



# Global Entrepreneurship Monitor

*2008 Latvia Report*

**Olga Rastrigina**

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



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STOCKHOLM SCHOOL OF ECONOMICS IN RIGA

# **Global Entrepreneurship Monitor**

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Founding and Cooperating Institutions:

TeliaSonera Institute at SSE Riga  
Baltic International Centre for Economic Policy Studies (BICEPS)  
SKDS

## FOREWORD

The Global Entrepreneurship Monitor (GEM) is a major international research project aimed at describing and analyzing entrepreneurial processes across a wide range of countries. In 2008 Latvia participated in the GEM project for the fourth 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 the factors influencing entrepreneurial activity in Latvia. This year the report includes special topics devoted to intrapreneurial activity, social networks, and entrepreneurial education.

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

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Rector, SSE Riga

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## GEM TERMINOLOGY

### Nascent entrepreneurs

A nascent entrepreneur is an adult individual<sup>†</sup> 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 a plain idea, because the individual has taken some active steps over the last 12 months that would help launch this 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 for more than three months to its owners.

### New firm owners

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

### Established business owners

An established business owner is an adult individual who manages and at least partially 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 in order 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 partially 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.

### Intrapreneurs

An intrapreneur is an adult individual who has been involved in developing a new business activity for an employer in the past two years (e.g. establishing a new outlet or subsidiary, launching a new product-market combination).

<sup>†</sup> An adult individual is a person between 18 and 64 years old.



## MAIN DISTINCTIONS BETWEEN GEM DATA AND BUSINESS REGISTRATION DATA<sup>‡</sup>

GEM data is 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 registrations 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 over all participating countries. Despite recent initiatives by Eurostat, OECD, and the World Bank, the harmonization of national business registrations has not yet been achieved. GEM data uniquely 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 obtained entrepreneurship indices. 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 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.

<sup>‡</sup>Based on GEM 2008 Executive Report

## EXECUTIVE SUMMARY

The GEM 2008 Latvia Report provides detailed information on the latest trends in entrepreneurial activity and entrepreneurial spirit in Latvia. The report offers an international comparison of Latvia with other countries participating in the GEM project. Special topics of this report include: entrepreneurial education, intrapreneurship, and social networks. We expect the analysis included in this report to be informative for policy makers, as well as the business and academic community.

According to the GEM survey, slightly less than 100 thousand people were involved in early-stage entrepreneurial activity in Latvia in 2008. This represents about 6.5% of the adult population. About two thirds of these people were nascent entrepreneurs and the rest were new firm owners. In 2008 the prevalence rate of early-stage entrepreneurs nearly completely recovered after a significant drop in 2007. A similar trend was observed in Russia, Greece, France, Norway, and to a smaller extent in Croatia, Turkey, the US, and the UK.

The level of early-stage entrepreneurial activity in Latvia stood slightly above the EU median and was quite similar to that in the other new Member States - Slovenia and Hungary. In contrast, the prevalence of established business owners was very low by international standards. A low rate of established business ownership and a relatively high rate of early-stage entrepreneurial activity points to very low chances of survival for start-ups in Latvia.

Despite the economic slowdown and quite low chances for start-up survival, the proportion of prospective entrepreneurs in Latvia in 2008 substantially increased. About 140 thousand people intended to start a business in Latvia within three years. That represents more than 9% of the adult population.

In 2008 the entrepreneurial environment in Latvia shrank along four of the eight dimensions measured in the GEM research. Fewer people than before perceived favourable business opportunities, considered that they have the necessary start-up skills, and reported knowing other business starters. ‘Egalitarian views’, i.e. a preference for similar standards of living for everyone, became more popular in society.

In comparison with other countries, the entrepreneurial environment in Latvia was weak on the indicators of perceived business opportunities and start-up skills. The measure of attractiveness of an entrepreneurial career was one of the highest in Latvia, but is likely to reflect overoptimistic expectations. Support for entrepreneurship in the media was quite strong. Entrepreneurs were respected in society and enjoyed high social status. One of the major differences between western countries and Latvia was the high popularity of ‘egalitarian views’.

The level of necessity-driven entrepreneurship in Latvia was approximately average in comparison to other GEM countries. However, over recent years Latvia has experienced a sharp increase in necessity-driven entrepreneurial activity: from 15% in 2007 to 21% in 2008. The share of necessity-driven entrepreneurs among nascent entrepreneurs almost doubled. Similarly, on a global scale the proportion of necessity-driven entrepreneurship increased on average.

Education in entrepreneurship appeared to be relatively well spread in Latvia: 28% of adult individuals received some type of training or education in starting a business. Most of the educated people were young because during the Soviet period private business was outlawed and education in business was nonexistent. The two most popular types of education in GEM countries and

in Latvia were self-directed learning and formal university education. Government agencies and business and trade organizations were found extremely unpopular education providers.

Latvia was the only GEM country where women were significantly more likely than men to have education or training in starting a business. However, women were less likely than men to claim that they have good start-up skills. Perceptions of the entrepreneurial environment by women and men along other dimensions were quite similar, but rates of entrepreneurial activity were much lower among women. The lower propensity of women to engage in entrepreneurship might be explained by self-imposed psychological barriers or attitudes toward risk, uncertainty, and competition.

Around 5% of adult individuals in Latvia were identified as intrapreneurs (i.e. intraorganizational entrepreneurs). The indicator was about average in comparison to other countries. However, in the Netherlands and Norway a substantially higher proportion of the population was involved in intrapreneurial activity. The incidence of intrapreneurial activity is likely to be positively related to the economic development of a country.

Intrapreneurs in Latvia appeared to be not very active: only a third of them participated in both

idea generation and implementation. This stands in contrast to most other countries observed in this study. Moreover, intrapreneurs in Latvia were less likely to play a leading role in their activity. It might be that traditional management techniques in Latvian firms deter intrapreneurs in Latvia from more active behaviour. However, a high proportion of intrapreneurs demonstrated a desire to start their own business in the future and abilities to do this.

Nascent entrepreneurs in Latvia have a larger variety of advisors in their social networks than owners of young and established firms. A similar pattern holds in other observed countries, except Denmark. Danish entrepreneurs on average have the widest social networks out of all surveyed countries.

Family and friends turned out to be one of the most popular sources of advice for both nascent entrepreneurs and firm owners both in Latvia and in other countries observed. In contrast, experts such as researchers, investors, banks, lawyers, accountants, and public advice agencies were relatively rarely used. In comparison with Denmark, family ties were relatively more important in Latvia, but Danish entrepreneurs were more likely to use expert-advisors.

## 1. INTRODUCTION TO THE GEM PROJECT

The Global Entrepreneurship Monitoring (GEM) is a not-for-profit academic research consortium that produces assessment 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 in 1999 with ten countries, the GEM research consortium had expanded to 43 countries in 2008. GEM is the largest single study of entrepreneurial activity in the world. Its contribution to knowledge and understanding of the entrepreneurial process in a global context is unique.

The three main objectives of GEM 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, and entrepreneurs play 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 also 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 also provides a means by which a wide variety of important entrepreneurial characteristics such as innovativeness, export-orientation, and high-growth aspirations can be systematically studied. Finally, GEM offers a framework for conducting research on special topics in entrepreneurship (e.g. entrepreneurial education, intrapreneurship, social networks) in an international context.

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 more than 2000 randomly selected adult individuals were collected in each of the 43 countries participating in GEM in 2008. The GEM adult population survey in Latvia took place in June 2008. The professional survey firm "SKDS" conducted telephone interviews with 2011 adults aged 18-64 years old. In this report we present the findings from this survey, as well as the surveys that took place in all the participating GEM countries.

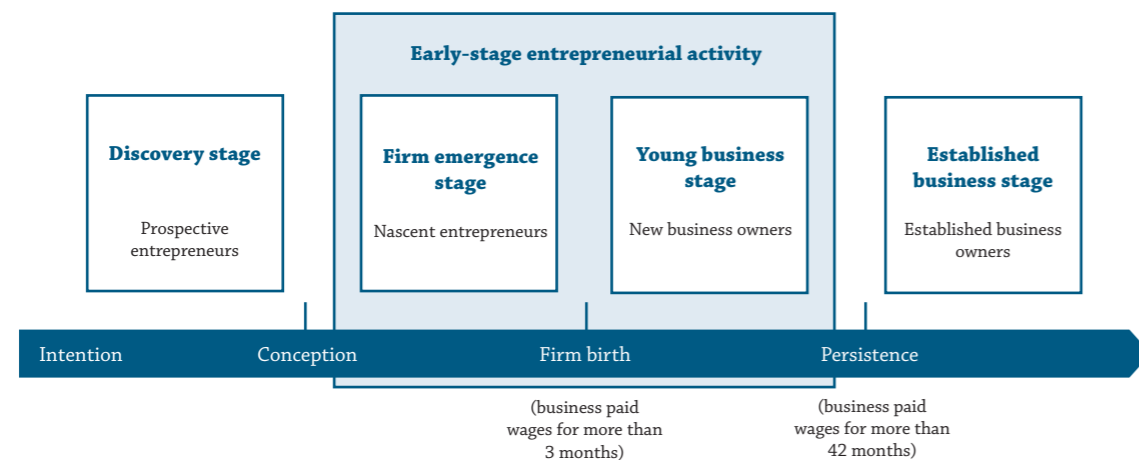
## 2. SCOPE OF ENTREPRENEURIAL ACTIVITY IN LATVIA

### ENTREPRENEURIAL ACTIVITY

Engagement in entrepreneurial activity is frequently seen as an occupational decision with just two outcomes: a person is an entrepreneur or not. However, a 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 1 demonstrates these stages. The definitions used in Figure 1 are explained in the GEM Terminology section on page 7.

**Figure 1: Stages of the entrepreneurial process in GEM**



Source: Inspired by Klyver (2008) and GEM 2008 Executive Report.

The first stage is the discovery stage. It includes individuals who intend to start a business within three years, i.e. *prospective entrepreneurs*. The second stage of firm emergence starts when 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 a 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>1</sup>. After this point a business is considered to be established and enters the established business stage.

<sup>1</sup> This cut-off point of 3.5 years has been chosen by GEM based on the combination of theoretical and operational grounds. For more details on this choice see GEM 2008 Executive Report or Reynolds *et al.* (2005).

The second and the third stages together can be combined to define so called *early-stage entrepreneurial activity*. Early-stage entrepreneurial activity is the hallmark of GEM 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 activity, since nascent entrepreneurs may not yet have registered their businesses. 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 of the adult population of the country.

According to the GEM survey, slightly less than 100 thousand people were involved in early-stage entrepreneurial activity in Latvia in 2008. This represents about 6.5% of the adult population of the country. This GEM indicator is known as the *prevalence of early-stage entrepreneurial activity*. It serves as a measure of the dynamism and future potential of the economy, and is generally used to compare the entrepreneurial potential of countries with similar levels of development. About one-third of early-stage entrepreneurs in Latvia

were owner-managers of new businesses no older than 3.5 years. The rest were actively starting new businesses<sup>2</sup>.

The GEM screening procedure also allowed identification of *prospective entrepreneurs* in Latvia, i.e. individuals who were thinking of starting a business within three years. In 2008 there were about 140 thousand such individuals in Latvia. This amounts to more than 9% of the adult population. Prospective entrepreneurial activity describes possible future tendencies in entrepreneurship development.

Slightly less than 45 thousand people in Latvia were *owners and managers of established firms*, which are at least 3.5 years old. This is approximately 3.0% of the adult population. Established entrepreneurship describes business owners whose businesses have already proved to be sustainable, i.e. those who form the basis of entrepreneurial activity in Latvia. Characteristics of established businesses can in some respects be described more accurately using data from the Enterprise Register because it covers the whole population of registered businesses, unlike GEM, which provides information on a random sample of business owners. Therefore, the GEM project mainly focuses on analysis of early-stage entrepreneurship.

<sup>2</sup> Some individuals are simultaneously involved in several business activities which are at different stages of development. When calculating early-stage entrepreneurial activity these individuals are counted only once.

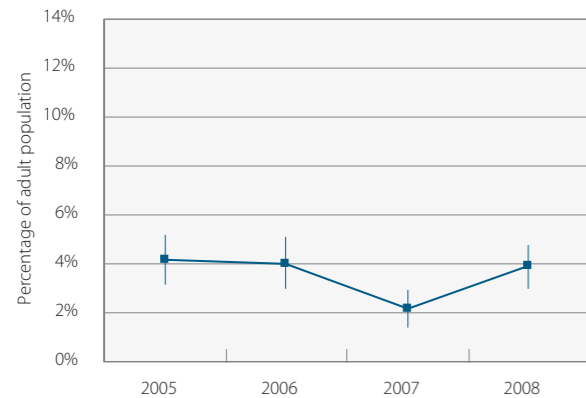


Figure 2 demonstrates the dynamics in early-stage entrepreneurial activity in Latvia over the last four years. According to Latvian GEM surveys, the rate of early-stage entrepreneurial activity was quite stable over 2005 and 2006. Then

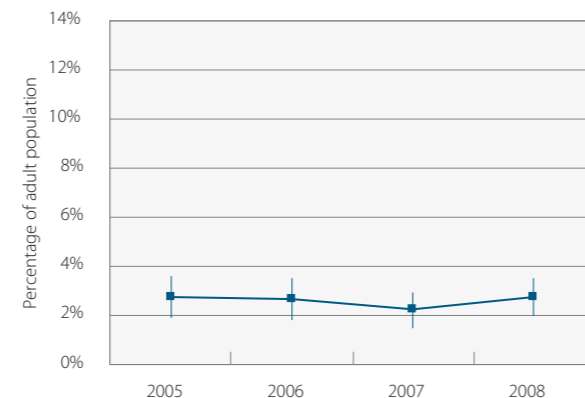
a significant drop occurred in the early-stage entrepreneurship rate in 2007, followed by a rebound to previous levels in 2008. The prevalence of nascent entrepreneurs was much more volatile compared with new firm ownership.

**Figure 2: Prevalence rates of entrepreneurial activity in Latvia, 2005-2008**

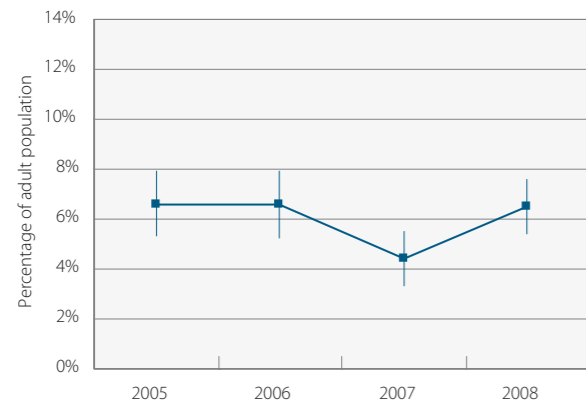
A. Nascent entrepreneurs



B. New firm owners



C. Early-stage entrepreneurs



Note: The vertical bars in the chart display 95% confidence intervals. Source: GEM 2005-2008 Latvian Adult Population Survey (APS) data.

As discussed in the GEM 2007 Latvia Report, the slowdown in early-stage entrepreneurial activity in 2007 was related to favourable conditions in the Latvian labour market and an outflow of human resources from entrepreneurial activity to paid employment. Our interpretation is that the reverse happened in 2008. Those people who lost their jobs or expected wage cuts or unemploy-

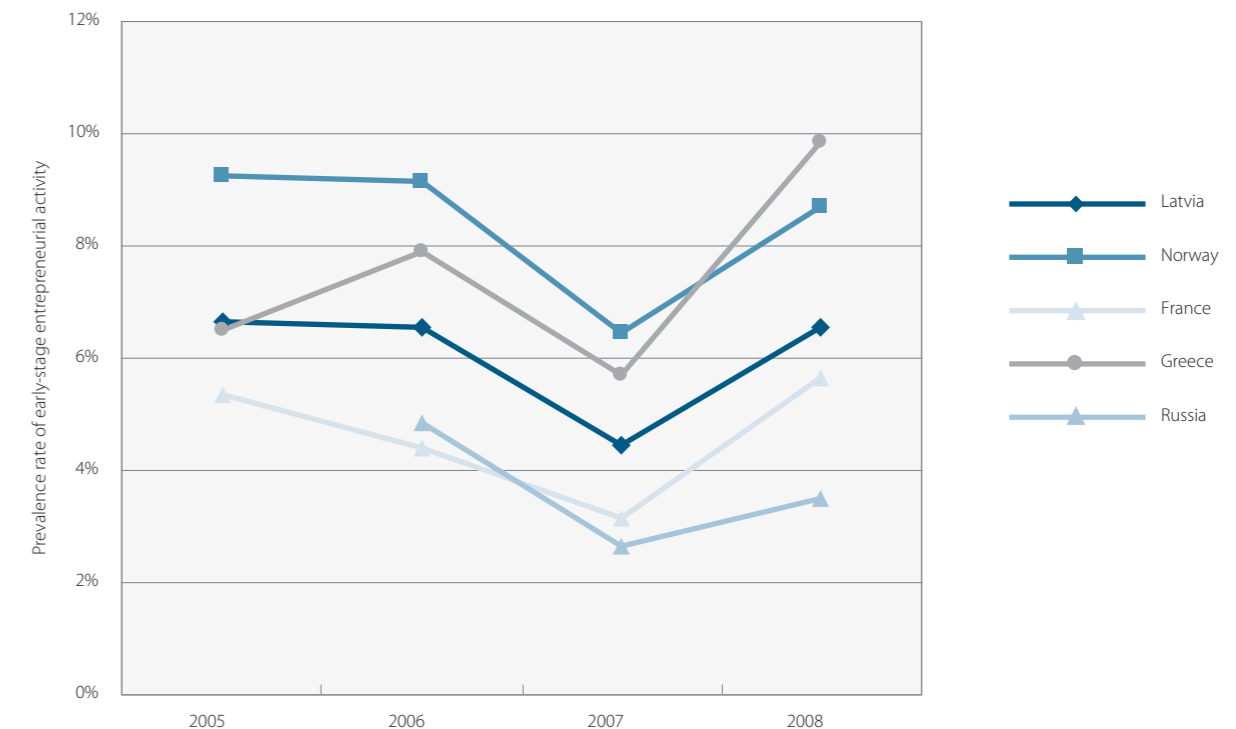
ment in the future might have decided to start some kind of self-employment or entrepreneurial activity to maintain their income.

Over the last three years, similar tendencies in early-stage entrepreneurial activity were observed in several other countries, e.g. in Russia, Greece, France, Norway, and, to a smaller extent,

in Croatia, Turkey, the US and the UK. Figure 3 offers a comparison of the dynamics in entrepreneurship rates in these countries. During the boom years of 2006-2007 the sharpest relative decline in early-stage entrepreneurial activity was

observed in Russia and Latvia. Over 2007-2008, when the first signs of the crisis appeared, the biggest rebound in entrepreneurship rates took place in Greece and France, followed by Latvia.

**Figure 3: Trends in early-stage entrepreneurial activity in selected countries, 2005-2008**



Source: GEM 2005-2008 master data.

Table 1 presents Latvia in the international context by illustrating prevalence rates of entrepreneurial activity at different levels of engagement for all countries that participated in GEM 2008. The countries are divided into three groups.

The first group includes all EU countries that participated in GEM in 2008. It consists of 11 old EU countries and 4 new Member States - Hungary, Slovenia, Romania, and Latvia. The group of new Member States participating in GEM is too

narrow to be analyzed on its own. Therefore, we analyze the old and the new EU Member States together even though they differ with respect to their respective stages of economic development. Our aim is to get a broader perspective on the development of entrepreneurial activity in the EU as a whole and to assess Latvia's performance in comparison with other EU countries. However, one should keep in mind that the nature of entrepreneurial activity in the new Member States might differ from that in the old EU countries.

