



Graduate  
School of Management  
St. Petersburg University



NATIONAL REPORT

# GLOBAL ENTREPRENEURSHIP MONITOR

RUSSIA 2011



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# **GLOBAL ENTREPRENEURSHIP MONITOR**

**RUSSIA 2011**

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This work is based on data collected by the GEM consortium. Responsibility for analysis and interpretation of those data is the sole responsibility of the authors.

## PREFACE

«Global Entrepreneurship Monitor. Russia 2011» is the Sixth Russian report for «Global Entrepreneurship Monitor» (GEM). The goal of this report is to acquaint Russian businessmen, experts in entrepreneurship, and other stakeholders with the outlines of the project and general results from research on 2011.

GEM is among the most important and influential global research projects that analyze relations between entrepreneurship and economic growth.



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## WHAT IS GEM?\*

Global Entrepreneurship Monitor (GEM) is a joint project of the world's leading business schools that conducts a series of cross-national research projects on entrepreneurial development and that facilitates the exchange of information on entrepreneurial activity in different countries.

The GEM project was conceived in 1997 at the initiative of leading academics from Great Britain, the United States, Finland, and Ireland. Institutional support for the project has been provided by two key organizations in the field of entrepreneurial studies: Babson College (USA) and London Business School.

The first annual report was delivered in 1999 and prepared by 10 countries. Since then, the number of participants has grown continuously: from 20 in 2000 to 55 (including Russia) in 2010. At present the GEM project is

one of the widest research initiatives on entrepreneurship.

Since 2006, Russian team in GEM consortium is represented by the Graduate School of Management, St. Petersburg State University and the National Research University—Higher School of Economics, Moscow.

Despite the widespread view of entrepreneurship as an engine of the economy, the mechanism of interaction between entrepreneurship and economic growth has not been fully investigated. One of the main factors preventing a deeper understanding of this interaction is the paucity of data. To fill this gap, the GEM project has developed an annually renewed database (unique for its scope) providing important information for comprehensive analyses of entrepreneurship at national and global levels.

### PROJECT GOALS

GEM focuses on the following goals:

- to undertake cross-national comparisons of levels of entrepreneurial activity;
- to identify factors that stimulate or constrain the level of entrepreneurial activity;

- to identify differences in levels of entrepreneurial activity and relations to economic growth;
- to suggest measures for increasing entrepreneurial activity at the national level.

### DATA COLLECTION METHODS

• **Adult Population Survey (APS)** is based on a special questionnaire revealing respondents' attitudes to conditions of entrepreneurial activity and their involvement in the entrepreneurial process. The minimal representative sample in each country is 2000 adults.

GEM methodology for APS Russia used a multistage, stratified, probabilistic sample of 7500 respondents, to represent the adult population of Russia between the ages 18 and 64 years. The following people were excluded: those currently in military service; those deprived of

their freedom or living in monasteries or other closed territories; those living in small villages or in settlements with less than 50 inhabitants; inhabitants of Chechnya and Ingushetia Republics; and inhabitants of regions in the extreme north with low population density (Nenets Autonomous Area, Yamal-Nenets Autonomous Area, Taimyr Autonomous Area, Evenki Autonomous Area, Chukchi Peninsula, and the Sakhalin region).

The sample design used data from official statistics on the Russian population and its territorial and demographic (age and gender) structures. Specialists from

the Levada Center used formal face-to-face interviews to conduct the survey. A Russian version of the survey questionnaire developed by the GEM consortium was translated and adapted for Russian conditions. The Russian version consisted of two parts: the first part contained questions for the entire population, while the second part included questions for respondents involved in entrepreneurial activity. Interviewers work was overseen via telephone, repeat visits, and mail. Sample error averaged less than 0.01%.

• To measure framework conditions of entrepreneurship, the GEM project uses expert evaluation – **National Expert Surveys (NES)**, a survey of entrepreneurs and experts in entrepreneurship, using special questionnaires and in-depth interviews. The questionnaire has 10 parts corresponding to GEM classification of the main framework conditions influencing entrepreneurial activity and economic growth. The selection of experts was conducted through

a semi-standardized procedure. The expert sample should comprise at least 36 experts and included both men and women; people with different experience in relevant structural conditions; and people from different geographical regions (national, regional, and local areas).

The sample of respondents included “entrepreneurs” and «professionals.»

«Entrepreneurs» are respondents with experience in entrepreneurial activity in one or more framework conditions. These respondents were chosen primarily on the basis of active entrepreneurial experience in the country, e.g. as founders of companies or organizations.

«Professionals» included respondents directly involved in shaping or evaluating a country’s framework conditions of entrepreneurship. Such experts might include politicians, scholars, state officials, and other professionals working in the area of entrepreneurship.

- **National economic and demographic statistics.**

## THE GEM CONCEPTUAL MODEL

GEM research has found that the interaction between entrepreneurial activity and economic growth varies depending on level of economic development. A U-shaped curve reveals this relation empirically, but this does not fully reveal cause-effect relations between entrepreneurship and growth. After the 2008 Global Competitiveness

Report, GEM’s research committee introduced a typology of economies: the factor-driven economies, the efficiency-driven economies, and the innovation-driven economies. Figure 1 provides a description of these stages of economic development.

GEM research uses a broad definition of «entrepre-

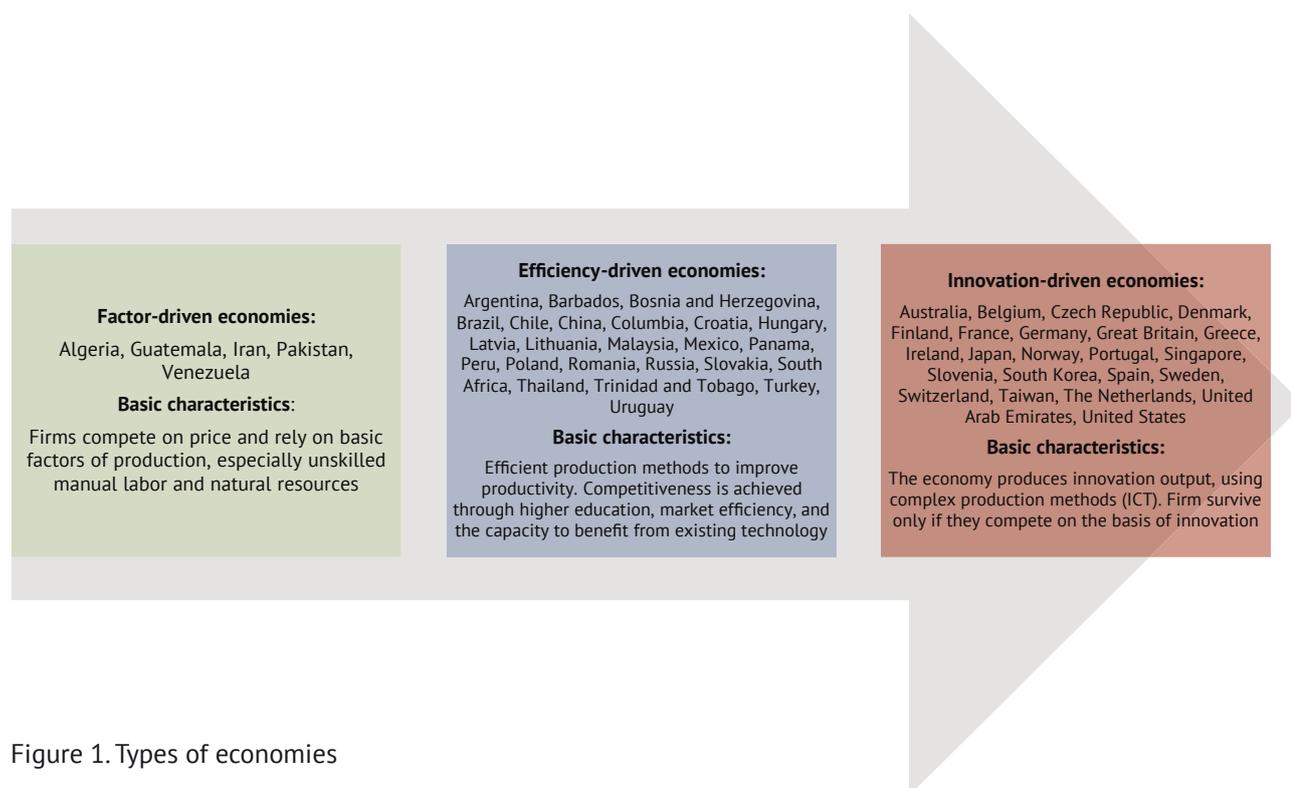


Figure 1. Types of economies

neurship» that highlights the role of the individual in the entrepreneurial process. Entrepreneurship is any attempt to create a new business or company (individual labor activity, a new commercial organization, expanding an existing business) that is done by an individual person, a group of people, or an already existing company (Reynolds 2005). GEM research mainly addresses entrepreneurial behavior of individuals who create and manage businesses, in contrast with other research that focuses primarily on registration of (new) companies.

In all the various definitions and interpretations of “entrepreneurship,” GEM distinguishes three basic components: attitudes to entrepreneurship, entrepreneurial activity, and entrepreneurial aspirations.

**Attitudes to entrepreneurship** reflect people’s general feelings to entrepreneurs and entrepreneurship. A country’s development is significantly affected by the presence of people able to recognize new business opportunities and with sufficient knowledge and experience to bring them to profitable fruition. Thus, a positive attitude to entrepreneurship in a society helps the entrepreneurial climate and facilitates the development of financial and commercial infrastructures. A society’s predominant attitude to entrepreneurship influences entrepreneurial activity, and vice versa. For example, the acceptance of entrepreneurship in a society, reflected in the population’s positive attitudes to it, depends on whether people know someone who opened a business recently. This reflects both the level of entrepreneurial activity and the development of the business community.

**Entrepreneurial activity** is a complex phenomenon that describes the involvement of a population in the process of creating new companies, managing recently created and established companies, and closing unwanted or inefficient businesses.

Entrepreneurial activity is a dynamic process, and for this reason GEM analyzes different stages in the development of entrepreneurship: from conceiving a business, through nascent entrepreneurs, to early-stage and established entrepreneurs. The study of various components of entrepreneurial activity draws out important distinctions in the process of creating new companies at different stages of a country’s economic development. For example, statistical data show that the number of nascent entrepreneurs and owners of newly created businesses will be higher in factor-driven economies, in all likelihood because the majority of these initiatives are motivated by urgent economic needs. Also, more innovation-motivated entrepreneurs can be found in

innovation-driven economies than in factor-driven and efficiency-driven economies.

**Entrepreneurial aspirations** give qualitative characteristics of entrepreneurial activity. The GEM project has developed a special system of indicators related to these aspirations: launching new products, implementing new production processes, expanding into foreign markets, and developing companies. If these aspirations are fulfilled, they significantly influence the economic impact of entrepreneurship. Therefore, product and process innovations, internalization, and expectation of company growth are crucial features of this high growth entrepreneurship.

The reviewed conceptual model affirms that various environmental factors (entrepreneurial framework conditions) affect business and entrepreneurial activity of entrepreneurship of both established entrepreneurs and of owners of new businesses. National framework conditions for factor- and efficiency-driven economies are borrowed from the 2008 Global Competitiveness Report (GCR) (Porter and Schwab 2008). Regarding innovation-driven economies, the GEM model supplements the GCR by adding environmental conditions characteristic for innovations and entrepreneurship. It is important to understand that all types of economic activity exist in the economic development of every country, but the prevalence of this or that stage and contributions to economic development can differ.

