4) intellectual property rights; 5) information and communication technology (ICT); 6) open and transparent government procurement procedures; and 7) openness to high-skill immigration.

The Index ranks countries on innovation policy capacity and based on the ranking the countries are divided into four categories:

- upper tier;
- upper-mid tier;
- lower-mid tier; and
- lower tier.

The upper tier is characterized by countries which "coordinate their policies toward skills, scientific research, information and communications technologies (ICTs), tax, trade, intellectual property, government procurement, standards, and regulations in an integrated approach designed to drive economic growth through innovation".<sup>8</sup>

The ranking of Latvia and comparator countries is presented in Table 4, which shows that Latvia together with Greece, Poland and Romania were ranked as lower-mid tier countries. Lithuania (and Estonia), on the other hand were ranked as upper-mid tier countries.

Out of the seven policy areas discussed above Latvia ranks as an upper-tier country in terms of open and non-discriminatory market access, trade and FDI. Furthermore, in terms of intellectual property and high-skill migration Latvia ranks as an upper-mid tier country. As for the remaining four policy areas the country is ranked as a lower-mid tier country. Compared with its Baltic neighbour Estonia, Latvia ranks considerably worse in terms of government procurement, while Estonia is ranked as an upper-tier country. Estonia also ranks higher in terms of R&D, domestic competition, and ICT.

<sup>8</sup> Atkinson, Ezell and Stewart (2012), p. 5.

As for Lithuania, the rankings of the seven policy areas are fairly similar to those of Latvia – Lithuania is doing slightly better in terms of R&D and government procurement. Latvia, on the other hand, is doing better than both Estonia and Lithuania in terms of high-skill migration and is doing better than Lithuania in terms of intellectual property rights.

Although not directly comparable, comparing the results for Latvia in the GIPI with those of the GEM expert interviews reported in Chapter 6 of this Report, we see that the GEM findings confirm, firstly, Latvia's good performance in terms of market openness and, secondly, they confirm the findings as to the country's weak performance in terms of R&D transfer. A similar picture is obtained compared with the GEDI presented in Chapter 6 of the Report – Latvia does very well in terms of market openness and trade, whereas its performance in terms of various aspects of research and development is poor.

To sum up, the findings indicate that an innovation-driven nascent entrepreneur in Latvia faces a number of challenges that at least to some extent could be attributed to government policy (or lack thereof). In particular Latvian policies aimed at supporting innovation-driven entrepreneurship should do a better job in terms of boosting Latvia's innovation potential – an example of desirable policy measures includes coordination of technology and R&D policies combined with targeting strategic and broad technologies and industries at all stages of development. Furthermore, the issue of government procurement should be addressed: in addition to being transparent, non-discriminatory, openly competitive and performance-based, government procurement policies should become strong drivers of innovation.

**Table 4: Global Innovation Policy Index rank of Latvia and comparator countries used in the GEM 2011 Latvia report**

Upper Tier	Upper-Mid Tier	Lower-Mid Tier
Denmark	Belgium	Greece
Finland	Czech Republic	Latvia
France	Hungary	Poland
Germany	Ireland	Romania
Netherlands	Lithuania	
Sweden	Slovenia	
United Kingdom	Spain	

Source: Atkins, Ezell, and Stewart (2012).

### 2.3.3 INTERNATIONALIZATION

In an ever more globalizing economy, global trade becomes increasingly important for individual economies. Not only multinational enterprises have export orientation: new and smaller enterprises using the latest technologies are increasingly well equipped to broaden the scope of their business. It is clear that en-

trepreneurs in economies with small internal markets place even more emphasis on this than those with large internal markets.

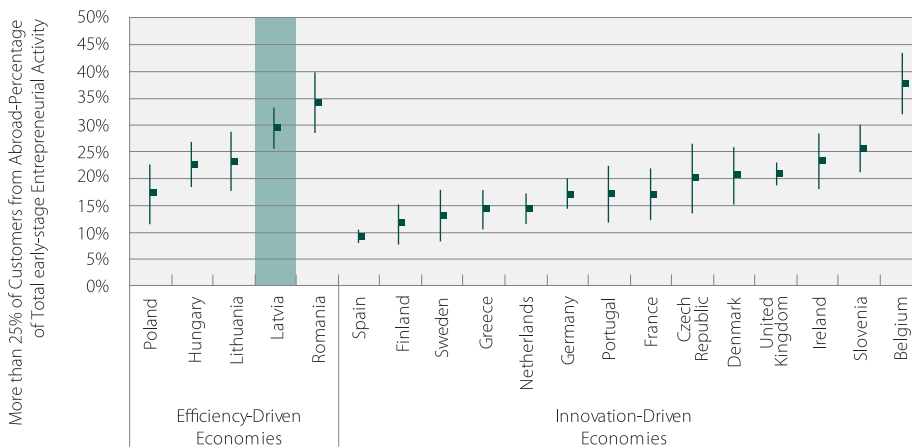
Figure 20 shows the proportion of early stage entrepreneurs with at least 25% foreign customers.



We can observe that Romania and Latvia are at the right end of efficiency-driven EU countries, showing the highest degree of internationalization on average more than one fourth of the customer base of Latvian entrepreneurs is

outside national borders. This indicator is even higher for Romania. The level of internationalization for both of these countries is also high compared to GEM EU innovation-driven economies with only Belgium being an exception.

**Figure 20: Percentage of early-stage entrepreneurs with more than 25% international customers, GEM EU countries, 2011**



Source: GEM 2011 Executive Report.

Notes. This measure includes sales to business travellers and tourists as well as cross-border Internet transactions. The vertical bars in the chart display 95% confidence intervals.

Box 6 below describes a success story of one Latvian enterprise. Internationalization and

innovations are identified as key success determinants.

#### Box 6: Latvian hidden champions: Aboards Ltd.\*

Aboards Ltd. was established in 2006 and specializes in producing good quality kiteboards and kiteboarding equipment in a high price segment. In just four years Aboards has achieved remarkable success: though operating in a highly competitive market the company has acquired some 5% of world market share. According to CEO and owner of Aboards, Kriss Spulis, several key success determinants apply to the company. First, the company's early export orientation was crucial. Today, with the help of local dealers who are in turn responsible for developing the brand in their region, and mainly using the B2B approach, the company exports over 90% of its

production to more than 30 countries in 5 continents. Not only distribution but also the manufacturing process is globalized; that is, the firm has manufacturing sites in various countries in Europe, Asia and beyond. Further keys to success have been constant innovation, the owner's competence in technology, a clever marketing strategy on an international level, quality control and logistics. Finally, regular hard work is highlighted as a factor which has enabled the company to grow quickly: "To go a long way you need to keep on taking small steps," explains the Aboards CEO, pointing out that in taking small steps the company is aiming to go as far as possible.

\* The text in this box is taken from Sauka (2012).

### 3. THE SHADOW ECONOMY AND ENTREPRENEURIAL ACTIVITY

The Centre for Sustainable Business at SSE Riga annually publishes the SSE Riga Shadow Economy Index for the Baltic states (see Putniņš and Sauka, 2012). In addition to estimating the size of the shadow economies of the three Baltic states, the index also aims at exploring the main factors influencing shadow economy activity.

The focus of the current chapter is attitudes among Baltic entrepreneurs to shadow economy activities. However, for an understanding of the magnitude of the problem of the shadow economy, the chapter starts with a brief discussion of the size of the shadow economies in the three Baltic states.

Table 5 reports the size of the shadow economies in Latvia, Lithuania and Estonia as a per-

centage of GDP in years 2009-2011. The size of the shadow economy in 2011 is considerably higher in Latvia (30.2%) than Estonia (18.9%) and Lithuania (17.1%). At the same time, although all three Baltic states have managed to decrease the size of their shadow economies from 2010 to 2011, the reduction in Latvia has been much larger both in absolute and relative terms (an absolute reduction of 7.9 percentage points) than in Lithuania and Estonia (reductions of 1.7 and 0.5 percentage points, respectively). Lithuania and Latvia share the similarity that the size of their shadow economies expanded from 2009 to a peak in 2010, followed by a contraction in 2011, whereas in Estonia the shadow economy seems to have followed a more consistent path with modest contractions in both 2010 and 2011.

**Table 5: SSE Riga Shadow Economy Index for the Baltic states 2009–2011**

	2009	2010	2011	2011–2010
Estonia	20.2%	19.4%	18.9%	-0.5%
	(18.7%, 21.7%)	(18.0%, 20.8%)	(16.8%, 20.9%)	(-2.3%, 1.3%)
Lithuania	17.7%	18.8%	17.1%	-1.7%
	(15.8%, 19.7%)	(16.9%, 20.6%)	(15.2%, 19.0%)	(-3.5%, 0.2%)
Latvia	36.6%	38.1%	30.2%	-7.9%
	(34.3%, 38.9%)	(35.9%, 40.3%)	(27.6%, 32.7%)	(-10.3%, -5.6%)

Source: Putniņš and Sauka (2012).

