



Global Entrepreneurship Monitor

2012/2013 Latvia Report

Marija Krūmiņa
Anders Paalzow

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



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Founding and Cooperating Institutions:

TeliaSonera Institute at the Stockholm School of Economics in Riga
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SKDS

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FOREWORD

The Global Entrepreneurship Monitor (GEM) 2012 Latvia Report marks the eighth year of Latvia's participation in the GEM research project. GEM is a major international research project aimed at describing and analysing the entrepreneurial process across a wide range of countries. It is our belief that the Latvian GEM will not only contribute to an understanding of the factors influencing entrepreneurship in Latvia but that it will also contribute to an informed debate on Latvian entrepreneurship and the opportunities and challenges it is facing.

In addition to the 'pure' findings from Global Entrepreneurship research as such, the Latvian Report brings in information from other sources as well – information that in many cases will complement GEM research and hence deepen the understanding of Latvian entrepreneurial activity. Several of these additional sources stem from research undertaken at the Stockholm School of Economics in Riga.

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

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EXECUTIVE SUMMARY

The GEM 2012 Latvia Report provides detailed information on the entrepreneurial spirit and the latest trends in entrepreneurial activity in Latvia. The Report also provides an international comparison with other EU countries participating in the Global Entrepreneurship Monitor project.

The Report describes the Latvian entrepreneurial profile, discusses various aspects of entrepreneurial activity and aspirations, and evaluates entrepreneurial dynamics over the last eight years (2005-2012). As an additional feature, the Report presents similarities and differences in terms of early stage entrepreneurship for the three Baltic countries.

We believe that the analysis included in this report will be informative for the business and academic community as well as for policy makers.

Latvians in 2012 see more business opportunities (2012 – 33%; 2011 – 24%) compared to the previous year, but became less self-confident about their entrepreneurial capacity, while at the same time they also became less afraid of failure. 60% of Latvians think that entrepreneurship is a good career choice, slightly more than half of adult Latvians agree that successful entrepreneurs enjoy high status and 53% think that the Latvian media provide a positive picture of entrepreneurship in terms of reporting on successful entrepreneurs. The percentage of Latvians not already entrepreneurially active but expecting to start a business within three years is 22%, slightly down from 25% in 2011 but still this is the second highest result for the GEM EU countries.

Compared to her Baltic neighbours Latvia is doing better than Lithuania and worse than in Estonia in terms of opportunity recognition.

As for perceived capabilities Latvia and Estonia are more or less on a par, with Lithuania doing slightly worse. When it comes to fear of failure there are no significant differences between the three Baltic countries. Lithuanians are the most favourable in terms of seeing entrepreneurship as a good career choice with Latvians ranking second and Estonians third. In terms of status of successful entrepreneurs Estonia stands out, with no significant differences between Latvia and Lithuania. The media, on the other hand, seem to do a worse job in terms of reporting on positive entrepreneurs in Estonia and Lithuania than in Latvia.

At the time of the Latvian GEM survey, a total of 13.4% of Latvia's adult population (age 18–64) were involved in early stage entrepreneurship (TEA) in 2012. In comparison with the 2011 GEM findings the proportion of the population involved in early stage entrepreneurship is roughly the same (2011 – 11.92%). Latvia ranks 2nd out of 22 EU countries participating in the GEM project.

The percentage of nascent entrepreneurs in Latvia seems to have increased slightly in 2012 (2011) to 8.7% (6.8%), whereas the percentage of new business activity may have fallen slightly 4.8% (5.3%). The established business ownership rate also increased compared to the previous year 7.9% (5.7%). These trends may to a large extent be explicable by overall improved Latvian macroeconomic conditions.

As to distribution of TEA (total early-stage entrepreneurial activity) by age groups, Latvia follows the common pattern observed; the 25–44 age group has the highest proportion of early-stage entrepreneurs in the country. Latvia has the lowest share among the GEM EU countries as to the oldest group, i.e. 55-64. The same pat-

tern for the oldest group is observed in Lithuania and Estonia.

The TEA rate for men in Latvia is about 19%, but only 8% for women in 2012. Furthermore, the TEA rate for males has been rising consistently since 2010; the rate for females has stagnated for the last two years. Females and the oldest group of the population could be seen as an “untapped resource” that should be addressed.

As for motives for going into entrepreneurship, one out of four early-stage Latvian and Lithuanian entrepreneurs are driven by necessity motives. For Estonia it is one out of every five.

Unprofitable business is the reason for discontinuation in 40% of Latvian cases. This is higher compared both to Estonia (35%) and Lithuania (25%) as well as to the average level of GEM EU countries (30%). For Latvian respondents the second and third main reasons for business discontinuations were personal reasons and problems obtaining finance – both quoted by roughly 10%. For Estonians in about 12% of cases discontinuation was planned in advance and in about 11% exit happened for personal reasons. For Lithuania about 11% of discontinuations were attributed to each of the following reasons: problems obtaining finance, another job or business opportunity, and opportunity to sell.

In terms of international orientation Latvia scored second and Estonia fifth out of the 22 EU GEM countries. About 30% of all early stage entrepreneurs in these two countries indicate having at least 25% of their customers from other

countries. Lithuania scores first (40% of TEA) and stands out as more internationally oriented not only among the three Baltic countries but also among all GEM EU countries. In terms of growth expectations both Latvia and Lithuania have the highest results of all GEM EU countries (about 50% of all early stage entrepreneurs expect to have at least five employees five years from now), while Estonia scores slightly lower with 40%. In terms of market innovations Latvia and Estonia are similar, with about half of all early stage entrepreneurs indicating that their product or service is new to at least some customers. For Lithuania the number is considerably lower: only 31%. Estonia scores very well in terms of industry innovations as well. With a share of 59% of early-stage entrepreneurs having a product or service that is offered by few or no other businesses, Estonia is well ahead of Latvia and Lithuania.

Both Estonian and Latvian experts were particularly positive in their evaluations of social and cultural norms encouraging entrepreneurial activities and the extent to which new firms are free to enter existing markets (internal market burden). On the other hand, internal market dynamics in Lithuania as well as in Estonia are valued higher than in GEM EU countries on average and substantially higher than in Latvia. Experts in Latvia are considerably more positive than their fellow Estonians and Lithuanians about entrepreneurial education at primary and secondary level, as well as at the post school stage. On the other hand, R&D and government policies (taxes and regulations) in Latvia are dimensions still requiring considerable improvement.

EXECUTIVE SUMMARY IN LATVIAN

KOPSAVILKUMS

Latvijas 2012. gada GEM Ziņojums sniedz detalizētu informāciju par uzņēmējdarbības garu un jaunākajām uzņēmējdarbības aktivitātes tendencēm Latvijā, kā arī piedāvā starptautiskus salīdzinājumus ar pārējām ES valstīm, kas piedalās Globālā Uzņēmējdarbības Monitoringa (GEM) projektā.

Ziņojumā aprakstīts Latvijas uzņēmējdarbības profils, apskatīti vairāki uzņēmējdarbības aktivitātes un motivāciju veidi, un salīdzināta uzņēmējdarbības dinamika pēdējo astoņu gadu laikā (2005.-2012. gads).

Šogad ziņojumā papildus iekļautas agrinās stadijas uzņēmējdarbības līdzības un atšķirības trijās Baltijas valstīs.

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

Salīdzinot ar iepriekšējo gadu, 2012. gadā Latvijas iedzīvotāji ir spējuši saskatīt vairāk biznesa iespēju (2012. gadā – 33%, 2011. gadā – 24%), bet kļuvuši mazāk pārliecināti par savām uzņēmējdarbības spējām, kaut gan bailes no neveiksmes ir samazinājušās. 60% Latvijas pieaugušo iedzīvotāju uzskata, ka uzņēmējdarbība ir laba karjeras izvēle, nedaudz vairāk kā puse Latvijas pieaugušo iedzīvotāju piekrīt apgalvojumam, ka veiksmīgi uzņēmēji ieņem augstu statusu sabiedrībā, un 53% uzskata, ka Latvijas mediji pozitīvi atspoguļo uzņēmējdarbības vidi, veidojot stāstus par veiksmīgiem uzņēmējiem. 22% Latvijas iedzīvotāju, kuri līdz šim nav bijuši aktīvi uzņēmējdarbībā, plāno uzsākt savu biznesu tuvāko trīs gadu laikā. Šis rādītājs ir nedaudz krities, ja salīdzina ar 25% 2011. gadā, tomēr joprojām ir otrs augstākais rādītājs starp GEM ES valstīm. Salīdzinot ar Baltijas kaimiņiem, Latvijas uzņēm-

mēju spēju saskatīt biznesa iespējas rādītājs ir augstāks nekā Lietuvā un zemāks nekā Igaunijā. Attiecībā uz uzņēmējdarbības spēju un prasmju pašnovērtējumu, Latvijas un Igaunijas rādītāji ir līdzīgi, bet Lietuvā tas ir nedaudz zemāks. Ja runājam par bailēm no neveiksmes, tad rādītāju atšķirības starp trim Baltijas valstīm ir nelielas. Visbiežāk uzņēmējdarbību par labu karjeras izvēli atzīst Lietuvieši, ierindojot Latviju otrajā, bet Igauniju trešajā vietā. Kas attiecas uz veiksmīgu uzņēmēju augsto statusu sabiedrībā, tad šim apgalvojumam biežāk piekrīt respondenti no Igaunijas, tomēr, salīdzinot ar Latviju un Lietuvu, šo rādītāju atšķirības ir nenozīmīgas. Igaunijas un Lietuvas mediji retāk atspoguļo uzņēmēju pozitīvo pieredzi un veiksmes stāstus nekā to dara Latvijas mediji.

Laikā, kad tika veikta Latvijas 2012. gada GEM aptauja, agrinās stadijas uzņēmējdarbībā bija iesaistījušies 13.4% Latvijas pieaugušo iedzīvotāju (vecumā no 18 līdz 64 gadiem). Salīdzinot ar 2011. gada GEM datiem, agrinās stadijas uzņēmējdarbības rādītājs ir aptuveni tāds pats (2011. gadā – 11.92%). Latvija ierindojas 2. vietā starp 22 ES valstīm, kas piedalās GEM projektā.

Topošo uzņēmēju rādītājs Latvijā ir nedaudz pieaudzis no 6.8% 2011. gadā līdz 8.7% 2012. gadā, savukārt jaunas uzņēmējdarbības aktivitātes rādītājs ir nedaudz krities no 5.3% līdz 4.8%. Salīdzinot ar iepriekšējo gadu, arī nobriedušo uzņēmumu īpašnieku skaita rādītājs ir palielinājies līdz 7.9% (2011. gadā – 5.7%). Šīs tendences, iespējams, lielā mērā var izskaidrot ar Latvijas makroekonomisko apstākļu vispārēju uzlabošanos.

Kopējās agrinās stadijas uzņēmējdarbības aktivitātes (KAA) rādītājs pa vecuma grupām Latvijā ir līdzīgs citās valstīs novērotajam: iedzīvo-

tāji vecuma grupā no 25 līdz 44 gadiem sastāda vislielāko agrinās stadijas uzņēmēju proporciju valstī. Vecākās grupas, t.i. 55-64 gadi, KAA izplatības rādītājs Latvijā ir viszemākais, salīdzinot ar pārējām GEM ES valstīm. To pašu var novērot arī Lietuvā un Igaunijā.

2012. gada viriešu KAA rādītājs Latvijā sastāda aptuveni 19%, bet sieviešu tikai 8%. Turklāt viriešu KAA rādītājs neatlaidīgi turpina pieaugt kopš 2010. gada, bet sieviešu KAA rādītājs pēdējos divus gadus ir nemainīgs. Sievietes un vecākā iedzīvotāju grupa varētu tikt uzskatīti par "nezīmantotiem resursiem", kas būtu jāizmanto.

Runājot par motivāciju iesaistīties uzņēmējdarbības aktivitātēs, katrs ceturtais agrinās stadijas uzņēmējs Latvijā un Lietuvā ir iesaistījies uzņēmējdarbībā nepieciešamības spiests. Igaunijā nepieciešamības spiests ir katrs piektais uzņēmējs.

Uzņēmējdarbības pārtraukšanas iemesls 40% gadījumos Latvijā ir bijis peļņu nenesošs uzņēmums. Šis rādītājs ir augstāks, salīdzinot ar Igauniju (35%) un Lietuvu (25%), kā arī ar vidējo GEM ES valstu rādītāju (30%). Latvijas respondenti kā otro un trešo iemeslu uzņēmējdarbības pārtraukšanai minēja personīgos iemeslus un problēmas iegūt finansējumu, kur katrs sastāda aptuveni 10%. Igaunijā 12% gadījumos uzņēmējdarbības pārtraukšana bija iepriekš ielānota un aptuveni 11% respondentu kā iemeslu minēja personīgus iemeslus. Lietuvā aptuveni 11% gadījumu attiecināmi, katram no iemesliem: problēmas iegūt finansējumu, citas darba un uzņēmējdarbības iespējas, iespēja pārdot uzņēmumu.

Attiecībā uz orientāciju uz ārējiem tirgiem, Latvija ieņem otro, bet Igaunija piekto vietu starp 22 GEM ES valstīm. Aptuveni 30% no agrinās stadijas uzņēmējiem Latvijā un Igaunijā ir minējuši, ka 25% viņu klientu ir no citām valstīm. Lietuva ieņem pirmo vietu (40% no KAA) un izceļas ar izteiktu orientāciju uz ārējiem tirgiem ne vien starp trim Baltijas valstīm, bet arī visām GEM ES valstīm. Uzņēmēju gaidas attiecībā uz sava uzņēmuma izaugsmi Latvijā un Lietuvā ir visaugstākās starp visām GEM ES valstīm (aptuveni 50% no agrinās stadijas uzņēmējiem paredz nodarbināt vismaz piecus darbiniekus tuvāko piecu gadu laikā), Igaunijā nedaudz mazāk – 40%. Tirgus inovāciju rādītāji Latvijā un Igaunijā ir līdzīgi – aptuveni puse no agrinās stadijas uzņēmējiem apgalvo, ka viņu produkts vai pakalpojums ir jaunums vismaz daļai klientu. Lietuvā šis rādītājs ir ievērojami zemāks – tikai 31%. Arī industrijas inovāciju rādītājs Igaunijā ir augsts. 59% agrinās stadijas uzņēmēju Igaunijā piedāvā produktu vai pakalpojumu, ko piedāvā vēl tikai daži vai pat neviens cits uzņēmums, kas ir ievērojami augstāks rādītājs nekā Latvijā un Lietuvā.

Gan Igaunijas, gan Latvijas eksperti bija īpaši pozitīvi savos vērtējumos par sociālajām un kulturālajām normām uzņēmējdarbības veicināšanā un to, cik lielā mērā jaunie uzņēmumi var brīvi ienākt esošajā tirgū (iekšējā tirgus slogs). No otras puses, iekšējā tirgus dinamika kā Lietuvā, tā arī Igaunijā, ir augstāka kā vidēji GEM ES valstīs novērotā un ievērojami augstāka kā Latvijā. Latvijas eksperti daudz pozitīvāk vērtē uzņēmējdarbības pamatu apgūšanu pamatskolas un vidusskolas līmenī, kā arī tālākizglītībā, nekā Igaunijas un Lietuvas kolēģi. Tomēr pētniecība un attīstība (R&D), un valdības politikas (nodokļi un regulas) joprojām prasa ievērojamus uzlabojumus.

INTRODUCTION TO THE GEM PROJECT AND GEM TERMINOLOGY

The Global Entrepreneurship Monitor (GEM) is a not-for-profit academic research consortium that produces evaluation of entrepreneurial activity across the world. The goal of GEM lies in making high quality international research data on entrepreneurial activity available to a wide audience all over the world. Initiated by London Business School and Babson College (USA) in 1999 with ten countries, the GEM research consortium had expanded to 69 countries in 2012. GEM is the largest single study of entrepreneurial activity in the world with the most geographically and economically diverse sample. Its contribution to knowledge and understanding of the entrepreneurial process in a global context is unique.

The three main objectives of the Global Entrepreneurship Monitor are:

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

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

GEM takes a comprehensive approach and considers the degree of involvement in 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 even discontinuation of the business. GEM looks at the main drivers behind engagement in entrepreneurial activity, and differentiates between individuals pulled into entrepreneurship because of opportunity recognition and pushed into entrepreneurship for reasons of necessity. GEM provides means by which a wide variety of important entrepreneurial characteristics such as innovativeness, export-orientation, and high-growth aspirations can be systematically studied; attitudes representing the climate for entrepreneurship in a society can be considered. Finally, GEM offers a framework for conducting research on special topics in entrepreneurship (e.g. entrepreneurial employee activity, social entrepreneurship, and entrepreneurial education) in an international context as well as enabling comparisons of entrepreneurial activities within and across geographic regions and specific groups of countries with similar characteristics.

An important advantage of GEM is its reliance on high-quality data, collected via adult population surveys (APS) in each participating country. Representative samples of not less than 2000 randomly selected adult individuals were collected in each of the 69 countries participating in GEM in 2012.

A professional survey vendor, "SKDS", conducted the GEM adult population survey in Latvia

in 2012. Via telephone interviews, a total of 2000 adults aged 18-64 years old were surveyed during May-July 2012.