**Table 1: Prevalence rates of entrepreneurial activity across all GEM countries, 2008**

Region	Country	Nascent entrepreneurs	New firm owners	Early-stage entrepreneurs <sup>a</sup>	Established business owners	Overall business activity <sup>b</sup>	
European Union	Greece	5.3	4.6	9.9	12.6	22.0	
	Ireland	3.3	4.3	7.6	9.0	16.3	
	Finland	4.1	3.3	7.3	9.2	16.0	
	Spain	3.3	3.9	7.0	9.1	14.8	
	Netherlands	2.1	3.2	5.2	7.2	12.3	
	Slovenia	4.1	2.4	6.4	5.6	11.8	
	Hungary	3.8	2.8	6.6	5.3	11.8	
	United Kingdom	3.1	2.9	5.9	6.0	11.7	
	Italy	2.0	2.7	4.6	6.5	11.0	
	Latvia	3.9	2.8	6.5	3.0	9.4	
	Denmark	2.3	2.3	4.4	4.4	8.4	
	France	3.8	1.9	5.6	2.8	8.2	
	Germany	2.4	1.5	3.8	4.0	7.7	
	Romania	2.5	1.6	4.0	2.1	5.9	
Belgium	2.0	0.9	2.9	2.6	5.3		
Median	3.3	2.8	5.9	5.6	11.7		
High-income countries outside the EU	South Korea	3.5	6.5	10.0	12.8	22.6	
	United States	5.9	5.0	10.8	8.3	18.7	
	Iceland	6.5	3.6	10.1	7.1	16.7	
	Norway	5.0	4.0	8.7	7.7	15.8	
	Japan	3.2	2.3	5.4	7.9	12.7	
	Israel	3.5	3.1	6.4	4.5	10.6	
	Median	4.3	3.8	9.3	7.8	16.3	
Low- and middle-income countries outside the EU	South America	Bolivia	17.4	14.3	29.8	19.1	45.6
		Colombia	13.8	11.7	24.5	14.1	36.7
		Peru	19.7	6.8	25.6	8.3	32.7
		Argentina	8.5	8.5	16.5	13.5	29.6
		Ecuador	8.7	9.1	17.2	11.9	28.1
		Brazil	2.9	9.3	12.0	14.6	26.4
		Uruguay	7.7	4.4	11.9	7.9	19.3
		Chile	8.2	5.0	13.0	6.9	19.2
	Caribbean and North America	Dominican Republic	11.7	9.8	20.4	8.2	27.9
		Jamaica	9.0	7.1	15.6	9.1	24.3
		Mexico	9.3	4.0	13.1	4.9	17.8
	Balkans	Macedonia	7.2	7.7	14.5	11.0	24.8
		Bosnia and Herzegovina	6.4	2.7	9.0	8.7	17.1
		Serbia	4.0	3.6	7.6	9.3	16.5
	Eurasia	Croatia	4.9	2.8	7.6	4.8	12.3
		India	6.9	4.9	11.5	16.5	27.6
		Iran	5.9	3.4	9.2	6.8	15.7
		Turkey	3.2	3.0	6.0	4.8	10.7
	Africa	Russia	1.7	2.0	3.5	1.1	4.4
		Angola	19.3	4.1	22.7	4.1	26.0
Egypt		7.9	5.5	13.1	8.0	20.2	
South Africa		5.7	2.1	7.8	2.3	9.9	
Median	7.8	5.0	13.0	8.3	22.2		
Median	All GEM countries	4.9	3.6	8.7	7.7	16.3	

Note: Within each group, countries are sorted by overall business activity.

Source: Own calculations based on GEM 2008 master data.

<sup>a</sup> Early-stage entrepreneurs are either nascent entrepreneurs or new firm owners.

<sup>b</sup> Overall business activity includes individuals who are either early-stage entrepreneurs or established business owners.

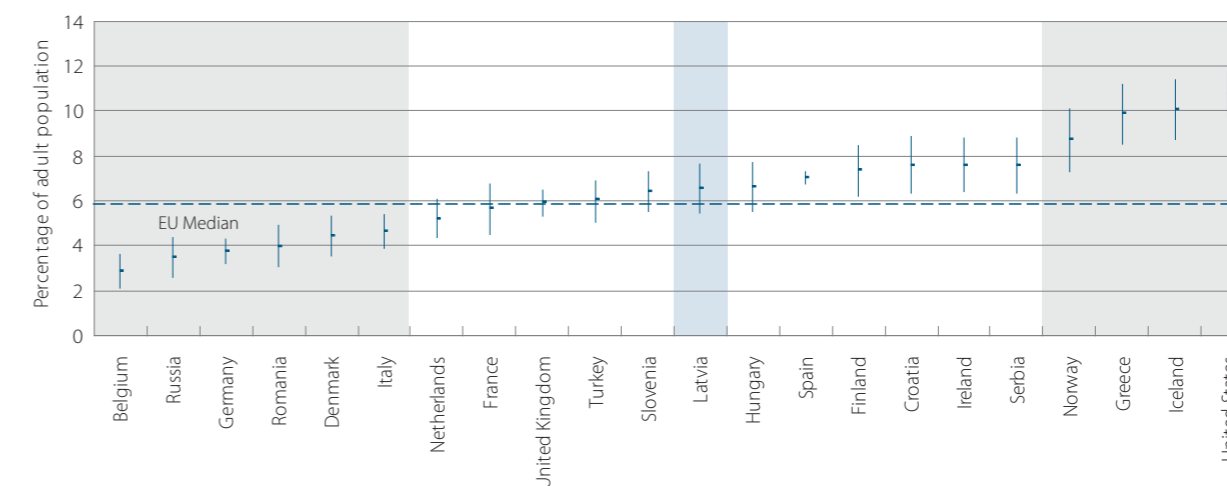
The highest rates of entrepreneurial activity in this group are for Greece, Ireland, and Finland. Out of the new EU Member States, Slovenia is the most developed country and has the highest overall business activity rate. Hungary stands right next to it in the rating. Entrepreneurship rates in Latvia are quite similar to those in Slovenia and Hungary with the exception of established business ownership activity. Prevalence of established business owners in Latvia is almost half that of Slovenia or Hungary.

The second group consists of high-income<sup>3</sup> countries outside the EU. Apart from Israel and Japan, all the countries in this group have high entrepreneurship rates. The leader according to the total entrepreneurial activity rate is South Korea – a new GEM participant in 2008.

The last group consists of low- and middle-income countries outside the EU. Patterns of entrepreneurial activity in these countries vary considerably, because the group consists of countries from different parts of the world: South and North America, Africa, and Eurasia. These countries each have a different cultural background, history, and endowments of resources. Overall business activity in this group ranges from 4.4% in Russia to 45.6% in Bolivia.

Most of the analysis in this chapter will be restricted to the countries of the European Union, because our main focus is to assess the performance of Latvia in the EU context. Sometimes we shall also report figures for other European countries outside the EU (e.g. Iceland, Norway, Russia, Turkey) and the US, using the latter as a benchmark of a highly entrepreneurial economy. In other chapters of this report devoted to new research areas (such as intrapreneurship or networking) we will analyze a selection of countries from different parts of the world. These research topics are additions to the core GEM research and countries engage in these new initiatives on a voluntary basis according to their own research interests.

Figure 4 visually demonstrates how early-stage entrepreneurship rates in Latvia compare with other countries. After recovering in 2008, the level of early-stage entrepreneurial activity in Latvia was slightly above the EU median. In the EU, only Greece has a significantly higher early-stage entrepreneurship rate than Latvia. Several developed EU economies have rates that are significantly lower than Latvia: Italy, Denmark, Romania, Germany, and Belgium.

**Figure 4: Early-stage entrepreneurial activity by country, 2008**

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

Countries in the shaded area on the left (right) have early-stage entrepreneurship rates significantly lower (higher) than in Latvia at 5% significance level.

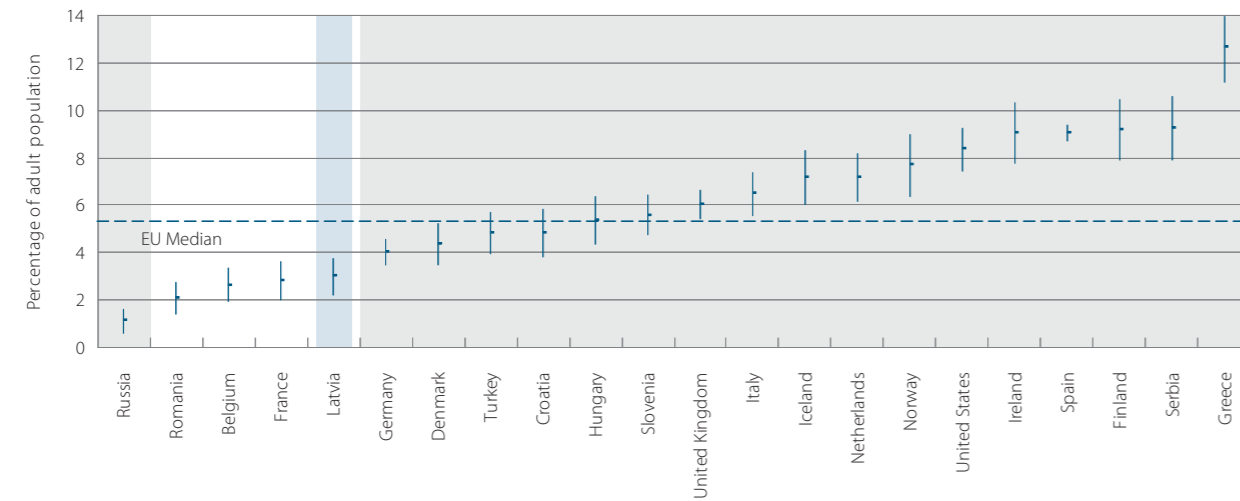
Source: Own calculations based on GEM 2008 master data.

<sup>3</sup> The division into high-income countries and middle- and low-income countries is based on differences in formal institutional characteristics, demography, entrepreneurial culture, and the degree of economic welfare. This classification is introduced in the GEM 2007 Executive Report.

Despite relatively high early-stage entrepreneurship rates, Latvia's performance is quite weak with respect to prevalence of established business owners. Latvia is placed significantly below the

EU median. None of the GEM participants from the EU has a statistically significantly lower rate than Latvia and outside EU only Russia has.

**Figure 5: Established business ownership by country, 2008**

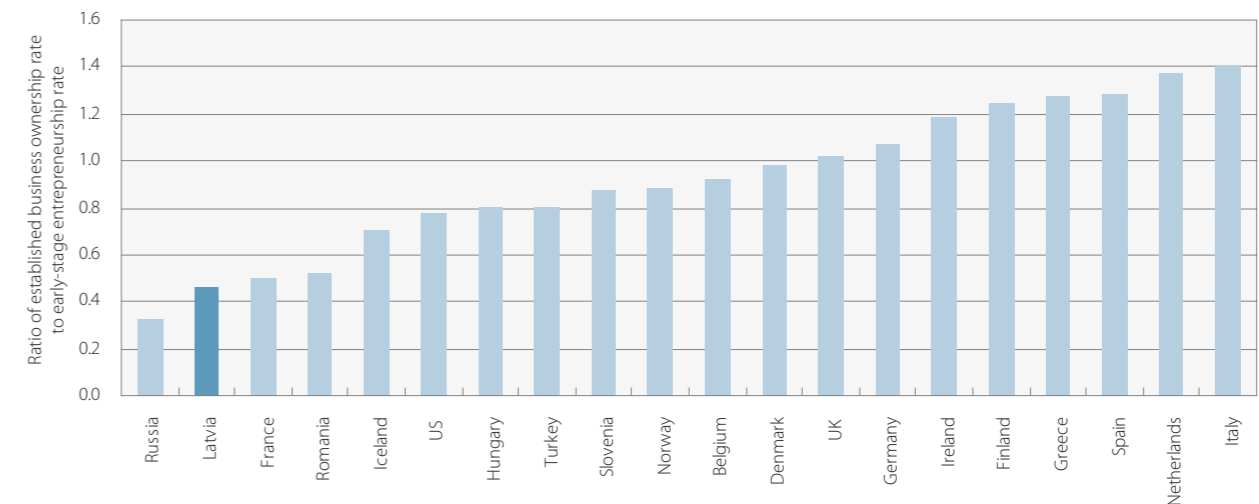


Note: The vertical bars in the chart display 95% confidence intervals. Countries in the shaded area on the left (right) have early-stage entrepreneurship rates significantly lower (higher) than in Latvia at 5% significance level. Source: Own calculations based on GEM 2008 master data.

It is striking how differently Latvia performs with respect to early-stage entrepreneurial activity and established business ownership. A low rate of established business ownership and a relatively high rate of early-stage entrepreneurial activity might suggest that the survival chances of new start-ups in Latvia are quite low. We compute the ratio of established business ownership

rate to early-stage entrepreneurial activity as a proxy for survivorship of nascent entrepreneurs and young firm owners<sup>4</sup>. Figure 6 demonstrates the ranking of the countries with respect to this indicator. The higher the ratio, the higher the chances of a business venture surviving through the early stage of development and becoming an established firm.

**Figure 6: Ratio of established business owners to early-stage entrepreneurs by country, 2008**



Source: Own calculations based on GEM 2008 master data.

Latvia is ranked almost at the bottom of the list with a ratio of established business owners to early-stage entrepreneurs close to 0.5. This means that one in two enterprises does not survive the early stage. Of course, this estimate is only a rough approximation and should be viewed with caution. Yet, the message is clear - low survival of new firms is a serious issue in Latvia.

a business within three years are quite popular among inhabitants of Latvia. Figure 7 shows that the prevalence rate of prospective entrepreneurs in Latvia is relatively high. It is slightly above the EU median. By this indicator Latvia outperforms several developed EU nations – the Netherlands, the UK, Denmark, Belgium, and Finland.

Despite the economic slowdown and quite low chances of start-up survival, intentions to start

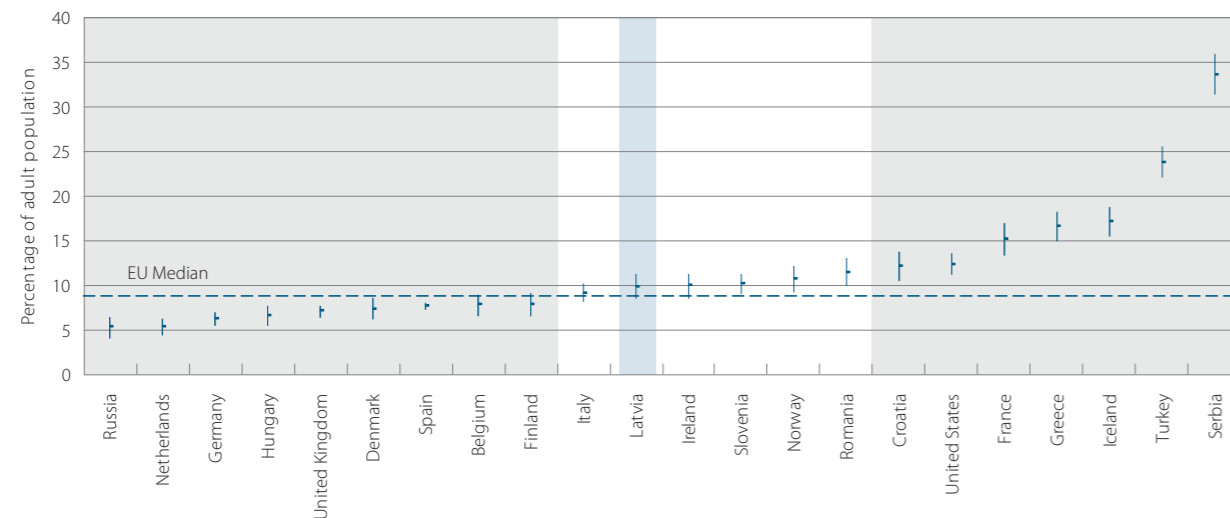
In comparison with the previous year, the proportion of people who intended to start a business in Latvia within three years has increased

<sup>4</sup> This approximation should be considered with caution because it is based on a strong assumption that both early-stage entrepreneurial activity and established business ownership are relatively stable over time.

substantially. As suggested in the GEM 2008 Executive Report, the crisis may actually cause individuals to consider becoming entrepreneurs in the near future because they fear that they might lose their jobs. It is also possible that some peo-

ple who were planning a business start-up around 2008-2009 decided to defer the start-up to the end of the three-year period in the expectation that the recession will be over within three years.

**Figure 7: Prevalence rate of prospective entrepreneurs by country, 2008**



Note: The vertical bars in the chart display 95% confidence intervals. Countries in the shaded area on the left (right) have early-stage entrepreneurship rates significantly lower (higher) than in Latvia at 5% significance level. Source: Own calculations based on GEM 2008 master data.

The GEM survey in Latvia took place in June 2008 after the first signs of the crisis had already appeared. However, the survey was finished before the scale of the crisis was fully realized. During this period we observe an increase in early-stage and prospective entrepreneurial activity which is most probably driven by the worsening situation in the labour market, the unemployment threat, and other necessity motives. Established business ownership activity remained very low and might be expected to fall in the future if many firms cease operation during the economic downturn. For early-stage entrepreneurial activity and prospective entrepreneurial activity two opposite effects are likely to be at work. On the one hand, necessity will motivate more people to think of starting an entrepreneurial activity

or becoming self-employed. On the other hand, discouraged starters may drop out from the pool of nascent or prospective entrepreneurs if they realize that their start-up plans are unfeasible. Theoretically, it is ambiguous which of the two effects will dominate. Empirical evidence suggests that during recessions the proportion of self-employed and individual entrepreneurs generally increases (Van Stel *et al.*, 2008).

In the following two sections we will look more closely at the changes in the entrepreneurial environment in Latvia and on the motives of people who engaged in entrepreneurial activity. This will shed more light on the patterns of entrepreneurial dynamics in the last two years.

## ENTREPRENEURIAL ENVIRONMENT

The GEM study also explores people's attitudes towards entrepreneurship in order to describe the entrepreneurial environment in the country. Entrepreneurial attitudes are important as they express the general feelings of the population toward entrepreneurs and entrepreneurship. It is important for countries to have people who can recognize valuable business opportunities, and who perceive they have the required skills to exploit these opportunities. Moreover, if national attitudes toward entrepreneurship are positive, this may generate cultural support, financial help, and networking benefits to those who are already entrepreneurs or want to start a business.

The following aspects of the entrepreneurial environment are captured in GEM surveys<sup>5</sup>:

- Personal acquaintance with people who started a business (*Networking*)
- Perceived business opportunities in the next six months (*Business opportunities*)
- Skills and experience in starting up a business (*Start-up skills*)
- Fear of business failure (*Fear of failure*)
- Preference for similar standards of living (*Egalitarian views*)
- Popularity of entrepreneurship as a career (*Good career choice*)
- Social status of successful businessmen (*High social status*)
- Support for entrepreneurship in the mass media (*Media support*)

The diagram in Figure 8 summarizes the indicators of attitudes to entrepreneurship in Latvia for 2005 and 2008. Each dimension of the entrepreneurial environment is measured along a separate axis. For most dimensions, percentages on the axis show proportions of people who answered positively to the corresponding questions. The two cases - 'no fear of failure' and 'no egalitarian views' - are exceptions. These two dimensions show percentages of negative responses to the corresponding questions. For example, the axis "Business opportunities" shows the percentage of respondents who said that they perceive good business opportunities in their locality in the next six months. The axis 'No fear of failure' depicts the percentage of respondents who disagreed that fear of business failure can deter them from starting up a business.