Figure 2 presents the GEM model. For the factor-driven economy, the accent is made on fundamental conditions, such as developing institutions, infrastructure, macroeconomic stability, public health, and elementary education. These requirements support necessity-driven entrepreneurship but can provide only weak support for opportunity-driven entrepreneurship. In the process of economic development and extensive economic growth, other conditions become important: those that provide reliably functioning markets and are the conditions for economic efficiency. These include developing institutions of higher education and professional training, efficient commodity and labor markets, developed financial markets, and technological advancement. For economies based on innovation, general conditions of entrepreneurship become more important incentives of economic development than fundamental or efficiency conditions.

Together these factors foster the creation of new companies and influence the entrepreneurial climate, thereby affecting economic growth and employment.

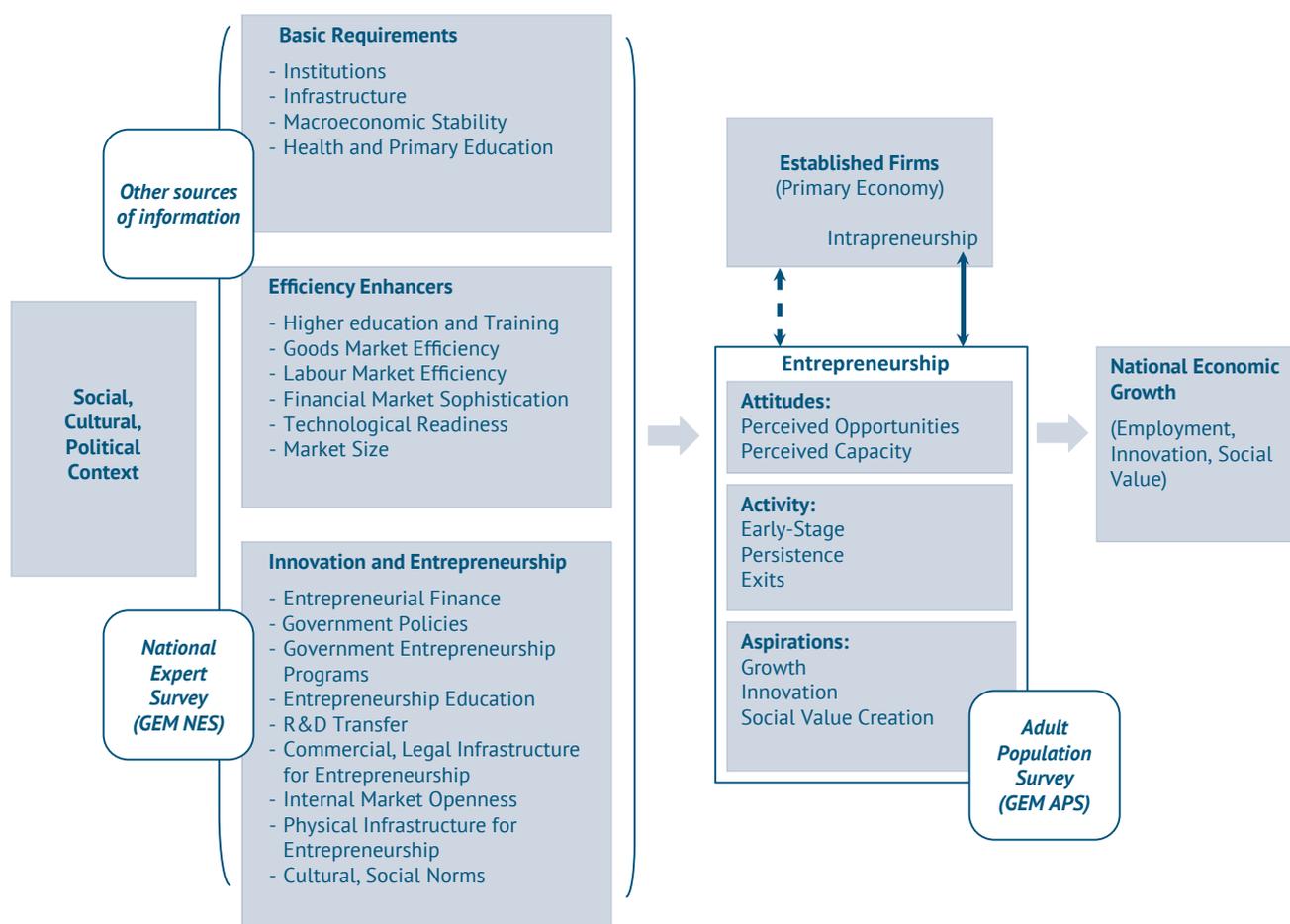


Figure 2. The GEM conceptual model

## TYPES OF ENTREPRENEURS

GEM conducts systematic research into diverse characteristics of entrepreneurship, such as motivation, innovativeness, competitiveness, and growth expectation. An important aspect of GEM's approach is to conceive of entrepreneurship as a process covering all stages of a business' life cycle: from conception of an idea (potential entrepreneurs) to early stages (nascent entrepreneurs), when a company is in the maturation phase; and from new companies (owners of new created companies), when a company already operates in the market, to established businesses and the potential discontinuation of business.

Fig. 3 depicts the entrepreneurial process and presents GEM's fundamental definitions:

- Potential entrepreneurs: those who see in the external environment opportunities for business creation and express confidence in knowledge and skills for managing company. Important characteristic is availability of those people who have entrepreneurial intentions, e.g. plan to organize a business in the next three years, using available opportunities, knowledge, and experience;
- Early-stage entrepreneurs, including:
  - Nascent entrepreneurs: those who in the previous year took active steps to open a new business; they hold all or a majority of shares in the new business, although wages and other forms of compensation are not paid for more than three months;

- Owners of new businesses: those who manage newly created businesses and receive income from such activity for more than three but less than 42 months;
- Established entrepreneurs or owners of established businesses: those who own and manage a business and receive income from it for more than 42 months.

Nascent entrepreneurs and owners of new businesses are a dynamic indicator of a country's early-stage entrepreneurial activity (TEA). Even if nascent entrepreneurs do not ultimately succeed in creating their companies, that they plan to enter the market and take initial steps towards doing so is a positive step, as it can increase competition for existing companies.

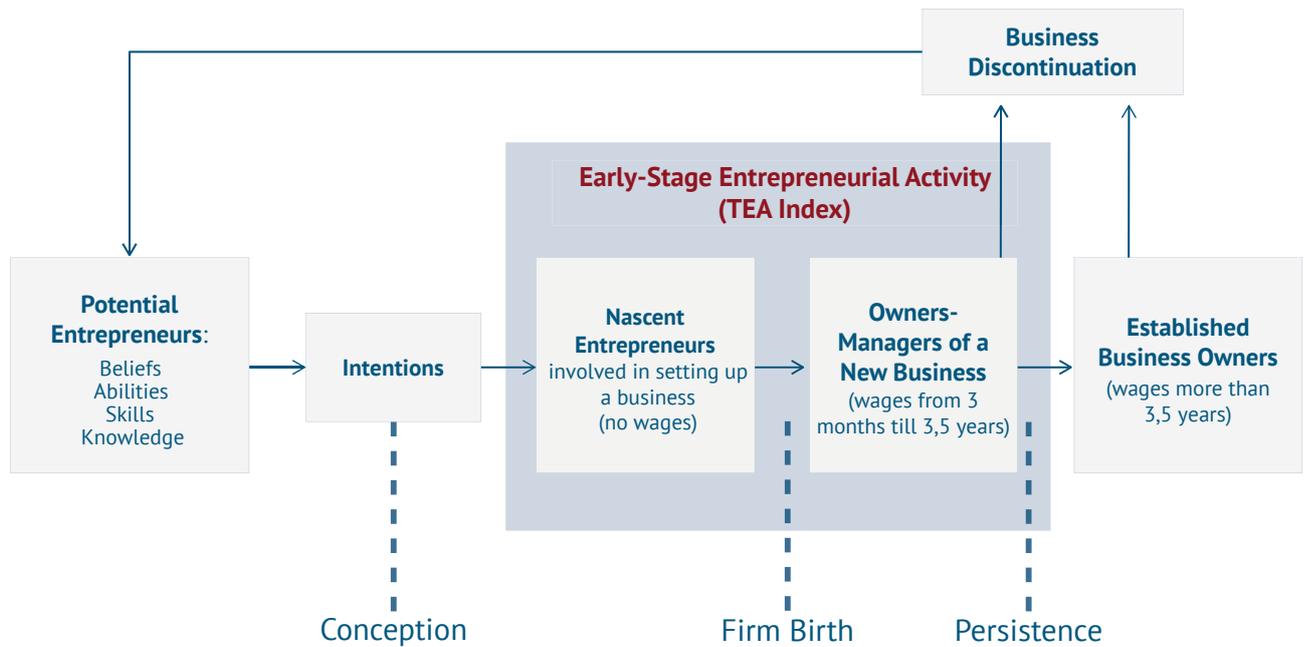


Figure 3. The entrepreneurial process and basic definitions of GEM project

# SOCIETAL ATTITUDES TOWARDS ENTREPRENEURSHIP

Attitudes to entrepreneurship reflect a population's general feelings towards entrepreneurship overall and towards entrepreneurs in particular. This not only can breed a favorable socio-psychological climate for developing entrepreneurship in a country, but also can stimulate the attraction of financial resources, the development of infrastructure, and the rise of business communities.

The factors important for initiating entrepreneurial activity include both individual characteristics and specific national features. The GEM model measures the following indicators.

## *Individual characteristics:*

- Assessment of environmental favorability for starting up a business in the next six months in the locality where the respondent lives;
- Whether an individual possesses entrepreneurial capabilities, which depends on his or her evaluation of having appropriate knowledge, qualifications, and experience to undertake entrepreneurial activity;
- Fear of failure, which can impede one from creating his or her own business;
- Whether an individual's acquaintances include someone who has opened a business in the last two years.

## *National specifics:*

- The presence of supportive social norms and values, including: valuing entrepreneurship for developing one's career, prestige of entrepreneurship in that society, and tendencies towards higher standards of living;
- Public opinion about entrepreneurship, in which

the mass media plays an important role in generating a successful image of the entrepreneur.

To assess the potential development of entrepreneurship in a country, respondents were asked if they believe that their country or region would experience favorable conditions for opening a business in the next six months. Overall, a favorable estimation of external opportunities positively affects the level of entrepreneurial activity. However, this is less about the actual state of that environment, than about how a population perceives prospects for opening businesses. Many factors affect perceptions of business opportunities, including general economic conditions of a country's or region's development, the degree to which an entrepreneurial culture has evolved, historical experiences, and education.

The level of entrepreneurial activity (potential, nascent, or established) is a response to the interaction between an individual's perceptions of external opportunities for entrepreneurship and his or her own abilities (competencies) for such activities. Only when a population sees external opportunities complemented by necessary competencies will the economy and society gain the social stratum that represents potential replenishment of the entrepreneurial ranks.