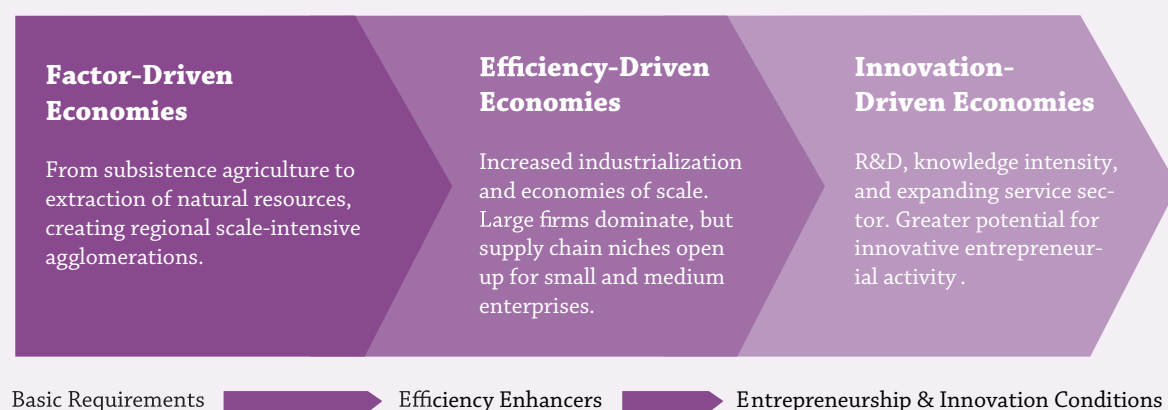
In addition to the adult population survey a national expert survey (NES) was undertaken in each of the participating countries.

1.1. ENTREPRENEURSHIP AND STAGES OF ECONOMIC DEVELOPMENT

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

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

Figure 1: Characteristics of Economic Groups and Key Development Focus



Source: GEM 2011 Executive Report.

Basic requirements such as development of institutions, infrastructure, macroeconomic stability, health, and primary education are crucial to generation of a sustainable business environ-

ment for factor-driven economies with a prevalence of necessity-driven entrepreneurship. With further progress and relevance of scale economies, conditions that ensure a proper

functioning of the market become more important. These conditions are also called efficiency enhancers. Among these are higher education and training, goods market and labour market efficiency, financial market sophistication. For innovation-driven economies entrepreneurship conditions (e.g. entrepreneurial finance,

government entrepreneurial policies, entrepreneurial education) are the main factors stimulating economic development.

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

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

**Entrepreneurship in
Factor-Driven Economies**

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

**Entrepreneurship in Efficiency-Driven
Economies**

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

supply chains that service these national incumbents. This, combined with the opening up of independent supplies of financial capital from the emerging banking sector, would spur opportunities for development of small-scale and medium-sized manufacturing sectors.

Thus, in a scale-intensive economy, one would expect necessity-driven industrial activity to gradually fall and give way to an emerging small-scale manufacturing sector.

**Entrepreneurship in
Innovation-Driven Economies**

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

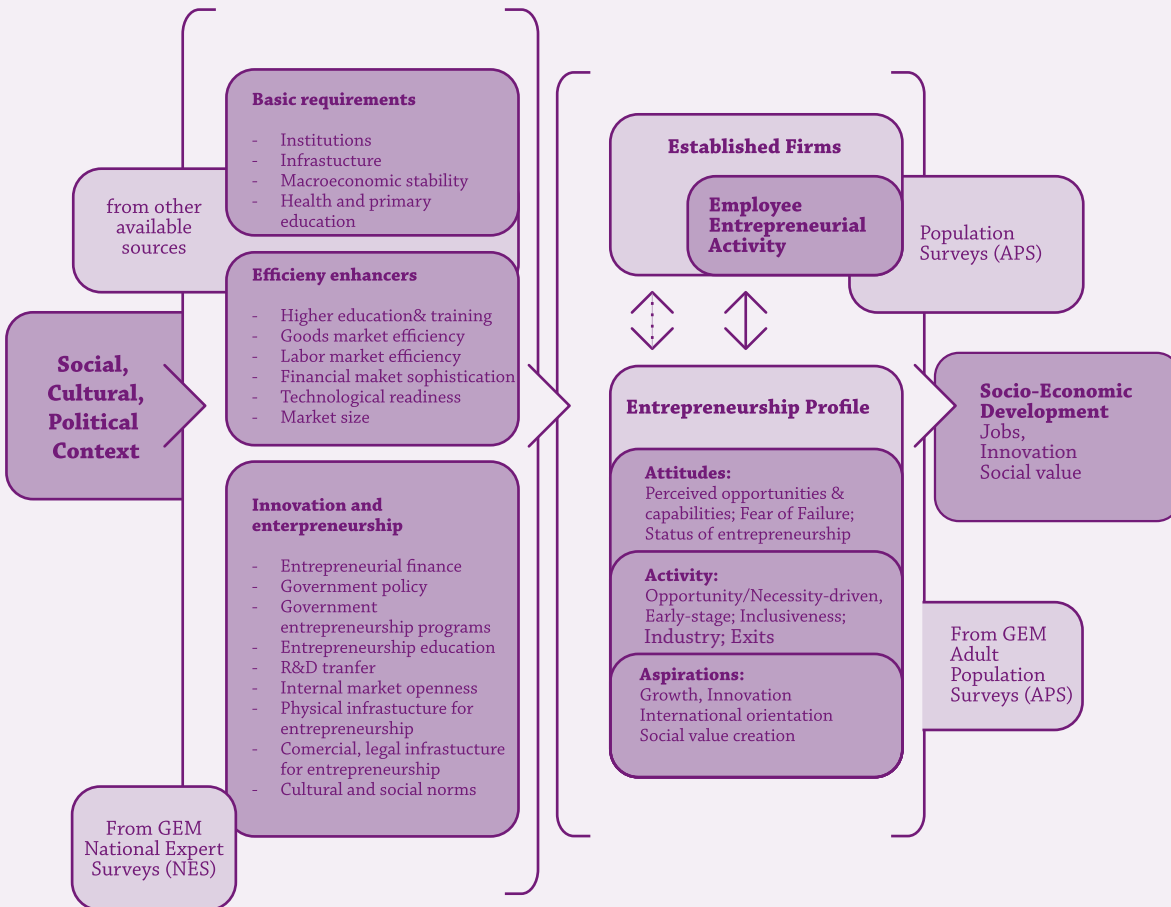
1.2. GEM CONCEPTUAL MODEL, TERMINOLOGY AND DATA

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

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

The GEM conceptual model (see Figure 2) is a dynamic entity that is progressively developed

Figure 2: The GEM Model



Source: GEM Executive Report 2011

to incorporate advances in understanding the entrepreneurial process and to allow for further exploration of patterns detected in previous GEM studies.

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

Box 2: GEM Terminology

Nascent entrepreneurs

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

New firm owners

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

Established business owners

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

Early-stage entrepreneurs

(nascent entrepreneurs + new firm owners)

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

Firm owners

(new firm owners + established business owners)

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

Overall entrepreneurial activity

(early-stage entrepreneurs + established business owners)

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

Prospective entrepreneurs

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

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

- Adult population survey (APS)

This data set is a survey of the adult popula-

tion, namely people between the ages of 18 and 64 years. Each of the participating countries conducts the survey among a random representative sample of at least 2 000 adults. Surveys are conducted at the same time of year (generally between April and early July) using a standardised questionnaire provided by the GEM consortium. In the interests of maximum

uniformity and control, the international GEM project team contracts each country's chosen APS vendor directly. Raw data are sent directly to analysts at London Business School for checking and uniform statistical calculations before being made available to participating countries.

- National experts survey (NES)

The national experts' survey is an important component of GEM as it provides insights into the entrepreneurial start-up environment in each country. GEM provides a number of criteria which

must be met when selecting experts, in order to construct a balanced and representative sample.

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

Box 3: Main distinction between GEM data and business registration data

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

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

2. LATVIAN ENTREPRENEURSHIP PROFILE

The current chapter aims at analysing the process of early stage entrepreneurship as well as some of the factors that influence the decision whether to engage in entrepreneurship. In doing so it will follow the GEM methodology where early stage entrepreneurship and factors driving it are analysed along three dimensions:

- An individual's attitude towards entrepreneurship includes their perception of business opportunities, trust in their knowledge, skills and abilities for entrepreneurial activity, entrepreneurial capability, fear of failure and intention to start a new business: how many individuals see business opportunities, how many believe they have the skills and knowledge to exploit such opportunities, and for how many would fear of failure prevent them exploiting such opportunities?
- Entrepreneurial activity measures the percentage of the population aged 18-64 involved in any of the phases of the entrepreneurial process (TEA – nascent plus new entrepreneurs, and established business owners). It also tracks the degree to which entrepreneurial activities are driven by opportunity and necessity motives.
- Business discontinuance (and its main reasons) as a part of entrepreneurial process are also estimated.
- Aspirations of entrepreneurs as to development of their products and services are studied. Of particular interest are entrepreneurs with international orientation of their business, those who expect to create more jobs, and expecting to offer new products and/or services.

Throughout the analysis a subset of European Union countries participating in the GEM project is used to benchmark Latvia's performance. This subset is divided into two groups according to their stage of economic development in line with the terminology employed in the World Economic Forum Global Competitiveness Report when characterizing a nation's stage of economic development: factor-driven economies, efficiency-driven economies and innovation-driven economies. Latvia belongs to the second group, i.e. it is an efficiency-driven economy. The countries against which it is benchmarked have reached either the efficiency-driven stage or the innovation-driven stage of economic development. In an efficiency-driven economy like Latvia, efficient production practices are the main source of competitiveness whereas in an innovation-driven economy innovative products and the most advanced methods of production and organisation are the main sources of competitiveness. In discussion and benchmarking particular attention will be paid to Latvia's two Baltic neighbours, Estonia and Lithuania. Further comparisons of the three Baltic countries are provided in chapter 4.

The rest of the chapter is organized as follows. The next section presents the stages of the entrepreneurial process, i.e. the conceptual framework forming the basis for analysis of this chapter. The remaining sections of the chapter turn to real data illustrating entrepreneurial processes in Latvia and its EU comparator countries. The first of these sections is forward-looking and provides a view on entrepreneurial attitudes including aspects such as perceived opportunities and capabilities as well as perceptions towards entrepreneurship. The section following provides a snapshot of the actual situation in terms of entrepreneurial activity in Latvia and selected comparator countries

and starts with an overview of the theoretical framework. The section also includes a discussion of motives for going into entrepreneurship – necessity-driven or opportunity-driven entrepreneurship; the demographics of early-stage entrepreneurship including age aspects; established business ownership; and business discontinuation or reasons for business exit. The third and final section of this chapter is devoted to a discussion of entrepreneurial aspirations

with a focus on internationalisation, innovation and growth.

In addition to the discussion in the current chapter, chapter 3 provides an analysis of Latvian entrepreneurial dynamics during the period 2005-2012. The chapter also covers some aspects not covered in the current chapter such as the gender dimension to Latvian entrepreneurship.

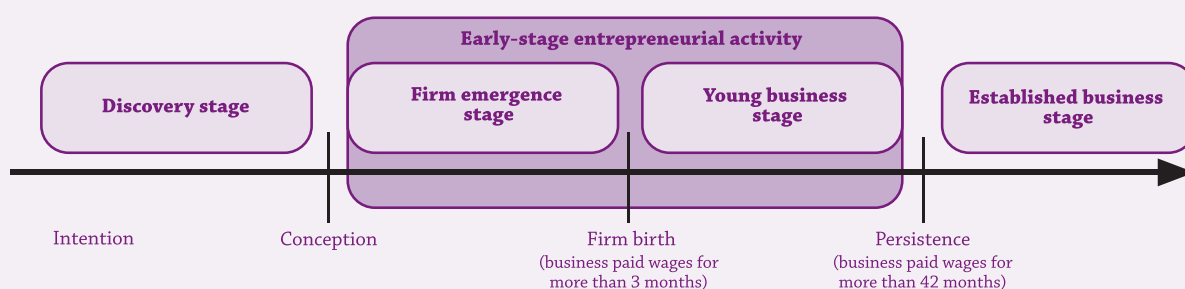
2.1. THE ENTREPRENEURIAL PROCESS

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

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

We start with a conceptualisation of the entrepreneurship process.¹ Figure 3 illustrates the stages of the entrepreneurship process as seen in the GEM analytical framework.

Figure 3: Stages of the entrepreneurial process in GEM



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

Engagement in entrepreneurial activity is often seen as an occupational¹ decision with just two outcomes: a person is an entrepreneur or

not. However, the choice to pursue an entrepreneurial career can be better described as a sequence of decisions or a process consisting

¹ This part of the current section draws on Rastrigina (2010).

of several stages (Reynolds, 1997). GEM distinguishes four major stages of the entrepreneurial process or business life cycle. Figure 3 demonstrates these stages. The definitions used in Figure 3 are explained in the GEM Terminology section of the previous chapter.

The first stage is the discovery stage. This includes individuals who intend to start a business within three years. In GEM these individuals are called *prospective entrepreneurs*. This is labelled “Entrepreneurial intentions” in Table 1 of the next section.

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

Payment of wages or salaries to firm owners for more than three months signals firm birth and the beginning of the young business stage. This lasts until the business has been in operation for more than 42 months (3.5 years).² Research indicates that this stage is the most vulnerable for a business.

After wages have been paid for more than 42 months a business is considered to be established and enters the established business stage. Finally, although not shown in Figure 3, one

more way exists for firms to ‘exit’ – through what in GEM terminology is labelled discontinuation of business.

The second and third stages together can be combined to define so-called *early-stage entrepreneurial activity*. Early-stage entrepreneurial activity is the hallmark of the GEM project and naturally will form the focus of analysis. It represents dynamic new firm activity, which is probably the most crucial period in the life of a new venture, decisive as to whether a business will thrive or perish. Official data based on the Enterprise Register often do not completely cover early-stage activity, since nascent entrepreneurs may not yet have registered their businesses.³ 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 at the entrepreneurial process) through screening the adult population of the country.

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

2.2. ENTREPRENEURIAL ATTITUDE

Fostering Europe’s entrepreneurial potential, entrepreneurial awareness and positive attitudes towards entrepreneurship, removing existing obstacles and creating a fruitful culture of entrepreneurship in Europe is high on the European agenda as well as the agenda of individual EU member states. The EU Entrepreneurship

2020 Action Plan states that only if a large number of Europeans recognize an entrepreneurial career as a rewarding and attractive option will entrepreneurial activity in Europe thrive in the long term, so that investment in improving the public perception of entrepreneurs is crucial for future development.

² The cut-off point of 3.5 years has been chosen by GEM based on a combination of theoretical and operational grounds. For more details on this choice see GEM 2008 Executive Report or Reynolds et al. (2005).

³ The main differences between enterprise register data and GEM data are discussed in chapter 1.

Table 1 presents the factors that make up what could be labelled entrepreneurial attitude:

- percentage of individuals who believe there are opportunities to start a business in the area they live (perceived opportunities);
- percentage of individuals who believe they have the required skills and knowledge to start a new business (perceived capabilities);
- percentage having fear of failure among those seeing opportunities (fear of failure);
- percentage of individuals who are not involved in entrepreneurial activity yet but who expect to be involved in entrepreneurship within three years (entrepreneurial intentions);
- percentage who believe that entrepreneurship is a desirable career choice;
- percentage who agree that successful entrepreneurs are awarded high status in a society; and
- percentage who claim that media attention on entrepreneurship is positive.

It is in general believed that high percentages for all the above variables except for fear of failure have a positive impact on entrepreneurial activity and willingness to go into entrepreneurship. In other words, relating back to the previous section's discussion on the entrepreneurial process, all the above factors are supposed to affect the discovery stage.

Before looking into the observations in detail, it is important to bear in mind that cultural difference and differences in the overall national economic environment (e.g. business-cycle patterns) have to be considered important explanations for differences in perceptions across countries.

In the GEM 2012 Latvia survey, perceived opportunities (33%) to start a business in Latvia

Table 1: Entrepreneurial attitudes and perceptions in the GEM EU Countries in 2012

Country	Perceived opportunities	Perceived capabilities	Fear of failure*	Entrepreneurial intentions **	Entrepreneurship as a good career choice	High status to successful entrepreneurs	Media attention for entrepreneurship
Austria	49.21	49.61	35.96	8.57	46.42	75.82	
Belgium	33.29	37.11	40.83	9.06	62.27	57.38	53.82
Denmark	44.41	31.02	39.26	6.64			
Estonia	45.24	43.19	34.49	16.38	57.77	62.54	41.46
Finland	55.33	34.32	36.52	7.73	45.11	83.38	68.37
France	37.52	35.66	42.84	17.29	64.54	76.82	41.08
Germany	36.16	37.09	41.91	6.01	48.92	76.40	49.01
Greece	12.95	50.00	61.29	9.51	64.36	68.30	33.05
Hungary	10.95	39.83	34.28	12.96	41.49	74.02	29.30
Ireland	25.55	45.16	35.37	5.43	45.41	81.41	61.45
Italy	19.80	29.97	57.68	10.76	66.68	69.74	51.33
Latvia	33.05	43.56	36.74	21.85	59.66	53.33	53.30
Lithuania	29.99	39.83	35.78	17.98	63.12	52.88	37.29
Netherlands	34.40	42.30	30.45	8.63	79.33	65.15	58.33
Poland	20.42	53.89	43.45	21.57	67.93	57.08	56.27
Portugal	16.19	46.80	42.30	14.37			
Romania	36.73	38.34	40.87	27.02	71.15	73.58	55.24
Slovakia	17.84	49.73	38.32	11.83	50.27	74.40	59.43
Slovenia	19.62	51.32	27.28	13.25	52.73	71.08	51.08
Spain	13.90	50.38	41.76	11.13	63.64	63.71	47.26
Sweden	66.48	36.99	35.61	10.96			
United Kingdom	32.82	47.13	36.01	9.52	49.79		
Average (unweighted)	31.45	42.42	39.36	12.66	57.77	69.14	49.67

Source: GEM 2012 Executive Report.