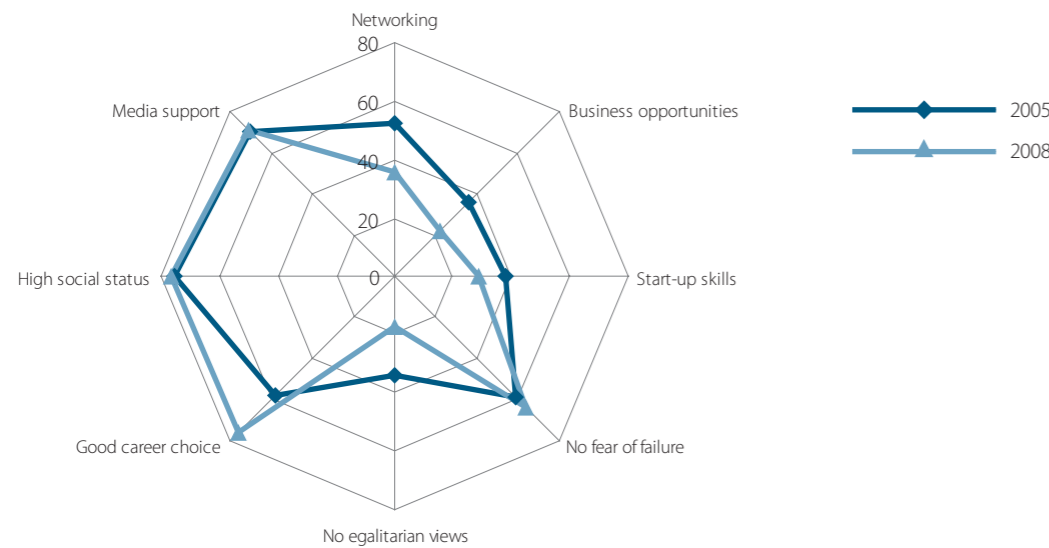
<sup>5</sup> The exact questions about entrepreneurial environment used in the GEM survey appear in Appendix C.



In 2008 we observe a shrinking of the entrepreneurial environment in Latvia along four of the considered eight measures: networking with other entrepreneurs, business opportunities, start-up skills, and absence of egalitarian views. In 2008, as compared with 2005, fewer people perceived favourable business opportunities or considered that they have the necessary skills and experience for starting a business. These are perhaps the two most important indicators that reflect the ability and willingness of people to engage in entrepreneurial activity. Fewer people reported knowing somebody who started a busi-

ness during the last two years. This might imply fewer starters in 2008 or that social networks of entrepreneurs became narrower. Finally, a sharp increase in the popularity of ‘egalitarian views’ occurred in 2008. Only less than 20% of respondents disagreed with the statement that people in Latvia prefer similar standards of living for everybody. In all previous years this indicator was about 40%. This quite abrupt change in people’s views might be explained by the slowdown of the economy, the threat of unemployment, and wage cuts, leading to disappointment in the current economic system.

**Figure 8: Indicators of the entrepreneurial environment in Latvia, 2005 and 2008**



Note: Calculations are based on the random half of the GEM sample. Only those respondents who gave valid responses (“yes” or “no”) are considered. Source: Own calculations based on GEM 2005 and 2008 master data.

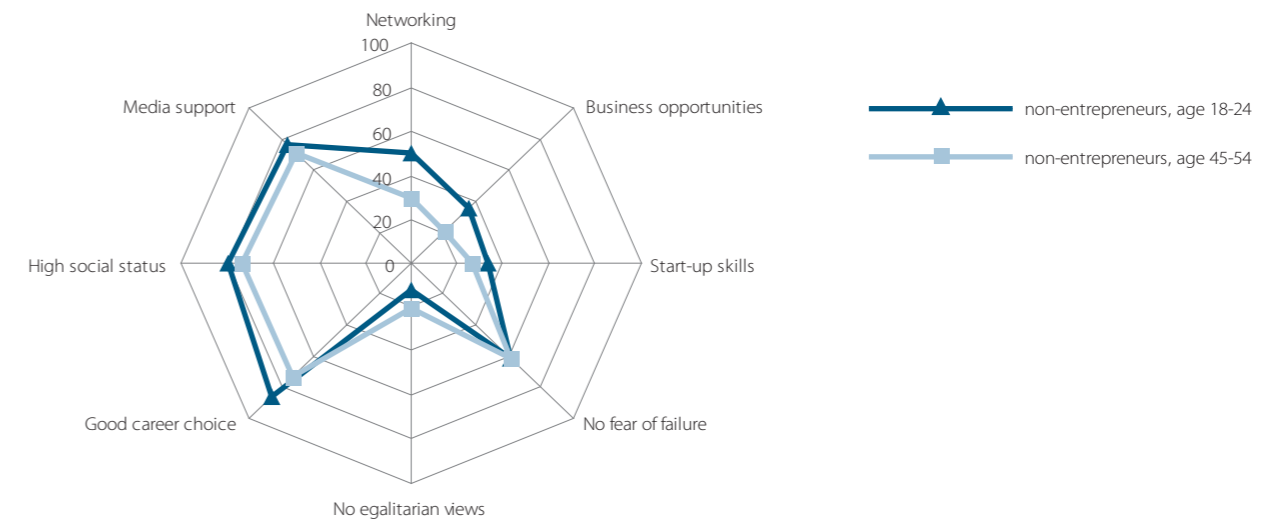
Surprisingly, a sharp increase was observed with respect to the share of respondents who consider an entrepreneurial career to be a desirable choice: from 60% in 2005 to almost 80% in 2008. Since the conditions for paid employment have deteriorated, it is likely that preferences switched from paid employment to own business. However, such a notable change is likely to reflect overoptimistic expectations of the benefits of an entrepreneurial career.

The last three indicators of the entrepreneurial environment - media support, high social status, and fear of failure - remained basically on the same level during all years (with slightly lower figures in 2007).

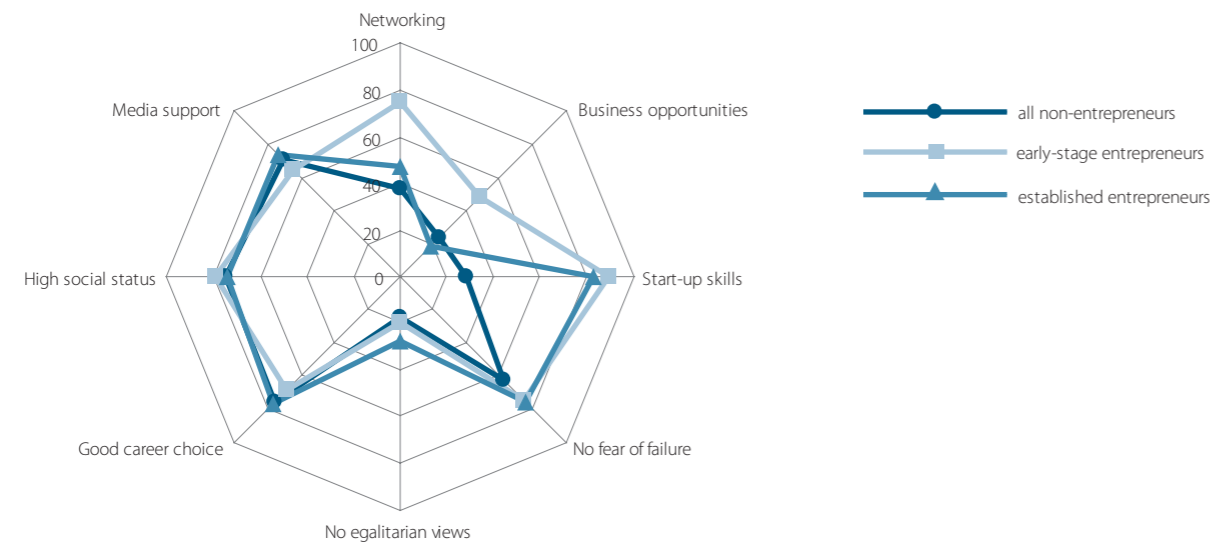
Perceptions of the entrepreneurial environment measured in GEM are subjective and depend on individual personal background and exposure to entrepreneurial activity. The entrepreneurial environment is perceived slightly differently by people of different ages (see Figure 9, Panel A). In the figure we deliberately excluded the entrepreneurially active population, so that perceptions of the entrepreneurial environment by people of different ages are not affected by the proportion of entrepreneurs within each age group. Young people in the 18-24 age group evaluated almost all indicators more positively than middle-aged people. The difference is especially pronounced with respect to networking, evaluation of business opportunities, and self-assessed start-up skills.

**Figure 9: Indicators of the entrepreneurial environment in Latvia by population group, 2008**

A. Non-entrepreneurs by age cohort



## B. Adult population by entrepreneurial engagement



Note: For non-entrepreneurs, calculations are based on the random half of the non-entrepreneurially active respondents in the GEM sample. For entrepreneurs, the calculations are based on all entrepreneurially active respondents in the sample. Only those respondents who gave valid responses ("yes" or "no") are considered.

Source: GEM 2008 Latvian APS data.

Surprisingly, no major differences were found in a similar comparison between perceptions of the entrepreneurial environment by men and women in Latvia. Langowitz and Minniti (2007) reported opposite findings based on GEM 2001 data for 17 countries. They found that women tend to perceive themselves and the entrepreneurial environment in a less favourable light than men<sup>6</sup>. The position of women in the Latvian labour market is likely to be quite strong. The latest report on women managers by the European Foundation for the Improvement of Living and Working Condition (2009) suggests that 51% of managers in Latvia are women. This is the highest such indicator among EU Member States.

Perceptions of the entrepreneurial environment by entrepreneurs differ from perceptions of non-entrepreneurs (Figure 9, Panel B). Early-stage entrepreneurs more frequently perceive business opportunities in the next six months and more

often consider themselves as having the necessary skills for starting a business. They also much more frequently know other people who have started up a business recently. The latter suggests that peer influence might considerably increase the likelihood of becoming an entrepreneur<sup>7</sup>.

Established business owners also have high indicators of start-up skills. However, their assessment of business opportunities in the nearest future is similar to that of ordinary people. The discrepancy in the assessment of business opportunities by established and early-stage entrepreneurs may be interpreted twofold. On the one hand, it might be that early-stage entrepreneurs are more naïve in their assessment than established firm owners because they have less experience. On the other hand, it might be that the group of entrepreneurs who intend to start (or who have just started) a business in the current circumstances have substantially different

<sup>6</sup> The authors suggested that perceptual variables may be a significant universal factor influencing entrepreneurial behaviour of women and account for much of the gender gap in entrepreneurship rates.

<sup>7</sup> The channels through which peers may influence one's likelihood to undertake entrepreneurial activity are described for example in Nanda and Sorensen (2008).

business ideas or particular mindsets that allow them to see business opportunities that are not perceived by others. Therefore, they are less pessimistic and do not perceive crisis as a substantial burden for getting a business started.

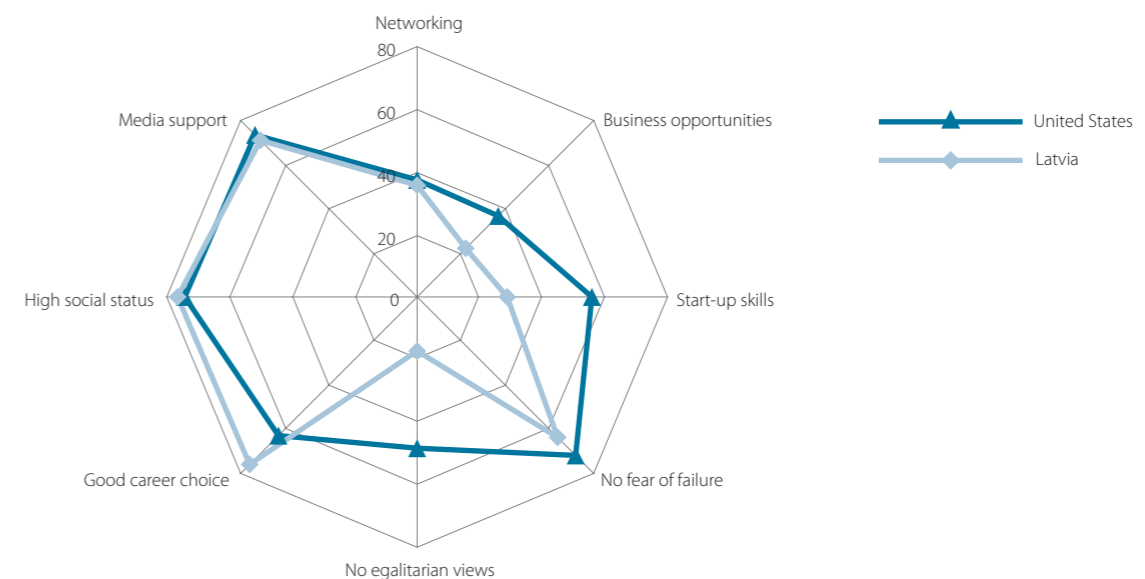
Figure 10 presents a comparison of the entrepreneurial environment in Latvia with several other countries. The entrepreneurial environment in Latvia appears to be weaker than in the US on the indicators of perceived business opportunities and start-up skills. A slightly lower proportion of people in Latvia as compared with the US report no fear of business failure. One of the major differences between these two countries is the popularity of 'egalitarian views'. In Latvia the proportion of respondents who consider that 'egalitarian views' are popular in society is almost three times larger than in the US. A similar situation

is observed if we compare Latvia with Denmark. Surprisingly, in Russia 'egalitarian views' are also less popular than in Latvia. As mentioned previously, a sharp change in this indicator for Latvia occurred just after 2007 and it is not yet clear whether the change is permanent or temporary.

Overall, comparison of the entrepreneurial environment in Latvia with other countries suggests that people in Latvia have a more optimistic view on the attractiveness of entrepreneurship as a career. Virtually no other country has such a high indicator as Latvia<sup>8</sup>. Support for entrepreneurship in the media is also quite strong. Entrepreneurs are respected and enjoy high social status. However, indicators of start-up skills and perceived business opportunities are relatively low.

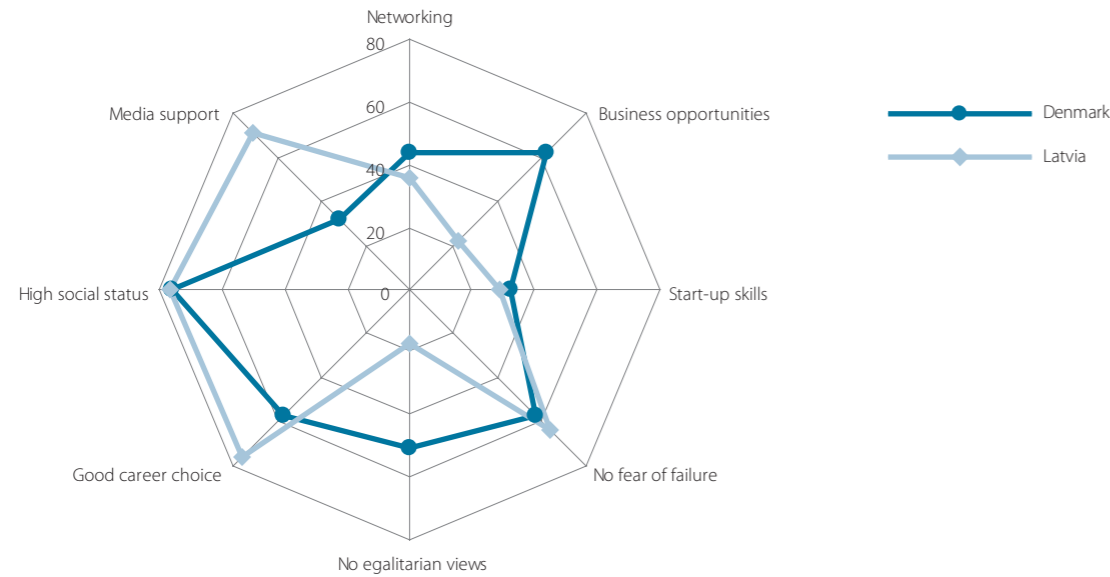
**Figure 10: Indicators of the entrepreneurial environment in selected GEM countries, 2008**

## A. Latvia and the United States

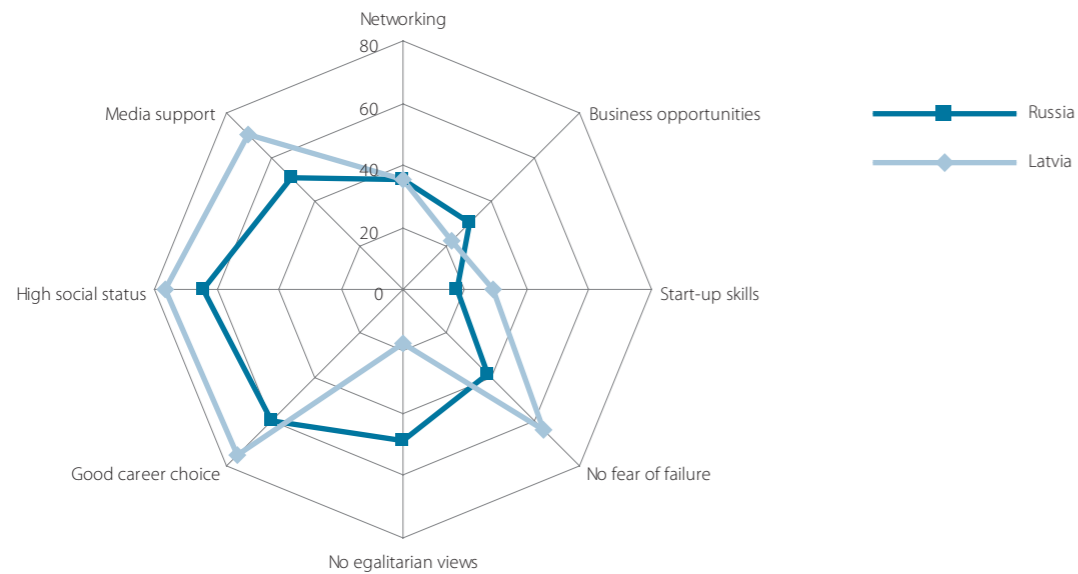


<sup>8</sup> It might be that alternative career options are very scarce in Latvia.

B. Latvia and Denmark



C. Latvia and Russia



Note: The calculations are based on the random half of the GEM sample. Only those respondents who gave valid responses ("yes" or "no") are considered. Source: Own calculations based on GEM 2008 master data.

ENTREPRENEURIAL MOTIVATION

Engagement in entrepreneurial activity can be driven by different motives. The decision to start up a business venture may stem from 'push factors' (limited employment possibilities and threat of unemployment) or 'pull factors' (perceiving entrepreneurial opportunity, desire to be independent or earn higher income). In GEM these two different 'types' of entrepreneurial motivation are distinguished. Individuals that are pushed into entrepreneurial activity because of no alternative options are called 'necessity-driven entrepreneurs' and those who are pulled into entrepreneurial activity to pursue a business opportunity are called 'opportunity-driven entrepreneurs'.