Note: The table reports point estimates and 95% confidence intervals for the size of shadow economies as a proportion of GDP. The fourth column reports change in the relative size of the shadow economy from 2010 to 2011.

The research also investigated the opinions of entrepreneurs on various aspects of the shadow economy in the Baltic states. This was done by asking questions about their motivation to participate in tax evasion. Entrepreneurs were offered various alternatives and asked to assess those on a 1-7 scale, where '1' represents 'completely agree'

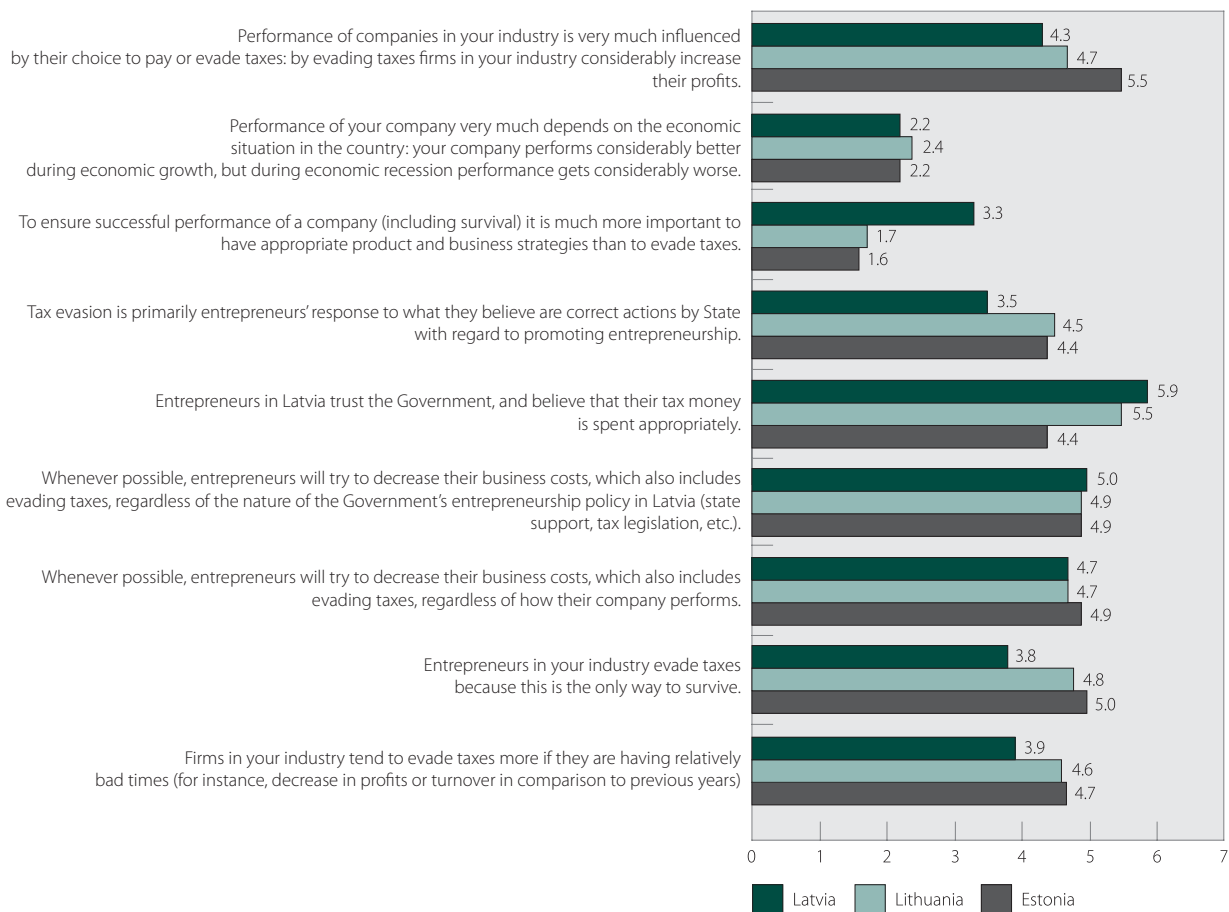
and '7' represents 'completely disagree'. The results are summarised in Figure 21.

The results suggest that Latvian companies are particularly inclined to emphasise tax evasion as a possible tool to ensure the competitiveness (and survival) of a firm. For example, in response to the

statement “to ensure successful performance of a company (including survival) it is much more important to have an appropriate product than to evade taxes”, both Estonian and Lithuanian entrepreneurs reported more towards 1 ‘completely agree’ (1.6 and 1.7, respectively), whereas the average response from Latvian entrepreneurs was 3.5. Additionally, more Latvian entrepreneurs, compared to their Lithuanian and Estonian counterparts, tend to agree with the statement that evading taxes helps increase profits. More Latvian entrepreneurs perceive tax evasion as being necessary to survive than entrepreneurs

in Lithuania and Estonia (response scores of 3.8 in Latvia vs. 4.8 in Lithuania and 5.0 in Estonia). Furthermore, Latvian entrepreneurs are more inclined to link higher levels of tax evasion with lower past performance. The responses also highlight the relatively low level of trust in the government by entrepreneurs, in particular their low opinion of how taxes are spent. Latvian entrepreneurs tend to agree with the statement that “tax evasion is primarily entrepreneurs’ response to what they believe are incorrect actions by the State with regard to promoting entrepreneurship”.

**Figure 21: Entrepreneur attitudes to tax evasion, 2011.**



Source: Putniņš and Sauka (2012).

Finally, the study also finds that smaller, younger firms engage in proportionally more shadow activity than larger, older firms. This seems consistent with anecdotal evidence that tax evasion is used by firms to gain a competitive edge, and

that having an edge is important in competing in an established market. Firms in the construction and services sectors continue to engage in more shadow activity than firms in other sectors.

### Box 7: Entrepreneurial orientation and the shadow economy

The size of the shadow economy is important not only because it provides an estimate of 'lost' government revenue but is perhaps even more important because shadow economy activities have a number of negative consequences stemming from the way they affect the economy's resource allocation. In the GEM context it is natural to briefly look at how the existence of a large informal sector affects the business decisions of potential and current entrepreneurs. This will be done through a number of 'stylized facts' taken from the Latvian Competitiveness Report (Cunška et al., 2012).

- Irrespective of the reasons behind involvement in shadow economy activities, their prevalence directly affects companies in both formal and informal sectors in the sense that companies active in the shadow economy enjoy a financial advantage relative to those that 'play according to the book'. Hence, entrepreneurs active in the formal sector face a competitive disadvantage, which in turn discourages start-ups and investment.
- Involvement in shadow economy activities also affects the entrepreneur's cost of external capital. Firms involved in illicit practices are usually more likely to have difficulties in attracting external funding and even if they do manage, external capital is likely to come at a higher cost. In turn, the higher cost of external funding means less investment. Accordingly entrepreneurs active in the informal sector will be slower in terms of introducing new technologies and innovate less since they face a higher cost of capital.

- Certain types of entrepreneurial activities, in particular in the service sector where it is relatively 'easy' to operate a parallel system (one official and the other informal), will benefit from distortions created by the informal economy with the result that the share of service sector activities will be too large.
- Company size affects the probability of tax audits and hence of detection of shadow economy activities since the probability of detection is likely to increase as a firm grows. Hence, involvement in shadow economy activities creates incentives not to expand the business.

If we benchmark the portrait of Latvian entrepreneurial activity painted by the GEM 2011 Latvia Report with a 'hypothetical' Latvia with a more 'normal' size of the shadow economy, the GEM 2011 Latvia is characterized by:

- Too few entrepreneurs and many existing entrepreneurs are forced into shadow economy activities in order to remain competitive.
- Too few entrepreneurs active in innovative entrepreneurship with high-growth potential.
- Too many entrepreneurs involved in service sector activities.
- Too many small companies and too many companies that do not wish to grow.

To conclude, were the size of the shadow economy reduced to the Estonian level, this might well have a positive impact on Latvian entrepreneurial orientation and ambition in terms of encouraging entrepreneurial activity in high growth areas.