The self-assessment of competence has particular importance in conditions of economic recession and crisis, during which negative economic information can be disseminated through the mass media. Therefore, insights into factors that raise a population's self-estimation of business competencies can be used to forecast entrepreneurial capacity—an important issue for Russia's socioeconomic environment, especially given growing labor market tensions and other manifestations of crisis.

## THE NON-ENTREPRENEUR'S ATTITUDES TOWARDS ENTREPRENEURSHIP\*

The non-entrepreneurial stratum is the adult population who are not active entrepreneurs. This group is quite extensive, making up 92.8% of Russia's adult population. The largest part of Russia's population not only has no relationship to entrepreneurship, but also does not consider opening a business as a way to develop one's career.

Active entrepreneurs' and non-entrepreneurs' evaluations of national and cultural characteristics behind perceptions of entrepreneurship match. The distributions of both groups' answers are practically identical. However, individual perceptions about opening a business differ significantly between entrepreneurs and non-entrepreneurs (Fig. 4).

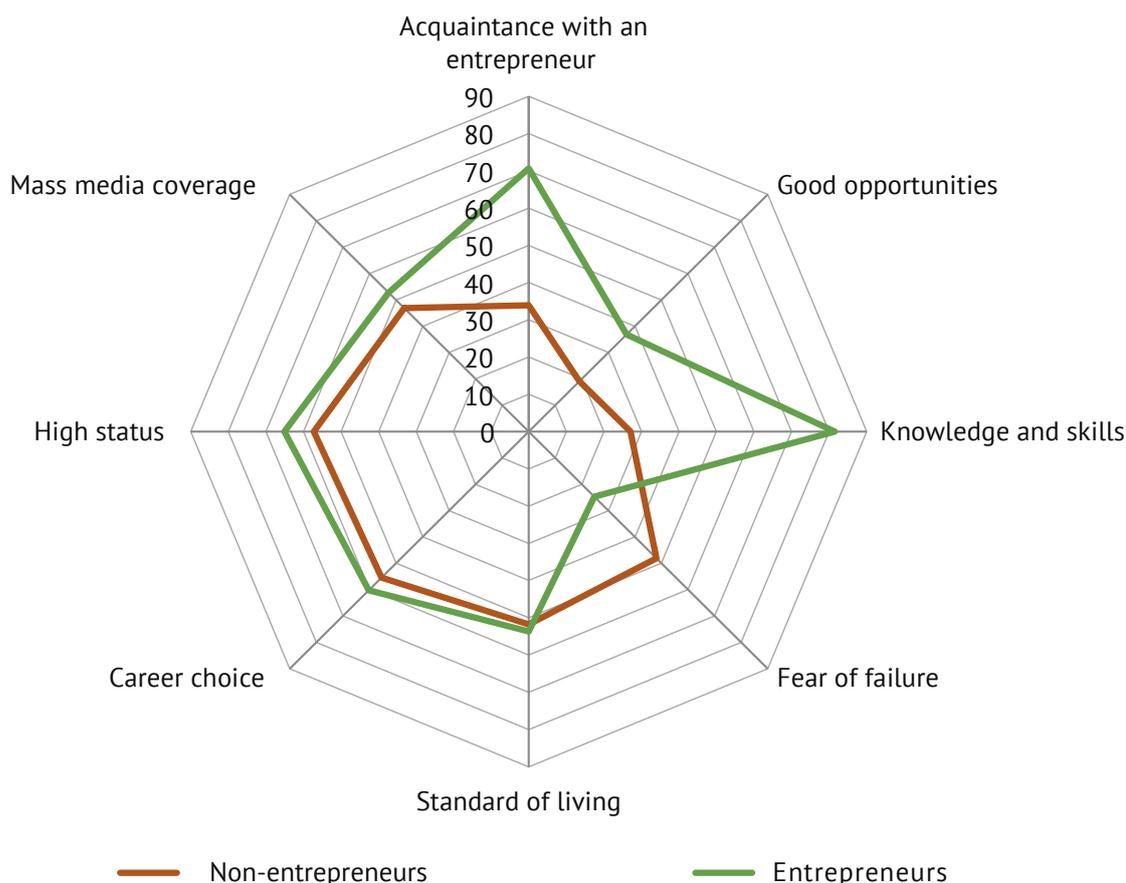


Figure 4. Attitudes towards entrepreneurship in Russia, 2011, %  
Source: APS Russia 2011

Two thirds of non-entrepreneurs surveyed believe they do not have sufficient knowledge and experience to undertake entrepreneurial activity. The majority of entrepreneurs do not express similar fears, although one fourth of them admit to insufficient competencies.

In 2011, the non-entrepreneurial group's evaluation of conditions for starting a business was very pessimistic: only 19% of representatives of this group felt conditions were favorable. Entrepreneurs' assessments were more encouraging: about 37% identified conditions favorable for opening a business. More than 25% of the non-entrepreneurial group had difficulty evaluating

business conditions (Fig. 5).

Non-entrepreneurs who optimistically evaluated conditions for business start-ups more often saw an entrepreneurial career as a desired choice, and the majority believed that successful entrepreneurs enjoy high status and respect (Fig. 6). This differentiates them from those who are pessimistic or doubtful. Further, optimists give a higher evaluation to their own knowledge and experience for starting a business. All three groups were unanimous in assessing preferences for the standard of living and fear of failure (about 48% of non-entrepreneurs).

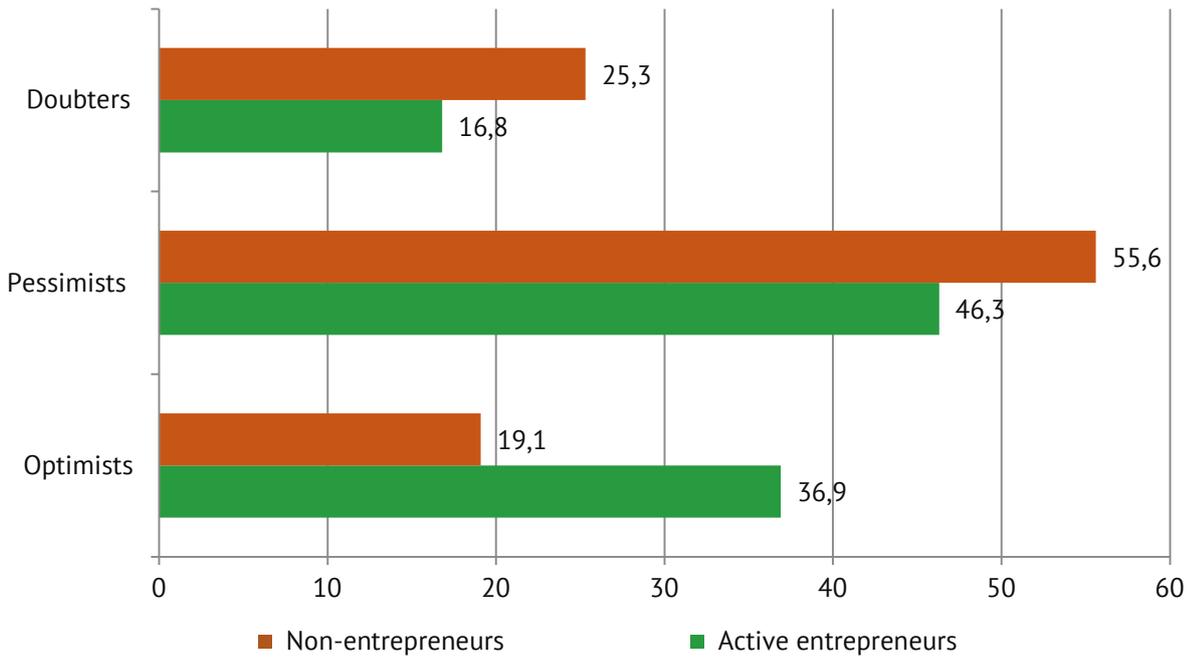


Figure 5. Entrepreneurs' and non-entrepreneurs' assessments of conditions for opening a business, 2011, %  
Source: APS Russia 2011

Optimists are more likely to be personally acquainted with an entrepreneur (more than 55% of optimists in the non-entrepreneur group). In contrast, no more than 30% of pessimists and doubters have entrepreneur acquaintances.

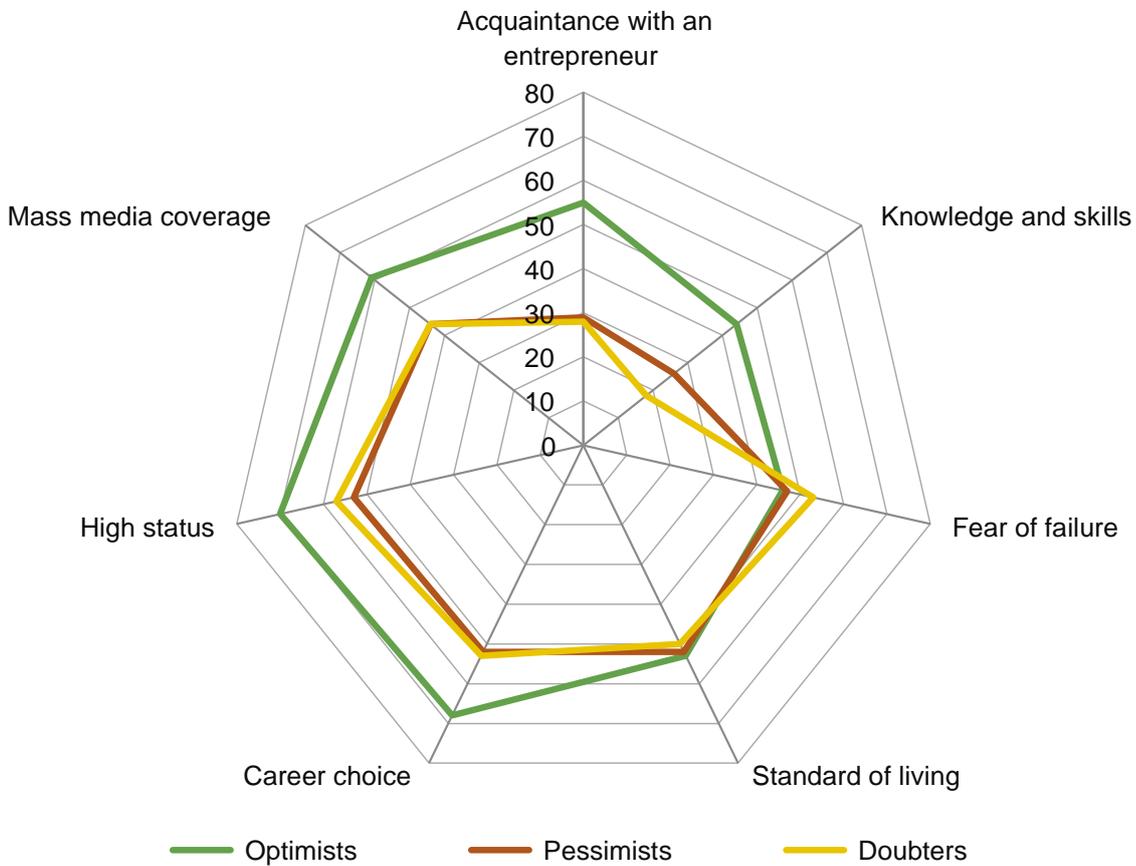


Figure 6. Attitudes towards entrepreneurship by non-entrepreneurs, 2011, %  
Source: APS Russia 2011

Perceptions of entrepreneurship also differ across age groups. This is, first and foremost, a cultural characteristic. The attractiveness of an entrepreneurial career declines with age: from 63% among respondents younger than 25 years, to 48% among respondents over age 55; and their assessment entrepreneurial status in society is 65% and 48%, respectively. Representatives of the older generation (45-55 years) generally pre-

ferred an equal standard of living and were less likely to be personally acquainted with entrepreneurs. Among the active part of the population aged 25-35, the largest share of people were familiar with nascent entrepreneurs and were confident in the adequacy of their knowledge and skills to start a business. Half of non-entrepreneurs in the middle age group (35-45) admitted fear and uncertainty about their business abilities.