Denominator: 18-64 age group perceiving good opportunities to start a business.

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

are higher compared to the previous year (2011 - 24%) and also somewhat higher than the average (31%) for all GEM EU countries. The dramatic change in perceived entrepreneurship opportunities in Latvia could probably to a large extent be explained by overall improved Latvian macroeconomic conditions.

Sweden (66%) and Finland (55%) are at the top in recognition of opportunities. Perceived capabilities among GEM EU countries are highest in Poland (54%), Slovenia (51%) and Spain (50%). It is interesting to note that for the six countries with the highest indicators of perceived opportunities (Sweden, Finland, Austria, Estonia, Denmark, and France), the indicator of perceived capabilities is lower than the indicator of perceived opportunities. This pattern is different to that observed in other GEM EU countries. Therefore, one may conclude that Finns, Swedes, Austrians, Danes, Estonians and French perceive many opportunities but are not very confident in their skills, knowledge and capabilities to engage in entrepreneurial activities.

Latvia shows a rather high perception of capabilities (44%) paired with an average level of fear of failure (37%). The good sign is that the level of failure is less than it was in 2011 (41%) – again this may be attributed to improved macroeconomic conditions. The lowest fear of failure is observed in Slovenia (27%) and the highest in Greece (61%).

The entrepreneurial intentions of Latvians (22%) are slightly lower than in 2011 (25%) but still this is the second highest result for the GEM EU countries. The highest rate of entrepreneurial intentions (27%) is observed for Romanians. Finland, on the other hand, has the lowest level of entrepreneurial intentions (8%). Remarkable differences are observed between Finland, Austria, the Netherlands and France. While in the first three countries only about 8% of individuals expect to start a business in the next

three years, almost 17% of individuals in France are thinking about setting up a new business.

Compared to her Baltic neighbours Latvia does better than Lithuania and worse than Estonia in terms of opportunity recognition. In terms of perceived capabilities Latvia and Estonia are more or less on a par, with Lithuania faring slightly worse. As to fear of failure there are no significant differences between the three Baltic countries.

The entrepreneurial process is a social process executed by people living in a specific cultural and social environment. GEM tries to study the relationship between the socio-cultural environment and attitudes towards entrepreneurship, analysing the proportion of individuals (aged 18-64) who believe that entrepreneurship is a desirable career choice, who think that there is positive media attention for entrepreneurship (e.g. stories about successful entrepreneurs are often seen in the public media) and those who agree that successful entrepreneurs are awarded high status in society.

A rather remarkable feature of observed entrepreneurial attitudes is the wide gap between people's respect for entrepreneurship as a profession and their belief that entrepreneurship is a good career choice. The widest gap is observed for such countries as Austria, Finland, Germany, Hungary, Ireland, Slovakia and Slovenia. A different result is obtained for Spain, where 64% of the population agree that entrepreneurship is a good career choice and the same percentage agree that successful entrepreneurs enjoy high status.

Analysing coverage of entrepreneurial topics in the media, we see that the highest media attention to entrepreneurship is considered to be in Finland, Ireland and Slovakia, the lowest in Hungary.

A comparison of the three Baltic countries reveals that Lithuanians are the most favourable in terms of seeing entrepreneurship as a good career choice

with Latvians ranking second and Estonians third. In terms of the status of successful entrepreneurs Estonia stands out, with no significant differences between Latvia and Lithuania. The media, on the other hand, seem to do a worse job in terms of positive reporting on successful entrepreneurs in Estonia and Lithuania than in Latvia.

Finally, summing up and focusing on Latvia we can conclude that compared to the previous year

Latvians in 2012 saw more business opportunities, but became less self-confident about their entrepreneurial capacity, while at the same time they also became less afraid of failure. 60% of Latvians think that entrepreneurship is a good career choice, somewhat more than half of adult Latvians agree that successful entrepreneurs enjoy high status and 53% think that in Latvia the media provide a positive picture of entrepreneurship in terms of reporting on successful entrepreneurs.

2.3. ENTREPRENEURIAL ACTIVITY

The previous section covered entrepreneurial attitudes. This section provides an overview of entrepreneurial activities in Latvia and the other GEM EU countries in 2012. In other words, this section explores firm emergence and the new business stage. It also touches upon the last two stages of the entrepreneurial process: the established business stage and discontinuation of business.

The underlying GEM theoretical model considers entrepreneurship as a continuous process that includes *nascent entrepreneurs*, i.e. individuals who are actively involved in setting up a business or who already own a business but whose business has not paid wages or salaries for more than three months; individuals who are owners/managers of an active business and who have been in business for more than three months, but less than three and a half years are *new business owners*. These two types of entrepreneur combined make the Total Entrepreneurial Activity Index (TEA), which shows the percentage of the population aged 18-64 involved in entrepreneurship. TEA is the central measure of the GEM project. It shows the scope of early stage entrepreneur-

ial activity, which is particularly sensitive to socio-economic factors: these either promote or deter entrepreneurship. The third component is *established business owners* – entrepreneurs who own and manage an established business that has been in existence for more than three and a half years. Additionally GEM evaluates the rate and reasons for *business discontinuation*, which together with the birth of new firms and their active operations is the indicator of entrepreneurial dynamics. Some individuals become involved in entrepreneurship out of necessity while others enter entrepreneurship in order to exploit a business opportunity – this different nature of entrepreneurship motives, i.e. *necessity-driven*, *opportunity-driven* is also covered within the GEM framework.

Table 2 provides a snapshot of the actual situation in terms of entrepreneurial activity. As such it can be seen as the heart of the GEM research project since it focuses on firm birth and the persistence of businesses launched. It also provides insights about individual entrepreneurs' motives for starting a business – necessity- and opportunity-driven entrepreneurship.

Table 2: Entrepreneurial activity in the EU GEM Countries in 2012

Country	Nascent entrepreneurship rate	New business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of businesses	Necessity-driven (% of TEA)	Improvement-driven opportunity (% of TEA)
Austria	6.58	3.42	9.58	7.61	3.56	10.81	38.20
Belgium	3.32	1.95	5.20	5.12	2.39	17.91	61.56
Denmark	3.07	2.36	5.36	3.45	1.34	8.24	70.65
Estonia	9.46	5.09	14.26	7.24	3.96	18.22	49.10
Finland	3.45	2.68	5.98	8.04	1.99	17.10	59.88
France	3.74	1.54	5.17	3.23	1.96	18.14	58.94
Germany	3.51	2.15	5.34	4.95	1.91	21.68	50.74
Greece	3.82	2.84	6.51	12.27	4.43	29.94	32.11
Hungary	5.83	3.59	9.22	8.10	3.77	31.13	32.57
Ireland	3.91	2.28	6.15	8.32	1.74	28.14	40.52
Italy	2.47	1.92	4.32	3.32	2.43	15.74	22.30
Latvia	8.71	4.82	13.39	7.93	3.39	25.26	46.02
Lithuania	3.15	3.64	6.69	8.24	2.20	24.63	51.49
Netherlands	4.08	6.26	10.31	9.49	2.17	8.44	66.35
Poland	4.83	4.55	9.36	5.81	3.89	40.71	30.13
Portugal	4.26	3.63	7.67	6.23	2.98	17.86	53.08
Romania	5.51	3.83	9.22	3.91	3.81	24.19	37.70
Slovakia	6.65	3.91	10.22	6.38	4.69	35.57	42.88
Slovenia	2.95	2.53	5.42	5.79	1.62	7.36	64.02
Spain	3.35	2.45	5.70	8.74	2.11	25.59	32.51
Sweden	4.59	1.85	6.44	5.25	1.86	6.84	48.59
United Kingdom	5.30	3.74	8.98	6.16	1.69	18.30	42.61
Average (unweighted)	4.66	3.23	7.75	6.62	2.72	20.54	47.03

Source: GEM 2012 Executive Report

2.3.1. TOTAL EARLY STAGE ENTREPRENEURIAL ACTIVITY (TEA)

The percentage of nascent entrepreneurs in Latvia increased in 2012 (2011) to 8.7% (6.8%), but the percentage of new business activity decreased to 4.8% (5.3%). The indicator of early-stage entrepreneurial activity suggests that about 13 out of 100 individuals in Latvia are engaged in starting or running a business not older than 42 months. The established business ownership rate also increased compared to the previous year to 7.9% (5.7%).

Figure 4 shows the TEA rates across GEM EU countries grouped by level of development. The 95% confidence intervals help to interpret differences between countries. They measure

the probability that an average value will fall within a certain interval. TEA rates for Estonia and Latvia are the highest for the group of all GEM EU countries and accordingly also within the sub-group of GEM EU efficiency-driven countries. Although the Estonian TEA rate tends to be slightly higher compared to Latvia, the Estonian TEA rate is not statistically different from the Latvian TEA rate. The Lithuanian TEA rate is considerably lower and closer to that observed on average in other GEM EU countries. Within the group of innovation-driven countries the highest TEA rates are observed in the Netherlands, Slovakia, Austria and the UK.

Figure 5 correspondingly shows the level of nascent and new business ownership in the EU GEM countries. For Estonia and Lithuania the number of people who are actively involved in setting up a business or who already own a business but not more than for three months are the highest among efficiency-driven EU countries and GEM EU innovation-driven countries. Although the level of new businesses (more than three months, but less than three and a half years) tends to be higher in Estonia and Latvia within the sub group of efficiency-driven countries, adopting 95% certainty, new business ownership rates of other efficiency-driven EU countries are not statistically different from those in Estonia and Lat-

via. The highest rate of new business ownership among all GEM EU countries is observed in the Netherlands.

Analysing countries with the highest TEA rates, we can see that Estonia, Latvia, Slovakia, Austria and the UK share a common pattern. In these countries nascent entrepreneurs constitute the larger share of early stage entrepreneurial activity. The situation in the Netherlands is different – with a larger share of new business owners in the early stage of entrepreneurship compared to the share of nascent entrepreneurship.

Figure 7 shows the shares of nascent and new ownership rates in TEA for all GEM EU countries.

Figure 4: Early-stage entrepreneurial activity by country, 2012

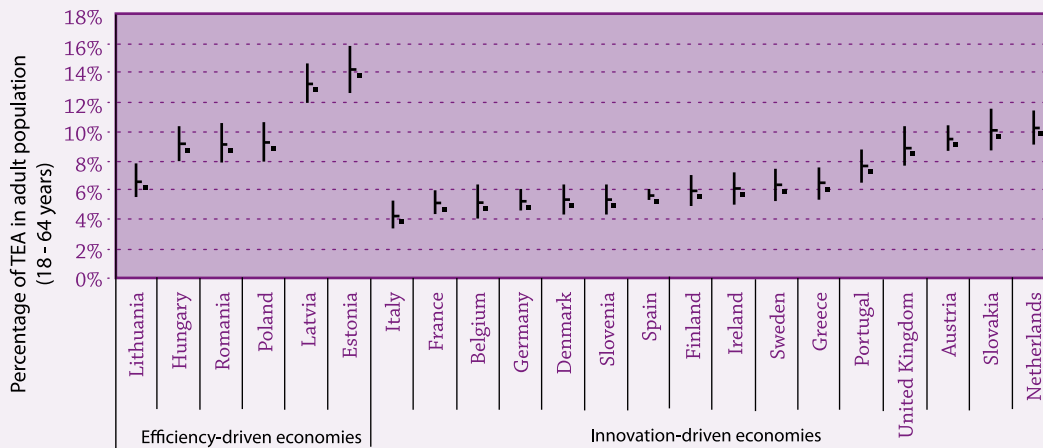


Figure 5: Nascent entrepreneurial activity by country, 2012

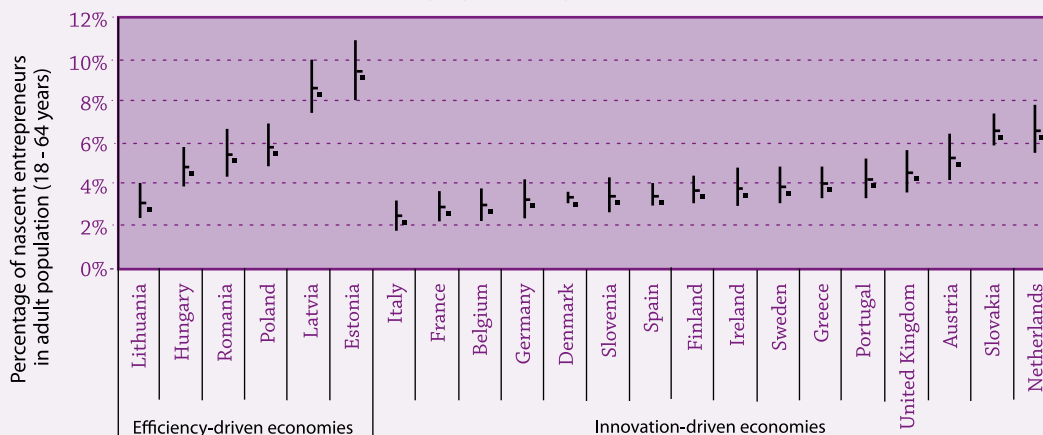
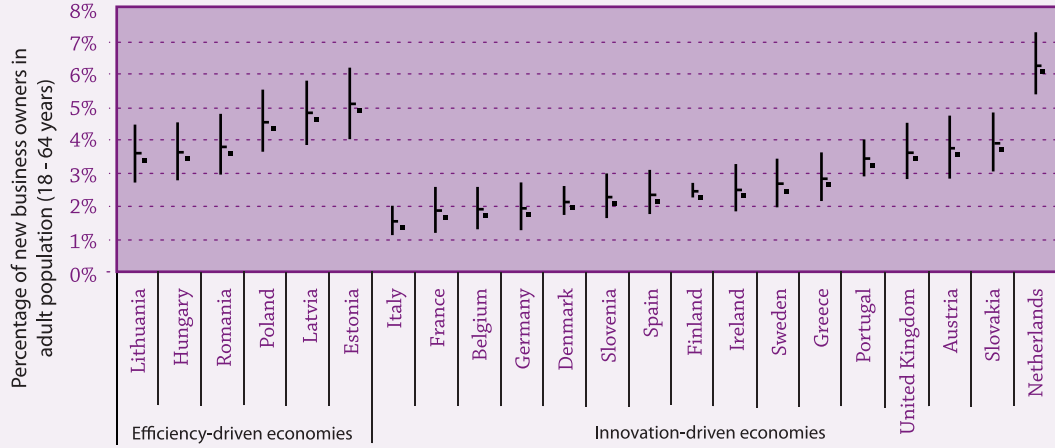
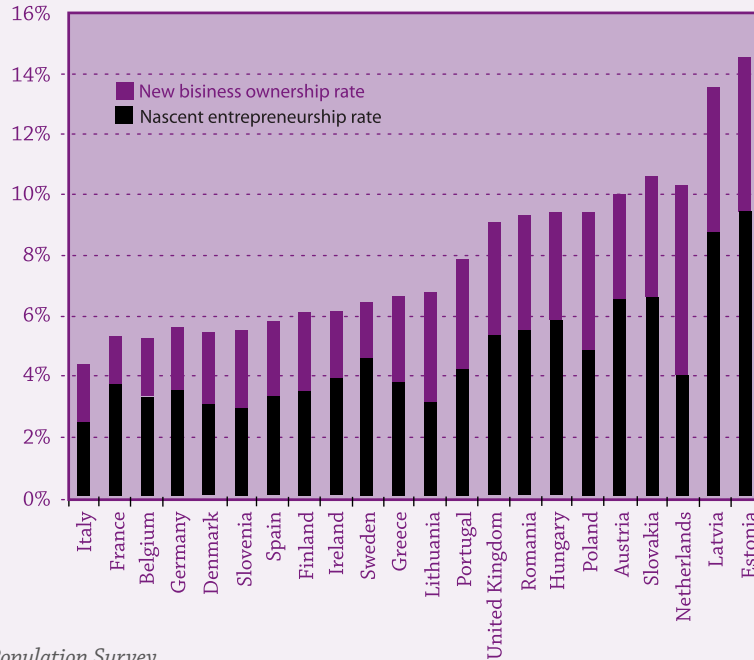


Figure 6: New business-ownership activity by country, 2012



Source: GEM Adult Population Survey

Figure 7: New business ownership and nascent entrepreneurship rates by country, 2012



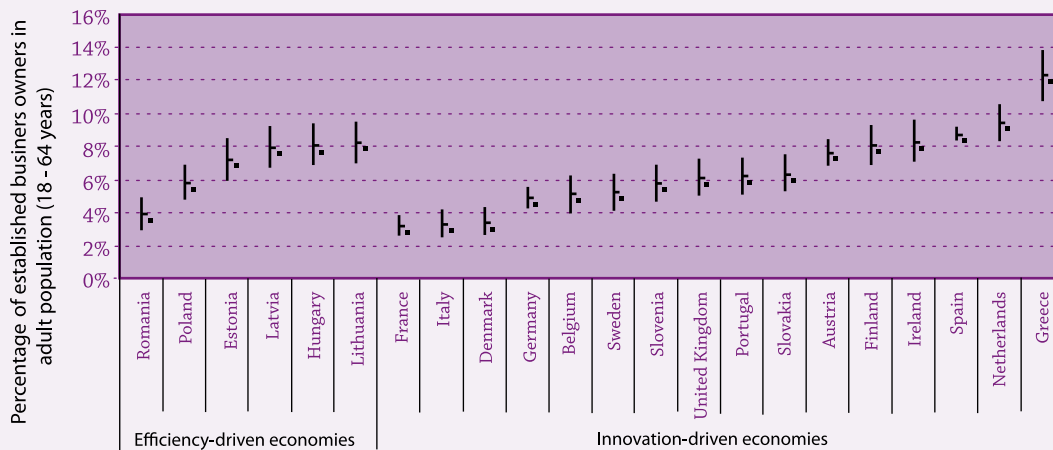
Source: GEM Adult Population Survey

2.3.2. ESTABLISHED BUSINESS OWNERSHIP

Analysis of established business ownership levels provides an indication of the sustainability of entrepreneurship in the countries studied. Businesses surviving beyond the nascent and new business stages can continue to contribute to their economies, for example providing new products and services as well as stable employment.