## 4. ENTREPRENEURIAL ACTIVITY AND THE LATVIAN BUSINESS CYCLE

The aim of this chapter is to examine the dynamics of Latvian entrepreneurship during the period 2005–2011, i.e. the entire period during which Latvia has participated in the GEM project. This is of interest in its own right but also provides insights into how to interpret the findings on Latvian entrepreneurial activity presented in the previous chapter and why Latvia in many ways stands out e.g. the high TEA rate.<sup>9</sup>

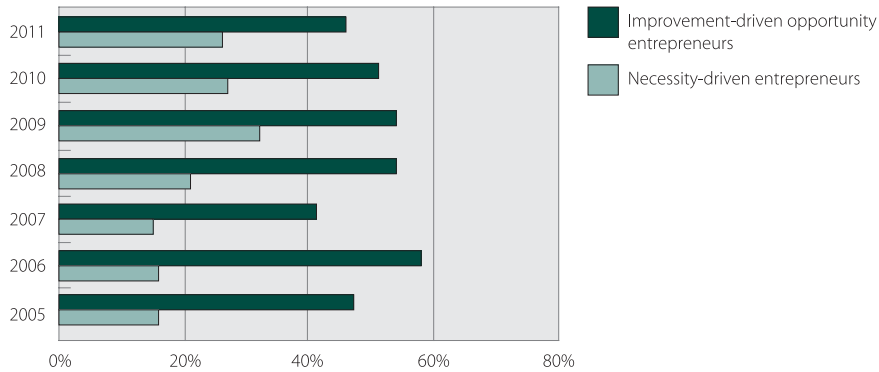
The point of departure for the discussion is Figure 23 A-E which illustrates various features of the dynamics of Latvian entrepreneurial activity over 2005–11. One immediate observation is that Latvian entrepreneurial activity has exhibited considerable variability. In the boom years of 2005–2007 entrepreneurial activity fell as the economy grew faster. With the recession of 2008–2010 entrepreneurial activity, measured as the TEA rate, increased almost threefold from approximately 4% in 2007 to around 12% in 2011. Thus the experience of the last seven years suggests that Latvian early-stage entrepreneurial activity is counter-cyclical. At first sight this appears counter-intuitive since one would expect entrepreneurship to increase in good times, following increased demand for products and services,

and fall in a recession. However, the other force at work is the opportunity cost of entrepreneurship; in the boom years of 2005–2007 the Latvian economy in general and its labour market in particular became seriously overheated with very large increases in wages and salaries. This meant that for many potential entrepreneurs the opportunity cost of leaving highly paid employment to enter entrepreneurship was high and rising.

Furthermore, the fact that the labour market was overheated and virtually anyone employable was employed naturally reduced the number of persons in the age group 18–64 forced into necessity-driven entrepreneurship. By contrast when the economic crisis hit jobs were cut or wages reduced, or both, so that many were forced into entrepreneurship in order to survive. Figure 22 confirms this scenario: during the good years 2005–2007 necessity-driven entrepreneurship was fairly stable around 15% of early-stage entrepreneurial activity. When the crisis struck the share of necessity-driven entrepreneurship almost doubled and although it has fallen slightly it still amounts to 26% of Latvian early-stage entrepreneurial activity.

<sup>9</sup> It would have been interesting to compare Latvia's performance with that of Lithuania. However, this is not possible since 2011 is the first year that Lithuania has participated in the GEM project.

**Figure 22: Percentage of necessity-driven entrepreneurs in early-stage entrepreneurial activity in Latvia, 2005–2011**

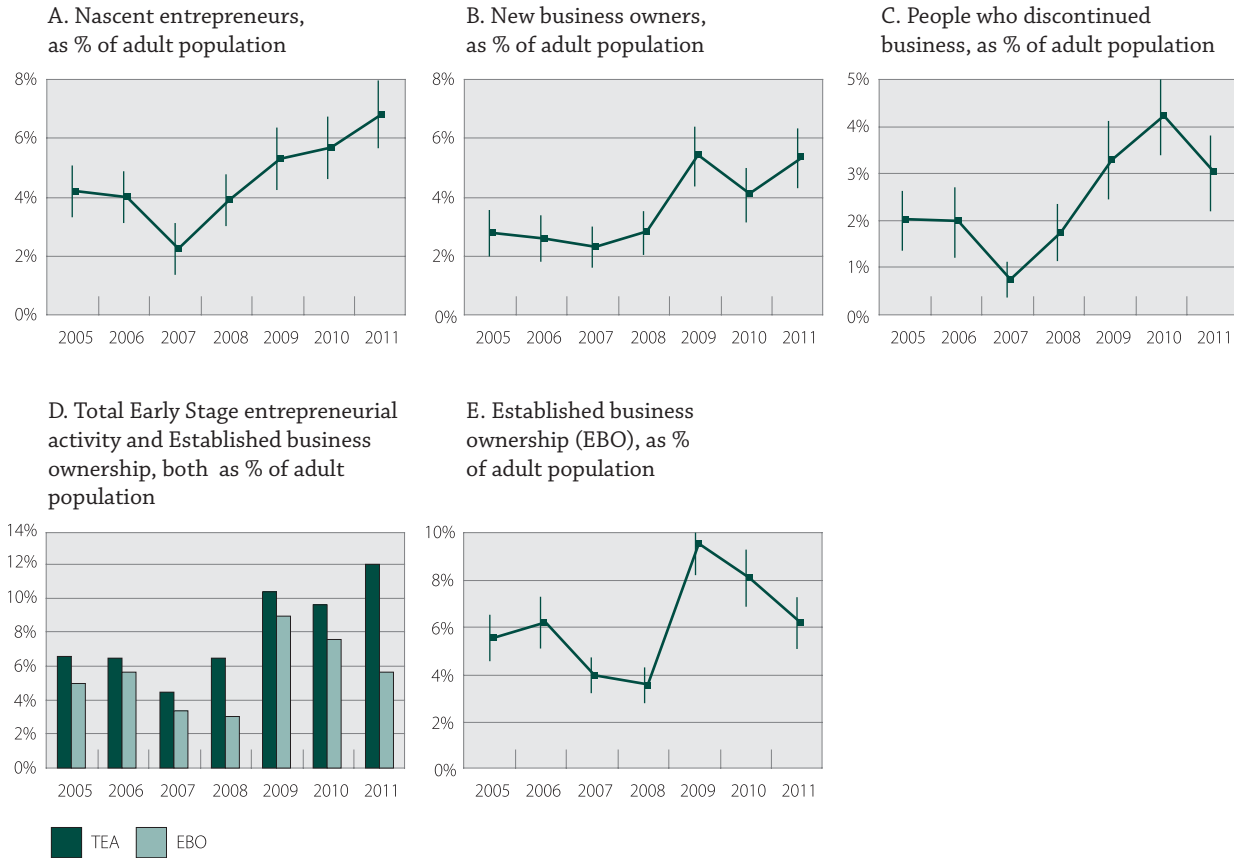


Source: GEM Adult Population Surveys 2005–2011.

The share of entrepreneurs identifying themselves as having a business considered an improvement-driven opportunity dropped in 2007 and has been fairly stable during 2007–2011 at around 50%. Hence, much of the recent variation in TEA stems from variation in necessity-driven entrepreneurship.

As already discussed in the GEM 2010 Latvia Report, it is debatable whether the recent observed increases in Latvian early-stage entrepreneurial activity will have an enduring impact on overall Latvian economic development. Given that much of the entrepreneurial activity that we still observe today originated as a reaction to the economic

crisis it seems reasonable to believe that many businesses, in particular in the TEA phase, will probably be transitory or unsuccessful. Nevertheless, self-employment and entrepreneurial activity can be an important source of temporary income for people hit by economic crisis and its aftermath. Furthermore, entrepreneurial experience gained, be it through necessity-driven or opportunity-driven entrepreneurship, could serve as a good learning experience and make the individual more likely to consider entrepreneurial activity as an option in the future (since a person with previous entrepreneurial experience is more likely to go into entrepreneurship than a person with no previous entrepreneurial experience).

**Figure 23 A-E: Indicators of entrepreneurial activity in Latvia, 2005–2011**

Source: GEM Adult Population Survey.

We also observe (from Figure 23A and Figure 23B) that during most of the period studied a fairly strong covariation exists between the two components of TEA: ‘new business owners’ correlates positively with nascent entrepreneurs. This is reasonable since nascent entrepreneurship ‘feeds into’ new business owners even though not all nascent entrepreneurs end up as new business owners. For the 2010 year this covariation seems to be broken: although the prevalence rate of nascent entrepreneurs has increased since 2009, even if at a diminishing rate, the prevalence of new business owners has fallen from its peak in 2009. This can be seen as an indication that many

start-ups during the crisis were not viable and most likely were necessity-driven. This also supports the argument that the recent growth in Latvian entrepreneurship prevalence rates will have a limited impact on the long-term growth of the Latvian economy.