### HOW EVALUATIONS OF CONDITIONS FOR ENTREPRENEURIAL START-UPS INFLUENCE EARLY-STAGE ENTREPRENEURIAL ACTIVITY\*

GEM data allow us to study the optimism of individuals' assessments about conditions for entrepreneurial activity, measured quantitatively as a proportion of the population that positively answered a question about whether socioeconomic conditions of that individual's region facilitate opening a business in the next six months. An analysis of the distribution of GEM countries by degree of optimism show that GEM countries as a whole show moderate heterogeneity of this indicator (coefficient of variation is 44.6%) (Fig. 7).

Another result was a 6-cluster structure of uniform groups of countries, with two particular observations: an anomalously low proportion of optimists was noted for Japan in 2011 (6%), and anomalously high optimism was recorded for Nigeria (85%). Overall, countries where optimists were at average or below average levels (37 of 55 GEM countries) dominate, and almost half of these countries (47%) are characterized by the presence of an average proportion of optimists.

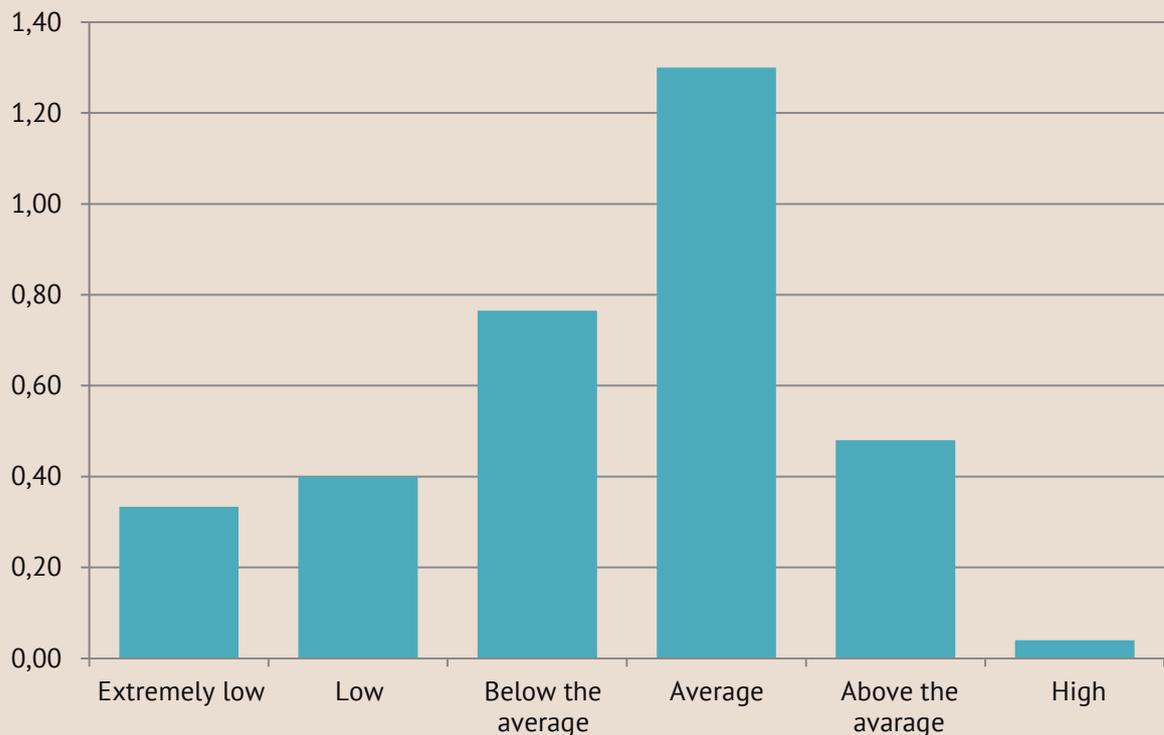


Figure 7. Classification of GEM countries by proportion of the population optimistically evaluating conditions for entrepreneurial activity, 2011  
Source: APS 2011

It is worth noting that in half of GEM countries, the proportion of the population optimistically inclined towards entrepreneurial conditions never exceeds 38.8% of the population.

Low optimism is observed in Japan, South Korea, and Greece (unsurprising, as it is undergoing a deep finan-

cial crisis). The highest level of optimism is observed in Africa and Latin America, which are characterized by a high level of entrepreneurial activity. Northern European countries (Finland, Sweden, and Norway) exhibit similar traits (fig. 8).

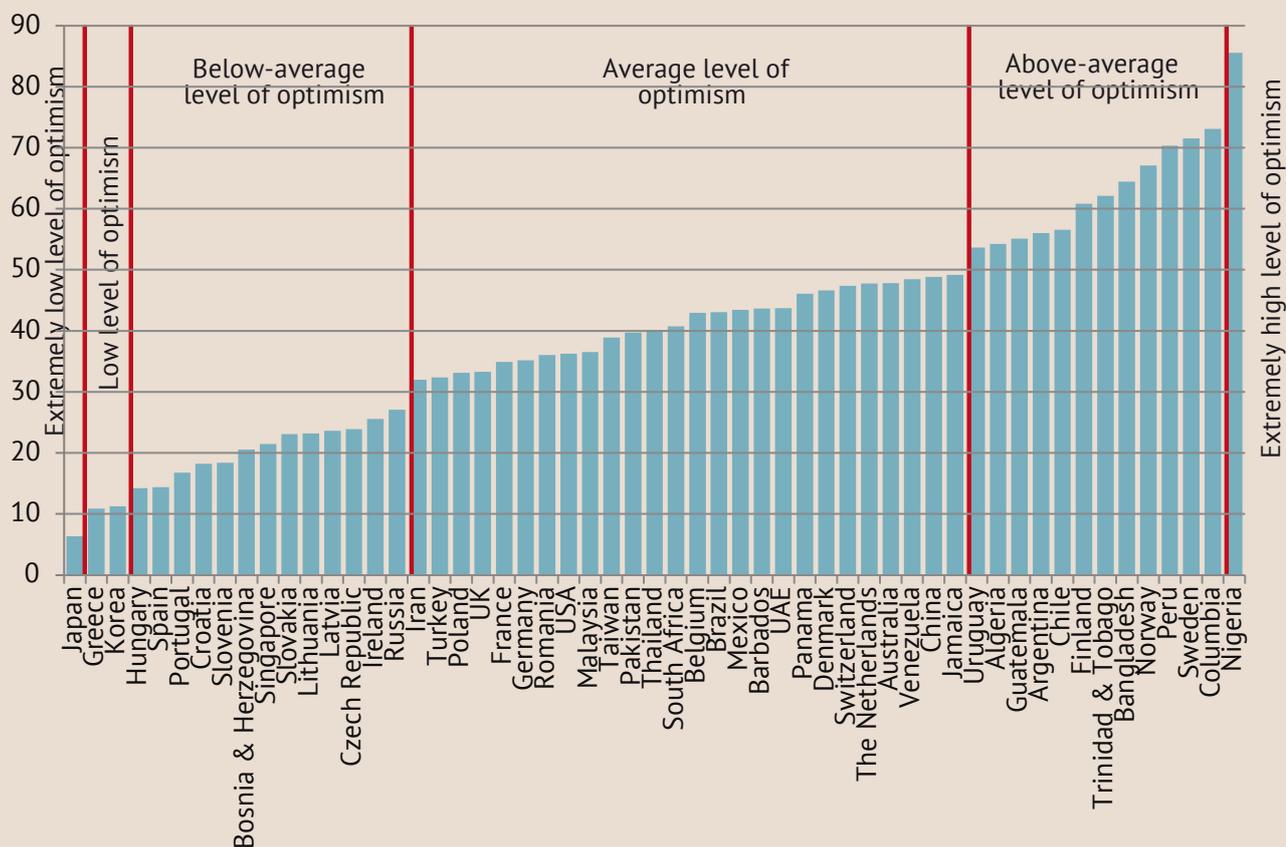


Figure 8. Proportion of GEM country populations optimistically evaluating conditions for entrepreneurial start-ups, 2011, %  
Source: APS 2011

Thus, the presence of a statistically significant relation between a population’s optimistic assessments of business conditions and the level of that population’s early-stage entrepreneurial activity is confirmed.\*

To study the form and direction of the relationship between optimism of a country’s adult working population and its early-stage entrepreneurial activity, a parametric regression was used, since both are indicators are calculated on a quantitative scale, and the analysis of characteristics of this empirical distributions showed that they did not differ statistically from a normal distribution.

Figure 9 displays the results of modeling the rela-

tionship between optimism of a country’s adult labor force and early entrepreneurial activity, based on a parametric regression. Nordic countries (Finland, Denmark, Sweden, and Norway) were excluded, as they were observed separate by combinations of studied indicators. This made it possible to obtain parameters for a linear regression model, significant at the 1% level, to explain 52.6% of variation in coefficients for the totality of GEM countries. Constructed in 2011, the linear regression confirms that a population’s optimism does impact early-stage entrepreneurial activity and describes this relation.