The findings are presented in Figure 8. The highest established business ownership rate for the whole GEM EU sample is observed in Greece (12 out of 100). France, Italy and Denmark have the lowest rates, with 3 out of 100 individuals in these countries as established business owners. The results for Latvia, Hungary, Lithuania, Estonia, Finland, Ireland and Spain are very similar at around 8%.

Figure 8: Established business ownership by country, 2012



Source: GEM Adult Population Survey

2.3.3. BUSINESS DISCONTINUATION

Businesses emerge, some develop into an established entrepreneurship whereas others close – this is a natural process of the enterprise life-cycle. Closing down a business does not, however, necessarily mean a loss to society. The experience from the individual entrepreneur is still there and might be used if the entrepreneur re-enters the entrepreneurial pro-

cess or it might be shared with others already in or considering going into entrepreneurship.

In order to evaluate the indicator of business discontinuance, GEM tracks the number of individuals who discontinued their business in the last twelve months as well as the main reason for doing so. When answering the question

about the main reason for the individual entrepreneur's decision to discontinue their business several possible options were provided in the GEM survey:

- an opportunity to sell the business;
- the business was not profitable;
- problems obtaining finance;
- another job or business opportunity;
- exit was planned in advance;
- retirement;
- personal reasons; and
- other.

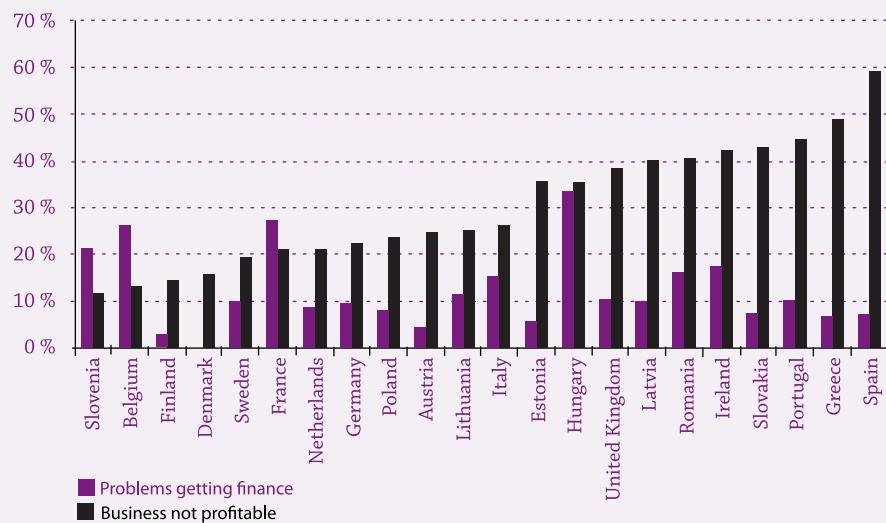
The reasons listed above can be divided into "positive" and "negative". In this report we will concentrate our analysis on four particular reasons, two positive and two negative. The positive reasons are: another job or business opportunity, and the opportunity to sell the business. Problems obtaining finance and business non-profitability are two negative reasons considered. Figure 9 and Figure 10 show that for more than half of discontinued businesses in Spain the main reason was business

non-profitability. Business non-profitability was also very often (40-50%) mentioned by individuals in Greece, Portugal, Slovakia, Ireland, Romania and Latvia. On the other hand, problems obtaining finance are topical in Hungary (34%), France (27%), Belgium (26%) and Slovenia (21%).

Another job or business opportunity as a reason for business discontinuation was quoted by one quarter of all individuals who discontinued their business in the last twelve months in Belgium. For Finland, Austria, Denmark and the Netherlands the number was around 16-17%. Another job or business opportunity was seen as a reason for business discontinuation among approximately 10% of Estonian and Lithuanian respondents. For Latvia this reason was mentioned by only 4%.

Out of the countries for which we have data, the opportunity to sell as the main reason for business discontinuation was mentioned most frequently in Lithuania (11%) and the UK (8%). In the other two Baltic countries it was quoted in only 5% of Estonian cases and in 1% of Latvian cases.

Figure 9: "Negative" reasons for business exit by country, 2012



Source: GEM Adult Population Survey

Figure 10: “Positive” reasons for business exit by country, 2012

Source: GEM Adult Population Survey

2.3.4. MOTIVATION TO START A BUSINESS

Motivations for starting a business differ – some individuals become involved in entrepreneurial activity out of necessity while others enter entrepreneurship to exploit a business opportunity. Motivation varies in general with the individual country’s stage of economic development. Accordingly, the motivation for starting a business varies vastly across the globe. It is empirically shown that entrepreneurs in factor-driven economies tend to be driven equally by necessity and improvement-driven opportunity motives. With greater economic development levels, the necessity motive gradually falls, while improvement-driven opportunity motives increase. Among the GEM EU countries participating in the 2012 survey, Estonia, Hungary, Latvia, Lithuania, Poland and Romania are efficiency-driven economies according to the Global Competitiveness Report 2012-2013 (see Schwab, 2012) with all but Romania being in the transition phase from being an efficiency-driv-

en to an innovation-driven economy. All other EU GEM economies are innovation-driven.

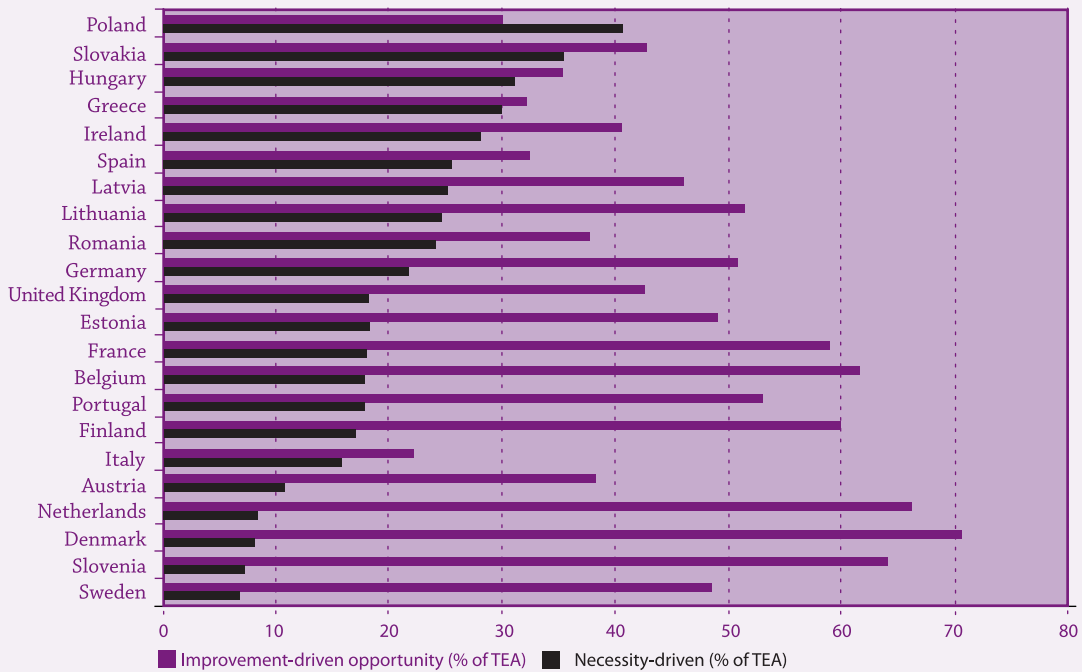
Analysing data on motives of entrepreneurs in GEM EU countries (Figure 11) we see that one out of every four early-stage Latvian entrepreneurs is driven by necessity. The result is the same as observed in 2011. This result is substantially higher compared to e.g. Sweden, Slovenia and Denmark, but very similar to Lithuania, Spain and Ireland. The highest level is for Poland where 41% of early stage entrepreneurs are driven by a necessity motive.

Slovenia, Denmark and the Netherlands are European countries where the percentage of early-stage entrepreneurs influenced by improvement-driven opportunity motives is the highest. On the other hand, in Italy only 22% of entrepreneurs were driven by the opportunity motive in 2012.

The result for Latvia (46%) is somewhat average compared to other GEM EU countries. As

for Estonia and Lithuania the results are fairly similar to Latvia.

Figure 11: Percentage of entrepreneurs driven by necessity- and improvement-driven opportunity motives in GEM EU countries, 2012

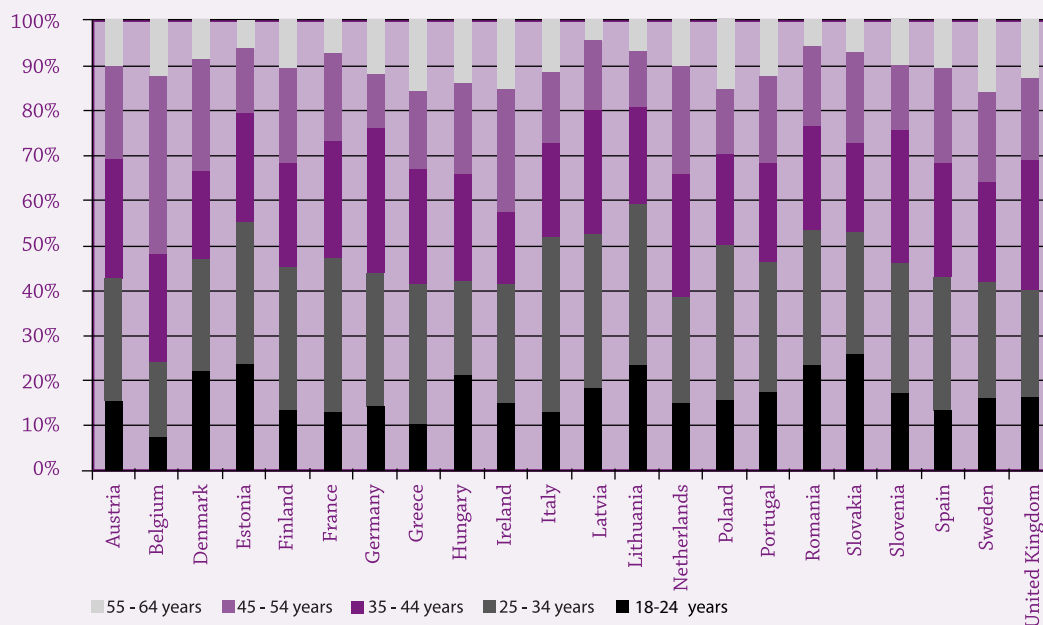


Source: GEM Adult Population Survey

2.3.5. ENTREPRENEURSHIP PROFILE: AGE DISTRIBUTION

Figure 12 shows that in almost all GEM EU countries early-stage entrepreneurs tend to be young and middle-aged, i.e. aged 25-44. However, several countries deviate from this pattern. In Belgium and Ireland the highest share

of early-stage entrepreneurs is in the age group 45-54; in Denmark, the Netherlands and Slovenia, early-stage entrepreneurs tend to be either aged 25-35 or 45-54.

Figure 12: Early-stage entrepreneurial activity by age groups for GEM EU countries, 2012

Source: GEM Adult Population Survey

Latvia follows the common pattern, with the 25-44 age group having the highest proportion of early-stage entrepreneurs. The shares of entrepreneurial activity among the 55-64 age group are quite similar. Latvia has the lowest share among the GEM EU countries for the oldest age group,

i.e. 55-64, with a similar pattern for the same age group in Estonia and Lithuania. Low entrepreneurial activity among the 55-64 age group might indicate an “untapped resource” that from the policymaker’s side should be looked into further in order not to lose their potential.

2.4. ENTREPRENEURIAL ASPIRATION: INTERNATIONALIZATION, INNOVATION AND GROWTH

GEM measures the aspiration levels of entrepreneurs as to development of their enterprises using three main measures: growth expectations; innovativeness of products and/or services; and internationalization of business activities. These three measures, while interest-

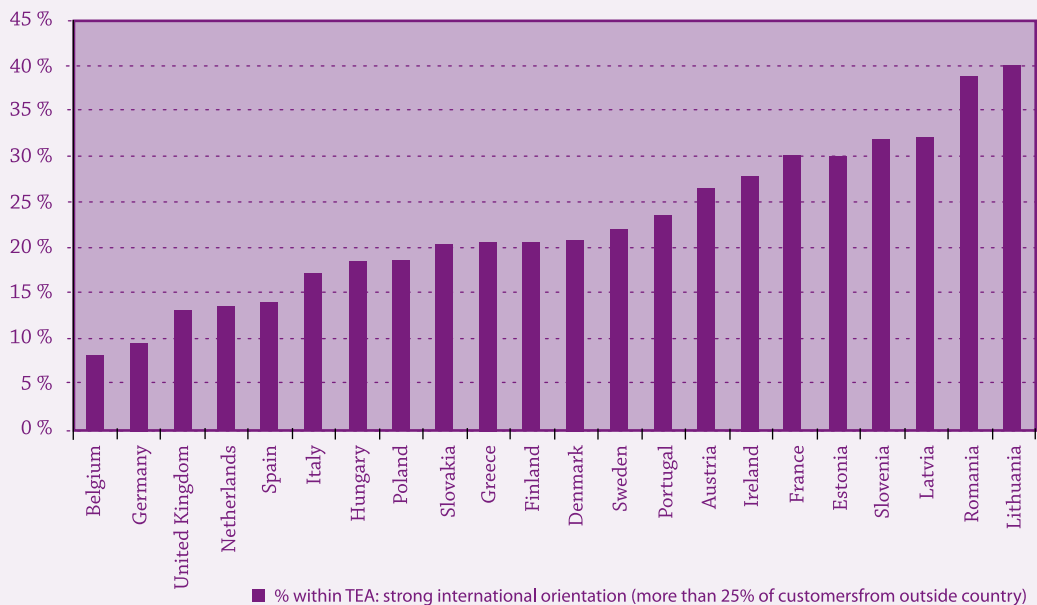
ing as such, are closely related to economic development and hence prosperity (Wennekers et al., 2010, Bosma, 2011) and therefore provide valuable insights into the overall impact of entrepreneurship on the economy.

2.4.1. INTERNATIONALIZATION

For small, open economies with limited capacity on their internal market, it is crucial to expand to foreign markets. GEM measures the international orientation of early-stage entrepreneurs based on sales of products and/or services abroad. Figure 13 shows the data on early-stage enterprises with strong international orientation, i.e. companies with over 25% of their customers from abroad.

The reader can see that the highest international ambitions are attributed to Lithuanians and Romanians (about 40%). Latvians and Estonians are also at the higher end with about 30% of early-stage entrepreneurs having over 25% of their customers from outside their home country. Hence for Latvia and Estonia roughly one third of the customer base is outside national borders.

Figure 13: Percentage of early-stage entrepreneurs with over 25% international customers, GEM EU countries, 2012



Source: GEM Adult Population Survey

2.4.2. INNOVATION

The next measure of aspiration employed in the GEM framework to be considered is innovation. In the literature innovative entrepreneurs are seen as one of the main factors contributing to long term economic growth, while at the same timing serving as a foundation for the whole

entrepreneurial process. The ability to create, distribute and exploit innovation has become a major source of competitive advantage for enterprises, as well as for regions and countries, creating wealth and improving the quality of life. Innovation is an important source of pro-

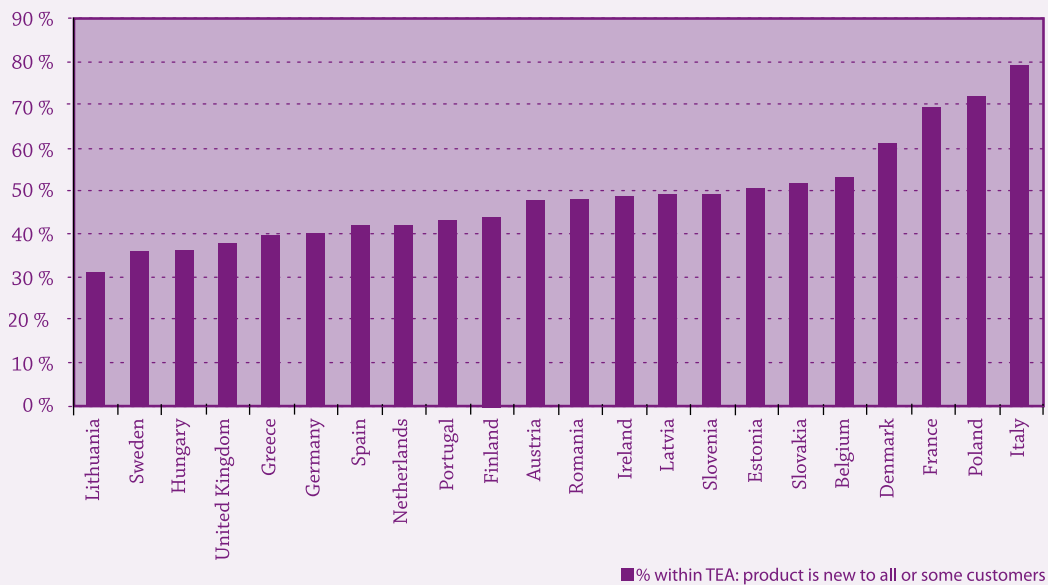
ductivity growth and future wealth generation. It has become increasingly important as the increasing level of global competition has reduced opportunities to compete on low cost alone.