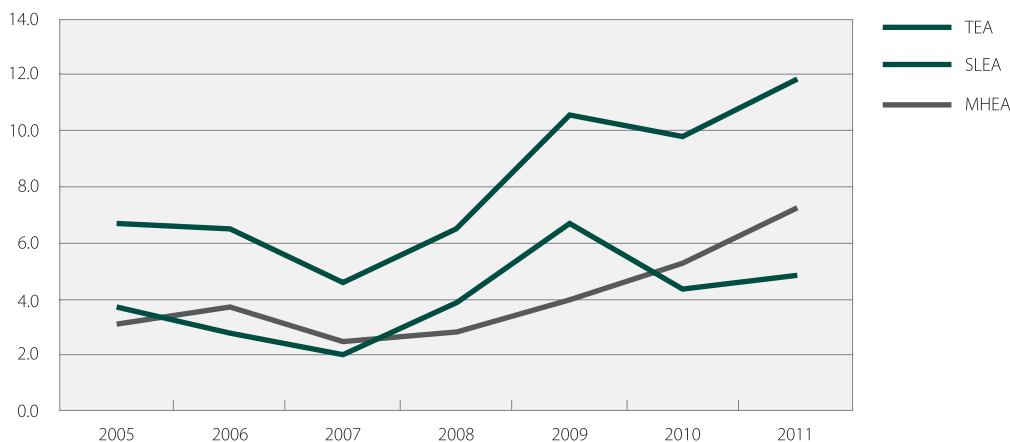
The business discontinuation rate (percentage of the 18–64 age group who in the past 12 months have discontinued a business) is presented in Figure 23 C. It should be no surprise that the discontinuation rate varies fairly well with the Latvian business cycle. When the economy reached its peak in 2007 the percentage of adult

population that had discontinued a business was less than 1% and this peaked at 4% in 2010 (reflecting businesses closed down from May 2009 to May 2010). Part of this increase stems from the fact that during the crisis (as discussed above) the early-stage entrepreneurial activity level more than doubled and hence, everything else being equal, the fraction of the adult population who with a time-lag had discontinued a business should roughly double as well. However, this could roughly explain just half of the increase in the business discontinuation rate.<sup>10</sup> The remain-

ing failures can probably be attributed to the large number of necessity-driven and in many cases non-viable businesses started during the economic recession – again confirming the conclusions on the limited impact of a share of the recent growth in Latvian entrepreneurial activity.

Figure 24 demonstrates corresponding developments for total early-stage entrepreneurial activity (TEA), as well as for the two types of TEA that distinguish between low and high ambitions (SLEA and MHEA).

**Figure 24: Development of entrepreneurial activities and job expectations, Latvia, 2005–2011**



Source: GEM Adult Population Survey.

Figure 24 shows that the surge in entrepreneurial activity as measured by the TEA rate that can be observed in the recession years of 2008 and 2009 was mostly driven by an increase in less ambitious types of entrepreneurship (SLEA). As already discussed in previous sections this group mostly includes entrepreneurs forced into entrepreneurship because of necessity motives (no other employment options) and individuals who are very

satisfied working as single person businesses without employing other workers.

However, in 2010 and 2011 ambitious entrepreneurship (MHEA) has overtaken SLEA as the main driver of overall TEA. It is of interest to see whether this trend continues in future years but at least for now this development can be treated as a positive sign.

<sup>10</sup> However, the 7 year sample of GEM data is too small for any 'serious' econometric analysis.



## 5. SPECIAL TOPIC: EMPLOYEE ENTREPRENEURIAL ACTIVITY

A major distinction in the entrepreneurship field is between independent entrepreneurship and 'entrepreneurship within existing organizations'. To shed light on entrepreneurship within existing organisations, the GEM consortium has selected employee entrepreneurial activity (EEA) as a special topic for the 2011 research agenda.<sup>11</sup> This focus recognizes that entrepreneurial processes exist independently of organisational boundaries and might well also take place within an existing company or organisation. In the literature this is often referred to as intrapreneurship. This could be undertaken independently by an individual employee or as part of an overall corporate strategy focusing on corporate venturing as a source of value creation by<sup>12</sup> building new capabilities and businesses with the aim of enabling renewal, fostering strategic change, and enhancing company profits and growth.<sup>13</sup>

If one compares 'independent entrepreneurship' with 'entrepreneurship within organisations', willingness to take the initiative, pursuit of opportunity and some element of 'newness' can be mentioned as key behavioural characteristics that entrepreneurial employees and independent entrepreneurs have in common. At the same time entrepreneurial employees, with the advantage of using business contacts, receiving financial support and security provided by their employing organisations, face less personal risk compared to individual entrepreneurs. On the other hand operating within certain organisational boundaries puts specific limitations on activities that entrepreneurial employees have to face, leading to less autonomy compared to individual entrepreneurs; entrepreneurial employees working for an

employer may also end up having less by way of anticipated rewards after successful completion of their activity.

GEM research defines this form of entrepreneurship activity broadly: it includes employees that develop or launch new goods or services or set up new business units that constitute a new establishment or subsidiary for their employer, whereas employee activities mainly aiming at internal work process optimization are excluded. Using the terminology of Parker (2011) EEA can be seen as looking at 'nascent intrapreneurship'.<sup>14</sup> Entrepreneurial activities and initiatives include activities initiated by organisational top levels as well as those that emerge from the bottom.

The following two definitions of Entrepreneurial Employee Activity (broad and narrow) are used in GEM analysis:

**The broad definition** of EEA activity refers to employees who, **in the past three years**, were actively involved in and had a leading role in at least one of the phases of entrepreneurial activity (i.e., 'idea development for a new activity' and/or 'preparation and implementation of a new activity').

**The narrow definition** refers to entrepreneurial employees who are **currently** involved in development of these new activities.

The prevalence of EEA is defined either as the number of entrepreneurial employees, according to either definition, or as a percentage of either the total number of employees or of the adult population (between 18–64 years).

<sup>11</sup> The 2008 Latvian Report devoted a chapter to intrapreneurship. See Rastrigina (2009).

<sup>12</sup> As discussed in Zhara and Hayton (2008) and Narayanan et al. (2009).

<sup>13</sup> For further discussion of employee entrepreneurship within the GEM framework see the GEM 2008 Report for the Netherlands (Hessels et al., 2009).

<sup>14</sup> See de Jong and Wennekers (2008) for a conceptual discussion of the differences and similarities between intrapreneurship and independent entrepreneurship.

This chapter aims at giving an overview of employee entrepreneurial activity and address the question of who these entrepreneurial employees in Latvia are.

Employee entrepreneurial activity is, as pointed out in the GEM 2011 Global Report, not a very widespread phenomenon. For the entire GEM sample only about 3% of the adult population is currently involved in EEA activities. However, its prevalence differs markedly across countries, ranging from slightly more than zero to almost 14%.

By looking at the entire GEM sample comprising countries at all stages of economic development, the GEM 2011 Global Report notes that EEA is most prevalent in innovation-driven economies. This observation contrasts with the pattern for early-stage entrepreneurial activity (TEA) where innovation-driven economies in general have the lowest rate of total early-stage entrepreneurial activity. The higher rate in innovation-driven economies is partly caused by the fact that a higher percentage of the adult population is employed in organisations; with more people working for organisations, an economy is likely to have more entrepreneurial employees on an absolute basis. However, even when the rate of EEA is examined only in the employee population, higher percentages of entrepreneurs can still be found among employees in innovation-driven economies than in the other two development levels. This could probably be explained, at least partly, by the fact that companies in innovation-driven economies are more advanced, not only when it comes to output but also when it comes to strategy, hence making corporate venturing or intrapreneurship an integral part of their strategy.

Table 6 presents the main results for EEA across the 19 EU countries that took part in the GEM 2011 Research Cycle. Countries are grouped by level of development, with EEA calculated according to both narrow and broad definitions by

percentage of employees and percentage of adult population 18–64 years of age.

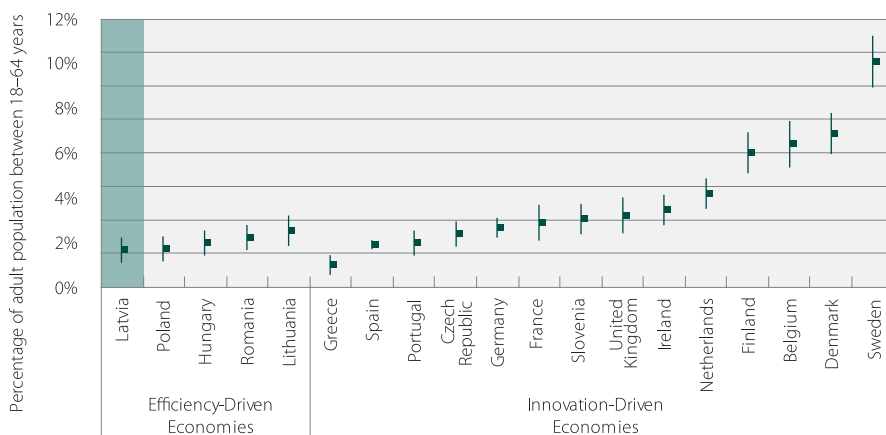
It can be seen that employee entrepreneurial activity is more prevalent in innovation-driven EU countries than in efficiency-driven EU countries (the group to which Latvia and Lithuania belong). One can argue that differences in EEA rates could be partly a result of the rising opportunity cost of entrepreneurship as per capita income rises and that in higher income countries this can deter people from engaging in individual entrepreneurship and instead channel development of individual entrepreneurial potential through employee entrepreneurial activities. High levels of employment protection in a specific country may also have the same effect.