\*The estimation of this relation was based on Spearman’s rank correlation coefficient

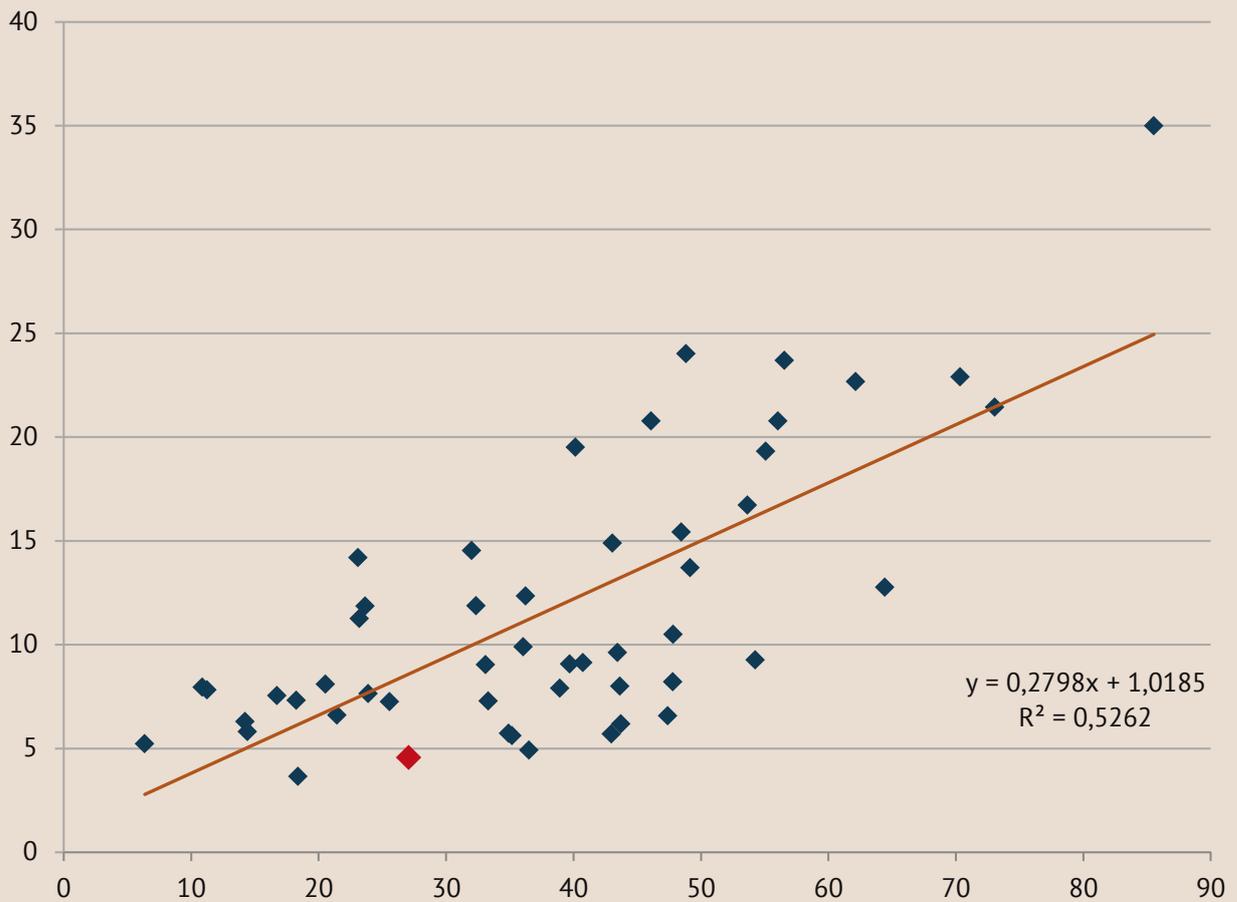


Fig. 9. Influence of non-entrepreneurs' optimism about conditions of entrepreneurial start-ups at the level of early-stage entrepreneurial activity, 2011, %  
Source: APS 2011

Thus, the more optimistic a population is about the business environment, the greater is its early-stage entrepreneurial activity (all else equal). An increase in the proportion of optimists by 1% contributes an increase of 0.3% on average in the index of early-stage entre-

preneurial activity. As the proportion of optimists in a population approaches zero, the proportion of entrepreneurs among that population will amount to around 1% on average.

## ENTREPRENEURIAL POTENTIAL

In GEM project, a “potential entrepreneur” is a person who has not yet started a business, but positively evaluates his or her own entrepreneurial skills and prevailing market conditions. In fact, potential entrepreneurs are in an “unstable equilibrium” when deciding whether to work as hired employees or to start their own businesses.

In Russia in 2011, 7.78% of the sampled population were potential entrepreneurs; they were usually in the 18-44 age group. The average age of potential entrepreneurs was 37 years. There were no significant gender differences in this group. However, this indicator was higher for men (8.54%) than for women (7.09%).

## ENTREPRENEURIAL INTENTIONS\*

In assessing a country's business potential, one key indicator is the number of those having entrepreneurial intentions. To measure entrepreneurial intentions, the GEM project analyzes answers to the question, "Do you plan to open a business the next three years?"

The level of entrepreneurial intentions in Russia is among the lowest in GEM countries (only the United Arab Emirates has a lower one). This indicator is around 25% on average for countries with efficiency-driven

economies. In 2011 in Russia, only 5.8% of respondents said they planned to start their own business in the next three years.

It should be noted that in Russia, around 40% of respondents with entrepreneurial intentions are already active entrepreneurs planning to start new businesses. A fresh influx of Russian business in 2011 could make up only 3.6% of Russians. One can speak of a positive trend beginning after 2009-2010 (Fig. 10).

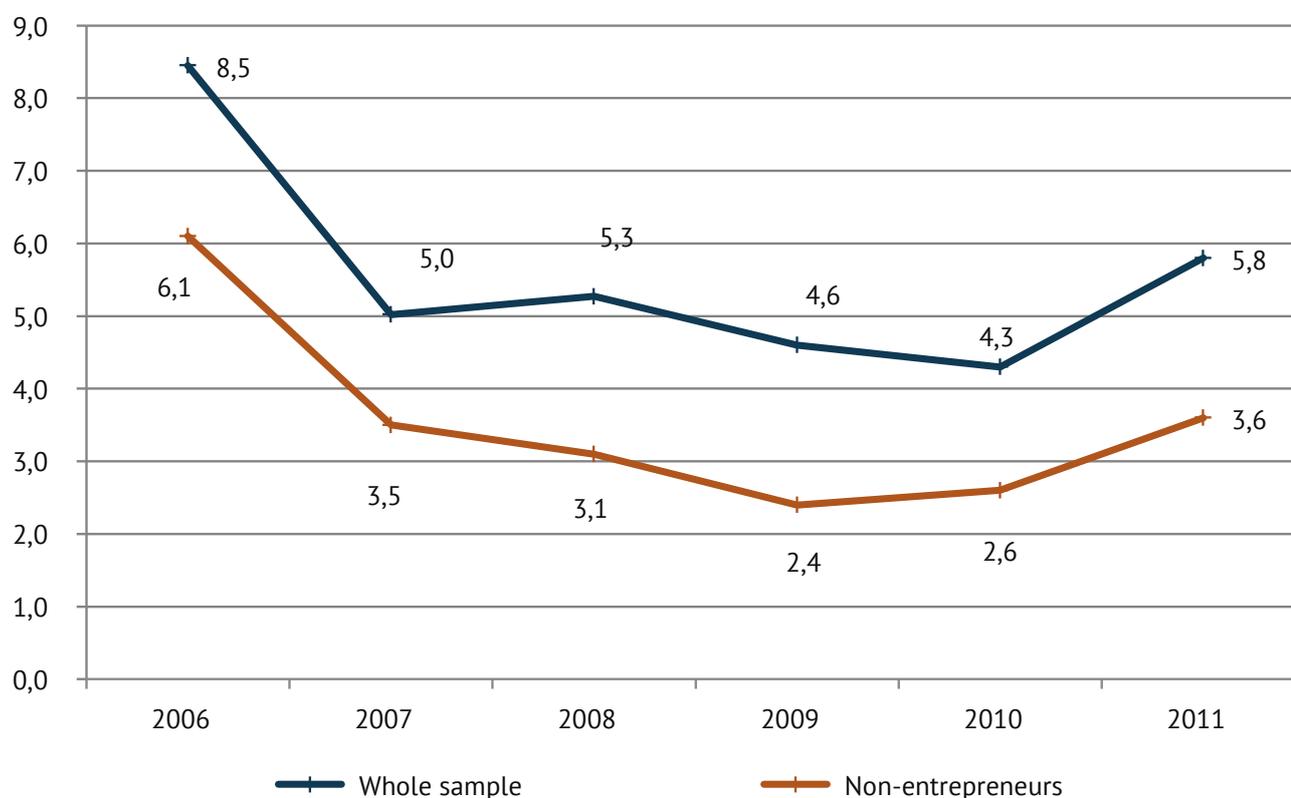


Figure 10. Dynamics of entrepreneurial intentions in Russia, 2006–2011, %

Source: APS 2006–2011

Respondents with entrepreneurial intentions were organized into three groups: planning, not planning, and doubting in their prognosis about organizing a business.

In assessing the majority of national and individual factors behind perceptions of entrepreneurship, those planning to start a business differ significantly from doubters and especially from those who do not plan to open a business.

The most significant are differences in assessments of knowledge and skills needed to start a business.

Among those with entrepreneurial intentions, 65% of respondents rated their knowledge as sufficient, while the same measure was 44% for doubters and 25% for those not planning to become an entrepreneur. Further, among those planning to start a business, the proportion acquainted with entrepreneurs is twice higher than among those not considering organizing a business (Fig. 11).

The younger generation (aged 35 and younger) makes up the largest part of those planning to open a business. Representatives of the middle and older age

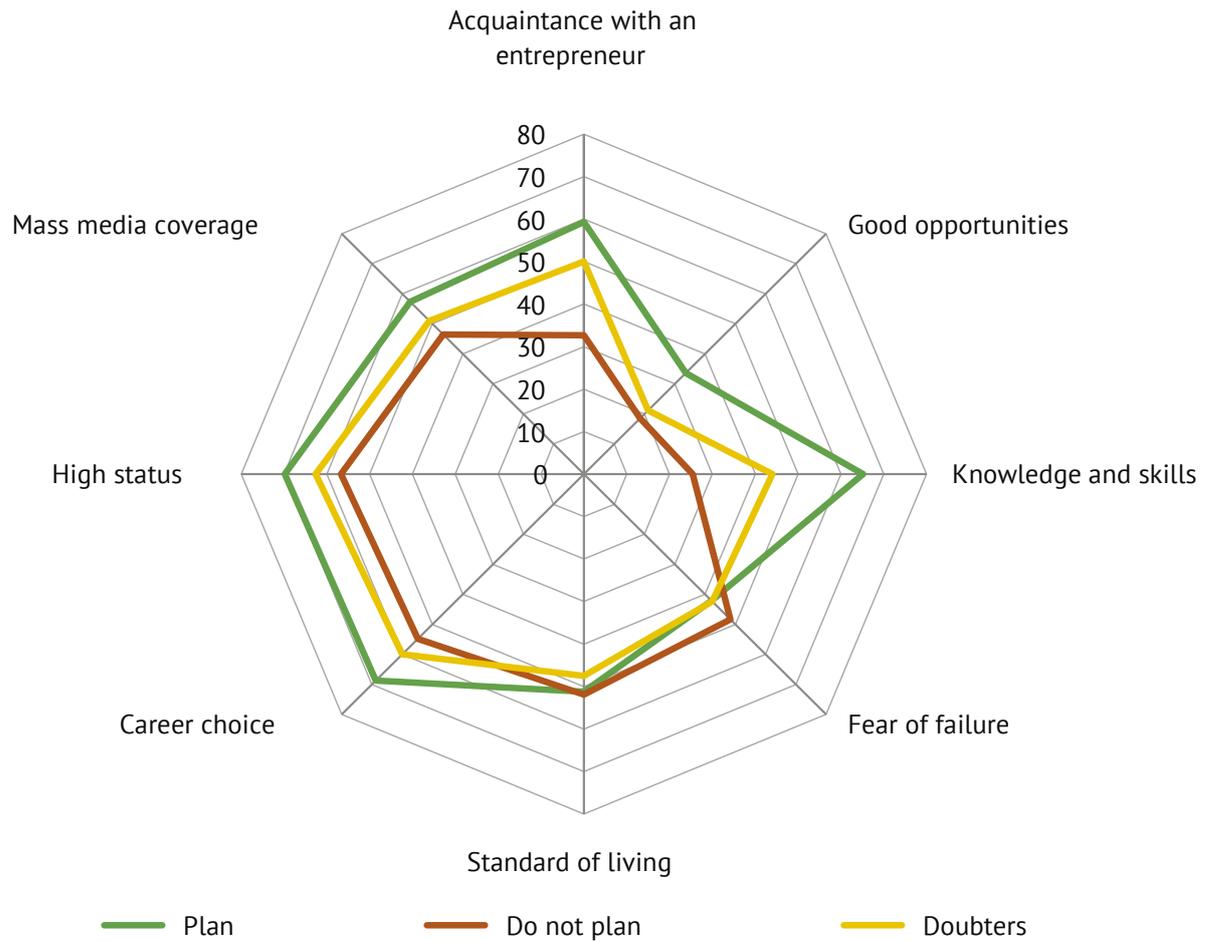


Figure 11. Assessment of entrepreneurial attitudes in relation to entrepreneurial intention, 2011, %  
Source: APS Russia 2011

groups for the most part do not plan to create their own company. The main group of those planning to start a business live in cities with up to 500 thousand inhab-

itants. Inhabitants of cities with 500 thousand to one million people are also well represented in this group.