We will evaluate innovation in the GEM EU countries in 2012 from the perspectives of market and industry.

Figure 14 focuses on the market, showing the proportion of early-stage entrepreneurs that

have a product that is new to all or some customers, whereas Figure 15 adopts an industry perspective showing the proportion of early-stage entrepreneurs that believe that few or no businesses offer the same product as they do. When comparing countries, it should be kept in mind that what may seem new to customers in one country may already exist in other markets and hence already be familiar to customers in other countries.

Figure 14: Percentage of early-stage entrepreneurs with a product new to all or some customers, GEM EU countries, 2012



Source: GEM Adult Population Survey

From Figure 14 it follows that Latvian as well as Estonian early stage entrepreneurs score well when it comes to offering products (and services) new to all or some customers – around 50% of early stage entrepreneurs from these two countries claim this is the case. Lithuanian entrepreneurs, on the other hand, are in that sense “less innovative” with merely a third

of them offering a product new to all or some customers. Latvian and Estonian performance is roughly similar to the average for the GEM EU countries. At the high end, Italy with 80%, Poland with 72%, and France with 70% of early stage entrepreneurs claiming to have products new to all or some customers stand out. Lithuania’s performance is fairly similar to that of

Sweden, Hungary and the UK – all of them with about one third of early stage entrepreneurs having products new to all or at least some customers.

Figure 15: Percentage of early-stage entrepreneurs with a product offered by few or no other businesses, GEM EU countries, 2012



Source: GEM Adult Population Survey

As seen from Figure 15 Estonia scores very well in terms of its share of early-stage entrepreneurs with a product or service that is offered by few or no other businesses. With a share of 59% Estonia is well ahead of Latvia and Lithuania. One interesting observation is that Italy

and Poland, the two countries that had the highest share of early-stage entrepreneurs offering their customers new products, have the lowest share of early-stage entrepreneurs with a product that is offered by few or no other businesses.

2.4.3. GROWTH EXPECTATIONS

The third and final measure of the aspiration level used in the GEM framework is growth expectations.

To obtain a measure of growth expectations, the GEM survey asks early-stage entrepreneurs to indicate the number of employees they expect to have in five years' time. Figure 16 shows the findings divided into three different levels of expected growth:

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

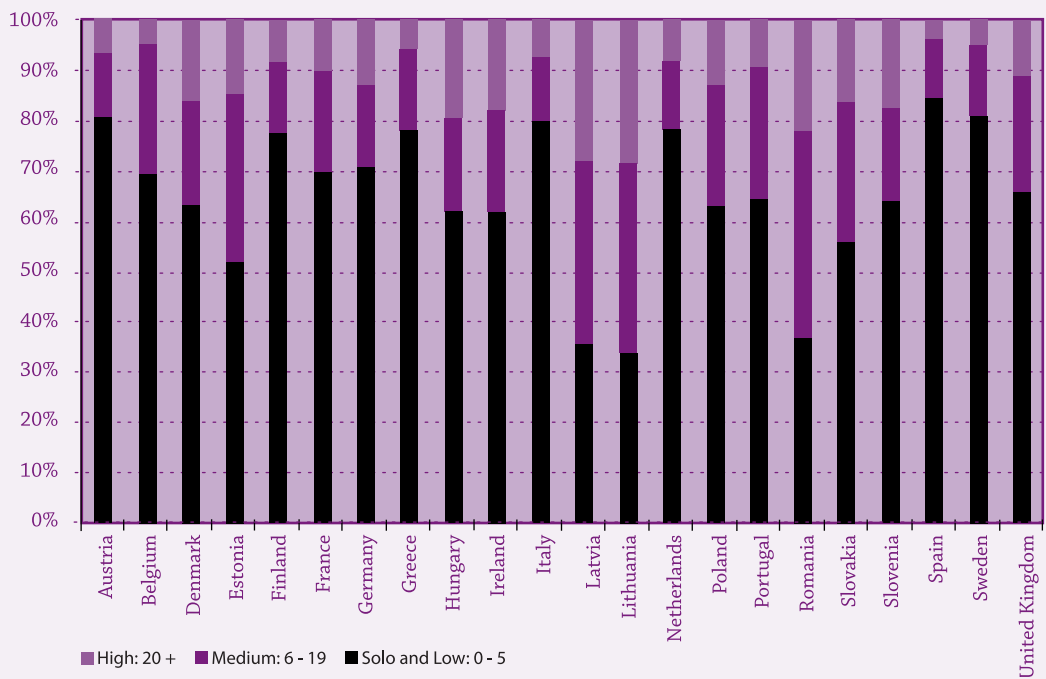
Even though entrepreneurs might have a tendency to be overly optimistic and hence overestimate the number of jobs they might create in the coming five years, these figures nevertheless allow interesting insights into the sentiment of

entrepreneurs when it comes to expansion of their business.

From Figure 16 it follows that early-stage entrepreneurs in Latvia and Lithuania are rather ambitious in their growth expectations, whereas

considerably more Estonian entrepreneurs plan solo or low job creation. As for Latvia and Lithuania, the result is similar to what was observed in the previous year – early-stage entrepreneurs with high job creation expectations compared to other GEM EU member states.

Figure 16: Growth expectation in GEM participating EU member states, 2012



Source: GEM Adult Population Survey

Box 4: Entrepreneurship and Migration

Migrant entrepreneurs can make significant contributions to economic growth and global competitiveness in both their host and home economies. That is why the 2012 GEM included migrant entrepreneurs as a special research topic. Analysis specifically focused on the impact of migrant entrepreneurial activity on the economies in which they operate with an emphasis on various aspects of growth-, innovation- and international orientation of their start-ups and businesses. The GEM

results show that migrant entrepreneurs are more likely to have growth intentions at all economic development levels. Additionally, in efficiency- (the category to which Latvia is attributed) and innovation-driven economies, they are more likely to sell to international customers. As such, migrant entrepreneurs can create jobs, boost global competitiveness and influence transfer of resources, information and technological know-how. Policy makers in receiving economies should therefore recognize the

value migrants provide in terms of creating jobs and globalizing the business environment. Economies of origin should make every effort to build and support connections to those that have emigrated to other parts of the world. (GEM Executive Report 2012). Unfortunately, the Latvian GEM sample involves too few migrant entrepreneurs,

which, in turn, means that we will not be able to say anything specific about migrant entrepreneurs in Latvia and their contribution to national economic development. However, it seems reasonable to assume that what holds for other efficiency-driven economies also holds for Latvia.

Box 5: Public venture capital in Latvia

The 2012 GEM Latvia Report highlights access to finance as one of the main challenges facing Latvian entrepreneurs in terms of developing their businesses. Difficulty in obtaining finance is also quoted as one of the main reasons for business discontinuation. These challenges are, however, not unique to Latvia. The Small Business Act for Europe (European Commission, 2008, p. 11) puts it in the following way:

The EU and the Member States should facilitate SMEs' access to finance, in particular to risk capital, micro-credit and mezzanine finance and develop a legal and business environment supportive to timely payment in commercial transactions.

One instrument employed in several Member States is public venture capital programmes. A recent paper by Avots et al. (2013) studies public venture capital programmes implemented in Latvia since the first of these was launched in 2005.

The main finding is that Latvian public venture capital programmes implemented so far have to a large extent

failed to address the demand side – evidence suggests that there are not enough good and investment-ready projects to invest in. At the same time, slightly paradoxically, Latvian entrepreneurs are looking for venture capital outside Latvia. Part of the explanation for this paradox could be found in the observation that Latvian entrepreneurs perceive local venture capitalists as not being able to bring in non-financial investments or 'smart money'. Examples of smart money include managerial competence and involvement in the daily operations of the company invested in. As a pivotal component of entrepreneurial and hence venture capital success, lack of smart money might pose a threat to further development of the Latvian venture capital market and hence the success of Latvian entrepreneurs. Furthermore, analysis reveals a need for a more comprehensive approach towards venture capital policymaking. Such an approach should include: pre-seed stage funding, preparing entrepreneurs to be business-ready, changes in legislation and other institutional factors, plus a willingness to draw on international experience when developing and implementing public venture capital programmes in Latvia.

3. LATVIAN ENTREPRENEURIAL DYNAMICS: 2005-2012

The fact that Latvia with the 2012 GEM Report has participated in the GEM project for eight years provides us with an opportunity to analyse Latvian entrepreneurship dynamics during the period 2005-2012. The period covered is interesting as such since it covers more or less an entire business cycle – period of unprecedented Latvian economic growth leading to the 2008 crisis and the gradual recovery that began in 2011.⁴ In the previous Latvia GEM Reports attention was mostly devoted to analysis of the dynamics of entrepreneurship rates (i.e. nascent, new business owners, TEA, EBO) and the business discontinuation rate. This year a different approach will be adopted focusing on development of entrepreneurial attitudes (i.e. capabilities, opportunities, intention to start entrepreneurship and fear of failure), entrepreneurial aspirations (i.e. growth, internationalization and innovation) and to look at the dynamics of total early stage entrepreneurial activity separately for the male and female adult population of Latvia during the period 2005 to 2012.

As discussed in the previous chapter, the first stage in the process of entrepreneurship occurs when individuals observe favourable opportunities for starting a business in their area. Belief that one has the necessary skills and knowledge to successfully start a new venture may also encourage people to get involved in entrepreneurship. Yet even if people perceive opportunities and believe they have proper capabilities for entrepreneurship, fear of failure may prevent them from actually starting a business.

Figure 17 shows the dynamics of opportunity and capability indicators for the Latvian adult population over the last eight years. One immediate observation is that the indicators vary with the business cycle. Prior to the economic crisis more adults in Latvia observed good op-

portunities for business but fewer considered that they had the proper business skills. After the downturn, the situation became completely the opposite. Many more Latvian adults think that they have the capability to start a new venture but far fewer see opportunities for doing so.

During the boom years of 2005-2007 perceptions of both opportunities and capabilities decreased, i.e. fewer individuals believed in their skills and knowledge to start a business or saw good business opportunities in the region. During the boom years the Latvian labour market was seriously overheated with very large increases in salaries. For many potential entrepreneurs the opportunity cost of leaving highly paid employment to enter entrepreneurship was too high. People were becoming increasingly afraid of business failure and intentions to start a business over the boom period were decreasing (see Figure 18).

During the first two years of the recession 2008-2009 people observed fewer opportunities to start a business but at the same time started to believe more in their entrepreneurial skills (Figure 17). More people started to think about involvement in entrepreneurship in the future. As noted in the 2011 GEM Latvia report, the share of necessity driven entrepreneurship substantially increased during the recession. Therefore, higher intentions to enter entrepreneurship may well have been mainly driven by prospects of involvement in entrepreneurship by necessity. When the economic crisis hit the economy, jobs were cut and/or wages reduced. Furthermore, with increasing unemployment and not being able to find a paid job, people were forced into entrepreneurship in order to survive. A shift came in 2010 when more people started to see good business opportunities.

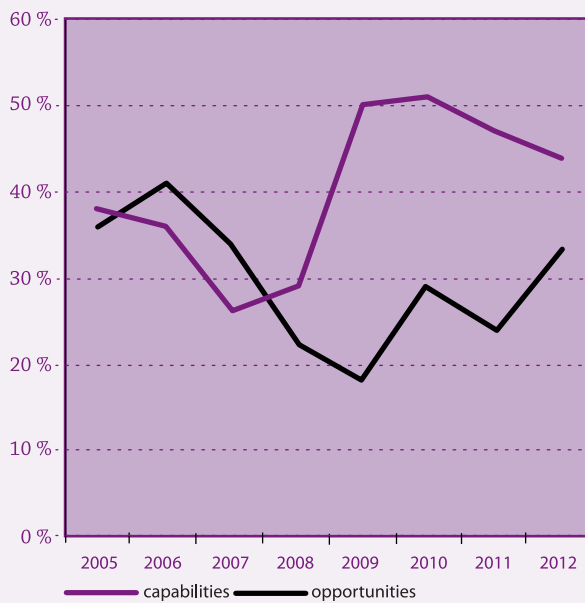
⁴ Since GEM survey data for Latvia are collected in spring every year, the effects of the recession will first be seen in the 2008 data and of the recovery in 2011.

Part of the explanation for this shift could probably be found in the “Law on Micro-Enterprise Tax” that came into force on September 1, 2010. The Law provided a preferential tax for micro-enterprises, i.e. individual traders, individual enterprises, farms, other natural persons registered as performers of economic activity, as well as limited liability companies that chose to adopt micro-enterprise status. Under the new Law, micro-enterprises only have to make one tax payment.

From Figure 17 it is clear that self-confidence (measured as perceived capabilities) has

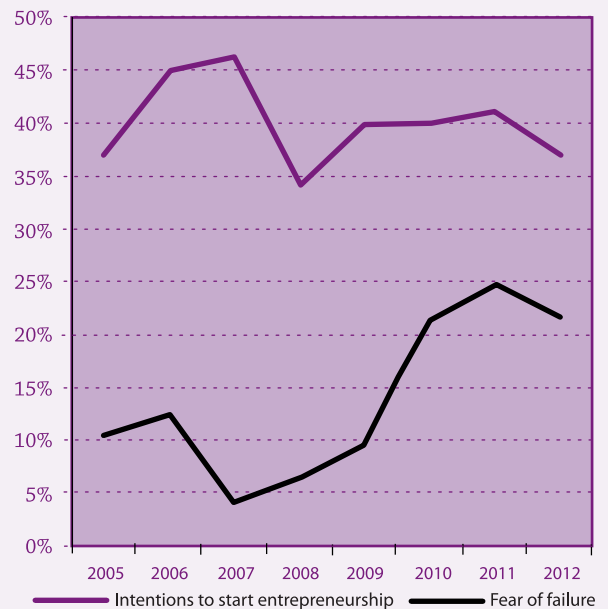
fluctuated substantially during the period studied. In 2011 Latvians became less self-confident and saw fewer business opportunities. The level of fear of failure, among adults (18-64) who perceive good opportunities to start a business, on the other hand, stayed the same, whereas more people not involved in entrepreneurship intended to become involved in entrepreneurial activity within 3 years as seen from Figure 18). In 2012 the perception of capabilities continued to decrease, but people started to observe more business opportunities, individuals became less afraid of failure, but fewer people were considering involvement in entrepreneurial activity.

Figure 17: Indicators of perceived capabilities and opportunities in Latvia, 2005-2012



Source: GEM Adult Population Survey

Figure 18: Indicators of entrepreneurial intentions and fear of failure, Latvia, 2005-2012



Source: GEM Adult Population Survey

Figure 19: Indicators of entrepreneurial aspirations, Latvia, 2005-2012

Source: GEM Adult Population Survey

Figure 19 shows the dynamics of entrepreneurial aspiration over time. Again there seems to be a strong cyclical component: during the boom years an increasing proportion of early-stage entrepreneurs in Latvia had rather high ambitions in terms of growth and internationalization whereas the proportion of early-stage entrepreneurs with innovation ambitions was decreasing. We observe a decrease in the share of early stage entrepreneurs with a growth ambition during the period 2007-2009, but from 2009 the share of entrepreneurs expecting employee growth in their enterprises was increasing. On the other hand, in 2008 a substantial increase in the ambition for innovation and a slight increase in the ambition for internationalization were observed. Following the economic downturn in 2009 a huge drop of entrepreneurial aspirations occurred in terms of growth, internationalization and innovation. Following the 2009 drop, the share of ‘ambitious’ entrepreneurs started

to increase. During the boom years ambitions were more growth- than innovation-oriented. During the period of recovery the situation was the opposite – more innovation- than growth-oriented entrepreneurs. In 2012 this changed again to the pattern observed during the boom years.

Figure 20 illustrates the dynamics of total early-stage entrepreneurial activity (TEA). It also decomposes TEA into two groups based on level of ambition i.e. low ambition and high ambition entrepreneurship (SLEA and MHEA). MHEA is a reflection of ambitious early-stage entrepreneurial activity defined as a proportion of entrepreneurs who expect to employ 5 to 19 or more than 20 additional people in five years. SLEA is a reflection of low ambition entrepreneurship, i.e. the proportion of entrepreneurs who expect to employ from none to four additional people in five years. The SLEA group mostly comprises en-

trepreneurs forced into entrepreneurship for necessity motives (no other employment options) and individuals who are very satisfied working as a single person business without employing other workers.