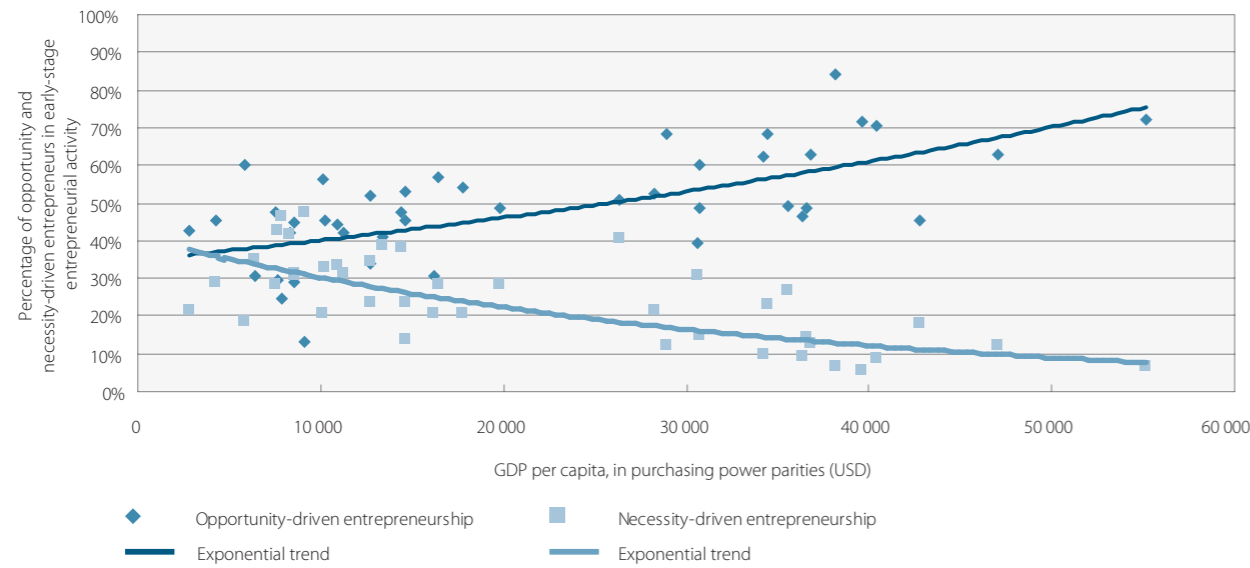
The GEM study suggests that opportunity entrepreneurs are more prevalent in high-income countries (such as Denmark, Norway, the United States, France, the Netherlands), while necessity entrepreneurs are more common in low- and middle-income countries (such as Macedonia, Bosnia and Herzegovina, Turkey, Romania). As pointed out in Thurik *et al.* (2006), it may be argued that in developed countries opportunity entrepreneurship is linked to economic growth, while in most developing countries necessity entrepreneurship exists because of low growth.

Figure 11 demonstrates the link between GDP per capita and the proportion of opportunity- and necessity-driven entrepreneurs in total early-stage entrepreneurial activity. The figure is based on estimates of opportunity-driven and necessity-driven entrepreneurial activity for the

43 countries participating in GEM in 2008. In high-income countries the proportion of opportunity-driven entrepreneurs tends to be relatively high. We may expect that in these countries people have more alternative opportunities to earn money. Labour markets are better developed and have stronger social security, so that people are not forced to engage in self-employment or entrepreneurial activity if they can not find an alternative job. In the figure we observe a gradual increase in the share of opportunity-based early-stage entrepreneurial activity as GDP per capita across countries rises. The opposite trend is discovered for the proportion of necessity-driven entrepreneurship.

The distinction between opportunity-driven and necessity-driven entrepreneurial activity is important because the outcomes of these two types of entrepreneurial activity are also very different. It has been argued that opportunity entrepreneurship is more likely to have a higher contribution to the economy in terms of innovation and job creation (Reynolds *et al.*, 2002). In contrast, necessity-driven entrepreneurs are likely to contribute much less to economic growth (Acs and Varga, 2005). In theory, they are considered less likely to reinvest their income, grow in terms of turnover or employment, export their products abroad, introduce innovative products, or use modern technologies. A high rate of necessity-based entrepreneurship may be a sign of deficient labour markets and troubled economies.

**Figure 11: Necessity- and opportunity-driven early-stage entrepreneurship and GDP per capita, 2008**

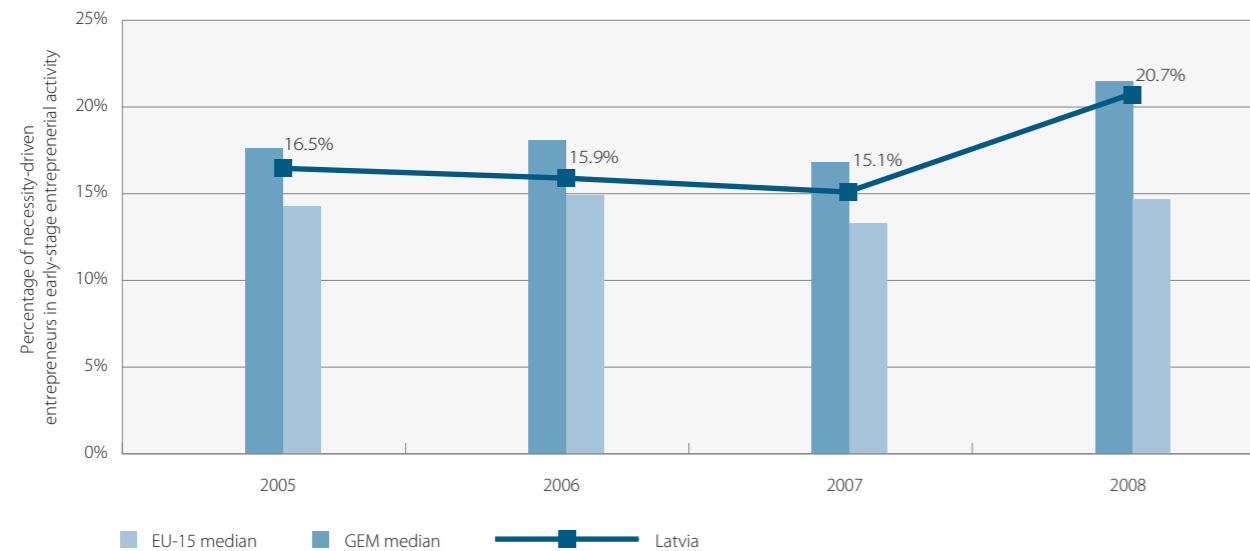


Source: GEM 2008 Executive Report.

The level of necessity-driven entrepreneurship in Latvia can be characterized as average. It stands slightly below the median for all GEM countries, but slightly above the median for the EU-15. Figure 12 shows that over the last two years the proportion of necessity-driven early-stage entrepreneurs increased in Latvia as well as in the world

on average. Latvia experienced quite a sharp increase from 15% in 2007 to 21% in 2008. This is the highest indicator observed in Latvia since 2005. Moreover, the share of necessity-driven entrepreneurs among nascent entrepreneurs almost doubled.

**Figure 12: Proportion of early-stage entrepreneurs driven by necessity motive, 2005-2008**

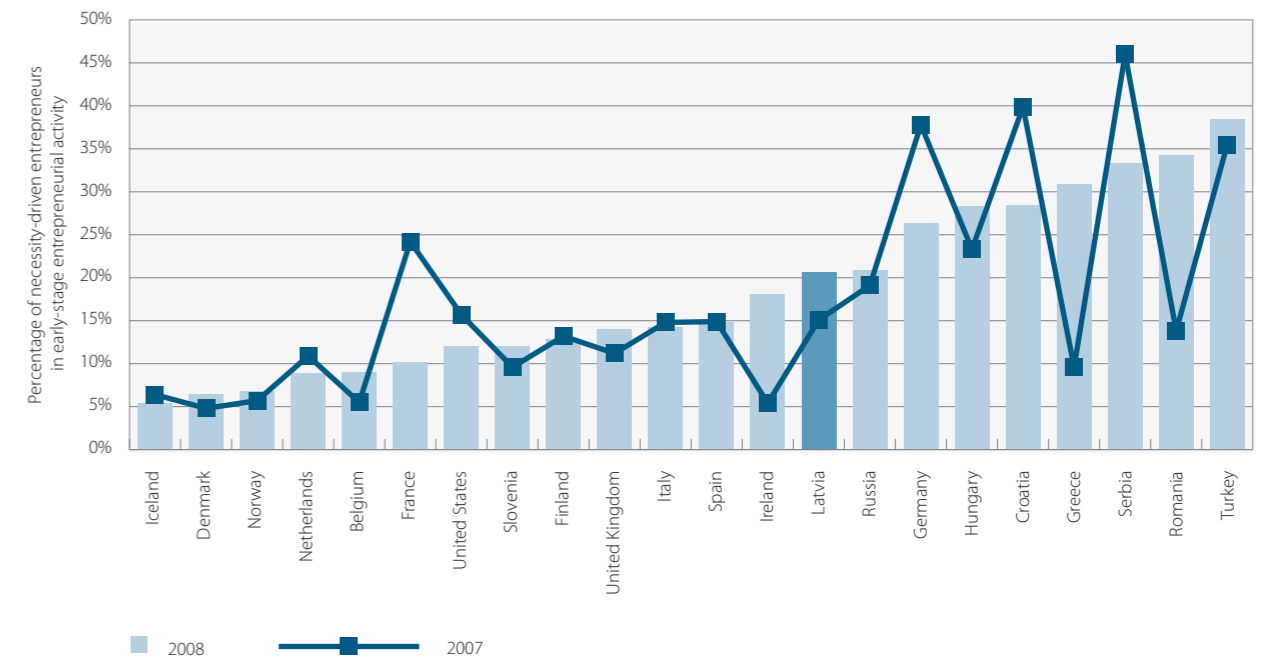


Source: Own calculations based on GEM 2005-2008 master data.

Several countries exhibited a similar or even higher increase than Latvia in the share of necessity-driven entrepreneurs, e.g. Ireland, Greece, Romania, and to a smaller extent Denmark, Belgium, Norway, the UK, Russia, Hungary, and

Turkey. The few exceptions are France, Germany, Croatia, and Serbia, where the share of necessity-driven entrepreneurship considerably decreased over the last year.

**Figure 13: Proportion of early-stage entrepreneurs driven by necessity motive by country, 2007-2008**



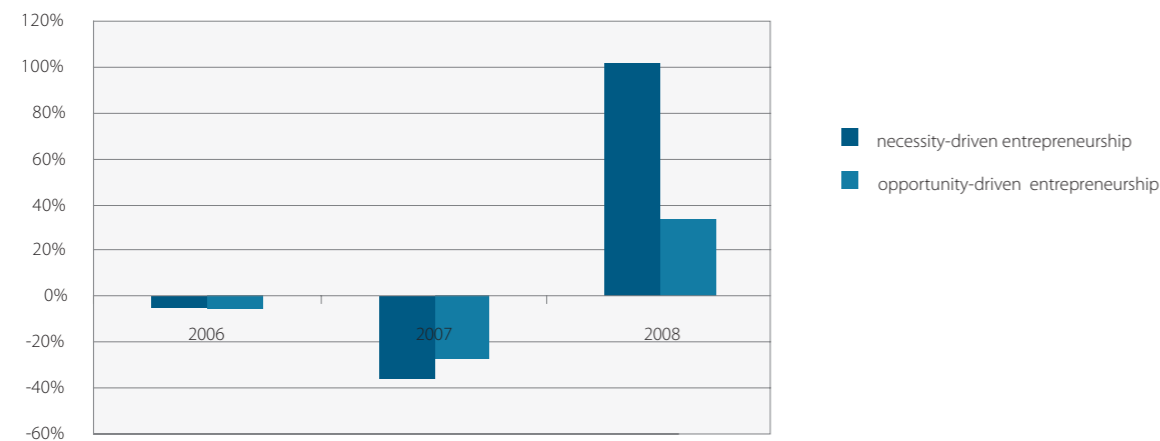
Source: Own calculations based on GEM 2007-2008 master data.



Analysis of the dynamics in necessity-driven entrepreneurship rates implies that the recovery of early-stage entrepreneurial activity in Latvia in 2008 was driven mainly by an increase in necessity entrepreneurship. Figure 14 shows the relative changes in rates of necessity-driven and opportunity-driven entrepreneurial activity from 2006 to

2008. While in 2006 and 2007 a relative decline in necessity and opportunity entrepreneurship rates was approximately the same, in 2008 the increase in the necessity-driven entrepreneurship rate was considerably higher than the increase in opportunity-driven early-stage entrepreneurial activity.

**Figure 14: Relative change in necessity- and opportunity-driven early-stage entrepreneurial activity in Latvia, 2006-2008**



Source: Own calculations based on GEM 2005-2008 master data.

## ENTREPRENEURSHIP IN AN ECONOMIC DOWNTURN

During an economic slowdown, entrepreneurs face many problems: customers are harder to find, capital is more difficult to raise, suppliers are less accommodating. The logical assumption is that entrepreneurial activity during a recession will shrink. However, a downturn has advantages as well as disadvantages. Qualified workers are easier to find, office space is cheaper to rent, and competition is reduced. Recession releases labour and capital from ineffective economic segments and allows newcomers to recombine these resources in new ways. Moreover, during an economic downturn people have more free time to start a new business and have a greater need to do so. When job stability evaporates, people look for long-term security in self-employment or small business ownership.

The increase in entrepreneurial activity observed in GEM data in Latvia and in some other countries is not surprising. However, it is difficult to

say whether such activity in Latvia could be very promising. Several indicators of the entrepreneurial environment in Latvia have deteriorated. Most of the increase in entrepreneurial activity is driven by necessity entrepreneurs and is likely to result in small business activities. These activities are likely to serve as a supplement to other part-time jobs. Because of low chances for survival, many attempts to start a business will probably be transitory or unsuccessful.

However, the businesses that survive will find it easier to grow in the long run because of reduced competition and availability of cheap inputs. Entrepreneurial activity during a recession might be a good test for an individual to realize whether he or she is suitable for business activity. Although many start-up activities are likely to be small and bring in a low income during a recession, they may transform into high-income businesses when the recession is over.

### 3. EDUCATION AND TRAINING IN STARTING A BUSINESS

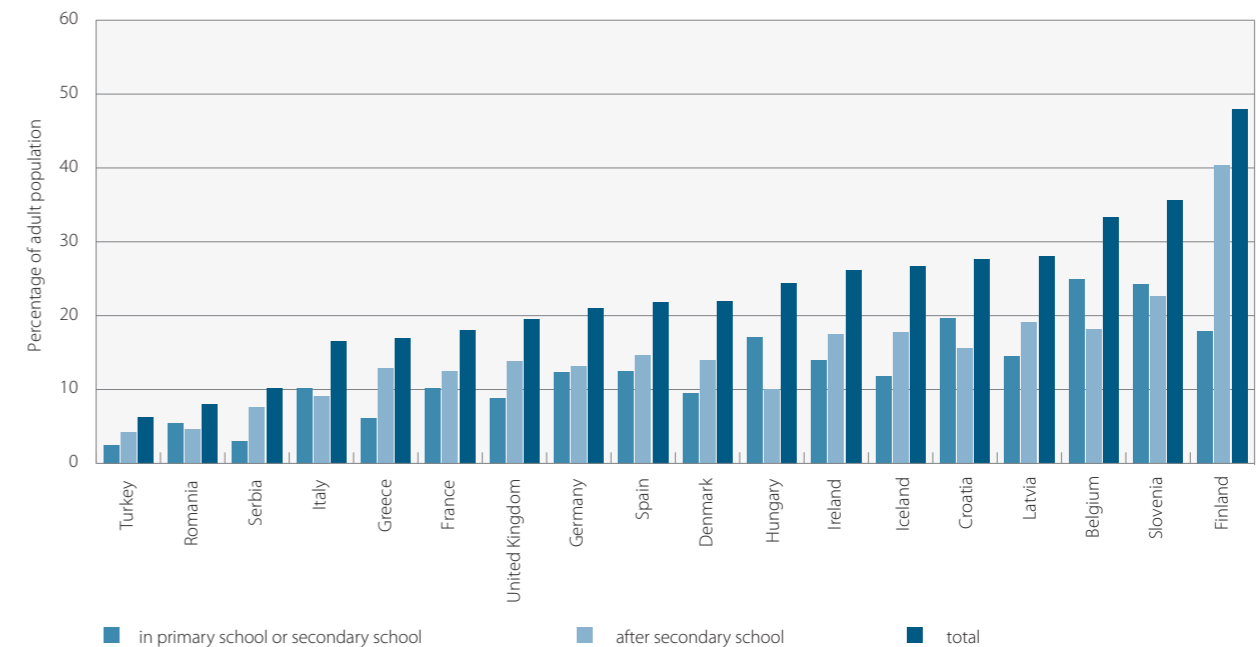
Each year starting from 2008 the GEM project covers a special research topic in entrepreneurship. In 2008 'Education and Training in Starting a Business' was chosen as a special focus of GEM research. A special block of questions on education and training of individuals was developed and included in an adult population survey by country-participants. Every respondent was asked if he or she had undergone education or training<sup>9</sup> in starting a business during or after secondary school. For the after-school period, the nature of education or training was also obtained.

Entrepreneurship education and training is frequently regarded as inadequate or insufficient by entrepreneurship experts in the GEM project (GEM 2008 Executive Report). Academic research suggests that education and training for entrepreneurship should positively impact entrepreneurial activity by improving start-up skills (Honig, 2004), cognitive ability (DeTienne and Chandler, 2004), cultural attitudes and behavioural dispositions to entrepreneurship (Peterman and Kennedy, 2003). Therefore, lack of appropriate

entrepreneurship education and training may hinder development of entrepreneurial activity in a country. The GEM 2008 research project tries to shed more light on the spread of entrepreneurial education across different groups of people and countries.

Overall, the level of trained individuals varies greatly by country, ranging from 6.3% in Turkey to 47.9% in Finland. In Latvia, education in entrepreneurship is relatively well spread: 28% of adult individuals have some kind of training or education in starting a business. Slightly less than 20% of individuals participated in training or education in business start-up after secondary school. This involves different types of education and training: formal, informal, and self-study. About 15% of the adult population in Latvia received some preliminary knowledge in starting a business while in primary or secondary school. The majority of these people are quite young, because in the Soviet period this type of education was not available.

**Figure 15: Percentage of individuals with education in starting a business by country, 2008**



Source: GEM 2008 master data.

In most countries the proportion of individuals ever having education or training in starting a business decreases with age. This fact points to expansion of training in entrepreneurship among younger generations. In Latvia the proportion

with training in business start-up in the age group 45-54 is barely a third of that of the age group 18-24. Table 2 shows the rates of trained individuals in selected European countries by age cohort.

**Table 2: Percentage of individuals with education in starting a business by age cohort, 2008**

Country	Proportion of trained among age cohorts					Ratio of trained youngest to trained oldest
	18-24	25-34	35-44	45-54	55-64	
Greece	16.6	18.2	15.9	18.2	15.6	1.07
Germany	21.3	25.4	22.1	17.7	19.5	1.09
Iceland	27.0	28.7	29.6	25.3	21.3	1.27
Spain	27.0	24.7	21.6	19.0	18.7	1.44
France	23.0	18.9	20.3	16.9	12.3	1.87
Finland	62.6	60.0	49.7	42.4	33.2	1.89
Ireland	38.6	23.4	29.5	21.5	19.7	1.96
United Kingdom	29.0	24.0	17.8	15.2	14.5	2.00
Belgium	44.2	44.7	38.5	24.7	18.8	2.35
Slovenia	55.1	48.5	32.4	26.9	21.9	2.51
Romania	11.4	9.2	8.2	8.4	4.5	2.53
Denmark	38.7	27.8	20.0	18.1	13.6	2.85
Hungary	41.4	32.0	19.8	19.2	13.7	3.01
Italy	26.8	23.5	16.6	11.7	8.5	3.15
<b>Latvia</b>	<b>48.0</b>	<b>44.9</b>	<b>25.3</b>	<b>16.0</b>	<b>6.1</b>	<b>7.83</b>

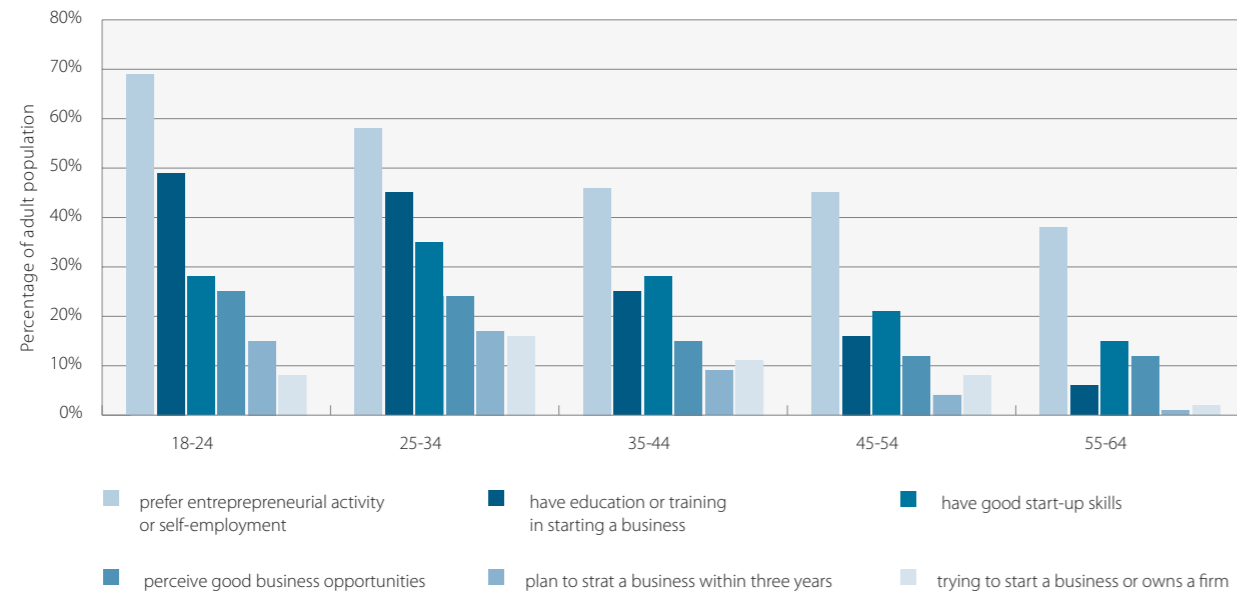
Note: The countries are sorted by ratio of those trained in the youngest age cohort to those trained in the oldest age cohort. Source: Own calculations based on GEM 2008 master data.