# ENTREPRENEURIAL ACTIVITY IN GEM COUNTRIES

## ENTREPRENEURIAL ACTIVITY\*

GEM data help explain variation in different countries' entrepreneurial potential relative to level of institutional development; demographic characteristics, especially age structure of the population and migration processes; entrepreneurial culture; general level of

economic well-being; and level of technological development.

To estimate entrepreneurial activity in GEM countries, the project used the following indicators (table 1).

Table 1

**Basic GEM indicators of entrepreneurial activity**

|   |  |
|---|--|
| Level of activity, potential entrepreneurs                            | Percent of the population ages 18-64 that has not yet opened a business, but positively evaluates their own entrepreneurial abilities and economic conditions  |
| Level of entrepreneurial intentions                                   | Percent of the population ages 18-64 planning to open a business in the next three years   |
| Level of activity, nascent entrepreneurs                              | Percent of the population ages 18-64 that at present are nascent entrepreneurs involved in starting a business, either as owners or co-owners. The company exists more than three months, although wages or other forms of remuneration have not yet been paid.  |
| Level of entrepreneurial activity, owners of newly created businesses | Percent of the population ages 18-64 that presently owns and manages new businesses. The company paid salaries and remuneration to the owner for more than three but less than 3.5 years.  |
| Total entrepreneurship activity index (TEA)                           | Level of entrepreneurial activity in early stages. Percent of the population ages 18-64 that is nascent entrepreneurs and owners of newly established businesses. This is not a simple sum of the two first indicators. If a respondent is involved in both types of entrepreneurship, his or her entrepreneurial activity is counted only once. |
| Level of activity, established entrepreneurs                          | Percent of the population ages 18-64 who are currently owners or managers of established businesses. The company has been paying wages and monetary compensation to the proprietor for more than 3.5 years.  |
| General level of entrepreneurial activity                             | Percent of the population ages 18-64 who are early-stage or established entrepreneurs.   |
| Level of business closure   | Percent of the population ages 18-64 who in the last twelve months have sold or closed businesses or who in any other way ceased being owners or managers.   |

\*This section was written by O. Verkhovskaia and M. Dorokhina

|   |   |
|---|---|
| Level of activity, early-stage “necessity-driven” entrepreneurs   | Percent of the population involved in early-stage entrepreneurial activity due to necessity, i.e. they have no other source of income.  |
| Level of activity, early-stage “opportunity-driven” entrepreneurs | Percent of the population involved in early-stage entrepreneurial activity who are motivated by the opportunity for increasing income and for independence or autonomy in work. |

As Fig. 3 shows, GEM project conceptualizes entrepreneurship as a continuous, dynamic process that covers all stages in the development of a company, from its initial conception to its survival and possible closure. Table 2 presents data on entrepreneurial activity for 54

GEM countries in 2011. The countries are grouped by stage of economic development, and basic characteristics of general entrepreneurial activity in each country are presented.

Table 2

### Entrepreneurial activity in GEM countries by level of economic development, 2011, %

| Country                             | Level of activity, nascent entrepreneurs | Level of activity, new business owners | Index of early-stage entrepreneurial activity (TEA) | Level of activity, established entrepreneurs | Level of business discontinuation | Necessity-driven entrepreneurs (% of TEA) | Opportunity-driven entrepreneurs (% of TEA) |
|-------------------------------------|--|--|---|--|-----------------------------------|---|---|
| 1                                   | 2  | 3                                      | 4   | 5  | 6                                 | 7   | 8   |
| <b>Factor-driven economies</b>      |  |  |   |  |                                   |   |   |
| Algeria                             | 5.3                                      | 4.0                                    | 9.3   | 3.1  | 9.5                               | 37  | 46  |
| Bangladesh                          | 7.1                                      | 7.1                                    | 12.8  | 11.6   | 2.5                               | 27  | 50  |
| Guatemala                           | 11.8                                     | 9.1                                    | 19.3  | 2.5  | 3.8                               | 33  | 33  |
| Iran                                | 10.8                                     | 3.9                                    | 14.5  | 11.2   | 6.4                               | 53  | 32  |
| Jamaica                             | 9.0                                      | 5.0                                    | 13.7  | 5.1  | 12.7                              | 33  | 40  |
| Pakistan                            | 7.5                                      | 1.7                                    | 9.1   | 4.1  | 1.6                               | 47  | 25  |
| Venezuela                           | 13.1                                     | 2.6                                    | 15.4  | 1.6  | 3.2                               | 29  | 43  |
| <i>Sample average</i>               | 9.2                                      | 4.8                                    | 13.4  | 5.6  | 5.7                               | 37  | 38  |
| <b>Efficiency- driven economies</b> |  |  |   |  |                                   |   |   |
| Argentina                           | 11.8                                     | 9.2                                    | 20.8  | 11.8   | 4.3                               | 33  | 45  |
| Barbados                            | 10.8                                     | 1.8                                    | 12.6  | 4.2  | 5.5                               | 5   | 58  |
| Bosnia and Herzegovina              | 5.4                                      | 2.8                                    | 8.1   | 5.0  | 6.7                               | 61  | 22  |
| Brazil                              | 4.1                                      | 11.0                                   | 14.9  | 12.2   | 3.8                               | 31  | 45  |
| Chile                               | 14.6                                     | 9.6                                    | 23.7  | 7.0  | 6.8                               | 27  | 54  |
| China                               | 10.1                                     | 14.2                                   | 24.0  | 12.7   | 5.3                               | 41  | 29  |
| Columbia                            | 15.2                                     | 6.7                                    | 21.4  | 7.5  | 6.0                               | 25  | 30  |
| Croatia                             | 5.3                                      | 2.1                                    | 7.3   | 4.2  | 3.6                               | 35  | 31  |
| Hungary                             | 4.8                                      | 1.6                                    | 6.3   | 2.0  | 2.3                               | 31  | 29  |
| Latvia                              | 6.8                                      | 5.3                                    | 11.9  | 5.7  | 3.0                               | 26  | 46  |

Cont. table 2

|                                    |            |            |             |            |            |           |           |
|------------------------------------|------------|------------|-------------|------------|------------|-----------|-----------|
| Lithuania                          | 6.4        | 5.0        | 11.3        | 6.3        | 2.9        | 28        | 47        |
| 1                                  | 2          | 3          | 4           | 5          | 6          | 7         | 8         |
| Malaysia                           | 2.5        | 2.5        | 4.9         | 5.2        | 2.6        | 10        | 72        |
| Mexico                             | 5.7        | 4.0        | 9.6         | 3.0        | 5.0        | 19        | 55        |
| Panama                             | 12.0       | 9.1        | 20.8        | 6.0        | 2.1        | 27        | 40        |
| Peru                               | 17.9       | 5.4        | 22.9        | 5.7        | 5.1        | 22        | 52        |
| Poland                             | 6.0        | 3.1        | 9.0         | 5.0        | 4.2        | 48        | 32        |
| <b>Russia</b>                      | <b>2.4</b> | <b>2.3</b> | <b>4.6</b>  | <b>2.8</b> | <b>1.5</b> | <b>27</b> | <b>42</b> |
| Romania                            | 5.6        | 4.5        | 9.9         | 4.6        | 3.9        | 41        | 34        |
| Slovakia                           | 9.2        | 5.3        | 14.2        | 9.6        | 7.0        | 28        | 34        |
| South Africa                       | 5.2        | 4.0        | 9.1         | 2.3        | 5.6        | 35        | 39        |
| Thailand                           | 8.3        | 12.2       | 19.5        | 30.1       | 4.5        | 19        | 67        |
| Trinidad and Tobago                | 13.9       | 9.3        | 22.7        | 6.9        | 3.9        | 15        | 44        |
| Turkey                             | 6.3        | 6.0        | 11.9        | 8.0        | 3.9        | 32        | 45        |
| Uruguay                            | 11.0       | 6.0        | 16.7        | 5.9        | 4.3        | 11        | 10        |
| <i>Sample average</i>              | <i>8.4</i> | <i>5.9</i> | <i>14.1</i> | <i>7.2</i> | <i>4.3</i> | <i>28</i> | <i>42</i> |
| <b>Innovation-driven economies</b> |            |            |             |            |            |           |           |
| Australia                          | 6.0        | 4.7        | 10.5        | 9.1        | 4.3        | 15        | 73        |
| Belgium                            | 2.7        | 3.0        | 5.7         | 6.8        | 1.4        | 10        | 72        |
| Czech Republic                     | 5.1        | 2.7        | 7.6         | 5.2        | 2.7        | 27        | 57        |
| Finland                            | 3.0        | 3.3        | 6.3         | 8.8        | 2.0        | 18        | 59        |
| France                             | 4.1        | 1.7        | 5.7         | 2.4        | 2.2        | 15        | 71        |
| Germany                            | 3.4        | 2.4        | 5.6         | 5.6        | 1.8        | 19        | 55        |
| Great Britain                      | 4.7        | 2.6        | 7.3         | 7.2        | 2.0        | 17        | 46        |
| Greece                             | 4.4        | 3.7        | 8.0         | 15.8       | 3.0        | 25        | 37        |
| Denmark                            | 3.1        | 1.6        | 4.6         | 4.9        | 2.3        | 7         | 64        |
| Ireland                            | 4.3        | 3.1        | 7.2         | 8.0        | 3.4        | 29        | 37        |
| Japan                              | 3.3        | 2.0        | 5.2         | 8.3        | 0.7        | 25        | 64        |
| Netherlands                        | 4.3        | 4.1        | 8.2         | 8.7        | 2.0        | 9         | 62        |
| Norway                             | 3.7        | 3.3        | 6.9         | 6.6        | 2.5        | 4         | 70        |
| South Korea                        | 2.9        | 5.1        | 7.8         | 10.9       | 3.2        | 41        | 36        |
| Spain                              | 3.3        | 2.5        | 5.8         | 8.9        | 2.2        | 26        | 39        |
| Portugal                           | 4.6        | 3.0        | 7.5         | 5.7        | 2.9        | 18        | 58        |
| Singapore                          | 3.8        | 2.8        | 6.6         | 3.3        | 2.1        | 16        | 53        |
| Slovenia                           | 1.9        | 1.7        | 3.7         | 4.8        | 1.5        | 12        | 51        |
| Sweden                             | 3.5        | 2.3        | 5.8         | 7.0        | 3.2        | 6         | 68        |
| Switzerland                        | 3.7        | 2.9        | 6.6         | 10.1       | 2.9        | 11        | 61        |
| Taiwan                             | 3.6        | 4.4        | 7.9         | 6.3        | 4.9        | 17        | 50        |
| United Arab Emirates               | 3.7        | 2.6        | 6.2         | 2.7        | 4.8        | 14        | 67        |
| United States of America           | 8.3        | 4.3        | 12.3        | 9.1        | 4.4        | 21        | 59        |
| <i>Sample average</i>              | <i>4.0</i> | <i>3.0</i> | <i>6.9</i>  | <i>7.2</i> | <i>2.7</i> | <i>18</i> | <i>57</i> |

Source: APS 2011

Each country possesses unique social and economic conditions influencing entrepreneurial activity. However, one can speak of general characteristics of groups in question, and about the existence of regional features of concrete countries.