Figure 20: Development of entrepreneurial activities and job expectations, Latvia 2005-2012



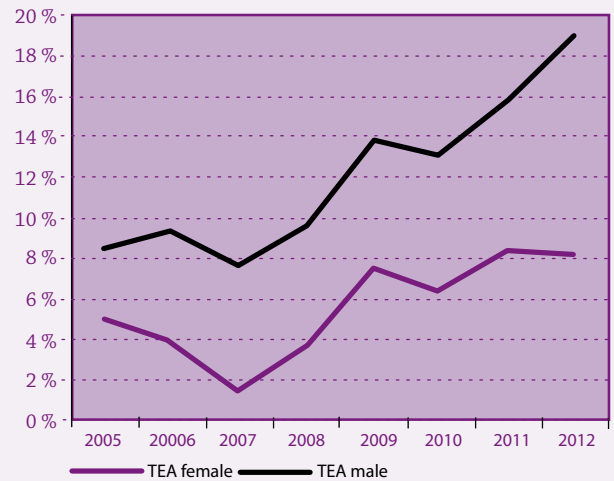
Source: GEM Adult Population Survey

at the expense of SLEA entrepreneurs. Hence, ambitious entrepreneurship (MHEA) had overtaken SLEA as the main driver of overall TEA. In 2012 the gap between the two levels of ambition increased even further.

Figure 21 presents the gender dimension of Latvian entrepreneurship. Inspection of the figure reveals that Latvian males are much more involved than women in early stage entrepreneurial activity. Furthermore, it is clearly seen that until 2010 the curve for female entrepreneurship

The shares of SLEA and MHEA were fairly similar until 2009. Since 2010 Latvian early stage entrepreneurs have become more ambitious in terms of expected job creation and the share of MHEA entrepreneurs has grown

Figure 21: The dynamics of male and female TEA rates in Latvia, 2005-2012

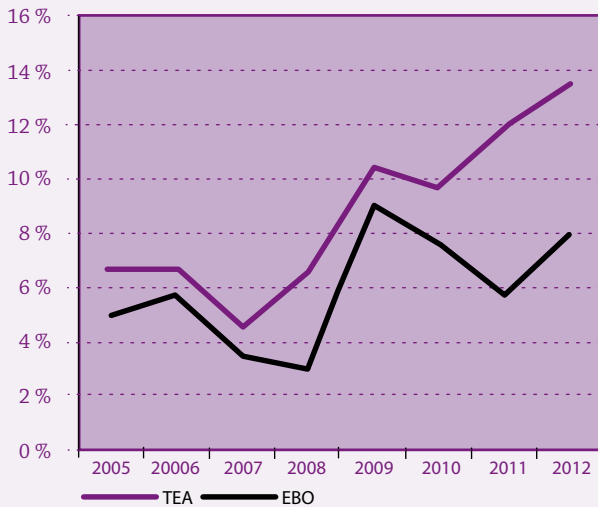


Source: GEM Adult Population Survey

fairly closely mimicked the male one (although at a lower level). After 2010 this patterned has changed with female TEA stabilizing around 8%, whereas male TEA has continued to increase.

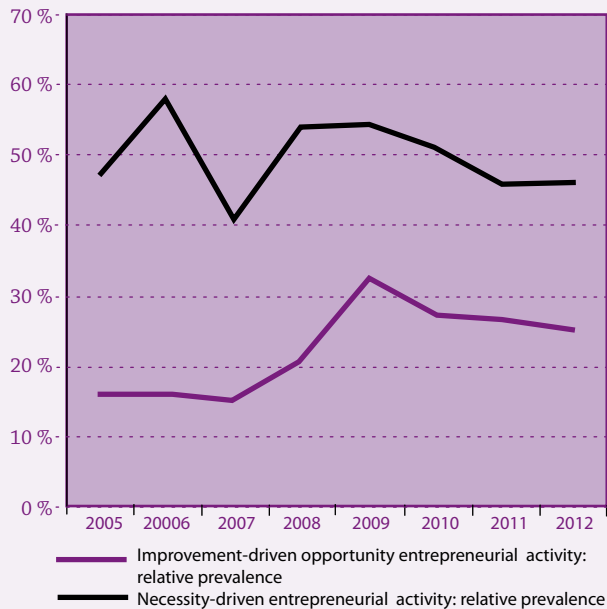
Figure 22 illustrates the dynamics of TEA and the established business ownership (EBO) rate. As one would expect, the EBO rate fairly well mimics total early-stage entrepreneurial activity with a slight time lag, e.g. an upward turn in TEA is followed by an upward turn in EBO one-two years later.

Figure 22: Established business ownership and total early-stage entrepreneurship rates in Latvia, 2005-2012



Source: GEM Adult Population Survey

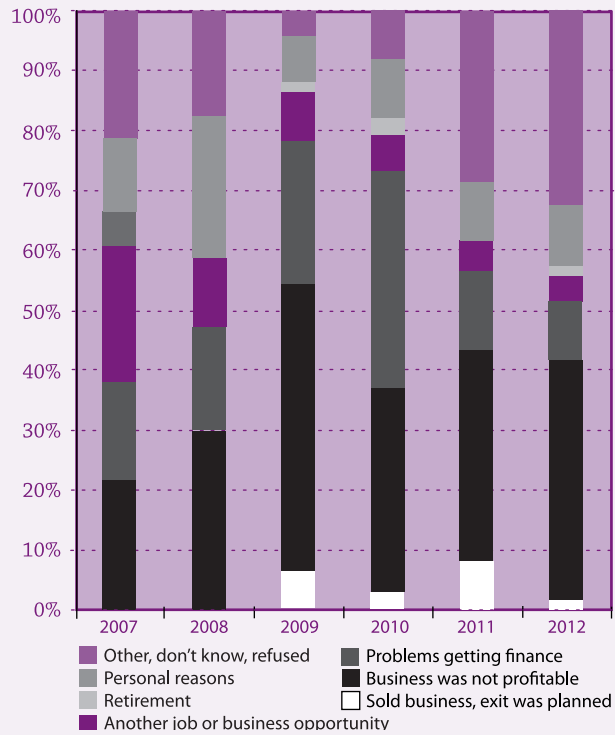
Figure 23: Percentage of entrepreneurs driven by necessity- and improvement-driven opportunity motives, Latvia, 2005-2012



Source: GEM Adult Population Survey

The dynamics of improvement-driven and necessity-driven entrepreneurial activities are shown in Figure 23. Necessity-driven entrepreneurship was fairly stable until the economic crisis struck and its share increased considerably – most likely because of a drastic fall in employment opportunities combined with increased lay-offs. Improvement-driven entrepreneurship also increased during the crisis – again, worsened labour market conditions may well have played a role. Furthermore, with the crisis also followed lower opportunity costs, which in turn made entrepreneurship a more attractive choice. Following the economic recovery, both types of entrepreneurship have gradually been falling.

Finally we will look at business discontinuation; we will mainly look into the reasons for discontinuation. Figure 24 presents the findings when asking respondents of the GEM survey who had discontinued a business in the previous 12 months to give the main reason for doing so. For the period studied, business being unprofitable and problems obtaining finance were the main reasons. Although slightly lower, these still accounted for 50 % of business discontinuations in Latvia in 2012. Other possible reasons have played a considerably smaller role in terms of explaining discontinuations during the period, another job or business opportunity being the exception in 2007, the year of economic overheating.

Figure 24: Reasons for business exit in Latvia, 2007-2012

Source: GEM Adult Population Survey

4. Entrepreneurship in the Baltic countries

2012 is the first year when all three Baltic countries, Estonia, Latvia and Lithuania, are participating in the GEM project. Given that the three Baltic countries experienced fairly similar starting condi-

tions when they regained independence in 1991, it should be of particular interest to compare their respective performance. The current chapter is devoted to an analysis of this 'natural experiment'.

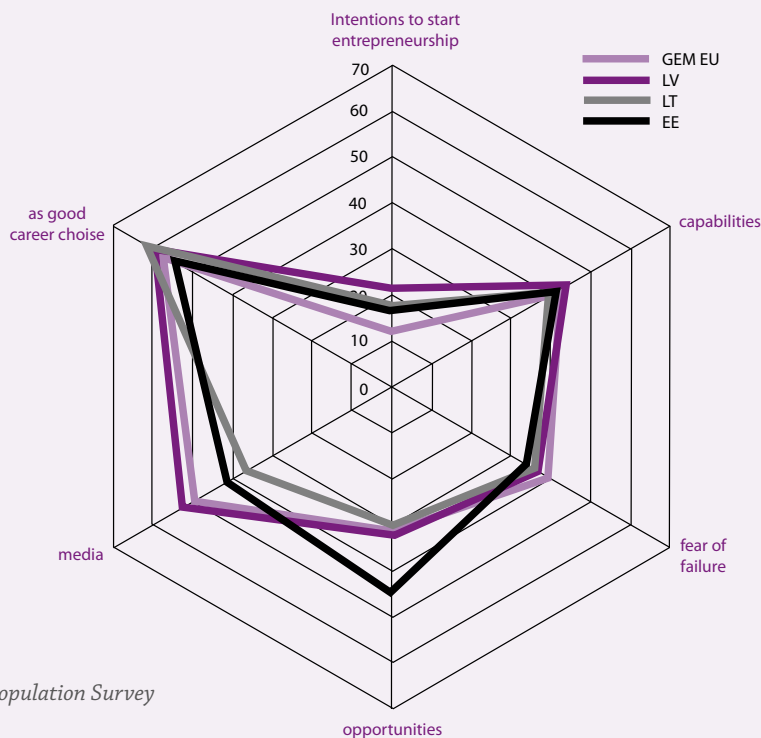
4.1. ENTREPRENEURIAL ATTITUDE AND ACTIVITY

Figure 25 analyses entrepreneurial attitude. In general the three Baltic countries are fairly similar. There are, however, two noticeable differences. In Latvia the media are perceived as painting a brighter picture of entrepreneurship than in the two other Baltic countries. In terms of opportunities the Estonians stand out in the sense that they perceive considerably more opportunities. On average there are roughly as many Estonians (although not necessarily

the same persons) who consider themselves to have the capability to engage in entrepreneurship as there are Estonians perceiving opportunities. For Latvia and Lithuania there are more people with skills than people who see business opportunities.

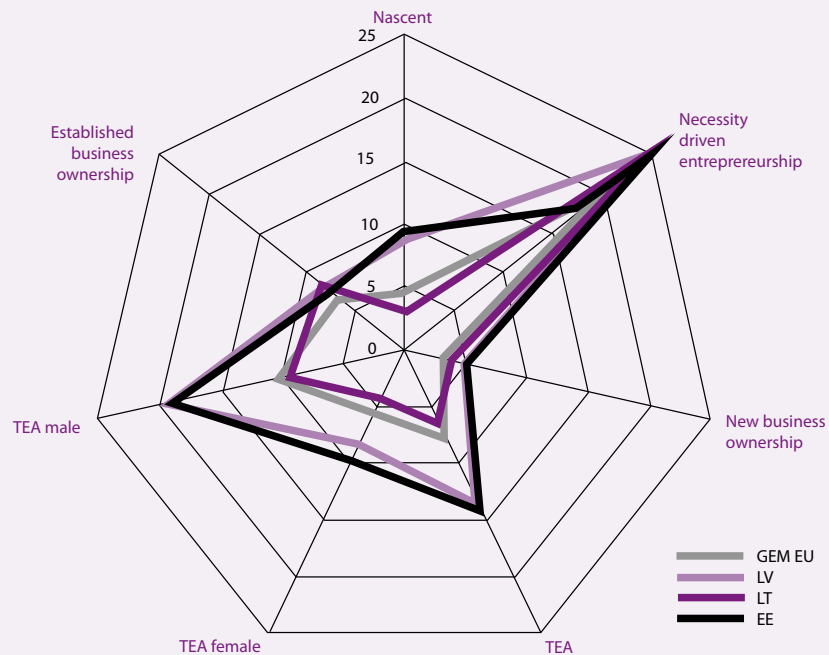
Figure 26 presents various aspects of entrepreneurial activity. Inspection reveals that, as to the seven dimensions analysed, Lithuanian perfor-

Figure 25: Indicators of entrepreneurial attitude, the three Baltic countries and GEM EU average, 2012



Source: GEM Adult Population Survey

Figure 26: Indicators of entrepreneurial activity, the three Baltic countries and GEM EU average, 2012



Source: GEM Adult Population Survey

mance is more or less exactly similar to that of the GEM EU countries. Latvian performance, on the other hand, is very similar to Estonian performance. In comparison to Lithuania and the GEM EU countries, both Estonia and Latvia score considerably higher in terms of early stage entrepreneurship and nascent entrepreneurship.

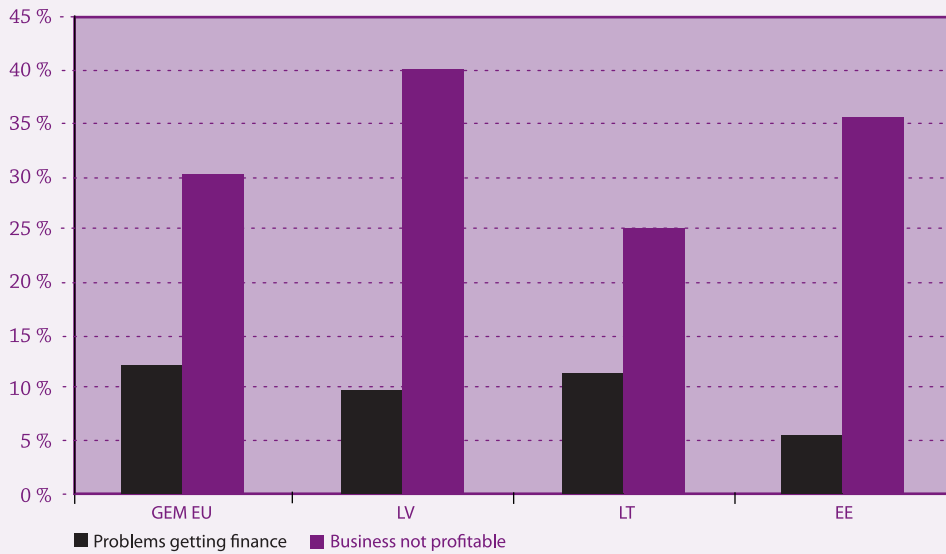
To obtain a deeper understanding of the processes of business discontinuation, we will look into perceived problems of obtaining finance and of business profitability. As seen from Figure 27, business being unprofitable is the reason for discontinuation in 40% of Latvian

cases. This is higher compared both to the other Baltic countries (EE – 35%, LT – 25%) and to the average level for GEM EU countries (30%).

Only about 5% of respondents in Estonia consider problems obtaining finance as the main factor for business discontinuation in the previous 12 months. The situation is different for Latvia, Lithuania and GEM EU countries where this reason is mentioned more frequently – in about 10-12% of cases.

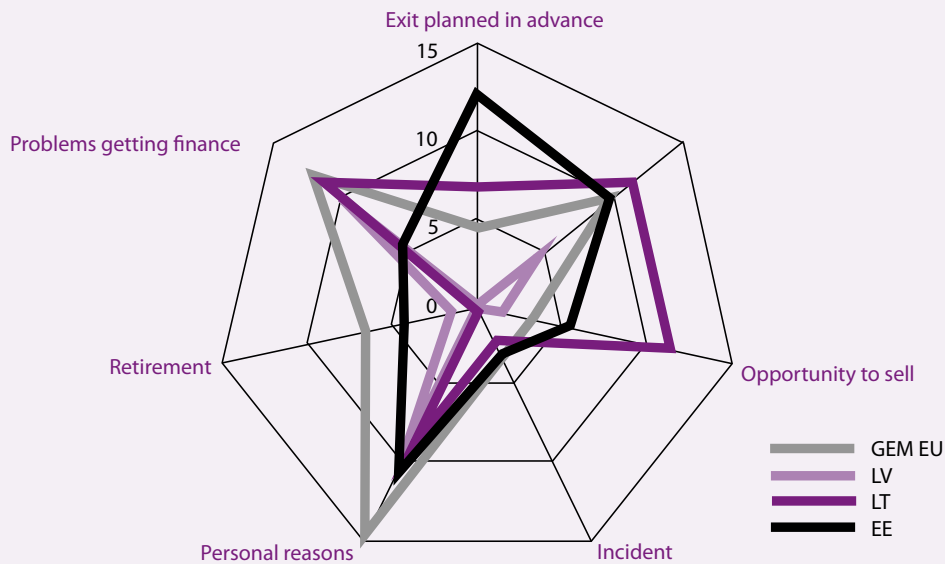
Figure 28 illustrates reasons for discontinuation other than business being non-profitable. For

Figure 27: “Negative” reasons for business discontinuation, the three Baltic countries and GEM EU average, 2012



Source: GEM Adult Population Survey

Figure 28: Reasons for business discontinuation, the three Baltic countries and GEM EU, 2012



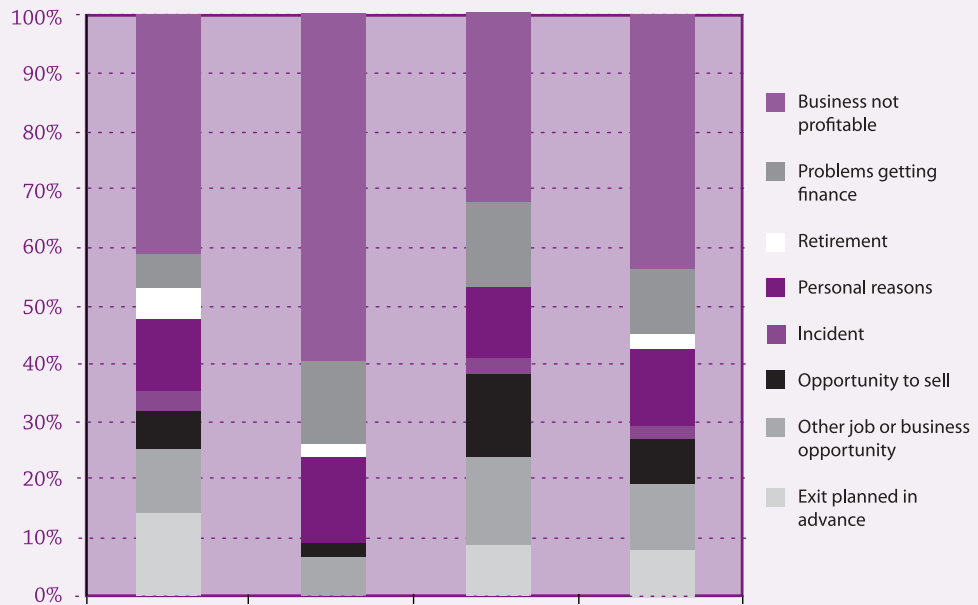
Source: GEM Adult Population Survey

Latvian respondents the second and third main reasons for business discontinuation were personal reasons and problems obtaining finance – both quoted by roughly 10%. For Estonians in about 12% of cases discontinuation was planned in advance and in about 11% exit happened for personal reasons. For Lithuania about 11% is attributed to each of the following reasons:

problems obtaining finance, another job or business opportunity, and opportunity to sell.