<sup>9</sup> In the GEM questionnaire education and training were combined into a single notion in order to include any process of acquiring theoretical or practical knowledge by means of study and learning. In this chapter the terms "education" and "training" are used interchangeably.

Among all the GEM countries, Latvia has the highest ratio of trained individuals in the youngest age cohort to those trained in the oldest age cohort. Such a big discrepancy in the rates of trained individuals among the youngest and the oldest suggests a particularly rapid expansion of training in entrepreneurship in Latvia. This is ex-

plained by the legacy of the Soviet period when private business was outlawed and education in business was nonexistent. Despite the lack of entrepreneurial education, we observe quite a high preference for entrepreneurship as well as relatively strong self-reported start-up skills in the oldest age group (see Figure 16).

**Figure 16: Level of entrepreneurial engagement and skills in Latvia by age cohort, 2008**



Note: Percentages of individuals who have good start-up skills and perceive good business opportunities are calculated based on the random half of the GEM sample.  
Source: GEM 2008 Latvian APS data.

The prevalence of individuals trained in starting a business shows a clear gender pattern. In most countries, the proportion of men who undertook training is significantly larger than the respective indicator among women (see Table 3). Only

in one country, Latvia, were women significantly more likely than men to have education or training in starting a business. Table 3 shows the ratio of trained men to trained women in selected European countries.

**Table 3: Percentage of individuals with education in starting a business by gender, 2008**

Country	Proportion of men with training	Proportion of women with training	Ratio of trained men to trained women
<b>Latvia</b>	<b>25.6</b>	<b>30.4</b>	<b>0.84</b>
Hungary	22.5	26.2	0.86
Finland	49.2	46.7	1.05
Slovenia	37.1	34.3	1.08
Ireland	27.4	24.7	1.11
Spain	23.3	20.6	1.13
Iceland	28.5	24.8	1.15
Romania	9.3	7.4	1.25
Italy	18.4	14.6	1.26
Denmark	25.5	18.8	1.36
Belgium	38.5	28.2	1.37
United Kingdom	22.6	16.4	1.38
Germany	25.2	16.7	1.51
Greece	21.2	12.8	1.66
France	24.0	12.2	1.96

Note: The countries are sorted by ratio of trained men to trained women.  
Source: Own calculations based on GEM 2008 master data.

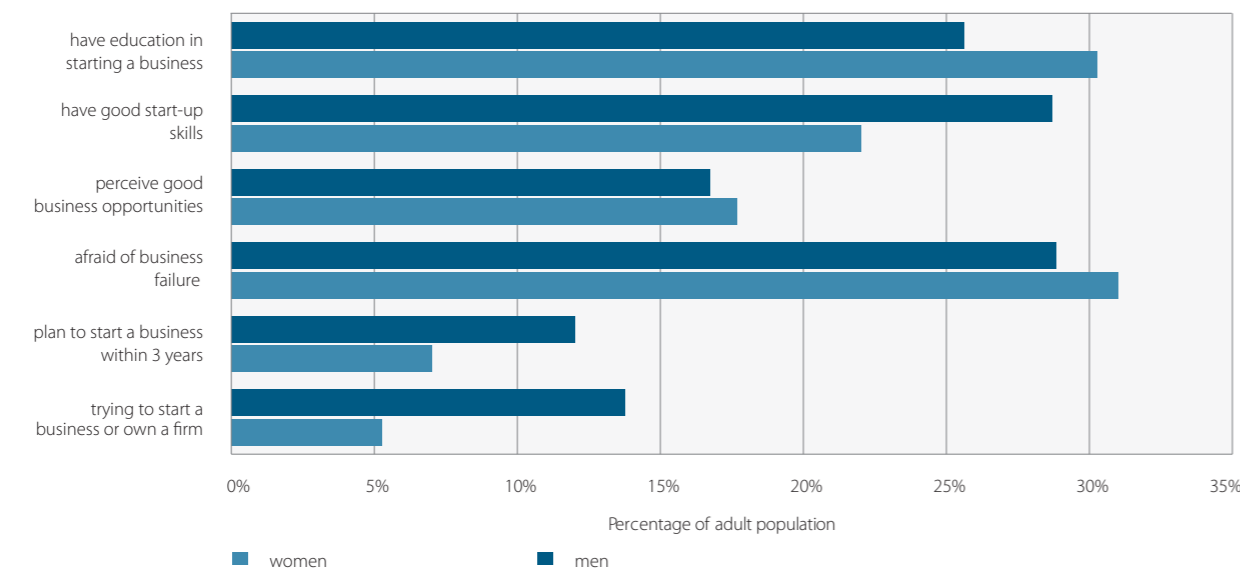
Although women in Latvia have entrepreneurship education more frequently than men, a much lower proportion of women claim that they have the necessary skills to start up a business. It is not clear whether this discrepancy reflects possession of skills other than those enhanced by education, the effect of education on different genders, or perceptions of what is meant by adequate start-up skills. According to Smallbone and Welter (2009), a situation where entrepreneurs (or prospective entrepreneurs) wrongly perceive that they do not have appropriate skills to start a business might reflect self-imposed psychological barriers. Such self-perceptions might restrict individuals' ability to perceive business opportunities and enter into entrepreneurship or might lead them to engage in less productive forms of entrepreneurial behaviour.

The lower propensity of women to engage in entrepreneurial activity might also be explained by

their preferences. Only 46% of women in Latvia as opposed to 57% of men actually prefer entrepreneurial activity (or self-employment) to paid employment. Croson and Gneezy (2009) report that on average women tend to be more risk-averse than men, less prone to be overconfident in their success in uncertain situations, and more reluctant to engage in competitive behaviour.

Figure 17 demonstrates differences between Latvian men and women with respect to entrepreneurial skills and education, perceptions of the entrepreneurial environment, and actual engagement in entrepreneurial activity. Latvian women are just as likely as men to perceive business opportunities in the nearest future. Quite similar proportions of men and women do not start a business for fear of failure. However, we observe much lower rates of nascent entrepreneurs, firm owners, and prospective entrepreneurs among women than among men.

**Figure 17: Level of entrepreneurial engagement and skills in Latvia by gender, 2008**



Note: Percentages of individuals who have good start-up skills and perceive good business opportunities are calculated based on the random half of the GEM sample.  
Source: GEM 2008 Latvian APS data.

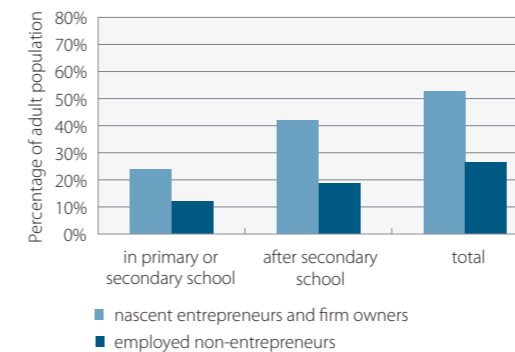
Certain groups of individuals are more exposed than others to entrepreneurship and entrepreneurial education. In Figure 18 we compare the proportions of educated individuals within different groups of people.

- Education in starting a business is more prevalent among the entrepreneurially-active population than among non-entrepreneurs (Panel A).
- Prospective entrepreneurs are more likely to have training and education in starting a business than ordinary people without entrepreneurial intentions (Panel B). This might be a good sign pointing to the potential abilities of prospective entrepreneurs and the seriousness of their start-up plans.

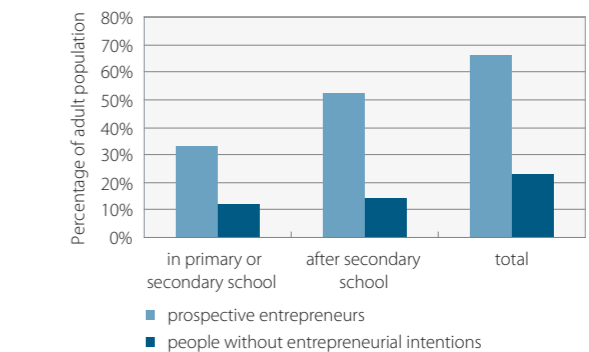
- Among nascent entrepreneurs the proportion of people with entrepreneurship education is higher than among owners of firms already operating (Panel C). This is likely to be related to age and the growth of education among the younger generation. Nascent entrepreneurs are on average about 5 years younger than firm owners. More than 60% of nascent entrepreneurs are under 34.
- The group of intrapreneurs ('entrepreneurs' who operate within organizations<sup>10</sup>) turned out to be the most educated in business even when compared with entrepreneurs (Panel D). This might be explained by employer-financed training seminars and courses or stricter requirements for qualifications upon hiring.

**Figure 18: Percentage of individuals with education in starting a business in Latvia by entrepreneurial involvement, 2008**

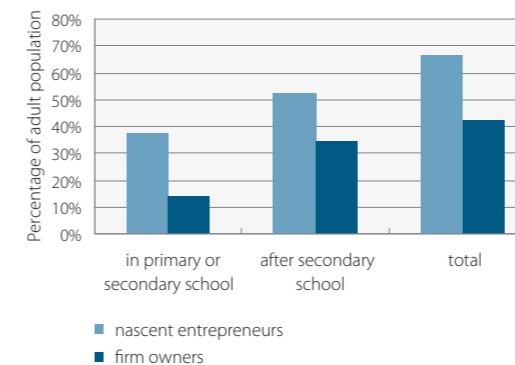
**A. Entrepreneurs vs. non-entrepreneurs**



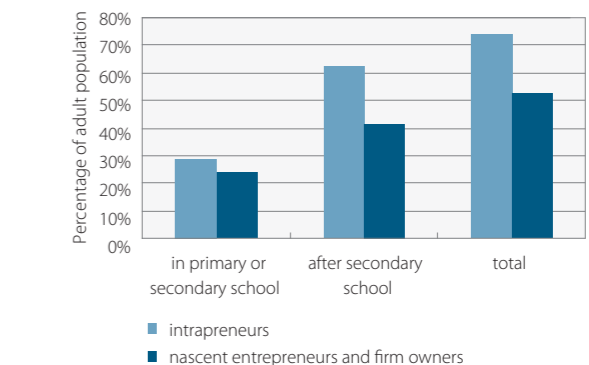
**B. Prospective entrepreneurs vs. non-entrepreneurs**



**C. Nascent entrepreneurs vs. firm owners**



**D. Intrapreneurs vs. entrepreneurs**



Source: GEM 2008 Latvian APS data.

<sup>10</sup> The phenomenon of intrapreneurship is discussed in more detail in the next chapter.



We found that a similar proportion of individuals among necessity-driven entrepreneurs and opportunity-driven entrepreneurs have training and education in business start-up. This suggests an absence of correlation between education in business and motivation of individuals to engage in entrepreneurial activity. Those who discontinued entrepreneurial activity in the past (and who have not been involved in business since then) have the same levels of entrepreneurship education as owner-managers of operating firms, which suggests that the propensity to discontinue a business is not correlated with entrepreneurial education.

The most frequently mentioned type of education and training in starting a business in GEM countries turned out to be *self-directed learning*. This includes reading books and special materials, observing or working in other people's businesses. In Latvia this type of education was the second most popular. Approximately 13% of the adult population (and 65% of people who received education in business after secondary school) learned how to start a business themselves. However, self-directed learning was rarely the single method of study used by respondents. It was fre-

quently combined with other formal and informal education. Those individuals who mentioned self-directed studies were also more likely (than other people with entrepreneurship education) to have received education provided by employers or government agencies. They were also more likely to acquire education through the internet.

The second most common type of education in starting a business in GEM countries was *formal education* acquired in college or university. Formal education was the most common type of education in Latvia, probably reflecting a high level of tertiary education in the country. About 14% of the adult population in Latvia received entrepreneurship education through formal channels. Approximately one-third of them have not acquired any other education or training in entrepreneurship besides formal studies.

Certain providers of education were very rarely mentioned by respondents in a majority of GEM countries, including Latvia. For example, *government agencies* were mentioned only by 3% of the adult population in Latvia, while *business and trade organizations* provided education for only 2%.

**Table 4: Percentage of individuals with education in starting a business by type of education provider, 2008**

Country	University (formal)	University (informal)	Business or trade organization	Government agency	Employer	Self-directed learning	Other
Belgium	10	5	3	4	2	8	3
Croatia	10	5	4	1	4	12	2
Denmark	7	2	3	1	0	8	3
Finland	30	10	5	7	4	30	7
France	6	2	6	5	1	8	4
Germany	7	2	8	4	5	10	3
Greece	9	1	4	2	3	8	1
Hungary	4	2	1	1	1	1	0
Iceland	10	5	2	2	5	14	4
Ireland	9	7	4	7	5	14	1
Italy	7	2	3	1	3	6	1
Latvia	14	5	2	3	4	13	1
Romania	2	1	1	0	1	3	1
Serbia	1	1	1	2	1	3	0
Slovenia	15	9	6	5	6	15	3
Spain	10	8	6	6	5	10	7
Turkey	1	1	0	0	1	3	1
United Kingdom	8	5	4	3	3	10	1

Source: GEM 2008 Executive Report.

Intrapreneurs, who were found to be the most entrepreneurially educated group of individuals in Latvia, in fact were more likely than other educated individuals to have education provided by employers. They also mentioned formal educa-

tion in business and self-study more frequently than other respondents. The intrapreneurship phenomenon in Latvia and in other countries is characterized in more detail in the next chapter.

## 4. INTRAPRENEURSHIP

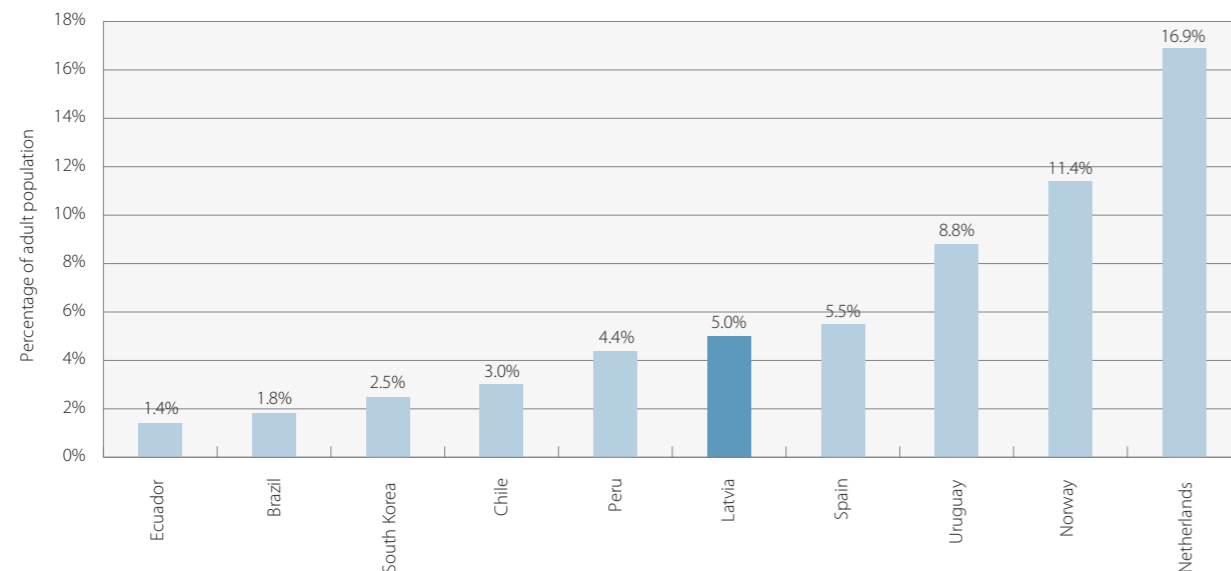
Intrapreneurship<sup>11</sup> (intraorganizational entrepreneurship) is a special case of entrepreneurial activity, which refers to employee initiatives within an established organization to use entrepreneurial skills and undertake something new and innovative. According to Pinchot an intrapreneur is a “person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture, by operating within the organizational environment”. During recent years, intrapreneurship has received considerable attention in academic research because of its link to innovative activities and the innovation performance of organizations.

Intrapreneurship shares many features with entrepreneurship. The main differences between the two occur with regard to autonomy, availability of resources, type of risk, and anticipated

rewards. Intrapreneurs are less autonomous than independent entrepreneurs because they operate within organizational boundaries and this imposes certain restrictions on them. At the same time, organizations provide more security and support to individuals. They can offer easier access to e.g. financial capital, knowledge, and business networks. According to De Jong and Wennekers (2008), intrapreneurs take fewer personal risks: they rarely invest personal financial capital and are not personally liable in case of a failure. By taking fewer personal risks, intrapreneurs also reap fewer financial benefits for their entrepreneurial activity.

In 2008 a subsection of the GEM adult population questionnaire was devoted to the investigation of intrapreneurship. The broad definition of intrapreneurs included individuals who have

**Figure 19: Prevalence rate of intrapreneurs by country, 2008**



Note: Rates of intrapreneurial activity might differ quite substantially if calculated as a percentage of employees.  
Source: GEM 2008 intrapreneurship data.