In 2011 there was an increase in the level of entrepreneurial activity in practically all GEM countries, independent of level of economic development. On average, this increase was 25% in efficiency-driven economies and 22% in innovation-driven economies [Kelly, Singer, Harrington 2012]. This also characterized those countries that in 2010 had high levels of early-stage entrepreneurial activity. This growth can be explained by an increase in the number of nascent entrepreneurs. For example, growth of nascent entrepreneurship in innovation-driven economies on average was 36%, while the number of new businesses grew by 7%.

Since this project was initiated, GEM researchers have noticed a U-shaped relationship between entrepreneurship and economic growth. In countries with low levels of income per capita, a large number of small firms dominate the economy. One reason for this is that in these economies, the proportion of companies rendering consumer services at the local level is high. Further, employers do not supply a sufficient number of jobs. This stimulates the population to seek ways to survive and to open businesses. Macroeconomic and political stability contributes to the development of large companies. In proportion to economic growth and increase in incomes, existing firms satisfy growing demand in many markets. Strengthening the role of large companies is accompanied by a reduction in the tempo of growth of small medium businesses, as a greater number of people find stable work in these large companies.

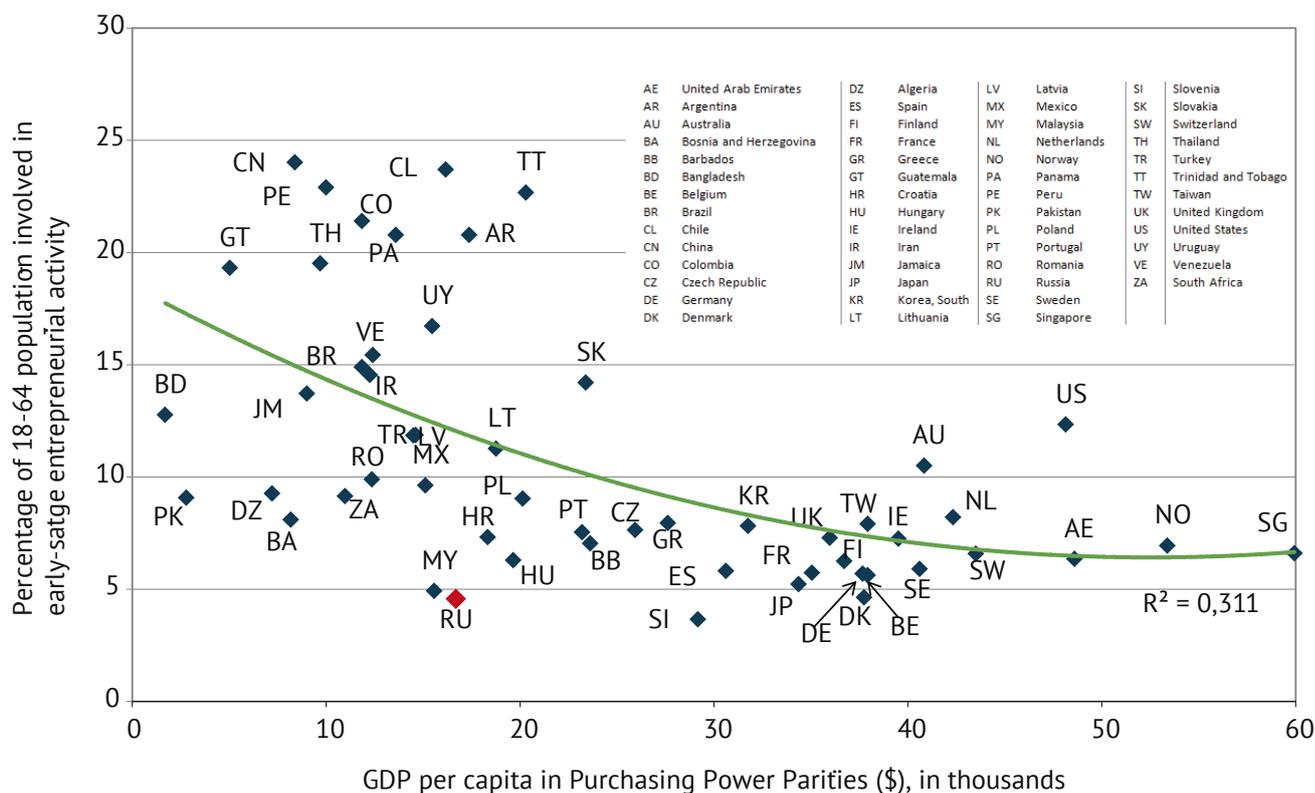


Figure 12. Index of entrepreneurial activity in GEM countries, and GDP per capita, 2011, %  
Source: APS 2011

After achieving a certain level of well-being, a country's entrepreneurial sector begins to grow. There can be several reasons for this increase in the number of newly created firms. First, structural conditions for entrepreneurship improve: access to finances, openness of markets, and improved transfer of R&D developments

[Kelly, Bosma, and Amoros 2011]. Second, social development leads to changes in social values, and employees not only seek the means to increase their incomes, but also to find self-realization and independent decision-making, and this presents them with qualitatively new issues.

In 2011, the level of entrepreneurial activity in GEM countries dropped in proportion to the increase GDP up to a certain value, although there was no observed cor-

relation between GDP level and increase in entrepreneurial growth in innovation-driven economies (Fig.12). This relation appears to take an L-shaped form.

## ENTREPRENEURIAL ACTIVITY IN RUSSIA

Values of indices on activity of early-stage entrepreneurship and of established entrepreneurs in Russia during participation in GEM have been relatively steady (Fig. 13). The highest index for early-stage entrepreneurial activity was for 2006, when that value was 4.9%. In 2007, this index declined, possibly due to an increasing in demand for labor from larger companies with attrac-

tive wages. The crisis of 2008-2009 led to a reduction in personnel in larger companies, which could have forced people to turn to entrepreneurship. Nevertheless, despite expectations for growth in entrepreneurial activity, Russia's TEA index did not increase in 2009 or 2010, remaining instead at 3.9%. In 2011, the level of early-stage entrepreneurial activity was 4.6%.

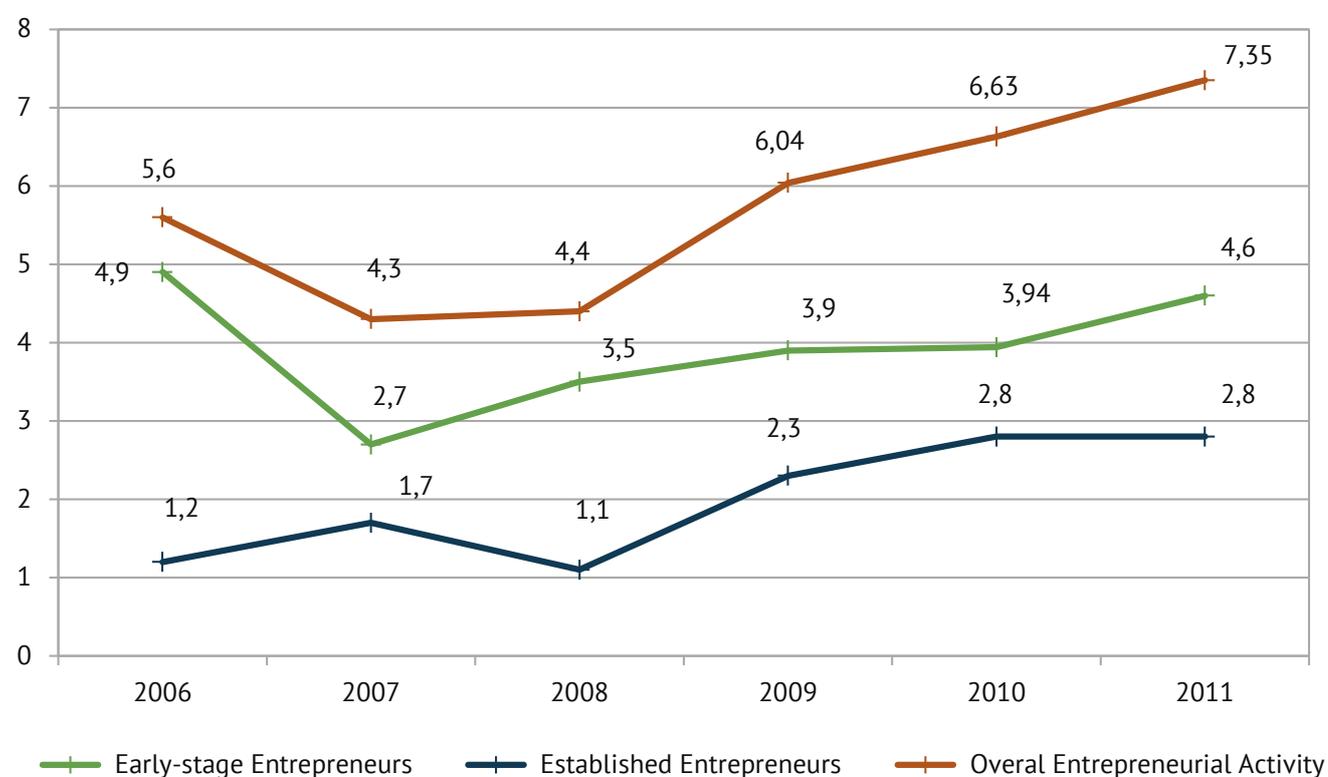


Figure 13. Dynamics of entrepreneurial activity in Russia, 2006–2011, %  
Source: APS 2006–2011

The activity level for established entrepreneurs has even lower significance and oscillated from 2.1% in 2007 to 2.8% in 2011. These data allow us to claim that in Russia there is not only low involvement in creating businesses, but also low viability of businesses.

In Russia in 2011, established entrepreneurs contributed 38% of general entrepreneurial activity for the population. GEM data reveal that in economically developed countries, the number of companies operating more than

3.5 years considerably exceeds the number of newly created companies. On average the portion of established businesses are around 29% of all entrepreneurs in factor-driven economies, while similar figures are 35% and 51%, respectively, for efficiency-driven and innovation-driven economies. According to this index, the leaders are Japan, Spain, Greece, and Switzerland, where more than 60% of entrepreneurs are heads of companies that have existed more than 3.5 years.

## MOTIVES FOR ENTREPRENEURIAL ACTIVITY\*

Entrepreneurs turn to business for various reasons. While some open new businesses because they are taking advantage of new opportunities, others are doing so because they have no other real source of means for survival. Thus, GEM uses two categories of entrepreneurial motivations:

**1. Opportunity-driven entrepreneurs:** entrepreneurs who try to use new opportunities and make gains from entrepreneurial activity;

**2. Necessity-driven entrepreneurs:** entrepreneurs who try to open businesses because they do not have any other real sources of income.