Figure 29, finally, summarizes reasons for business discontinuation. The overall impression is that Latvia stands out in comparison to its two Baltic neighbours as well as the GEM EU countries.

Figure 29: Reasons for business exit in the three Baltic countries compared to GEM EU average results, 2012



Source: GEM Adult Population Survey

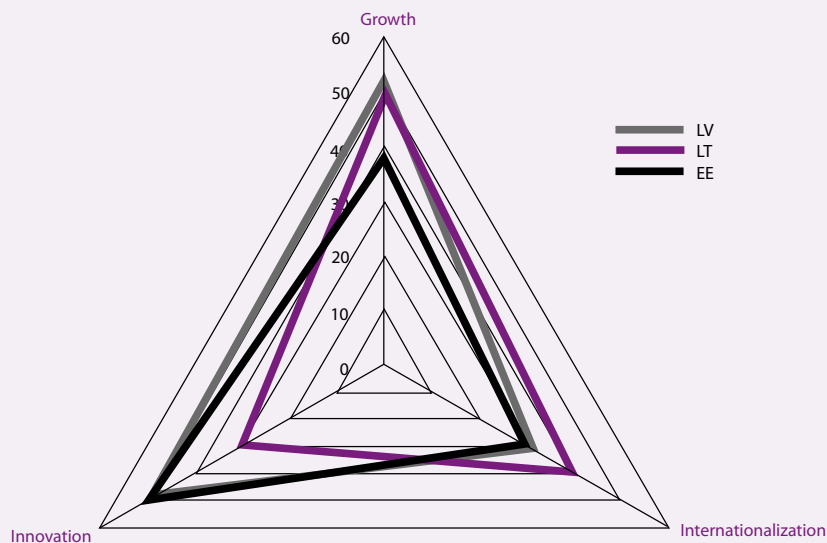
4.2. ENTREPRENEURIAL ASPIRATIONS

As already discussed in chapter 2, an understanding of entrepreneurial aspiration is of importance when assessing the impact of entrepreneurship on the national economy. Of particular interest are aspirations related to innovative products or services or to the pursuit of customers beyond national borders. They may also include high-growth ambitions as such, thereby contributing to new employment and economic growth. These three factors of aspiration, i.e. growth expectations of entrepreneurs (in terms of jobs), innovation (especially in terms of products/services and

markets) and international orientation are presented in Figure 30.

Growth is measured as the percentage of TEA who expect to have at least five employees five years from now. Internationalization – the percentage of TEA who indicate that at least 25% of their customers come from other countries. Innovation – the percentage of TEA who indicate that their product or service is new to at least some customers. These factors are all closely related to economic development and used in the GEM framework as impact factors.

Figure 30: Indicators of entrepreneurial aspirations, the three Baltic countries, 2012



Source: GEM Adult Population Survey

We see that in terms of international orientation Estonia and Latvia are quite similar (about 30% of all early stage entrepreneurs indicate having at least 25% of their customers as coming from other countries) with Lithuania standing out as being more internationally oriented

(40% of TEA). In terms of growth expectations Latvia and Lithuania are similar (about 50% of all early stage entrepreneurs expect to have at least five employees five years from now) and Estonia scores slightly worse with 40%. In terms of innovation Latvia and Estonia are

similar, with about 50% of TEA indicating that their product or service is new to at least some customers. For Lithuania the number is considerably lower at only 31%.

It can be concluded that early stage entrepreneurs in Estonia are rather innovative but not

so oriented to growth and internationalization. On the other hand, Lithuanians can be considered less innovative, but much more oriented to growth and foreign markets. Early stage entrepreneurial activity in Latvia is rather innovative and growth oriented but not so oriented towards internationalization as in Lithuania.

Box 6: Business Culture and Values in the Baltic countries

A research report from the Centre for Sustainable Business at the Stockholm School of Economics (Kåle et al., 2013) addresses business culture and values in the three Baltic countries. Based on a survey of entrepreneurs in Estonia, Latvia and Lithuania, the research reveals that Estonians are those most satisfied with the overall business environment, with Lithuanians being least satisfied and accordingly Latvians placed in the middle. The most notable difference is that Latvians as well as Lithuanians are considerably more concerned about tax rates than Estonians, which is somewhat surprising since the difference between the three countries in terms of tax rates is not that big. Furthermore, Latvian as well as Lithuanian entrepreneurs highlight the problem with frequent changes in the legislative and regulatory framework.

In comparison to their neighboring fellows, Latvian entrepreneurs rarely believe that local entrepreneurs have transparent business practices. Lithuanians, on the other

hand, seem to be willing to take higher risks when it comes to compliance with legislation and regulation.

Salaries paid “in envelopes” seem to be considerably more frequent in Latvia and Lithuania than in Estonia. Lithuania stands out in terms of bribes with more than one quarter of respondents perceiving that bribes or gifts are part of business practice.

In terms of sustainable development, research reveals a moderate or even weak involvement. Barely a third of Baltic respondents are of the opinion that a majority of entrepreneurs in their countries observe the principles of sustainable development. Furthermore, as many as one-fifth of respondents are under the impression that the principles of sustainable development are observed by just a few entrepreneurs.

To conclude, Estonian entrepreneurs stand out overall as having a different set of values and practices from Latvians and Lithuanians, who seem to be more similar.

5. Entrepreneurial Framework Conditions

In an attempt to assess the national entrepreneurial environment, the GEM expert survey also addresses factors of overall national socio-economic environment that are believed to have a significant impact on economic development and entrepreneurship. The GEM National

Experts' Survey (NES) provides insights from experts in each economy on nine Entrepreneurial Framework Conditions (EFCs), i.e. factors that influence the overall climate for entrepreneurship and hence the level and nature of entrepreneurial activity. Table 3 presents these nine factors.

Table 3: GEM Entrepreneurial Framework Conditions

<p>Entrepreneurial Finance Availability of financial resources, equity, and debt, for new and growing firms, including grants and subsidies.</p>	<p>Government Policy The extent to which government policies, such as taxes or regulations, are either size-neutral or encourage new and growing firms.</p>	<p>Government Entrepreneurship Programmes The extent to which taxes or regulations are either size-neutral or encourage new and growing firms.</p>
<p>Entrepreneurial Education The extent to which training in creating/ managing new, small or growing business entities is incorporated within the education and training system at all levels. There are two sub-divisions – primary and secondary school entrepreneurship education and training; and post-school entrepreneurship education and training.</p>	<p>R&D Transfer The extent to which national research and development will lead to new commercial opportunities, and whether or not these are available for new, small and growing firms.</p>	<p>Commercial and Legal Infrastructure The presence of commercial, accounting and other legal services and institutions that allow or promote the emergence of small, new and growing business entities.</p>
<p>Entry Regulations There are two sub-divisions – market dynamics, i.e. the extent to which markets change dramatically from year to year; and market openness, i.e. the extent to which new firms are free to enter existing markets.</p>	<p>Physical Infrastructure Ease of access to available physical resources – communication, utilities, transportation, land or space – at a price that does not discriminate against new, small or growing firms.</p>	<p>Cultural and Social Norms The extent to which existing social and cultural norms encourage, or do not discourage, individual actions that might lead to new ways of conducting business or economic activities which might, in turn, lead to greater dispersal of personal wealth and income.</p>

Source: GEM 2011 Executive report

To assess the national conditions influencing entrepreneurial activity at least 36 experts in each country were asked to complete a closed questionnaire on their national entrepreneurial environment. The responses are measured on a 5-point Likert scale where a score of 1=completely false and 5=completely true. The statements were phrased in such a way that a score of 4 or 5 would indicate that the expert regarded the factor as positive for entrepreneurship, while a score of 1 or 2 would indicate that the expert regarded the factor as negative for entrepreneurship.

Table 4 identifies the three EFCs with the lowest scores as well as the three with the highest scores for each of GEM European countries (both EU members and non-EU members) that participated in the 2012 national experts' survey. Physical Infrastructure, Commercial Infrastructure, Internal Market Dynamics and Government Programmes are rated highly throughout Europe. Primary and Secondary Education was rated as one of the most negative framework conditions by the majority of European countries. National Policy – Regulations, National Policy – General policy, Finance and R&D Transfer were also rated negatively in many European countries.

EFCs in Latvia valued by national experts as being most positive were:

- (a) the commercial and professional infrastructure framework conditions relating to the presence of property rights, commercial, accounting, and other legal and assessment services and institutions that support and/or promote SMEs;
- (b) physical infrastructure, referring to available physical resources e.g. utilities, transportation, land or space at a price that does not discriminate against new, small or growing enterprises; and
- (c) cultural and social norms, which describe an encouraging environment regarding new business activities.

The first two mentioned framework conditions were also among the most positively rated by experts in the 2011 NES.

On the negative side, the Latvian NES suggests the following problem areas are valued most negatively by Latvian experts:

- (a) the extent to which national research and development leads to new commercial opportunities and whether or not these are available for new enterprises;
- (b) the extent to which markets change dramatically from year to year; and
- (c) the extent to which government policies e.g. taxes or regulations, are size neutral or encourage new and growing firms.

Table 4: Entrepreneurial Framework Conditions Valued Most Positive (+) and Most Negative (-) for GEM European Countries 2012

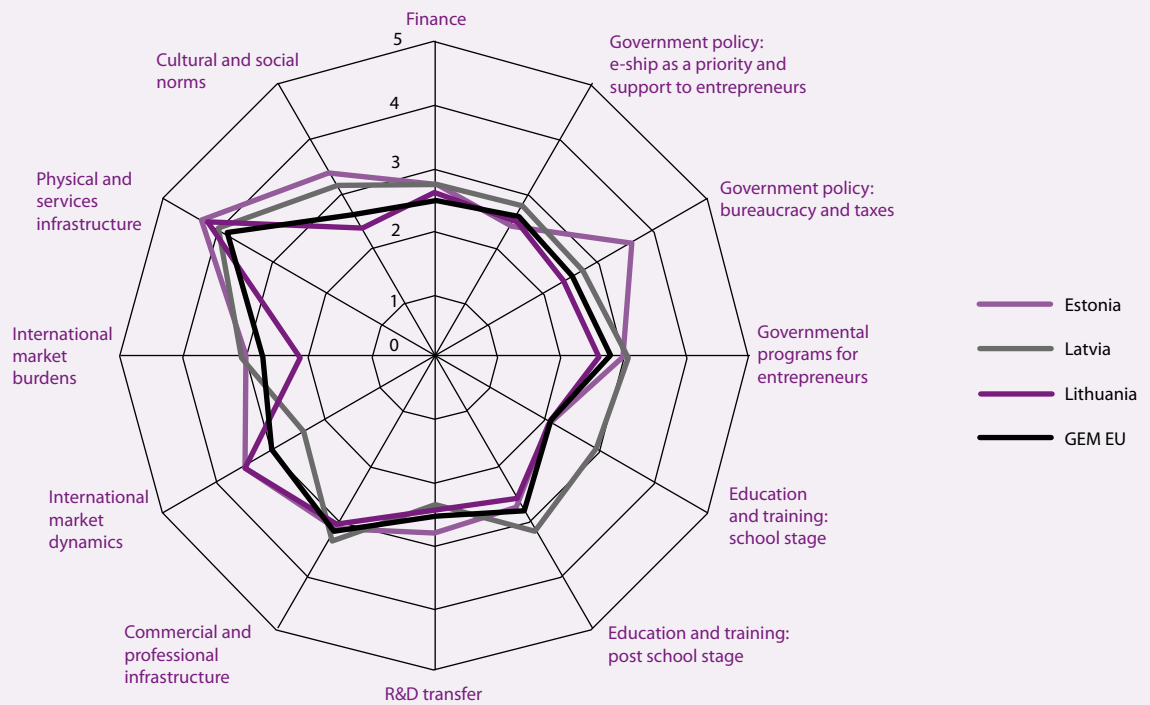
SCALE FROM (-) TO (+)	1 Finance, 2a Nat. Policy- General, 2b Nat Policy- Regulation, 3 Government programs, 4a Education -Prim. And Second, 4b Education - Post School, 5R&D Transfer, 6 Commercial Infrastructure, 7a Internal Market - Dynamics, 7b Internal Market - Openness, 8 Physical Infrastructure, 9 Cultural and Social Norms											
	1	2	3	4	5							
	1	2a	2b	3	4a	4b	5	6	7a	7b	8	9
NON EUROPEAN UNION												
BOSNIA & HZ		-					-	+	+	-		
CROATIA		-	-		-			+	+	+	+	
MACEDONIA	-				-			+	+	-	+	
NORWAY	-	-				+		+		-	+	
RUSSIA	-			-			-	+	+		+	
SWITZERLAND	-				-		+	+	-		+	
TURKEY	-				-		-		+		+	+
EUROPEAN UNION												
AUSTRIA				+	-			+	-		+	-
BELGIUM			-		-			+		+	+	-
DENMARK	-	-		+			-	+			+	
ESTONIA		-	+		-	-			+		+	
FINLAND	-		+		-		-		+		+	
FRANCE		+		+	-		-				+	-
GERMANY				+	-		-	+			+	-
GREECE	-	-			-			+	+		+	
HUNGARY		-	-		-			+	+		+	
IRELAND	-			+	-			+	-		+	
ITALY			-	-	-			+	+		+	
LATVIA			-				-	+	-		+	+
LITHUANIA			-		-			+	+	-	+	
NETHERLANDS	-	-					+	-	+		+	
POLAND			-		-		-	+				+
PORTUGAL		-	-	+	-			+			+	
ROMANIA	-	+	-		-				+		+	
SLOVAKIA		-			-	-		+		+	+	
SLOVENIA		-	-		-			+	+		+	
SPAIN	-			+	-		-	+			+	
SWEDEN				+	-	-	-		+		+	
UNITED KINGDOM	-			-	-		+	+			+	

Source: GEM Adult Population Survey

This chapter also addresses the entrepreneurial framework conditions or 'entrepreneurial eco-system' in Latvia and the two other Baltic countries and compares them with the GEM EU average. The chapter is based on findings from GEM expert surveys.

Figure 31 displays similarities and differences in national experts' opinions on their own country. It is clear that Estonia scores notably better compared to the other Baltic countries and GEM EU countries with respect to Government policies (taxes and regulations)

Figure 31: GEM key entrepreneurial framework conditions, the three Baltic countries and GEM EU, 2012



Source: GEM 2012 Executive report

and scores slightly better in terms of R&D transfer. Both Estonian and Latvian experts are more positive on how social and cultural norms encourage entrepreneurial activities. Latvia and Estonia also score better when it comes to the extent to which new firms are free to enter existing markets (internal market burden). On the other hand, internal market dynamics in Lithuania as well as in Estonia are valued higher than in GEM EU countries on average and substantially higher than in Latvia. Experts in Latvia are considerably more posi-

tive about entrepreneurial education at primary and secondary level, as well as at the post school stage, than their neighbour Estonians and Lithuanians.

To conclude we can say that in terms of evaluation of entrepreneurial framework conditions Estonia scores either better or the same as the average of other GEM EU countries. Lithuania is in most dimensions fairly close to the other GEM EU countries, whereas Latvia's performance is somewhat more 'erratic'.

Box 7: Entrepreneurship education

In a European Union policy context entrepreneurship education as such is a prioritised field. The European Commission (2011) emphasizes the need for Member States as well as educational institutions to “stimulate the development of entrepreneurial creative and innovation skills in all three cycles [of education]...”

Furthermore, the Rethinking Education Strategy (European Commission, 2012) states that: “Member States should foster entrepreneurial skills through new and creative ways of teaching and learning from primary school onwards, alongside a focus from secondary to higher education on the opportunity of business creation as a career destination. Real world experience, through problem-based learning and enterprise links, should be embedded across all disciplines and tailored to all levels of education.”