Figure 25 presents the prevalence of employee entrepreneurial activity for Latvia and a set of comparator countries. Inspection of the figure reveals that Latvia together with Poland has the lowest rate of employee entrepreneurial activity. Comparator countries with the highest EEA rates are Finland, Belgium, Denmark and Sweden. The EEA rate in Sweden (13.5% of the adult population) is six times higher than observed in Latvia where 2.2% of the adult population is currently involved in EEA. On the other hand (as seen from Figure 5 in Chapter 2) the countries with high EEA rates are also those with the lowest TEA rates. This indicates that entrepreneurship in organisations at least to some extent replaces independent entrepreneurship as an alternative means of pursuing entrepreneurial opportunities. On the other hand, this should not be taken as evidence that high EEA crowds out TEA or vice versa. As pointed out in the GEM 2011 Global Report, the three innovation-driven economies with the highest TEA Rates – the United States, Australia and the Netherlands – also have high EEA, indicating that entrepreneurial activity can coexist and thrive in both forms.

**Table 6: Prevalence of employee entrepreneurial activity, GEM EU countries, 2011**

	Broad definition: Involved in EEA in past three years in % of		Narrow definition: Currently involved in EEA in % of	
	adult population	employees	adult population	employees
<b>Efficiency-driven economies</b>				
Hungary	3.9	7.8	2.6	5.2
Latvia	3.0	5.0	2.2	3.6
Lithuania	4.9	8.1	3.4	5.6
Poland	2.8	5.7	2.3	4.7
Romania	3.9	7.6	3.0	5.8
<i>average (unweighted)</i>	3.7	6.8	2.7	5.0
<b>Innovation-driven economies</b>				
Belgium	9.4	13.5	8.6	12.3
Czech Republic	3.8	6.3	3.2	5.2
Denmark	15.1	20.7	9.2	12.6
Finland	9.4	13.4	8.0	11.4
France	4.7	7.5	3.9	6.1
Germany	4.8	7.6	3.5	5.5
Greece	1.6	4.9	1.3	3.8
Ireland	5.9	10.4	4.6	8.1
Netherlands	7.8	11.1	5.6	7.9
Portugal	4.0	6.0	2.6	3.9
Slovenia	5.1	9.3	4.1	7.4
Spain	2.7	6.1	2.5	5.5
Sweden	16.2	22.2	13.5	18.4
United Kingdom	5.3	8.1	4.3	6.6
<i>average (unweighted)</i>	6.8	10.5	5.3	8.2
<b>Total GEM EU</b>				
<i>average (unweighted)</i>	6.0	9.5	4.6	7.4

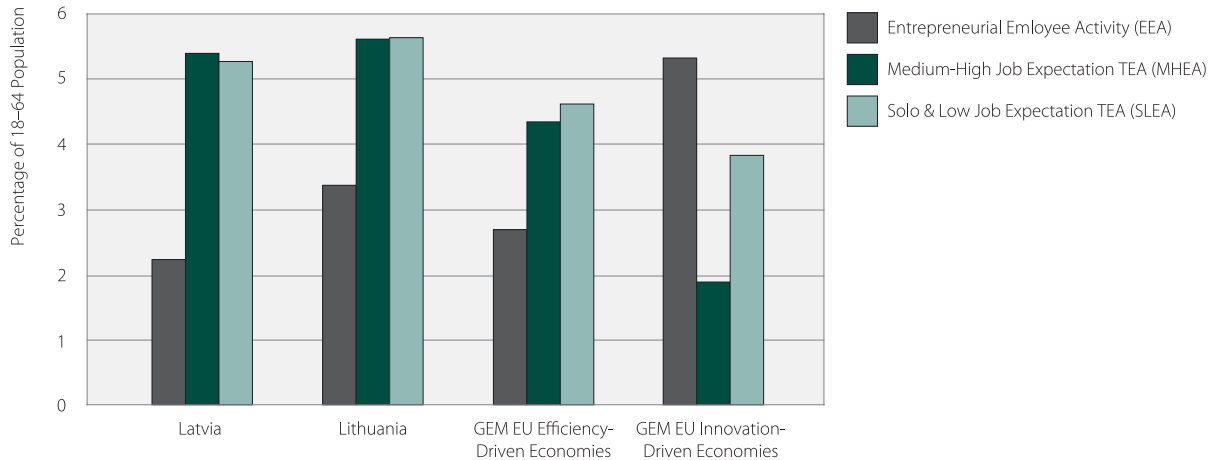
Source: GEM Adult Population Survey.

**Figure 25: Prevalence rates of employee entrepreneurial activity in the 18–64 population**

Source: Global Entrepreneurship Monitor 2011.

Note: The EEA prevalence rate was calculated according to the narrow definition as a percentage of the adult population.

**Figure 26: Prevalence of three distinct types of entrepreneurial activity measured as percentage of adult population.**



Source: GEM 2011 Global Report.

An overview of total early-stage entrepreneurial activity appears in Figure 26 which shows both EEA and TEA (with the latter divided into medium-high job expectation TEA and solo and low job expectation TEA). The figure confirms that innovation-driven economies in general seem to score higher in terms of EEA. This pattern is very noticeable for GEM EU innovation-driven economies, whereas efficiency-driven economies do much better in terms of MHEA. Thus it can be concluded that in efficiency-driven GEM EU countries, including Latvia and Lithuania, the adult population is mainly involved in both ambitious and unambitious individual early-stage entrepreneurial activity and less involved in employee entrepreneurial activities. In contrast, the adult population in GEM EU innovation-driven economies prefer to be involved in employee entrepreneurial activities compared to individual

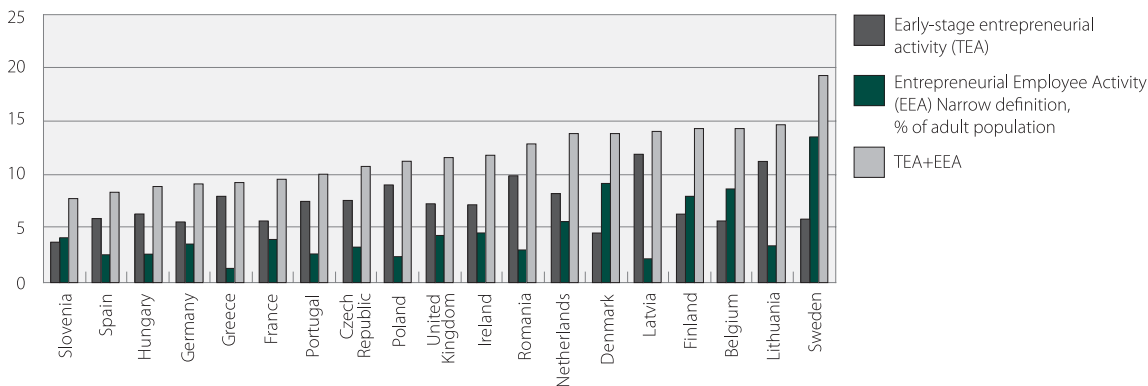
entrepreneurship. Moreover, involvement in less ambitious entrepreneurship predominates over involvement in ambitious entrepreneurship. Thus one may assume that ambitious entrepreneurship in innovation-driven countries is to some extent substituted by entrepreneurship within existing organisations.

It is interesting to see how GEM EU countries fare if the levels of TEA and EEA are combined, summing up to an “overall level of entrepreneurship”. Table 7 and Figure 27 present the results. Because of their high EEA the Nordic GEM countries are among the leaders in “overall level of early-stage entrepreneurship” (i.e. TEA+EEA) despite their low TEA rates. The overall rate for Lithuania is second best and Latvia has a fairly high combined score placing it very close to Belgium and Finland.

**Table 7: TEA and EEA for GEM EU countries, 2011**

	Early-stage entrepreneurial activity (TEA)	Entrepreneurial Employee Activity (EEA) Narrow definition, % of adult population	TEA + EEA
Slovenia	3.7	4.1	7.8
Spain	5.8	2.5	8.3
Hungary	6.3	2.6	8.9
Germany	5.6	3.5	9.1
Greece	8.0	1.3	9.3
France	5.7	3.9	9.6
Portugal	7.5	2.6	10.1
Czech Republic	7.6	3.2	10.8
Poland	9.0	2.3	11.3
United Kingdom	7.3	4.3	11.6
Ireland	7.2	4.6	11.8
Romania	9.9	3.0	12.9
Netherlands	8.2	5.6	13.8
Denmark	4.6	9.2	13.8
Latvia	11.9	2.2	14.1
Finland	6.3	8.0	14.3
Belgium	5.7	8.6	14.3
Lithuania	11.3	3.4	14.7
Sweden	5.8	13.5	19.3

Source: GEM Adult Population Survey.

**Figure 27: TEA, EEA and “overall level of early-stage entrepreneurship” (sum of TEA&EEA) in GEM EU countries, 2011**

Source: GEM Adult Population Survey.

The following analysis focuses on a description of EEA in Latvia in terms of characteristics such as age, gender and type of firm or organisation.

Table 8 presents the EEA prevalence rates for Latvia according to the GEM narrow definition as a percentage of the adult population broken down into age, gender, education, income, size and type of employing organisation. The results for Latvia are very similar to the overall results presented in

the GEM Global report, with EEA rates highest for 25–34 old employees, for the highly educated and for high income individuals. Male employees are almost twice as likely to be involved in EEA compared to female employees.