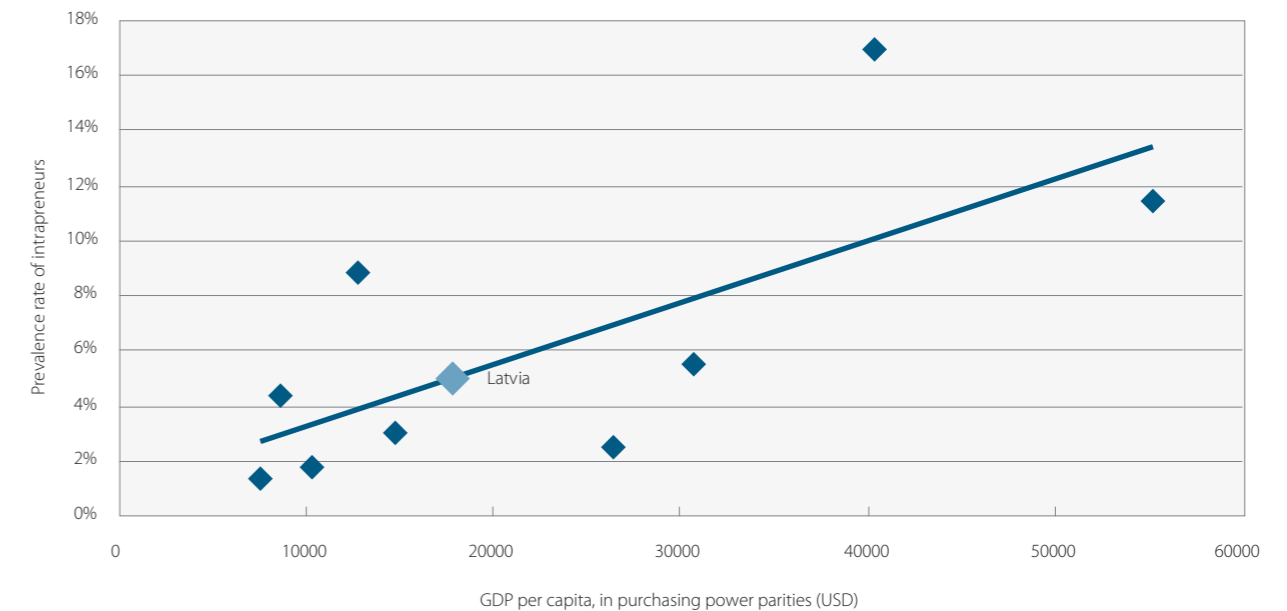
<sup>11</sup> The concept of “intrapreneurship” was introduced in 1983 by Burgelman in his dissertation on corporate entrepreneurship and later defined in Pinchot (1986).

been involved in development of a new business activity for an employer in the past two years (e.g. establishing a new outlet or subsidiary, launching a new product-market combination). Figure 19 demonstrates the prevalence of intrapreneurs in the adult population of the countries that participated in this new research initiative.

Around 5% of adult individuals in Latvia are intrapreneurs. This indicator is similar to that in Spain; however, the Netherlands and Norway

show a substantially higher share of intrapreneurial activity. The incidence of intrapreneurial activity is likely to be positively related to economic development of a country. This relationship is demonstrated in Figure 20 by plotting the prevalence of intrapreneurs on one axis and GDP per capita on the other. This result is only suggestive since the relationship is observed using a small sample of countries.

**Figure 20: Prevalence rate of intrapreneurs and GDP per capita, 2008**

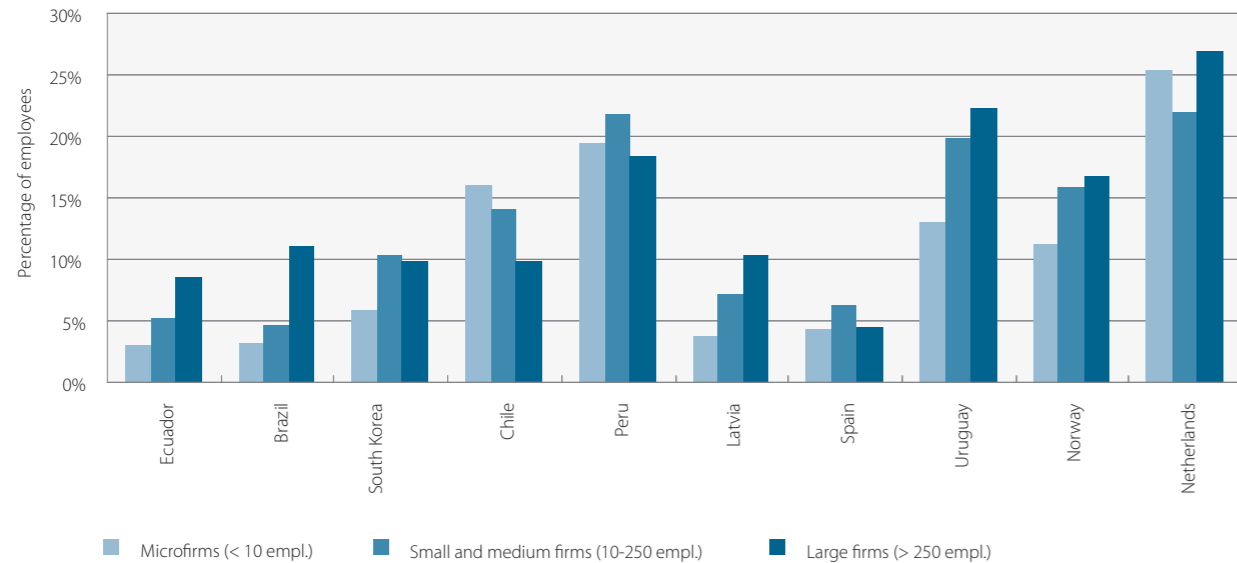


Source: GEM 2008 intrapreneurship data.

Characteristics of the external environment – economic, political, and institutional contexts – influence development of entrepreneurial activity both within organizations and pursued individually. Additionally for intrapreneurial activity, the environment within an organization is of major importance (Antoncic and Hisrich, 2001). Most research on intrapreneurship has centred around large organizations. Nevertheless, some papers point to the importance of intrapreneurial activity within smaller organizations (e.g. Carrier 1996). Empirical evidence as to the effect of firm

size on the organizational environment and the subsequent development of intrapreneurial activity is ambiguous. Our data suggest that in most countries the effect of firm size on intrapreneurship is likely to be positive. The proportion of intrapreneurs is higher among people who work for large firms (or SMEs) than among employees of microfirms. This is true for Norway, Brazil, Latvia, Uruguay, and South Korea<sup>12</sup>. Only one country of those observed – Chile – demonstrates an opposite relation.

**Figure 21: Proportion of intrapreneurs among employees by size of employer, 2008**



Source: GEM 2008 intrapreneurship data.

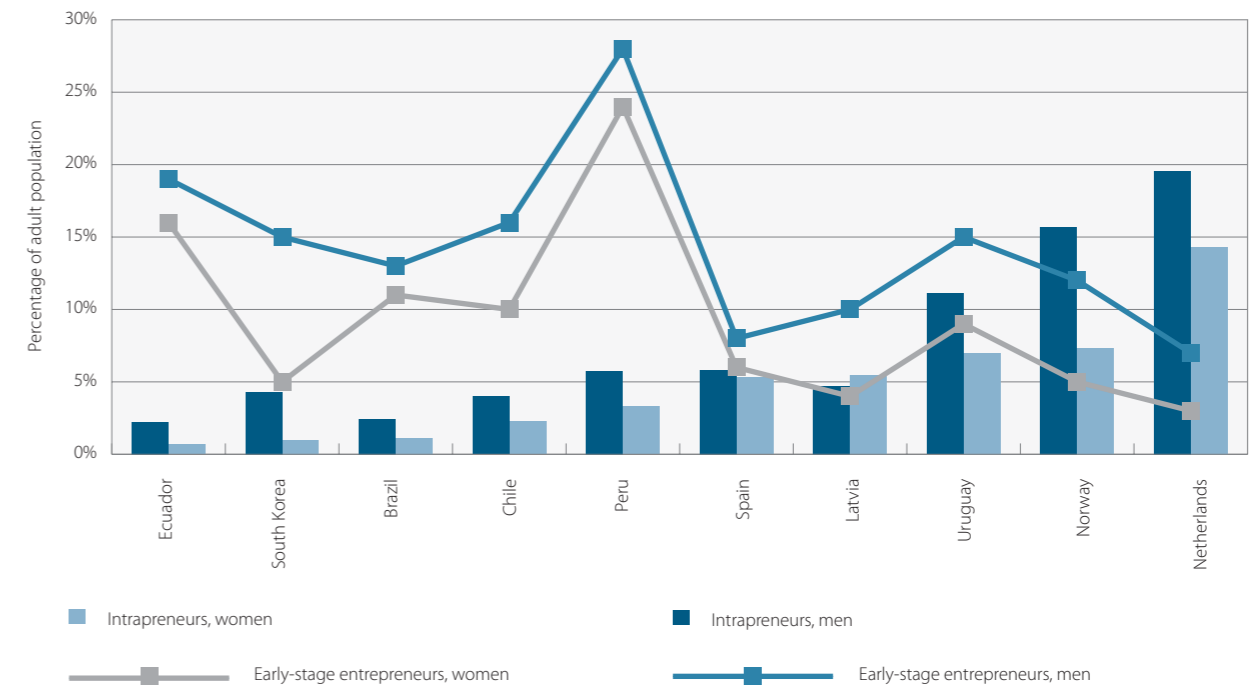
<sup>12</sup> A statistically significant difference between the proportion of intrapreneurs among employees of large firms and SMEs exists only in Brazil and the Netherlands.

Looking at the individual characteristics of intrapreneurs in different countries, we observe patterns similar to early-stage entrepreneurial activity. For example, in a majority of countries the prevalence rate of intrapreneurs among women is lower than among men (Figure 22). Surprisingly, Latvia turns out to be an exception. It is the only country where the rate of intrapreneurial activity among women is slightly, though insignificantly, higher than among men (5.4% vs. 4.7%). On the other hand, the gender gap in early-stage entrepreneurial activity in Latvia (in relative terms) is one of the highest among GEM participants. This discrepancy in gender pattern for two similar

phenomena suggests that some distinct features of intrapreneurship as opposed to entrepreneurship are gender-sensitive.

In a way, intrapreneurial activity and entrepreneurial activity can be considered substitutes for a person who makes an occupational choice. It might be possible that Latvian women with entrepreneurial abilities are attracted more to intrapreneurship (rather than entrepreneurship) because they have a higher preference for security. However, for men independence and autonomy might be more important, so that entrepreneurial activity is preferred to intrapreneurship<sup>13</sup>.

**Figure 22: Prevalence rate of intrapreneurs by gender, 2008**



Note: The countries are sorted by rate of intrapreneurial activity among women. Source: GEM 2008 master data and GEM 2008 intrapreneurship data.

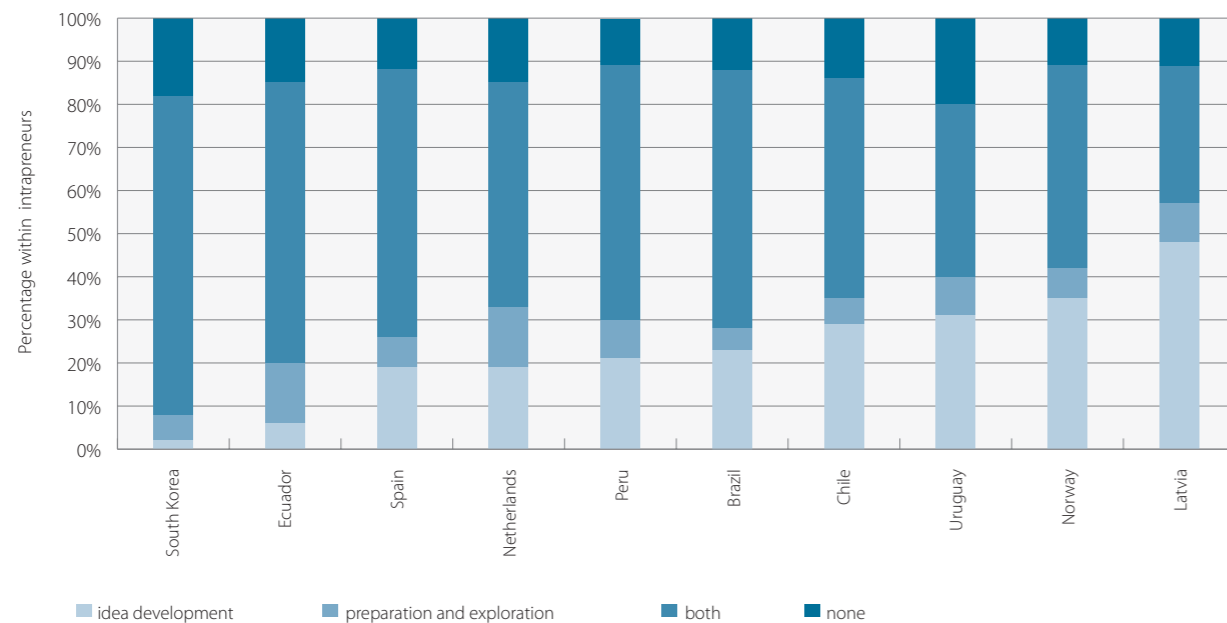
<sup>13</sup> See, for example, Croson and Gneezy (2009) for an overview of gender differences in preferences. They suggest that on average women tend to be more risk-averse than men, less prone to be overconfident in their success in uncertain situations, and more reluctant to engage in competition.

Intrapreneurial activity can be divided into two phases:

- 1) Idea development for a new business activity, e.g. information search, brainstorming, submitting new ideas to management.
- 2) Preparation and exploration of a new business activity, e.g. promoting a new idea, preparing a business plan, marketing the new activity, finding financial resources.

In Latvia almost half of intrapreneurs are involved solely in the first stage, i.e. idea development (see Figure 23). Only a third of intrapreneurs take part in both stages: idea generation and implementation. This stands in contrast to most other countries where a considerable proportion of intrapreneurs are in charge of both idea generation and implementation, but relatively few are involved only in idea generation.

**Figure 23: Phases of intrapreneurial activity by country, 2008**

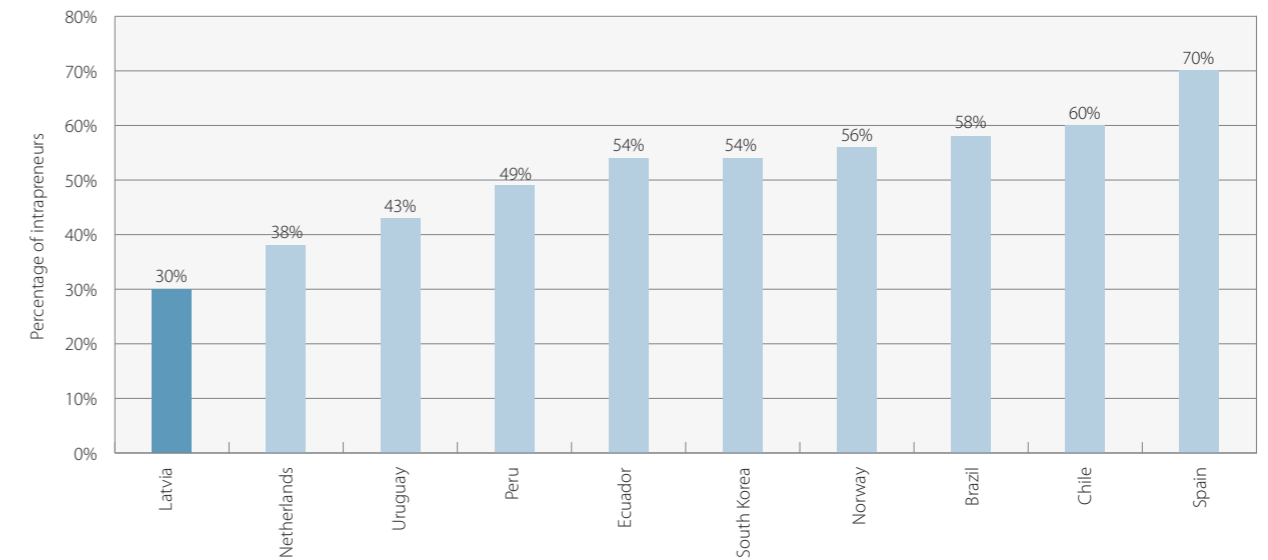


Source: GEM 2008 intrapreneurship data.

Moreover, intrapreneurs in Latvia appeared to be less active in comparison with other countries. Only 30% of intrapreneurs in Latvia report that they play a leading role in one of the phases mentioned. All others take a supporting role in these activities. This raises the question whether these

people are 'intrapreneurs' in the full meaning of this concept. For instance, De Jong and Wennekers (2008) stress that intrapreneurs act without being asked to do so (and sometimes even without management permission).

**Figure 24: Percentage of intrapreneurs with leading role by country, 2008**



Source: GEM 2008 intrapreneurship data.

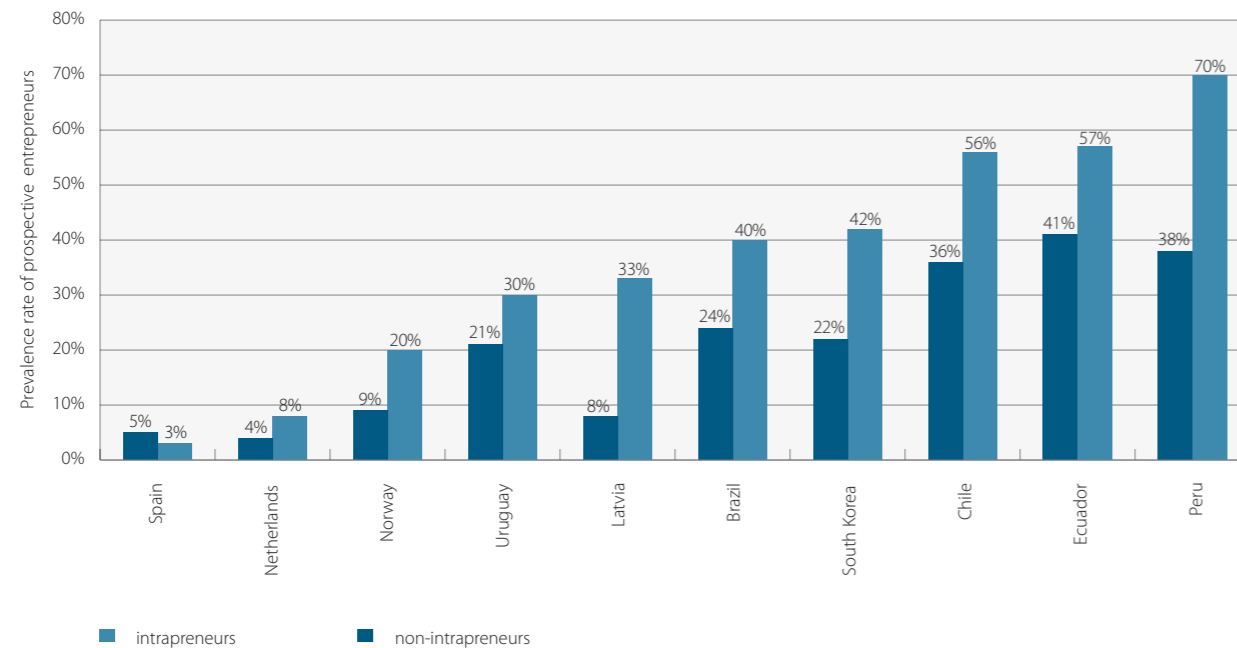


Although some of the intrapreneurs identified in this section take only a supporting role in their activity, this does not mean that they are not able to become active leaders in the future. In fact, inappropriate management techniques may restrain manifestation of leadership qualities. The role of an intrapreneur within an organization might be restricted by the employer deliberately, especially in a situation characterized by high uncertainty, instability, and lack of trust. Nevertheless, intrapreneurs might use employment as an important period for accumulating knowledge,

experience, and financial capital in order to start their own business later on.

As mentioned in the previous section, many individuals among intrapreneurs have education in starting a business. Possessing the necessary skills and experience, quite a high proportion of intrapreneurs think of starting their own business within three years. In Latvia a third of intrapreneurs reported such intentions. In Peru the proportion of prospective entrepreneurs within intrapreneurs is as high as 70%.

**Figure 25: Prevalence rate of prospective entrepreneurs within intrapreneurs and non-intrapreneurs by country, 2008**



Source: GEM 2008 intrapreneurship data.

Academic research suggests that intrapreneurial activity is important for the growth and profitability of firms<sup>14</sup>. Intrapreneurs continuously revitalize organizations, offer innovative solutions, and lead firms to success. However, ineffectiveness of traditional management may become an obstacle to development of intrapreneurship. It might be that traditional views on firm management hamper the development of intrapreneurial

activity in Latvian firms. This would explain the inactive role of intrapreneurs identified through the GEM survey. Nevertheless, intrapreneurs in Latvia were found to have good education and training in starting a business. They also demonstrated a desire to have their own business. Therefore, intrapreneurs represent an important hidden pool of qualified entrepreneurs.