The GEM country expert survey showed that Latvia, at least in the eyes of the experts surveyed, stands out in a positive sense in terms of entrepreneurship education. While the views of experts were captured in the expert survey, the views of educators are discussed in a recent paper, Kozlinska et al. (2013). The paper, written within the Central Balticum Entrepreneurship Interaction, CB ENTREINT, project (financed through the Central Baltic Interreg IV A programme), focuses on the needs and practices of entrepreneurship educators in Estonia, Finland and Latvia.

In terms of entrepreneurship education the general observation is that the generic base for teaching entrepreneurship in the three countries studied is the same. Overall, the educational approach to entrepreneurship seems to be more focused on practice rather than based on theory. Nevertheless, teaching methods based on a higher degree of experimentation, such as creativity exercises, business games and pedagogical drama are rarely used.

Even though the overall approach to entrepreneurship is fairly similar among the three countries studied, the definition of entrepreneurship and hence the educational focus differs between the countries. The Latvian definition is commercially focused, with venture creation as the desired outcome, whereas the Estonian approach is more holistic and provides a mix of opportunity recognition, business development and a discussion of the entrepreneurship process as such. The Finnish approach could be considered attitudinal and volitional, with a focus on developing an entrepreneurial identity.

In general and compared to the vision outlined in the Rethinking Education Strategy and as noted above, there still seems to be a gap between what is actually done and the vision with its focus on real world experience and business links.

With the aim of further developing entrepreneurship education, the paper by Kozlinska et al. focuses on the entrepreneurship educator and their needs. The research undertaken shows that the ‘average’ entrepreneurship educator has ‘real world’ experience in terms of entrepreneurship and/or business management. For most educators this experience is combined with experience in teaching entrepreneurship and other business-related topics. Given the educators’ background and in order to release the full potential of educators in terms of integrating and transferring their own experience, the report suggests an educational programme for entrepreneurship educators which focuses on teaching methods with a high degree of experimentation – examples include workshops with practitioners/entrepreneurs, creativity exercises, real life projects with companies, innovation teams, and student companies. If successfully implemented, such an educational programme would contribute to reducing the gap between actual entrepreneurship education and the vision outlined in the EU strategy document.

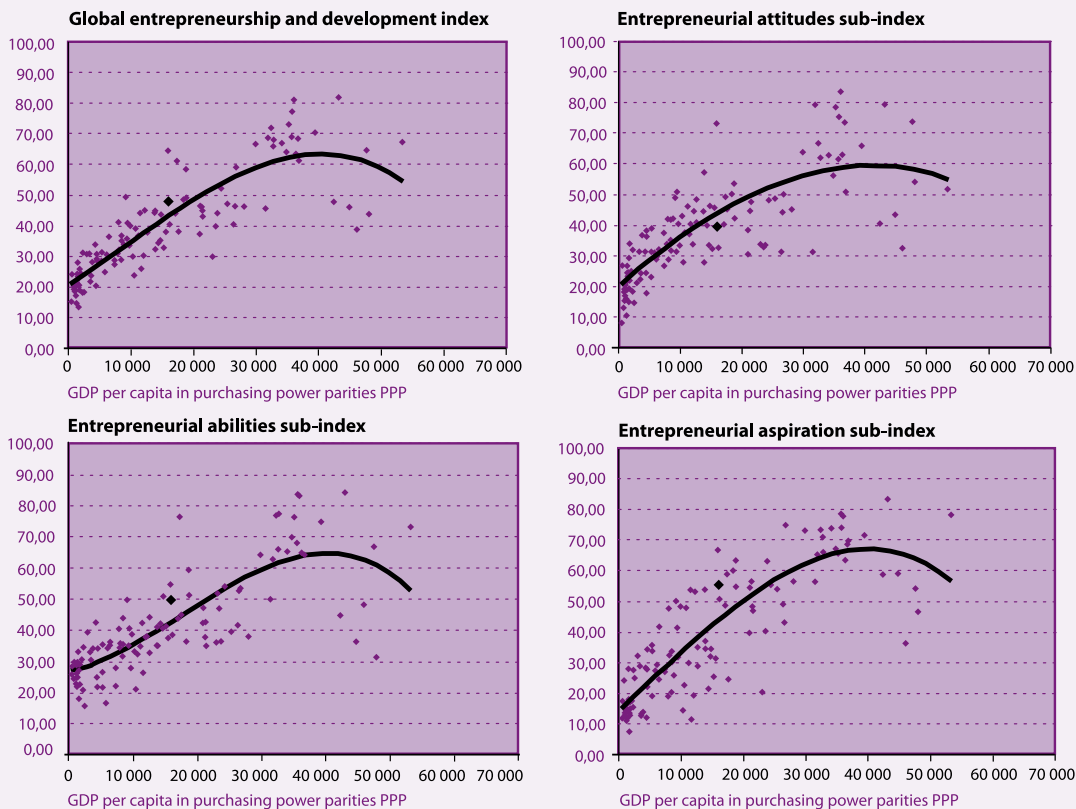
Figure 32 presents the GEDI index. As seen from the figure the Index is composed of three sub-indexes:

- the entrepreneurial attitude sub-index (ATT);
- the entrepreneurial activity sub-index (ACT); and
- the entrepreneurial aspiration sub-index (ASP).

The unique construction of these sub-indexes combines five sets of institutional and individual indicators ('pillars'). The individual variables are based on data from the GEM project; the institutional variables have various sources – the Global Competitiveness Index, the World Bank Doing Business Index, and the Herit-

age Foundation Index of Economic Freedom. The overall GEDI ranking for Latvia is 27 out of 120 countries studied. For a better understanding of Latvia's performance, four graphs will be considered. The four graphs of Figure 33 present the relative position of Latvia with respect to GEDI, ATT, ACT and ASP. Each graph maps out how the country's scores for the particular index vary with GDP per capita (adjusted for purchasing power parity). The graphs give an indication of where Latvia lies within the entire dataset and how it compares with other countries at a similar level of income. We see that in terms of aspiration and activity sub-indexes Latvia performs rather well. However, in terms of the attitude sub-index Latvian performance is fairly poor – the same was true for Latvia in 2011 as well.

Figure 33: Relative position of Latvia in the Global Entrepreneurship and Development Index and in the sub-index level, 2012



Source: GEDI 2012

For a deeper understanding of Latvia's performance, we proceed with a discussion on how institutional variables, individual variables and pillars contribute to this outcome.

Figure 34: Relative position of Latvia in the variable level, 2012

	INSTITUTIONAL VARIABLES	INDIVIDUAL VARIABLES	PILLARS			
ENTREPRENEURIAL ATTITUDES	Market Agglomeration	0.47	Opportunity Recognition	0.47	Opportunity Perception	0.26
	Tertiary Education	0.77	Skill Perception	0.55	Start-up Skills	0.59
	Business Risk	0.43	Risk Acceptance	0.49	Nonfear of Failure	0.25
	Internet Usage	0.88	Know Entrepreneurs	0.45	Networking	0.61
	Corruption	0.65	Career Status	0.42	Cultural Support	0.40
				Entrepreneurial Attitudes	39.7	
ENTREPRENEURIAL ABILITIES	Economic Freedom	0.69	Opportunity Motivation	0.62	Opportunity Startup	0.52
	Gender Equality	0.96	TEA Female	0.49	Gender	0.47
	Tech Absorption	0.52	Technology Level	0.72	Tech Sector	0.57
	Staff Training	0.64	Educational Level	0.72	Quality of Human Resources	0.58
	Market Dominance	0.64	Competitors	0.73	Competition	0.56
				Entrepreneurial Abilities	50.0	
ENTREPRENEURIAL ASPIRATIONS	Technology Transfer	0.63	New Product	0.72	Product Innovation	0.56
	GERD	0.61	New Tech	0.52	Process Innovation	0.37
	Business Strategy	0.54	Gazelle	1.00	High Growth	1.00
	Globalization	0.63	Export	0.95	Internationalization	0.80
	Capital Market	0.39	Informal Investment	0.73	Risk Capital	0.48
					Entrepreneurial Aspirations	55.7
	Institutional	0.63	Individual	0.64	GEDI	48.4

Source: GEDI 2012

Out of the three dimensions, Latvia performs worst in terms of entrepreneurial attitudes – in particular at the individual level. Despite the increase in perceived opportunities measure compared to the previous year, as discussed in chapter 2.2., Latvians seem to be still particularly weak in opportunity perception and recognition and non-fear of failure.

Cultural support for entrepreneurship is also an area where Latvia scores poorly. Furthermore, the career status of an entrepreneur is rather low and knowing an entrepreneur does not contribute to the attractiveness of entrepreneurship.

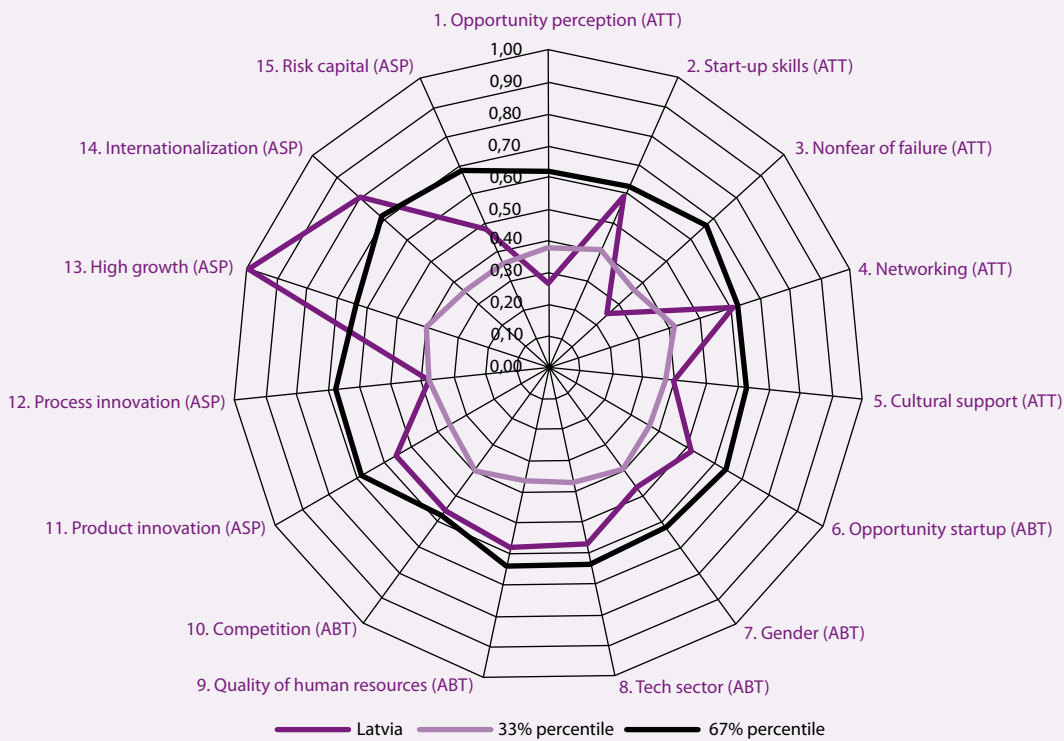
Latvia has a very high score when it comes to gender equality but, on the other hand, performs poorly in terms of female entrepreneurship. Furthermore, since the female labour

force participation in Latvia is high, the relatively low rate of female entrepreneurship suggests an untapped potential in terms of female entrepreneurial activity (see also discussion in chapter 3.). In this context, it seems reasonable to believe that specially targeted programmes could play an important role in terms of encouraging female entrepreneurship.

The scores for product innovation are rather good, but tech absorption and process innovation are areas to be improved.

The GEDI findings confirm the findings of previous chapters as to Latvia’s strengths. The country has a strong position in terms of internationalization and a particularly good position with respect to high growth. Furthermore, as seen from Figure 35, Latvia scores relatively well in terms of start-up skills and networking.

Figure 35: Relative position of Latvia at the “pillar” level, 2012



Source: GEDI 2012

Box 8: The 2012 GEW Entrepreneurship Policy Survey

In summer 2012, the Global Entrepreneurship Week Policy Survey asked entrepreneurs in Latvia and 33 other countries worldwide for their opinions on 25 entrepreneurship policy-related questions for the country in which they were active. Questions focusing on high-impact entrepreneurship (i.e. creation of ventures with high growth potential) covered ten areas of entrepreneurship policy: supply of capital/access to capital markets; financing and exit strategies; skills development; spin-offs; credits and incentives; government regulations; legitimacy; risk-taking and individual initiative; attitudes towards income taxes; and mentor and support environment.

In the areas covered by GEM the GEW Survey to a large extent supports GEM findings for Latvia – in particular as to positive attitudes towards entrepreneurship and the education system (from primary to tertiary education) providing sufficient training in entrepreneurship and business creation. The findings are, however, somewhat more positive when it comes to access to finance. On the other hand, the GEW survey highlights overall poor development of Latvian financial markets and sees this as a hindrance to high-impact entrepreneurship, thereby con-

firmed the findings of the Latvia Competitiveness Report (Cunška et al., 2012).

As to exit through buy-outs, more than 70% of Latvians surveyed agree with the statement that “legislation does not restrict company buy-outs” – among the highest in the sample. Latvia also scores well relative to other countries in terms of spin-offs by agreeing with the statement: “Businesses regularly spin off firms from their R&D efforts”. On the other hand, Latvia scores poorly in terms of tax incentives for R&D.

In terms of government regulations and the statement that “government regulations apply consistently and uniformly across all industries/sectors”, around a third of Latvians agree, which places Latvia at the higher end of the countries surveyed. Around 50% perceive that the level of income taxes discourages people from starting and growing new firms. This places Latvia in the middle of the countries surveyed.

Finally, in general it seems to be relatively easy to find mentors and interact with other entrepreneurs.

CONCLUSIONS

While Latvia has achieved a high early-stage entrepreneurship rate, there is still potential for improvement. A gap exists between entrepreneurial intentions and actual participation in entrepreneurial activity. The TEA (total early-stage entrepreneurial activity) rate (13 %) is only slightly more than half the entrepreneurial intentions rate (22%). According to the GEDI index, Latvians seem to be particularly weak in opportunity perception and recognition and non-fear of failure (despite the positive trend for both of these indicators observed in 2012). This can be at least a partial explanation for the existing gap.

- Latvian early-stage enterprises are among those with strong international orientation and high growth ambitions, but the level of innovativeness among Latvian early-stage entrepreneurs remains an area for further improvement.
- The entrepreneurial gender gap and low rate of participation in entrepreneurial

activity of the group aged 55-64 are areas of potential improvement and contribution to entrepreneurial activity and competitiveness of the national economy.

- One out of every four early-stage entrepreneurs in Latvia still has “necessity motivation”. The rate is higher compared to the EU GEM average (20%). Moreover, it is still substantially higher compared to the Latvian pre-recession level of necessity-driven entrepreneurship (15% in 2007).
- In general a strong cyclical component is evident in Latvian entrepreneurial activity and aspirations.
- Commercial and Physical Infrastructure and Cultural and Social Norms are areas positively evaluated by national experts. National Policy (Regulations), R&D Transfer and Internal Market Dynamics are those requiring immediate attention.

CONCLUSIONS IN LATVIAN (SECINĀJUMI)

- Kaut arī Latvija ir sasniegusi augstu agrīnās stadijas uzņēmējdarbības aktivitātes līmeni, uzlabojumi joprojām ir iespējami. Pastāv procentuāla atšķirība starp nodomiem uzsākt uzņēmējdarbību un reālu piedalīšanos uzņēmējdarbības aktivitātē. KAA (kopējās agrīnās stadijas uzņēmējdarbības aktivitātes) līmenis ir 13%, kas ir tikai nedaudz vairāk kā puse no rādītāja, kas attēlo nodomus uzsākt uzņēmējdarbību (22%). Saskaņā ar GEDI indeksu, Latvijas uzņēmējiem piemīt vājas spējas saskatīt un identificēt biznesa iespējas, kā arī uzņēmēji izjūt bailes no neveiksmes (neskatoties uz šo abu rādītāju pozitīvo tendenci 2012. gadā). Tas daļēji spēj izskaidrot esošo plaisu;
- Latvijas agrīnās stadijas uzņēmēji ir orientēti uz ārējiem tirgiem un ir augsti motivēti uz izaugsmi, tomēr inovāciju līmenis ir joma, kur joprojām iespējami uzlabojumi;
- Dzimumu nevienlīdzība uzņēmējdarbības nozarē un zema dalības rādītājs uzņēmējdarbībā vecuma grupā no 55-64 gadiem ir jomas, kuru uzlabojumi varētu nest ieguldījumu gan uzņēmējdarbības aktivitātē, gan nacionālās ekonomikas konkurētspējā;
- Katrs ceturtais agrīnās stadijas uzņēmējs Latvijā joprojām ir “nepieciešamības motivēts”. Salīdzinot ar GEM ES vidējo rādītāju (20%), Latvijas rādītājs ir augstāks. Turklāt, šis rādītājs joprojām paliek ievērojami augstāks, ja salīdzina ar nepieciešamības motivētas uzņēmējdarbības rādītāju Latvijā pirms recesijas (15% 2007. gadā);
- Kopumā var secināt, ka Latvijas uzņēmējdarbības aktivitātei un uzņēmējdarbības centieniem piemīt spēcīgs cikliskais raksturs;
- Latvijas eksperti ir pozitīvi novērtējuši valsts komerciālo un fizisko infrastruktūru, kā arī kulturālās un sociālās normas. Nacionālā politika (regulējumi), R&D pārnesē, kā arī iekšējā tirgus dinamika ir jomas, kam jāpievērš pastiprināta uzmanība.

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NOTES

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