Employee entrepreneurial activity in Latvia appears to be most prevalent in small and medium organizations and not-for-profit organizations (see Table 8 and Table 9).

**Table 8: Prevalence of employee entrepreneurial activity across age, gender, education and household income, in % of adult population 18–64 years in Latvia, 2011**

<i>Age structure</i>	
18–24 years	1.6
25–34 years	4.0
35–44 years	1.9
45–54 years	1.8
55–64 years	1.7

<i>Gender</i>	
Male	3.0
Female	1.6

<i>Education</i>	
Some secondary	0.5
Secondary	1.3
Post secondary	3.5
Graduate	6.5

<i>Income</i>	
Low	0.4
Medium	1.3
High	4.5

<i>Type of enterprise</i>	
Private for profit	4.8
Government	1.3
Not for profit	9.5

Source: GEM 2011 Adult Population Survey.

In order to evaluate the aspirations of employee entrepreneurial employee activity, characteristics such as five year job expectation, newness of product/service to customers and perception of competition were analysed and compared with the perceptions of nascent entrepreneurs and owner-managers of young businesses.

Table 9 presents the results of this exercise which suggest that entrepreneurial employees have

higher job expectations for their new business activity than nascent entrepreneurs and owner-managers of young enterprises. This could be explained by better access to resources for growth via intra-organisational channels. Entrepreneurial employees also appear to be highly innovative. About 75% of entrepreneurial employees introduce products or services that are new to at least some of the organisation's customers.

**Table 9: Distribution of five year job expectations, newness of product/service of entrepreneurial employees, nascent entrepreneurs and owner-managers of young firms, Latvia, 2011; distribution of EEA across organization sizes, Latvia, 2011**

Distribution of five year job expectation of entrepreneurial employees, nascent entrepreneurs and owner-managers of young firms in LV (in %)			
Entrepreneurial employees	25	50	25
Nascent entrepreneurs	36	41	23
Owner-managers of young firms	43	40	17

Distribution of newness of product/service for entrepreneurial employees, nascent entrepreneurs and owner-managers of young firms in LV (in %)			
	all	some	none
Entrepreneurial employees	8	67	25
Nascent entrepreneurs	10	51	39
Owner-managers of young firms	29	42	29

Distribution of perceived competition of product/service for entrepreneurial employees, nascent entrepreneurs and owner-managers of young firms in LV (in %)			
	many competitors	few competitors	no competitors
Entrepreneurial employees	25	75	0
Nascent entrepreneurs	41	53	6
Owner-managers of young firms	43	14	43

Distribution of entrepreneurial employee activity (current year) across organizationsize classes in LV (in %)			
Organization size classes	micro	small and medium	large
	29	55	16

Source: GEM Adult Population Survey.

## 6. LATVIA AND THE GLOBAL ENTREPRENEURSHIP AND DEVELOPMENT INDEX (GEDI)

This chapter discusses Latvia's entrepreneurial performance in an international context using data from the Global Entrepreneurship and Development Index (GEDI) research initiative. Data collected within the GEM initiative are, in addition to the GEM report as such, also published and analysed within the Global Entrepreneurship and Development Index framework. The difference between GEM and GEDI is that GEM mainly focuses on the quantity of entrepreneurship whereas GEDI mainly focuses on the quality of entrepreneurship (although it also captures quantitative aspects of entrepreneurship). GEDI captures three different dimensions of entrepreneurship, each defining a sub-index:

- The entrepreneurial attitude sub-index (ATT) reflects the attitudes of a nation's population towards entrepreneurship. Aspects covered by the sub-index include attitudes towards recognition of business opportunities and towards failure and fear of failure.
- The entrepreneurial activity sub-index (ACT) focuses on measuring entrepreneurial activity with high growth potential (cf. GEM measures, which predominantly look at all types of entrepreneurial activity irrespective of growth potential; 2011 saw the first attempt to design a typology for classification of countries into groups with similar dimensions of medium-high job expectation early-stage entrepreneurial activity, solo and low job expectation early-stage entrepreneurial activity and level

of Entrepreneurial Employee Activity). High growth potential is defined by various quality measures.

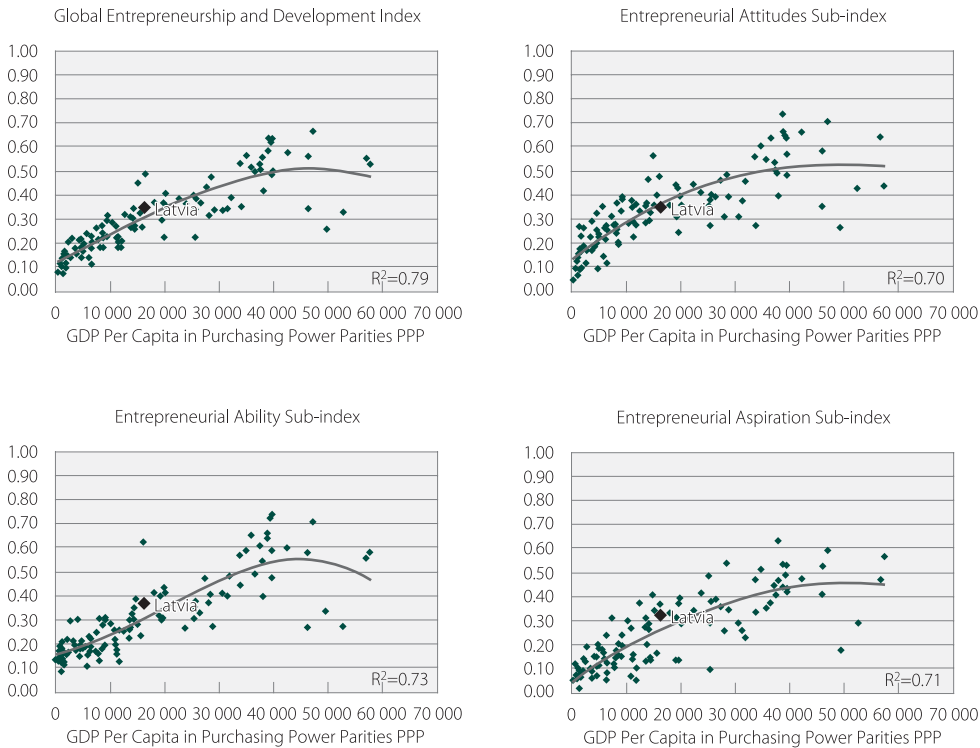
- Entrepreneurial aspiration (ASP) identifies the distinctive, qualitative and strategic nature of entrepreneurship. Examples include the novelty of a product or technology, growth ambitions and internationalization.

These three sub-indices rest on 14 pillars in total. Each of these pillars, in turn, aims, as Ács and Szerb (2011) put it, at "capturing the open-ended nature of entrepreneurship; analysing them can provide an in-depth view of the strengths and weaknesses of those listed in the Index". The pillars are found in the third column of Table 10 below. Since the pillars are more or less self-explanatory, the interested reader is referred to Ács and Szerb for a detailed description.

Before proceeding with a discussion on how well Latvia scores with respect to the three dimensions of entrepreneurship discussed above and how the institutional variables, individual variables and pillars affect the outcome, we examine how well Latvia performs globally. This is done in Figure 28 A-D, which plots national performance against GDP per capita adjusted for purchasing power parity. Inspection reveals that in terms of two out of the three sub-indices Latvia performs somewhat better than might be expected. However, as for entrepreneurial attitudes Latvia performs on a par or even slightly worse.



**Figure 28: The relative position of Latvia in the Global Entrepreneurship and Development Index and in the sub-index level**



Source: GEDI 2011.

We now turn attention to the three dimensions, the three 'A's discussed above: attitude, activity and aspiration, which appear in the rows of Table 10. These are analysed with respect to institutional factors, individual factors and the 14 pillars discussed above: all three dimensions appear in the columns of Table 10.

Of the three dimensions, Latvia seems to do worst in terms of entrepreneurial attitude, in particular

at the individual level. Latvians seem to be weak in opportunity recognition and opportunity perception. Furthermore, neither the absence of role models nor the low career status of entrepreneurship contributes to the attractiveness of entrepreneurship. Furthermore, Latvia also seems to score poorly in terms of tech absorption and introduction of new tech. The latter should not come as a surprise since tech absorption and introduction of new tech are closely related.