<sup>14</sup> See an overview in Antoncic and Hisrich (2001).

## 5. SOCIAL NETWORKS

In 2008 several countries, including Latvia, collaborated in developing a new block of questions for the GEM adult population survey devoted to study of entrepreneurial networks. A social network around an entrepreneur forms an important part of his or her social capital. The network can provide emotional understanding and encouragement, as well as access to information, financial capital, employees, clients, and other resources. In this study we focus on networks as an important source of information. Information acquired through networking (even without an explicit search) can be an important mechanism for discovering and developing business opportunities. Previous entrepreneurship research has shown that social networks affect opportunity recognition (Singh, 2000), entrepreneurial intention (Hmieleski and Corbett, 2006), the decision to become an entrepreneur (Davidsson and Honig, 2003), firm growth (Lee and Tsang, 2001), and firm profit (Aldrich *et al.*, 1987).

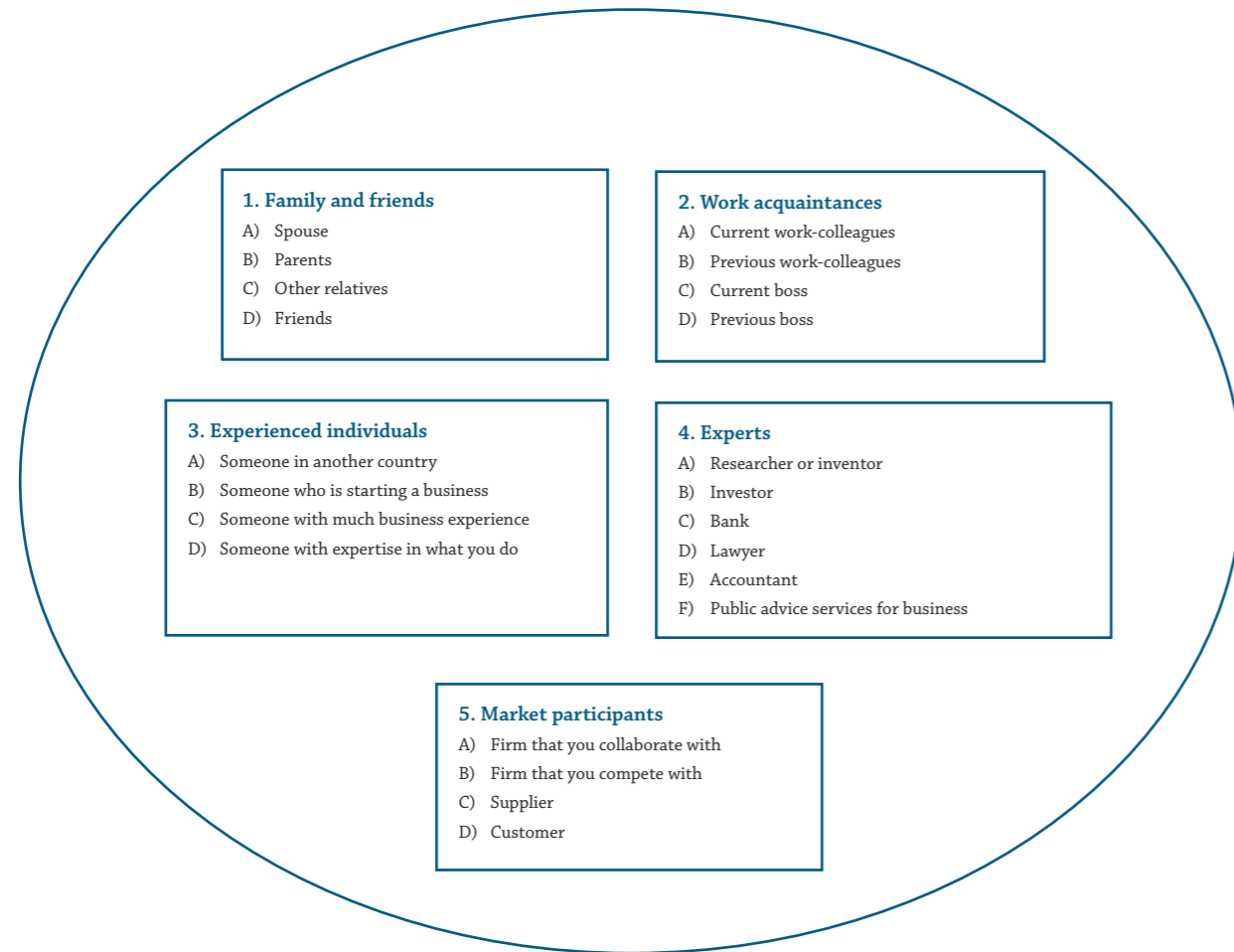
In order to identify important information sources within an entrepreneur's network, both nascent entrepreneurs and firm owners were asked whether they received advice from several kinds of possible advisors. The list of advisors is depicted in Figure 26. Altogether 22 different advisors were listed. For convenience, in the figure these are grouped in five major categories: family and friends, work acquaintances, experienced individuals, experts, and market participants.

The analysis in this section focuses on the *types* of advisors used by an entrepreneur. We treat

advisors as potential sources of information. We assume that different types of advisors possess different information, while two advisors of the same kind (e.g. two work colleagues) have identical information. We measure the diversity of the network (or in this context also the size of the network) by the number of different types of advisors that an entrepreneur mentions. We also measure the popularity of each type of advisor in a country by the proportion of entrepreneurs who mention that they received advice from this source. We compare the diversity and popularity of advisors used by entrepreneurs at different stages of the entrepreneurial process and across countries.

The structure of the question creates certain limitations to our analysis. During the survey, respondents could answer only 'yes' or 'no' to questions about the use of each advisor. First, we do not know how useful or important a particular advisor was for a person. An advisor can serve as an external team member for an enterprise or be useless or even harmful. Since we cannot differentiate between important and non-important advisors, we treat all advisors equally, i.e. we measure access to information flows, but not usefulness of information content. Second, we do not know how frequently advice was received or how many advisors in each category were contacted, e.g. how many 'friends' or 'colleagues' gave advice to a person and how often. This means that we account for the number of different information sources, but not for their intensity.

**Figure 26: Individuals and bodies that may give advice to entrepreneurs**



**NETWORKS IN LATVIA**

Analysis of data collected on networks suggests that nascent entrepreneurs in Latvia use advisors much more often than owners of young and established firms (see Table 5). On average a nascent entrepreneur uses 6-7 different advisors, whereas a firm owner only three. Almost 90% of nascent entrepreneurs use at least one advisor, and 68% of them use five advisors or more. However, more than a third of owner-managers do not use any advisor at all, and only 20% of them use more than four advisors.

(2003) partially supports the existence of differences in network size for entrepreneurs in the planning and establishment phases. They argued that during the planning stage nascent entrepreneurs search for information and resources and therefore need to mobilize a large social network. Nascent entrepreneurs approach many different people because they do not know who can help them. Once the business is established, entrepreneurs try to focus on key persons in the network – the people who proved to be useful in providing resources and information.

The study on entrepreneurs in Italy, Norway, Sweden, and the United States by Greve and Salaff

**Table 5: Number of different advisors used by entrepreneurs in Latvia, 2008**

Number of advisors used	Percentage of nascent entrepreneurs	Percentage of firm owners
none	11	36
1-2	18	27
3-4	13	16
5-9	30	9
10 and more	28	11
<i>Average number of advisors</i>	6.7	3.2

Source: GEM 2008 Latvian APS data.

The most popular source of advice for both nascent entrepreneurs and firm owners is friends (see Table 6). This type of advisor is used by 67% of start-ups and by 33% of firm owners. Other popular information sources for firm owners are family members (spouse, parents, and other relatives) and current work colleagues. Nascent entrepreneurs much more often receive advice from someone who has more experience in entrepreneurship: someone starting a business or someone with much business experience. They also frequently get advice from customers.

**Table 6: Most popular advisors for entrepreneurs in Latvia, 2008**

Advisors	Percentage of nascent entrepreneurs who used advisor
Friends	67
Someone with much business experience	55
Someone who is starting a business	49
Customers	43
Other relatives	41
Advisors	Percentage of firm owners who used advisor
Friends	33
Spouse or life-partner	31
Parents	25
Other relatives	25
Current work colleagues	19

Source: GEM 2008 Latvian APS data.

These results suggest that nascent entrepreneurs are open to a wider information spectrum than firm owners. Nascent entrepreneurs are more likely to use external advisors outside the family circle. This might be because start-ups are deliberately looking for external support because they require more information. It also might point to unwillingness of firm owners to share their business secrets with outsiders because of lack of trust.

The least popular sources of advice are similar for start-ups and firm owners: entrepreneurs rarely get advice from a competing firm or a current or previous boss. Nascent entrepreneurs relatively rarely receive advice from banks and public advice services for businesses. The latter might sig-

nal low credibility of public institutions and, perhaps, a lack of efficient governmental programs to support entrepreneurial activity in Latvia. Owners and managers of firms relatively rarely receive advice from researchers or inventors and possible investors.

**Table 7: Least popular advisors for entrepreneurs in Latvia, 2008**

Advisors	Percentage of nascent entrepreneurs who used advisor
Previous boss	6
Current boss	13
Firm that you compete with	15
Public advice services for business	15
Bank	17
Advisors	Percentage of firm owners who used advisor
Previous boss	5
Current boss	6
Firm that you compete with	6
Researcher or inventor	7
Investor	7

Source: GEM 2008 Latvian APS data.

Some advisors are equally popular among nascent entrepreneurs and firm owners, for example, a spouse or parents. Generally, these people are the closest social ties in the personal social network and, therefore, frequently enter discussion on various kinds of problems, including problems at work. Besides professional advice, family members are likely to provide support, encouragement, and emotional understanding, which are equally important for entrepreneurs at all stages of entrepreneurial processes.

Advisors with more specific expertise tend to have different popularity among nascent entrepreneurs and firm owners, because at different stages of business development entrepreneurs try to solve different professional problems. Nascent entrepreneurs are more likely to receive advice from individuals with business experience and experience in starting a business as well as individuals with expertise in a specific field. In comparison with firm owners, nascent entrepreneurs are also much more likely to get advice from customers and possible investors.

Descriptive results suggest that entrepreneurs in Latvia (especially firm owners) very often use advisors from the family circle and work colleagues. Birley (1985) referred to family, friends, and business contacts as an informal network. She claimed that use of an informal network is less costly for an entrepreneur, but brings limited information. By using mainly informal advisors a person tends to re-create the elements of his or her previous employment. In her study, Birley

concluded that the informal system in some way creates a barrier for using a formal system (i.e. banks, accountants, lawyers, public advice services). This might happen either because entrepreneurs are not aware of a formal system or because the formal system is ineffective and discourages entrepreneurs from using it.

As mentioned earlier, it might also be that lack of trust deters entrepreneurs in Latvia from more intensive use of networks, especially advisors other than family and friends. According to Puffer and McCarthy (2001), commitment and trust are typically low in Eastern European business networks. Hoang and Antoncic (2003) suggest that trust is a critical element for efficient functioning of networks. Trust affects the depth and richness of information exchange via networks. Lack of trust can undermine the effectiveness of weak ties (i.e. advisors other than family and friends) and, therefore, hinder transmission of novel information<sup>15</sup>.

One way to achieve a trusting relationship in an environment characterized by lack of trust is to develop long-term relations. For example, Radaev (2005) reports that trust among network participants in Russia is generally developed through repeated business interactions. However, according to Granovetter (2005), reliance on long-term ties might reduce productivity and ability to adapt to rapid changes. Therefore, during a crisis the use of long-term ties is likely to be non-optimal.

<sup>15</sup> Weak ties are more likely to transmit novel information as opposed to strong ties that mostly carry already outdated and redundant information. Granovetter calls this concept "the strength of weak ties" (2005).

## COMPARISON OF NETWORK PATTERNS ACROSS COUNTRIES

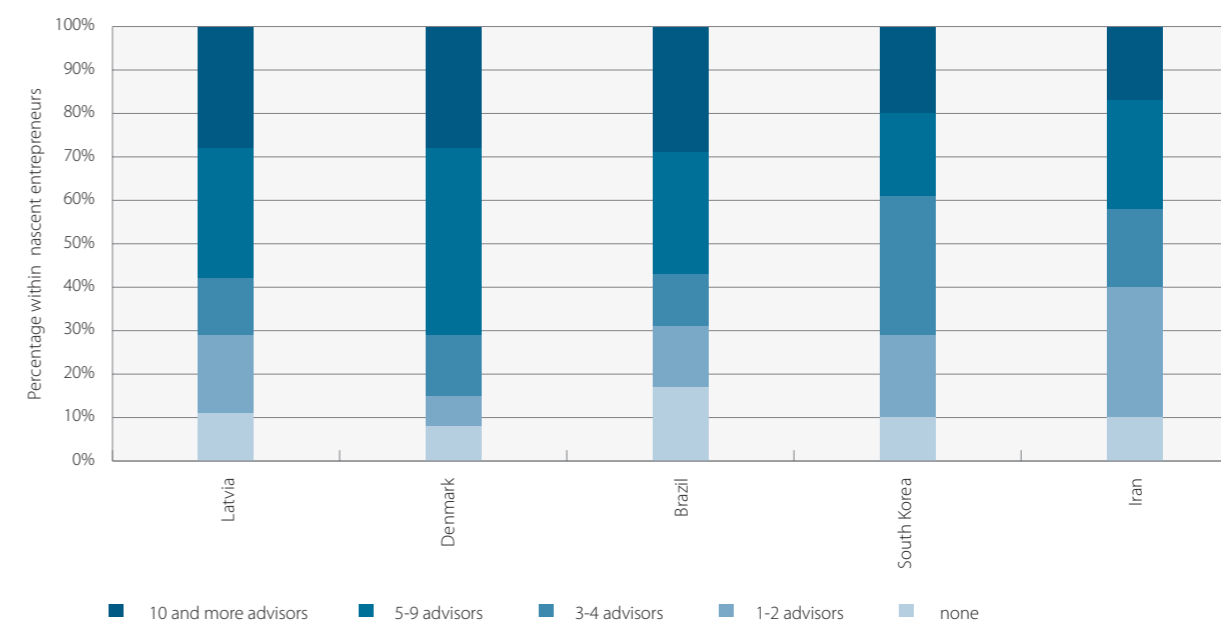
Altogether five countries adopted the questions on networks and included them in their GEM adult population survey in 2008. These were countries from different parts of the world with a different institutional environment, levels of development, and entrepreneurship rates: Latvia, Denmark, Brazil, South Korea, and Iran. This section offers a comparison of network patterns for these five countries.

Nascent entrepreneurs in Latvia have an average network size of approximately six to seven different advisors. This is similar to the average net-

work size in Denmark and Brazil. In South Korea and Iran, networks of nascent entrepreneurs are typically slightly smaller – about five advisors. In all countries except Denmark, firm owners have smaller network size as compared to nascent entrepreneurs - around three advisors. In Denmark, start-ups and firm owners tend to have a similar number of advisors in their networks. Figure 27 demonstrates the distribution of entrepreneurs with respect to their network size in the countries observed.

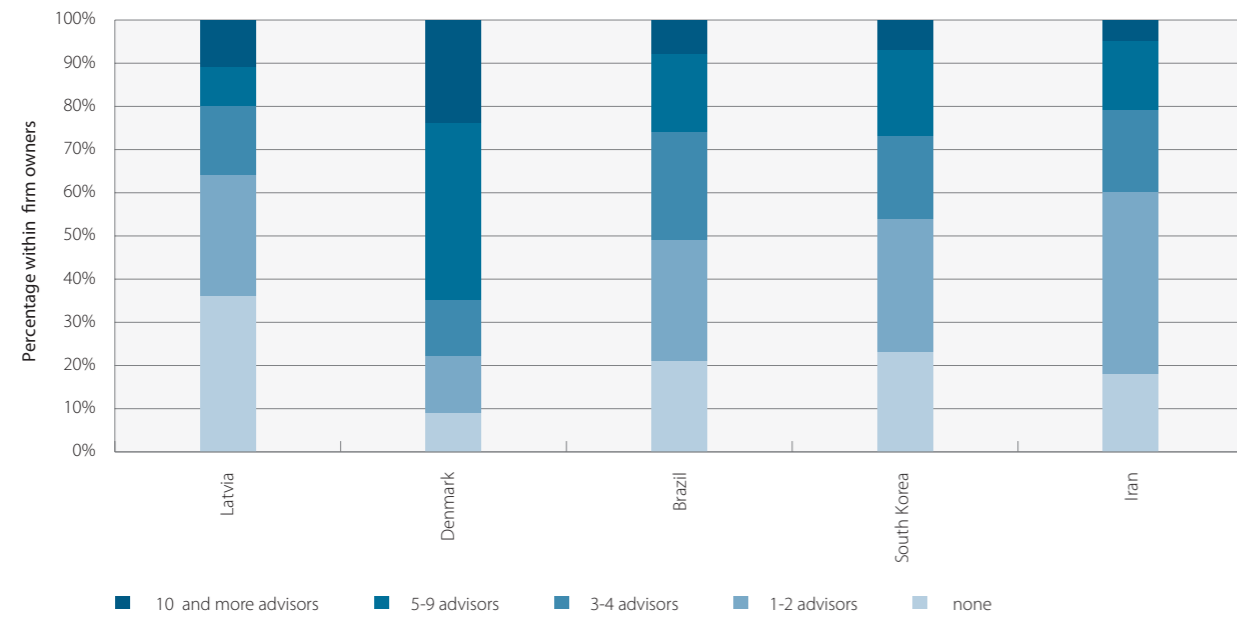
**Figure 27: Entrepreneurs by network size across countries, 2008**

### A. Nascent entrepreneurs





B. Firm owners



Source: GEM 2008 network data.

Some advisors are equally popular in Latvia and in other countries. For example, in all countries the top five advisors for start-ups include friends and individuals with much business expertise. Customers also have a very high ranking in all countries except Iran, where family takes a dominant role. Only in the case of Latvia do nascent entrepreneurs very frequently use other individuals starting a business as advisors. This might imply a strong peer effect in one's decision to start a new business in Latvia. In comparison with Denmark, family ties are much more important for nascent entrepreneurs in Latvia. Start-ups in Denmark more often use work acquaintances (such as current or previous boss, current or previous work colleagues) as well as public advice services and banks.

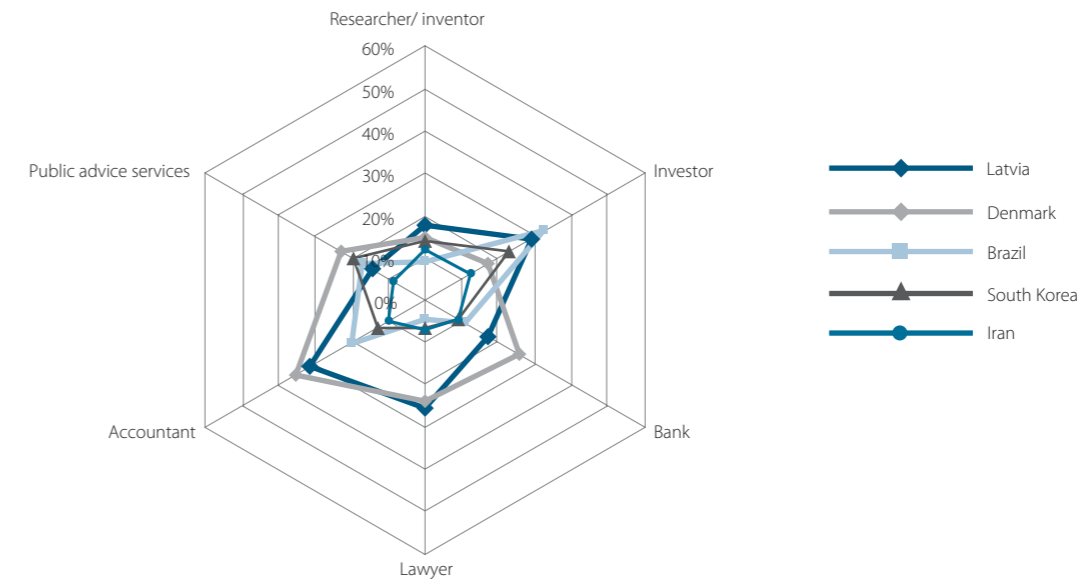
For firm owners 'family and friends' appeared to be among the most popular advisors in all coun-

tries. Family turned out to be especially important in Latvia, Iran, and Brazil. In contrast to these countries, entrepreneurs in Denmark and South Korea prefer advisors with expertise in a particular field or in business in general.