**Table 10: Relative position of Latvia at the variable level**

	Institutional variables		Individual variables		Pillars	
Entrepreneurial Attitudes	Market Agglomeration	0.31	Opportunity Recognition	0.25	Opportunity Perception	0.14
	Tertiary Education	0.61	Skill Perception	0.49	Start-up Skills	0.53
	Business Risk	0.67	Risk Acceptance	0.55	Nonfear of Failure	0.51
	Internet Usage	0.75	Know Entrepreneurs	0.31	Networking	0.56
	Corruption	0.34	Career Status	0.43	Cultural Support	0.28
Entrepreneurial Ability	Economic Freedom	0.68	Opportunity Motivation	0.60	Opportunity Start-up	0.52
	Tech Absorption	0.41	Technology Level	0.33	Technology Level	0.25
	Staff Training	0.46	Educational Level	0.54	Quality of Human Resources	0.46
	Market Dominance	0.45	Competitors	0.76	Competition	0.48
Entrepreneurial Aspirations	Technology Transfer	0.30	New Product	0.49	Product Innovation	0.39
	GERD <sup>15</sup>	0.10	New Tech	0.25	Process Innovation	0.06
	Business Strategy	0.37	Gazelle	0.60	High Growth	0.67
	Globalization	0.76	Export	0.66	Internationalization	0.61
	Venture Capital	0.33	Informal Investment	0.24	Risk Capital	0.21
	Institutional	0.47	Individual	0.46	GEDI	0.35

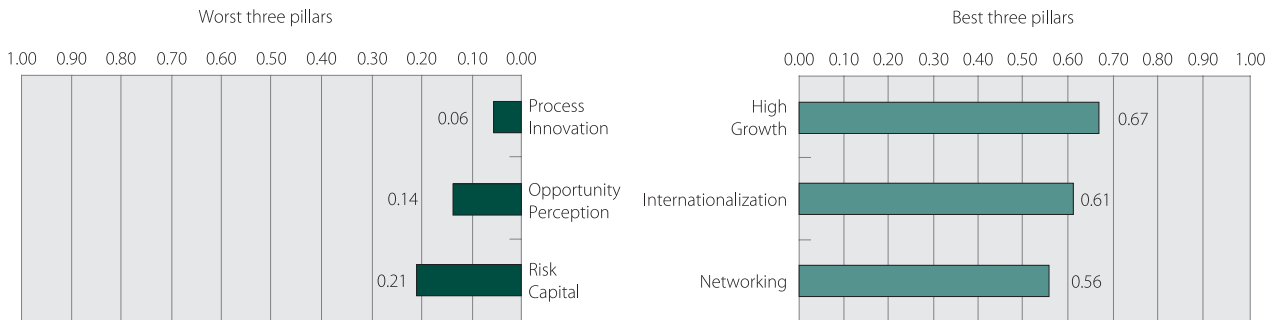
Source: GEDI 2011.

Finally, in Figures 29 and 30 we provide a summary of the findings of Table 10 (above) focusing on the strengths and weakness of the Latvian

pillars and the institutional and individual pillars, respectively.

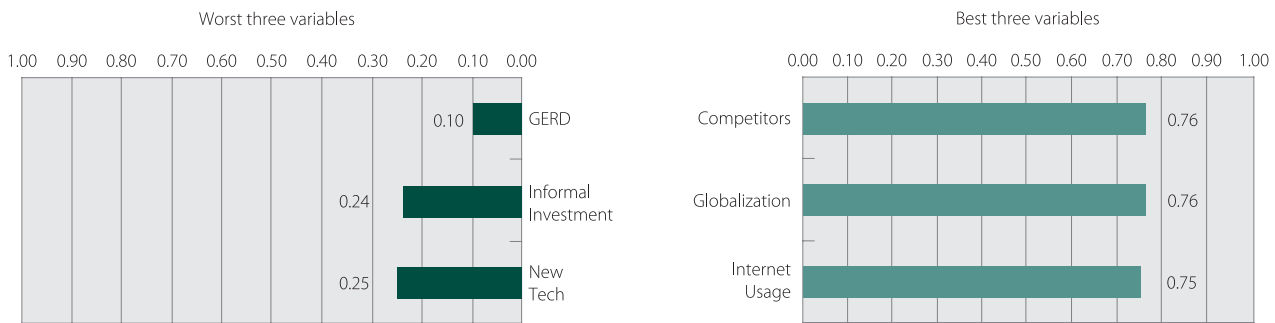
<sup>15</sup> Gross Domestic Expenditure on Research and Development.

**Figure 29: Strengths and weaknesses of Latvia at the pillar level**



Source: GEDI 2011.

**Figure 30: The best and worst three variables for Latvia**



Source: GEDI 2011.

## 7. ENTREPRENEURIAL FRAMEWORK CONDITIONS

Different countries and regions have different “rules of the game” that combine to shape entrepreneurial activity in a given country. The features expected to have a significant impact on the entrepreneurial sector are captured in the nine *Entrepreneurial Framework Conditions* (EFCs).

The GEM National Expert Survey (NES) uses qualitative information based on the informed judgments of national experts (selected following specific procedures) on a wide set of blocks of items,

each of which is designed to capture a different dimension of specific Entrepreneurship Framework Conditions (EFC) in their own countries. Table 11 describes the main EFCs. For example, for the first condition (finance for entrepreneurs), a block of six items includes evaluation of financial channels and access to these for entrepreneurs. GEM asks about the situation as to equity, public, debt, credit, business angels and IPOs as sources of capital for entrepreneurs. The same logic is applied to the remaining conditions.

**Table 11: GEM key entrepreneurial framework conditions**

1.	<b>Entrepreneurial Finance.</b> Availability of financial resources-equity and debt-for small and medium enterprises (SMEs) (including grants and subsidies).
2.	<b>Government Policy.</b> The extent to which public policies support entrepreneurship. This EFC has two components: 2a. Entrepreneurship as a relevant economic issue and 2b. Taxes or regulations are either size-neutral or encourage new and SMEs.
3.	<b>Government Entrepreneurship Programmes.</b> The presence and quality of programmes directly assisting SMEs at all levels of government (national, regional, municipal).
4.	<b>Entrepreneurship Education.</b> The extent to which training in creating or managing SMEs is incorporated within the education and training system at all levels. This EFC has two components: 4a. Entrepreneurship Education at basic school (primary and secondary) level and, 4b Entrepreneurship Education at post-school levels (such as vocational, college, business schools).
5.	<b>R&amp;D Transfer.</b> The extent to which national research and development leads to new commercial opportunities and is available to SMEs.
6.	<b>Commercial and Legal Infrastructure.</b> The presence of property rights, commercial, accounting, and other legal and assessment services and institutions that support or promote SMEs.
7.	<b>Entry Regulation.</b> 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.	<b>Physical Infrastructure.</b> Ease of access to physical resources-communication, utilities, transportation, land or space-at a price that does not discriminate against SMEs.
9.	<b>Cultural and Social Norms.</b> 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.

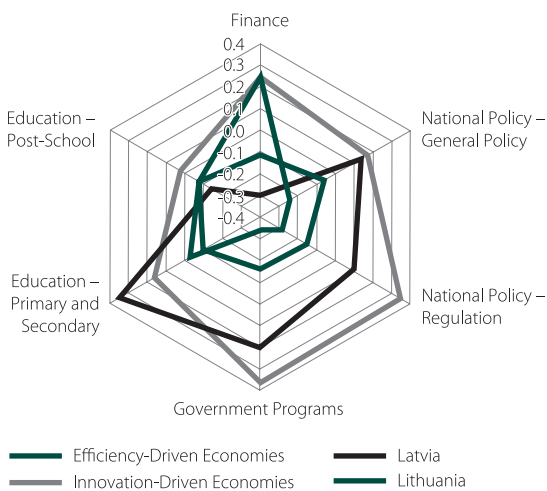
Although EFCs can be addressed at any stage of development, these conditions function best in economies with an underlying foundation of basic requirements and efficiency enhancers. For example, it is unlikely that government entrepreneurship programmes will be effective if a country provides inadequate health care and primary education to its population. The National Expert Survey (NES) provides insights into ways in which these EFCs either foster or constrain the entrepreneurial climate, activity and development in a particular country.

The results obtained are to a large extent in line with what has been reported in previous chapters 5 – EFCs in Latvia valued by national experts

as being most positive are Physical Infrastructure, Commercial Infrastructure and Government Programmes. EFCs valued as most negative have been R&D Transfer and Finance.

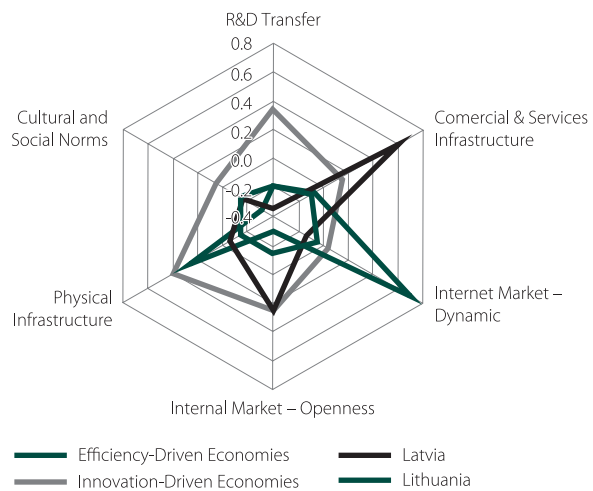
Figure 31 and Figure 32 show how EFCs in Latvia differ from EFCs in Lithuania and also as compared to other GEM efficiency-driven and innovation-driven countries. The results are split into two figures to facilitate visualization: those EFCs related to public institutional issues, and those related to market-social institutional issues.

**Figure 31: Composite indicators on entrepreneurship institutions, by stage of development (1/2)**



Source: Global Entrepreneurship Monitor 2011, National Expert Surveys. Note: Values of indicators for countries with innovation and efficiency phases of economic development are based on averaging the Z-scores (standardized values).

**Figure 32: Composite indicators on entrepreneurship institutions, by stage of development (2/2)**



Source: Global Entrepreneurship Monitor 2011, National Expert Surveys. Note: Values of indicators for countries with innovation and efficiency phases of economic development are based on averaging the Z-scores (standardized values).

Inspection of Figures 32 and 33 reveals that Latvia lags behind Lithuania in several dimensions: Internal Market Dynamics and Availability of Financial Resources. On the other hand, Latvia scores notably better on Internal Market Openness, Commercial and Service Infrastructure and on almost all EFCs related to public institutional issues with the exception of Finance plus Post School Education on which no big differences the two countries are observed.

As compared with innovation-driven countries Latvia stands in a relatively good position with

respect to National Policy-General Policy and Internal Market Openness conditions. Primary and Secondary Education and Commercial and Services Infrastructure are highly valued by Latvian national experts. On the other hand, R&D Transfer, Cultural and Social Norms, Physical Infrastructure, Post School Education and Availability of Finance are dimensions that should be addressed in order to enhance Latvia's overall entrepreneurial performance.

## CONCLUSIONS

The current report, which is the seventh Latvian GEM Report, exhibits a number of innovations.

Firstly the now quite long series of reports allows the taking of some perspective on the development of Latvian entrepreneurship. Thus Chapter 4 offers an analysis of the development of entrepreneurship in Latvia over the boom-bust-recovery experience of the last seven years.

Secondly, Lithuania participated in GEM for the first time in the 2011 cycle and this permits potentially interesting comparisons with Latvian experience. Estonia will participate in the next cycle thereby further enriching comparative analysis.

Thirdly, to provide a more comprehensive assessment of Latvian entrepreneurship, the Report presents and draws on findings from entrepreneurship research undertaken outside the GEM project as such.

The current report also has the benefit of a new GEM country classification, which attempts to demarcate countries by the degree of ambition of their entrepreneurs. This adds a further analytic dimension to the understanding of entrepreneurial activity in Latvia in a comparative context.

The 2011 report has also examined themes such as: employee entrepreneurship (intrapreneurship); the gender perspective of entrepreneurship in Latvia; the attitudes and perceptions of Latvian entrepreneurs; the potential of best agers in the promotion of entrepreneurship.

The key results include:

- Early stage entrepreneurship in Latvia has been countercyclical.
- Variations in early stage entrepreneurship have mainly been driven by variations in the volume of necessity driven entrepreneurship.
- The most recent data suggest that ambitious entrepreneurship (MHEA) has overtaken less ambitious entrepreneurship (SLEA) as the main driver of development of overall early stage entrepreneurship (TEA).
- Latvia belongs to a group of countries with a high level of both ambitious and non-ambitious entrepreneurship and a low level of employee entrepreneurial activities (intrapreneurship).
- Latvian (and Lithuanian) early stage entrepreneurs have high ambitions or expectations in terms of job creation as compared with other GEM EU countries.
- Several areas of hidden potential or unused resources exist e.g. the gap between the confidence Latvians have in their entrepreneurial capabilities and the opportunities they perceive, the entrepreneurial gender gap, and the potential for the use of older cohorts in fostering entrepreneurship.
- Most of the innovative activity among Latvian entrepreneurs is focussed on implementing products, services and processes already existing elsewhere. Furthermore, Latvian entrepreneurs score fairly low in terms of 'genuine' innovative entrepreneurship.
- In terms of job creation, Latvian entrepreneurs together with Lithuanian entrepreneurs have high ambitions in comparison with entrepreneurs in other GEM EU countries.

- The high share of shadow economy activity in Latvia has an overall negative impact on entrepreneurship – in particular on high growth entrepreneurship.

This is a rich catalogue of results which in many cases point to the potential for constructive policy interventions e.g. interventions to nar-

row the entrepreneurial gender gap are likely to contribute to improving overall Latvian entrepreneurial performance, while measures to tackle the shadow economy can be expected to have a positive effect on the quality of business creation.

## CONCLUSIONS IN LATVIAN

### SECINĀJUMI

Šis ir septītais Latvijas GEM ziņojums un tas ietver vairākus jauninājumus.

Pirmkārt, pateicoties iepriekšējiem izdevumiem, mēs varam sekot Latvijas uzņēmējdarbības attīstībai. Tādējādi 4. nodaļā piedāvāta Latvijas uzņēmējdarbības attīstības analīze par pieauguma-krituma-atgūšanās pieredzi pēdējo septiņu gadu laikā.

Otrkārt, 2011. gadā Lietuva kļuva par dalībvalsti un pirmo reizi piedalījās GEM projektā, kas ļauj veikt potenciāli interesantus salīdzinājumus ar Latvijas pieredzi. Nākamā gada ciklā arī Igaunija piedalīsies GEM projektā, tādējādi turpinot bagātināt salīdzinošo analīzi.

Treškārt, lai sniegtu plašāku Latvijas uzņēmējdarbības novērtējumu, ziņojums apskata un piedāvā rezultātus no uzņēmējdarbības pētījumiem, kas veikti ārpus GEM projekta.

Pašreizējā ziņojumā ir uzlabota GEM valstu klasifikācija, kas tiecas iedalīt valstis pēc to uzņēmēju ambīciju pakāpes. Tādējādi paplašinās analīze par uzņēmējdarbības aktivitātes izpratni Latvijā salīdzinošā kontekstā.

2011. gada ziņojumā apskatītas arī tādas tēmas kā: uzņēmējdarbības darbinieki (organizāciju iekšējā uzņēmējdarbība (intrapreneurship)); dzimumu perspektīva uzņēmējdarbībā Latvijā; attieksme un viedoklis par Latvijas uzņēmējiem; pusmūža vecuma iedzīvotāju potenciāls uzņēmējdarbības veicināšanā.

Galvenie rezultāti ir šādi:

- Agrīnās stadijas uzņēmējdarbība Latvijā ir precīkliska.
- Pārmaiņas agrīnās stadijas uzņēmējdarbībā galvenokārt rodas nepieciešamības spiestas uzņēmējdarbības apjoma izmaiņu rezultātā.
- Jaunākie dati liecina, ka ambicioza uzņēmējdarbība ir apsteigusi mazāk ambiciozu uzņēmējdarbību un kļuvusi par galveno kopējās agrīnās stadijas uzņēmējdarbības aktivitātes (KAA) attīstības virzītājspēku.
- Latvija pieder pie valstīm, kur gan ambiciozas, gan ne-ambiciozas uzņēmējdarbības līmenis ir augsts, savukārt uzņēmējdarbības darbinieku aktivitātes (OI-uzņēmējdarbība) līmenis ir zems.
- Latvijas (un Lietuvas) agrīnās stadijas uzņēmējiem piemīt lielas ambīcijas vai gai-



das attiecībā uz jaunu darba vietu radīšanu, salīdzinot ar citām GEM ES valstīm.

- Pastāv vairākas jomas ar slēptu potenciālu vai neizmantotiem resursiem, piemēram, plaša starp Latvijas iedzīvotāju pārliecību par savām uzņēmējdarbības spējām un iespējām, ko tie saskata, dzimumu plaša, un vecāku kohortu izmantošanas potenciāls uzņēmējdarbības veicināšanā.
- Lielākā daļa inovatīvo darbību Latvijas uzņēmēju vidū ir vērsta uz citur jau esošu produktu un pakalpojumu ieviešanu. Turklāt Latvijas uzņēmēju sniegums attiecībā uz 'īstu' inovatīvu uzņēmējdarbību ir diezgan zems.
- Latvijas un Lietuvas uzņēmējiem ir augstas ambīcijas attiecībā uz darba vietu radīšanu,

salīdzinot ar uzņēmējiem citās GEM ES valstīs.

- Liela daļa ēnu ekonomikas aktivitātes Latvijā vispārēji negatīvi ietekmē uzņēmējdarbību – jo īpaši uzņēmējdarbība ar augstu izaugsmi.

Šis izdevums ir pilns ar rezultātiem, kas daudzos gadījumos norāda uz konstruktīvu politikas intervences potenciālu, piemēram, iesašanās, lai samazinātu dzimumu plaisu uzņēmējdarbībā, varētu palīdzēt uzlabot vispārējo Latvijas uzņēmējdarbības sniegumu, vai pasākumu ieviešana, kas samazinātu ēnu ekonomiku, varētu radīt pozitīvu ietekmi uz uzņēmējdarbības uzsākšanas kvalitāti.

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