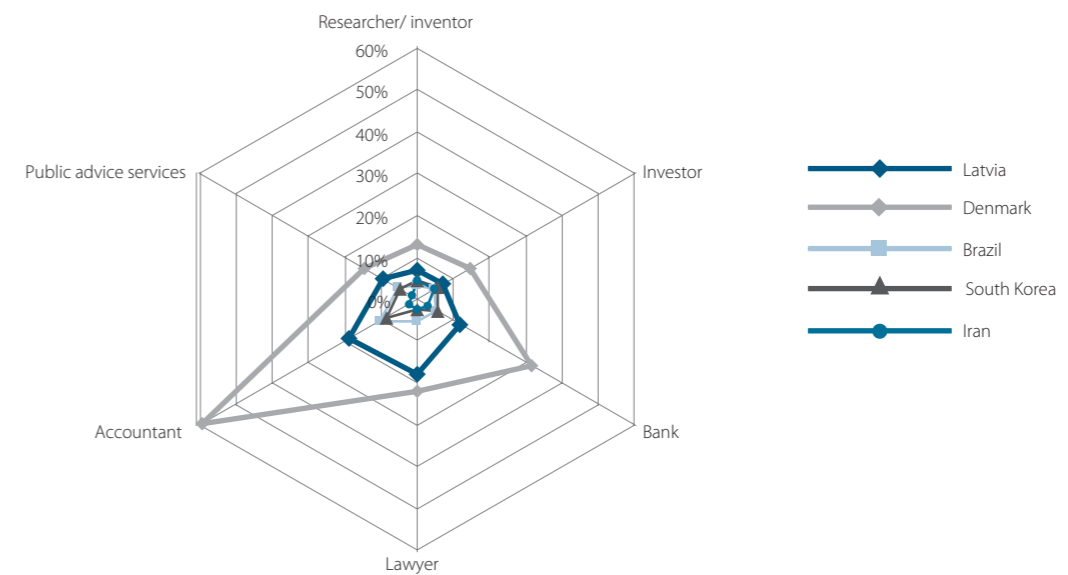
Surprisingly, in most of the countries observed experts (such as researchers, investors, banks, lawyers, accountants and public advice agencies) are relatively rarely used (see Figure 28). Many of these advisors are ranked at the bottom in terms of their popularity both among nascent entrepreneurs and firm owners. The only exception is the very high popularity of accountants among Danish firm owners. Public advice services are used by less than 20% of start-ups and by less than 10% of firm owners in all countries, except Denmark where the percentages are slightly higher.

Figure 28: Popularity of expert-advisors in selected countries, 2008

A. Nascent entrepreneurs



B. Firm owners



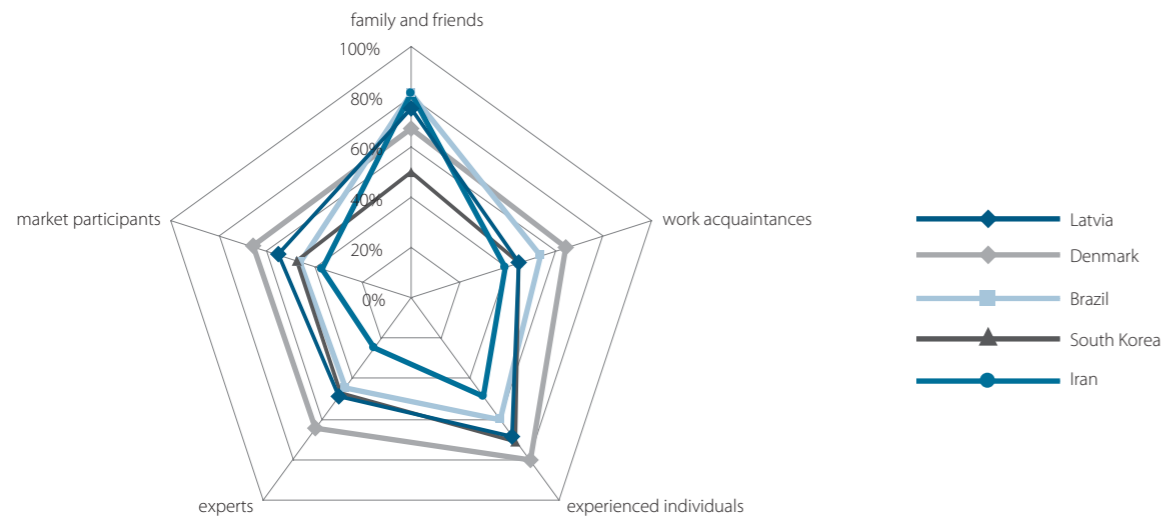
Source: GEM 2008 network data.

Figure 29 demonstrates visually the main differences in the patterns of networking across countries. For this purpose, possible advisors are grouped into five categories: family and friends, work acquaintances, experienced individuals, experts, and market participants (see Figure 26 for classification). The popularity of each group is measured along a separate axis. The percentage on the axis shows the share of entrepreneurs who received advice from at least one advisor in the category mentioned. The figure shows quite clearly that entrepreneurs in Denmark have on average the widest networks out of all countries surveyed, both for nascent entrepreneurs and firm owners. The only exception is the ‘family and friends’ dimension, where Iran and Latvia (for nascent entrepreneurs) outperform Denmark.

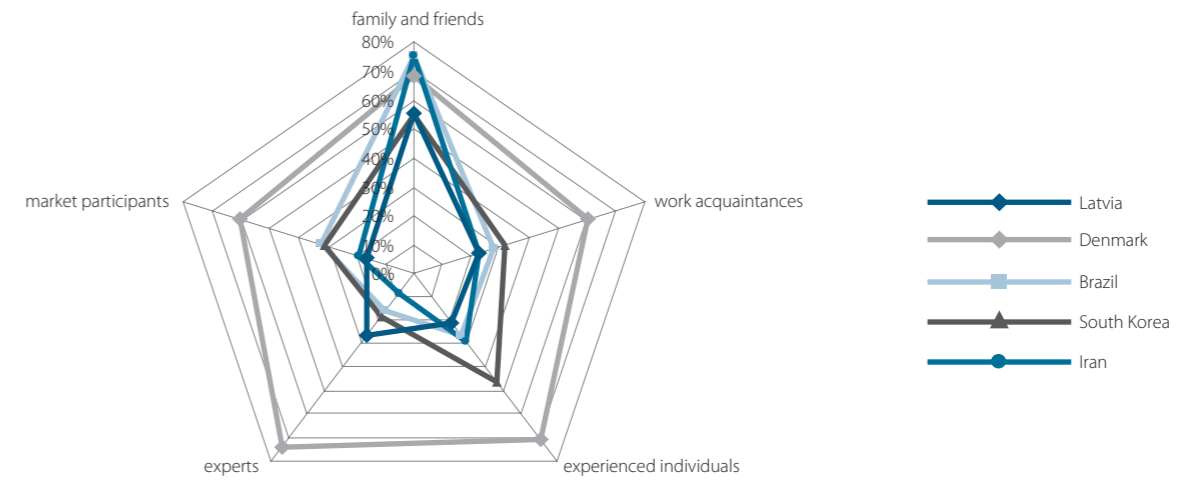
Diversity of network composition in Denmark suggests that Danish entrepreneurs have access to wider information flows than entrepreneurs in other countries. Intensive use of weak ties (i.e. advisors other than family and friends) in Denmark and South Korea is likely to facilitate inflow of new and non-redundant information, making entrepreneurs more prone to find innovative solutions and perceive good business opportunities<sup>16</sup>. The use of strong ties (family and friends) in Latvia, Iran, and Brazil is generally less costly and important in the early stages of business development. As suggested by Bruderl and Preisendorfer (1998), strong ties positively influence the chances for start-up survival. At the same time, they found that strong ties do not contribute to the growth rate of businesses.

**Figure 29: Network patterns of entrepreneurs in selected countries, 2008**

A. Nascent entrepreneurs



B. Firm owners



Source: GEM 2008 network data.

The relationship between network patterns and entrepreneurial activity is highly dependent on the context of the country. The countries considered in this chapter are very different in many aspects: starting from culture, religion, and historical background to population structure and development of formal institutions. It is difficult

to interpret differences in network patterns in these countries without deep research into country-specific features and the moderating effect of these features on the relationship between networks and entrepreneurial activity. Therefore, the conclusions offered in this chapter are suggestive and subject to further investigation.

<sup>16</sup> See for example Hoang and Antoncic (2003) or Granovetter (2005) for discussion of the importance of weak ties versus strong ties.

## CONCLUSIONS

During the economic boom in 2007, early-stage entrepreneurial activity in Latvia declined. This was related to favourable conditions in the Latvian labour market and an outflow of human resources from entrepreneurial activity to paid employment. The reverse happened in 2008. The rate of early-stage entrepreneurial activity recovered to approximately the same level that was observed before 2007. The prevalence of prospective entrepreneurs also increased. However, the level of established business owners in the population has remained very low over the last two years.

Economic recession is likely to have two opposite effects on development of early-stage entrepreneurial activity. On the one hand, it becomes more difficult to raise finance and find customers. Many nascent entrepreneurs become discouraged and give up their start-up attempts. New firm owners find that it becomes increasingly difficult to survive. On the other hand, factors of production become cheaper. People have more free time to start a new business and have a higher necessity to do so because of unemployment and wage cuts. Theoretically, it is unclear which of the two effects will dominate, but empirical evidence suggests that the latter is likely to be stronger. GEM 2008 Latvian data also support this result.

The economic impact of the increase in early-stage entrepreneurial activity during the current economic downturn should not be overstated. The recovery of early-stage entrepreneurial activity in Latvia was mainly driven by an increase in necessity entrepreneurship and is likely to take the form of small business activities, such as e.g. petty trading. Necessity-driven entrepreneurs do

not contribute much to economic growth. They are likely to use profits for consumption instead of reinvesting in business.

The increase in early-stage entrepreneurial activity will have a limited impact on the number of established businesses. The currently observed discrepancy between the level of early-stage entrepreneurial activity and established business ownership suggests that the survival chances for start-ups in Latvia are very low. Most entrepreneurial attempts during an economic downturn are likely to be transitory or unsuccessful. However, for those businesses that survive the hardship it might be easier to grow in the future because of reduced competition and availability of cheaper inputs.

Economic conditions also influence people's attitudes toward entrepreneurship and perceptions of the entrepreneurial environment in Latvia. The entrepreneurial environment has deteriorated along several dimensions. The two most important indicators that reflect the ability and willingness of people to engage in entrepreneurial activity have decreased. 'Egalitarian views' have become more popular, probably reflecting disappointment in the current economic system. At the same time, as conditions for paid employment deteriorated, the preferences of people switched quite notably from paid employment to own business ownership.

The growing popularity of an entrepreneurial career might be considered to be overoptimistic in the current economic circumstances. However, early-stage entrepreneurs in Latvia have a quite

positive view on business opportunities in the near future. On the one hand, it might be that early-stage entrepreneurs are inexperienced and naïve in their assessment. On the other hand, it might be that they have substantially different business ideas or particular mindsets that allow them to see business opportunities that are not perceived, for example, by established business owners.

Intrapreneurs were found to have potential to contribute to development of entrepreneurial activity and improvement of the economic situation in Latvia even if their role within organizations is currently limited. It is likely that inappropriate management techniques or the intraorganizational environment in Latvian firms constrain their leadership qualities. Intrapreneurs were found to have good education and training in starting a business and to possess adequate start-up skills. They also demonstrated a desire to start their own business in the near future. Meanwhile they are likely to use their current employment for accumulating knowledge, experience, and financial capital in order to start their own business later on.

Provision of education and training in starting a business in Latvia appears to be quite good, especially among the younger generation and women. However, it is not clear whether education in business start-up in fact enhances start-up skills and motivates people to start a business. For example, most older people do not have education in business, but have a relatively high preference for entrepreneurial activity, positively evaluate their start-up skills, and relatively often perceive good business opportunities. Women, however, being on average more educated in business than men, relatively rarely report having good

start-up skills, and have a low preference for entrepreneurial activity. The effectiveness of entrepreneurial education in Latvia should be studied more thoroughly in the future.

Analysis of entrepreneurs' social networks revealed that nascent entrepreneurs and firm owners in Latvia very often use strong ties (family and friends), but not what are termed weak ties such as researchers, investors, banks, lawyers, accountants, and public advice agencies. Strong ties are less costly to use. Besides professional advice, family members are likely to provide support, encouragement, and emotional understanding, which are found to be important for persistence of entrepreneurial attempts. However, strong ties are likely to transfer information which is already known and redundant. Intensive use of strong ties may hinder transmission of novel information to entrepreneurs and create a barrier to using a formal system of business consultancy. On the other hand, weak ties are very important because they are likely to facilitate the inflow of new and non-redundant information, making entrepreneurs more apt to find innovative solutions and perceive good business opportunities.

One factor preventing Latvian entrepreneurs from a more intensive use of networks, especially weak ties, is lack of trust, typical of all Eastern European business networks. Trust is a very important element of social networks in providing effective functioning. Trust affects the depth and richness of information exchange via networks. In environments characterized by a lack of trust, trusting relations are frequently established through repeated interaction and development of long-term links. However, long-term relationships may inhibit the ability to adapt to rapid changes in the economic environment.



## APPENDIX A: GEM APPROACH AND DATA COLLECTION

The Global Entrepreneurship Monitor (GEM) is a research programme started as a partnership between the London Business School (UK) and Babson College (US). Research also involves a consortium of national teams from each of the countries involved in the study. The aim of GEM is to create an annual assessment of levels of entrepreneurial activity across countries. The research identifies different types and phases of entrepreneurial activity and explores a variety of factors both within and across countries that might give rise to systematic differences in entrepreneurship rates.

GEM was initiated in 1999 with 10 countries and expanded to 43 countries in the 2008 research cycle. GEM is the largest survey-based study of entrepreneurship in the world. More than 100 scholars from the various national teams collaborated with the coordination centre in collecting data and developing the project. Every year each national team is responsible for conducting an adult population survey in its country. The surveys are conducted in strict adherence to the GEM methodology. An extensive description of the GEM methodology may be found in Reynolds *et al.* (2005).

Representative samples of more than 2000 randomly selected adults were surveyed in 43 countries participating in GEM 2008. Similar to previous rounds of GEM, the interview schedule consisted of a set of questions used to derive entrepreneurial activity rates and additional questions concerning the attributes and characteristics

of the respondents as well as their attitudes towards entrepreneurship. In 2008 the GEM study for the first time included an additional section of questions on 'Education and training in starting a business'. This topic was chosen as a special research area for GEM 2008.

Latvia has been a member of the GEM project since 2005, and continues its participation in the 2009 research cycle. In 2008 the GEM adult population survey in Latvia was conducted by a professional survey firm, "SKDS". Via telephone interviews a total of 2011 adults aged 18-64 years old were surveyed during June 2008. To ensure a better coverage of the population of Latvia, respondents were reached through both mobile phones and fixed-lined telephones. This method allowed construction of a sampling framework which covers 93.2% of the adult population of Latvia<sup>17</sup>. Mobile telephone numbers were selected from a digital data base on randomly generated mobile phone numbers, while fixed-line numbers were selected from district telephone catalogues. In the first place the sample was formed by mobile users because of their dominance in the sample (93.1% of telephone users). After the mobile phone quota was achieved the survey continued via fixed-line telephones. Of fixed-line telephone users, only those who do not have a mobile phone were interviewed to ensure no overlap between mobile and fixed-line phone coverage. Observations in the sample were weighted by age, gender, ethnicity, geographical region, and urban/rural division. Thus, GEM findings can be reliably generalized to the whole of Latvia's population.

<sup>17</sup> According to SKDS statistics of 12 months national representative omnibus surveys, in the period from April 2007 to March 2008 - 6.8% of the adult population of Latvia have no form of telecommunication.

## APPENDIX B: GEM DATA SOURCES AND PUBLICATIONS

Throughout the report we refer to various GEM data sources and GEM reports. This might be confusing for the reader who is not familiar with the GEM project. Therefore, in this Appendix we offer a short list of GEM data sources and publications and explain what kind of information they contain.

### GEM Data Sources

- GEM Adult Population Survey (APS) data – individual-level data collected via an adult population survey in a particular country.
- GEM master data – country-level data that contains summary indices calculated on the basis of synchronized and consolidated GEM APS datasets for all GEM countries.
- GEM intrapreneurship data – individual-level APS data for a group of countries synchronized and consolidated in a single file. Besides core GEM variables, the data contain an additional set of information on intrapreneurial activity of employees within organizations.
- GEM network data - individual-level APS data for a group of countries synchronized and consolidated in a single file. Besides core GEM variables, the data contain an additional set of information on entrepreneurs' social networks.

### GEM Publications

- GEM Executive report – the report produced by the GEM coordination team in the end of each research cycle. The report provides a global view on development of entrepreneurial activity in all countries participating in the GEM project.
- GEM National report – the report produced by each of the GEM National teams after the GEM Executive report has been launched. The focus of the report is on the home country of the GEM National team and its comparison to other GEM countries. For example, this volume - GEM Latvia Report - presents analysis of entrepreneurial activity in Latvia in an international context.
- GEM Special Topic report – the report produced by a team of researchers focused on a particular topic in entrepreneurship. The report covers the majority of participating countries interested in a particular entrepreneurial phenomenon. For example, the following reports have been published recently: GEM Report on Women and Entrepreneurship, GEM Report on High-growth entrepreneurship, GEM Financing report.



## APPENDIX C: SELECTED QUESTIONS FROM GEM ADULT POPULATION SURVEY (APS)

### Screening questions

Which of the following would apply to you?

No.	Statements	Yes	No	Don't know	Refused
1a.	You are, alone or with others, currently trying to start a new business, including any self-employment or selling any goods or services to others.	1	2	8	9
1b.	You are, alone or with others, currently trying to start a new business or a new venture for your employer - an effort that is part of your normal work.	1	2	8	9
1c.	You are, alone or with others, currently the owner of a company you help manage, self-employed, or selling any goods or services to others.	1	2	8	9
1d.	You have, in the past three years, personally provided funds for a new business started by someone else, excluding any purchases of stocks or mutual funds.	1	2	8	9
1e.	You are, alone or with others, expecting to start a new business, including any type of self-employment, within the next three years	1	2	8	9
1f.	You have, in the past 12 months, sold, shut down, discontinued or quit a business you owned and managed, any form of self-employed, or selling goods or services to anyone.	1	2	8	9

### Questions on the entrepreneurial environment

Which of the following would apply to you?

No.	Statements	Yes	No	Don't know	Refused
1g.	You know someone personally who started a business in the past 2 years.	1	2	8	9
1h.	In the next six months there will be good opportunities for starting a business in the area where you live.	1	2	8	9
1i.	You have the knowledge, skill and experience required to start a new business	1	2	8	9
1j.	Fear of failure would prevent you from starting a business.	1	2	8	9
1k.	In Latvia, most people would prefer that everyone had a similar standard of living.	1	2	8	9
1l.	In Latvia, most people consider starting a new business a desirable career choice.	1	2	8	9
1m.	In Latvia, those successful at starting a new business have a high level of status and respect.	1	2	8	9
1n.	In Latvia, you will often see stories in the public media about successful new businesses.	1	2	8	9

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