However, this rough classification leaves a little room for a deeper understanding of motivations, as respondents could answer the question on motivations only choosing between “no other options” and “to use new business opportunities.” A respondent could tick the latter answer even though his or her real motivation was closer to the former [Bosma et al, 2009]. Therefore, motivations of entrepreneurs oriented to using new op-

portunities require more detailed study. These were divided into three groups. The first group includes those whose basic motive was improving income. The second group includes those whose primary motive was independence. The third group is those who use opportunities to maintain income—in reality, this group is close to necessity-driven entrepreneurs.

GEM data show that the level of voluntary entrepreneurship is greater in countries with a higher level of economic development, where there are more alternatives for economic activity. Voluntary entrepreneurship has greater economic potential, creates more jobs, and demonstrates higher growth in labor productivity.

The motivation structure of Russian entrepreneurs in 2011 can be described as sufficiently favorable. More than 70% of Russian early-stage entrepreneurial economic activity was caused by the search for advantages business provides. It is remarkable that a voluntary motivation is more typical for nascent entrepreneurs (78%) than for owners of new businesses (64%).

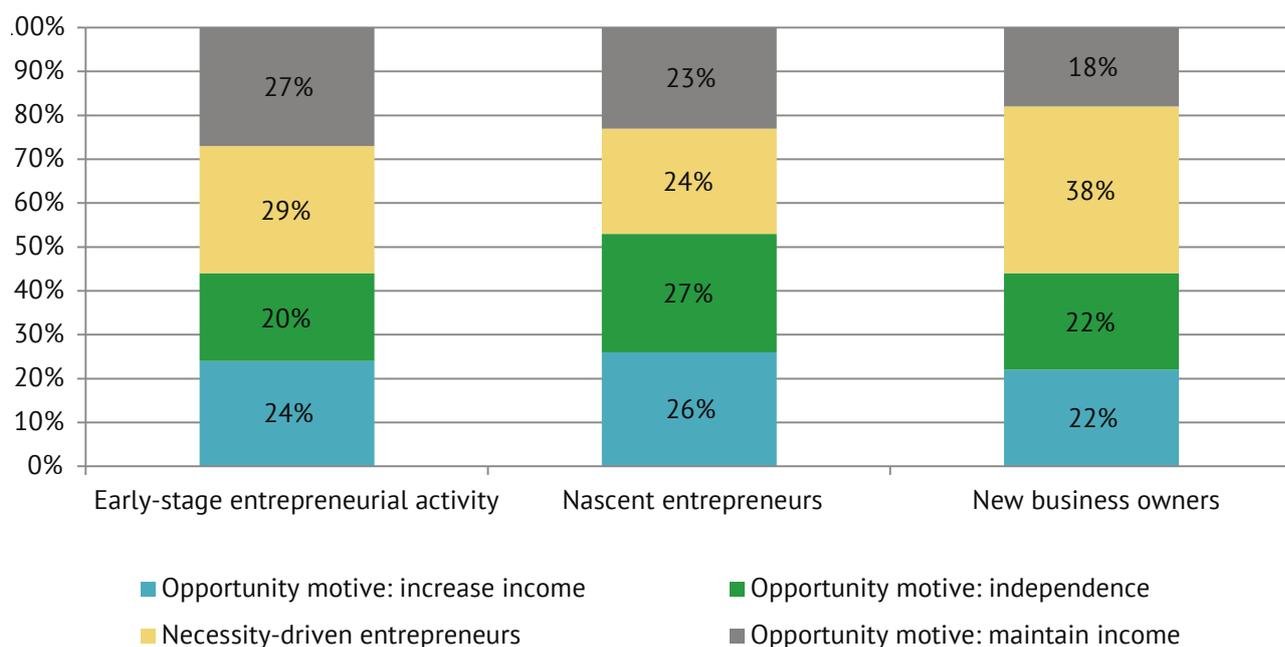


Figure 14. Motivations for early-stage entrepreneurs in Russia, 2011, %  
Source: APS Russia 2011

For the majority of Russian entrepreneurs, opening one’s own business is a voluntary step; however, they are essentially motivated by the desire to support income, rather than to increase income or to gain autonomy (Fig. 14).

However, it should be noted that both types of motivation – opportunity and necessity – lead approximately one fourth to turn to entrepreneurship. If we note that nearly one third of entrepreneurs indicated that they are guided by necessity, then we must recognize that

external circumstances drive around one half of Russian entrepreneurs to open their own businesses.

Opportunities and advantages of opening a business motivate the younger and more active part of the population: the average age of opportunity-driven entrepreneurs is 36 years, and 77% of these entrepreneurs are not older than 45. Necessity-driven entrepreneurs on average are two years older than opportunity-driven entrepreneurs (whose average age is 38 years). Overall,

age is not a significant factor influencing an individual's motivations, although it is possible that for older groups losing a primary job more often leads to necessity-driven entrepreneurship, especially self-employment or microbusiness.

No real differences between men's and women's motivations were observed. Around 71–72% are driven by business opportunities, while less than one third are necessity-driven entrepreneurs.

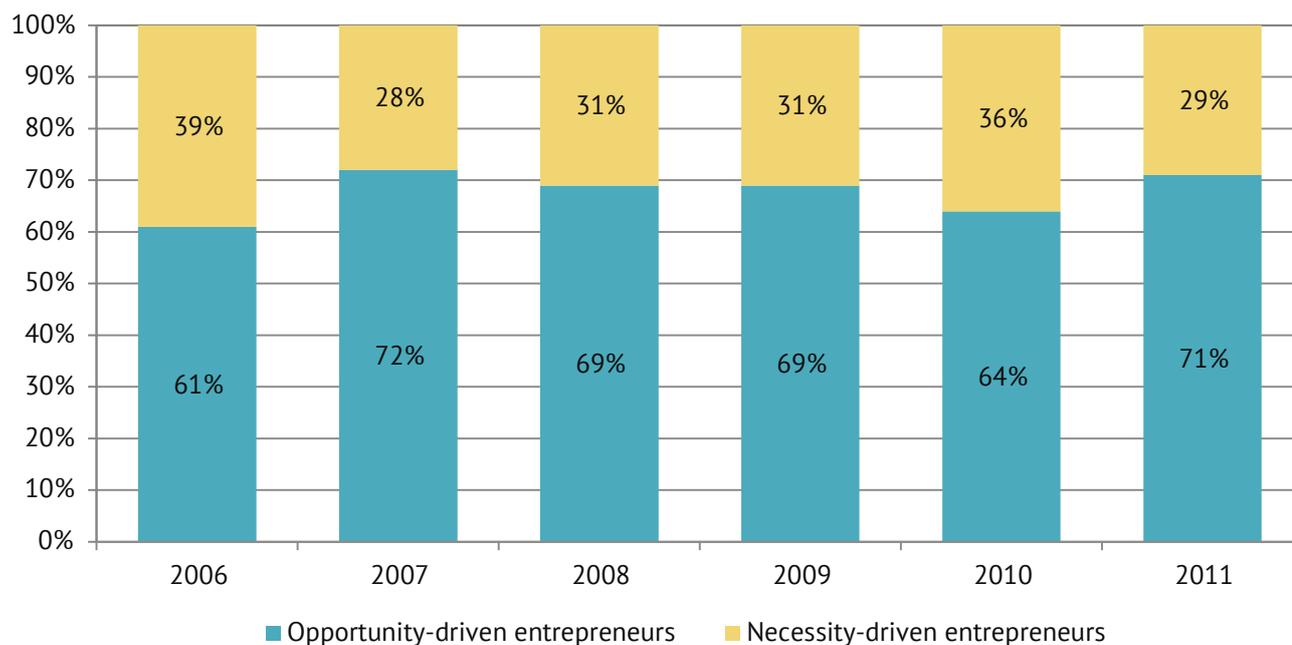


Figure 15. Dynamics of motivations for early-stage entrepreneurs, 2006–2011.  
Source: APS Russia 2006–2011

Examining data on motivations of Russian early-stage entrepreneurs, one can notice that since 2006 the fraction of voluntary entrepreneurs did not descend below 61% of the total number of early-stage entrepreneurs. The maximum number of entrepreneurs taking advantage of opportunities was observed in 2007 and made up 80% of entrepreneurs. This is evidence that on the eve of the economic crisis of 2008, the Russian population was taking business opportunities seriously. However, by 2008 the proportion of voluntary entrepreneurs had shrunk by 11% and remained around 69% for two years (Fig. 15).

In all likelihood, the growth in the proportion of necessity-driven entrepreneurs relative to opportunity-driven entrepreneurs was due to the negative impact of the economic crisis in the labor market, especially the reduction in jobs (or work hours) and in wages. In this situation, those out of work could have seen entrepreneurial activity as the best possibility for survival and maintaining some level of well-being. In 2010 this ten-

dency persisted: the number of necessity-driven entrepreneurs grew to 36% due to decline in the proportion of opportunity-driven entrepreneurs to the 2006 level (64%).

However, in 2011, as Russia slowly exited the crisis, the structure of motivations began to improve: the proportion of opportunity-driven early-stage entrepreneurs grew to 71%.

Motivations for early-stage entrepreneurs and owners of new businesses followed identical tendencies after the economic crisis. The effect of the crisis is most vividly reflected in motivations of owners of new businesses. After an increase in 2007, the number of owners of new businesses, who began activity voluntarily (their proportion increased by 44%), declined in 2008 to 30%. After having stabilized in 2009, the situation again deteriorated in 2010. In 2011, a growth trend for early-stage entrepreneurs was observed.

The analysis of indices of opportunity-driven and necessity-driven entrepreneurship for 2006–2010 sug-

gests that entrepreneurs' motivations over five years of observations did not show statistically significant change.

Overall, the structure of Russian early-stage entrepreneurs' motivations in 2011 was favorable vis-à-vis the relationship between necessity-driven and opportunity-driven entrepreneurship. Among emerging entrepreneurs and owners of new businesses, the proportion

of opportunity-driven entrepreneurs was significantly greater than necessity-driven entrepreneurs.

A comparison of opportunity-driven and necessity-driven entrepreneurs revealed that opportunity-driven entrepreneurs are characterized by a higher level of formal education, greater acceptance of risk, better material positions, and greater inclusion into entrepreneurial networks.

## SOCIO-DEMOGRAPHIC CHARACTERISTICS OF RUSSIAN ENTREPRENEURS\*

Social and economic characteristics such as age, gender, and education, have a significant influence on the desire to start an entrepreneurial career and to found a business.

Following GEM methodology, the analysis of socio-

demographic structures focused on basic groups of entrepreneurs: potential entrepreneurs; early-stage entrepreneurs, including emerging entrepreneurs and owners of new businesses; and established entrepreneurs.

### GENDER

The gender structure for Russian entrepreneurs is typical for GEM countries: men demonstrate more intensive involvement in activities in all entrepreneurial groups.

The level of entrepreneurial intentions is equal to 5.9%—calculated as the percentage of those who agree

that they plan to open their own business in the next three years. The proportion of men who plan to organize their own business is 55.6%, whereas the respective proportion of women is 44.4%, i.e. 6.8% of men and 5.1% of women intend to become entrepreneurs.

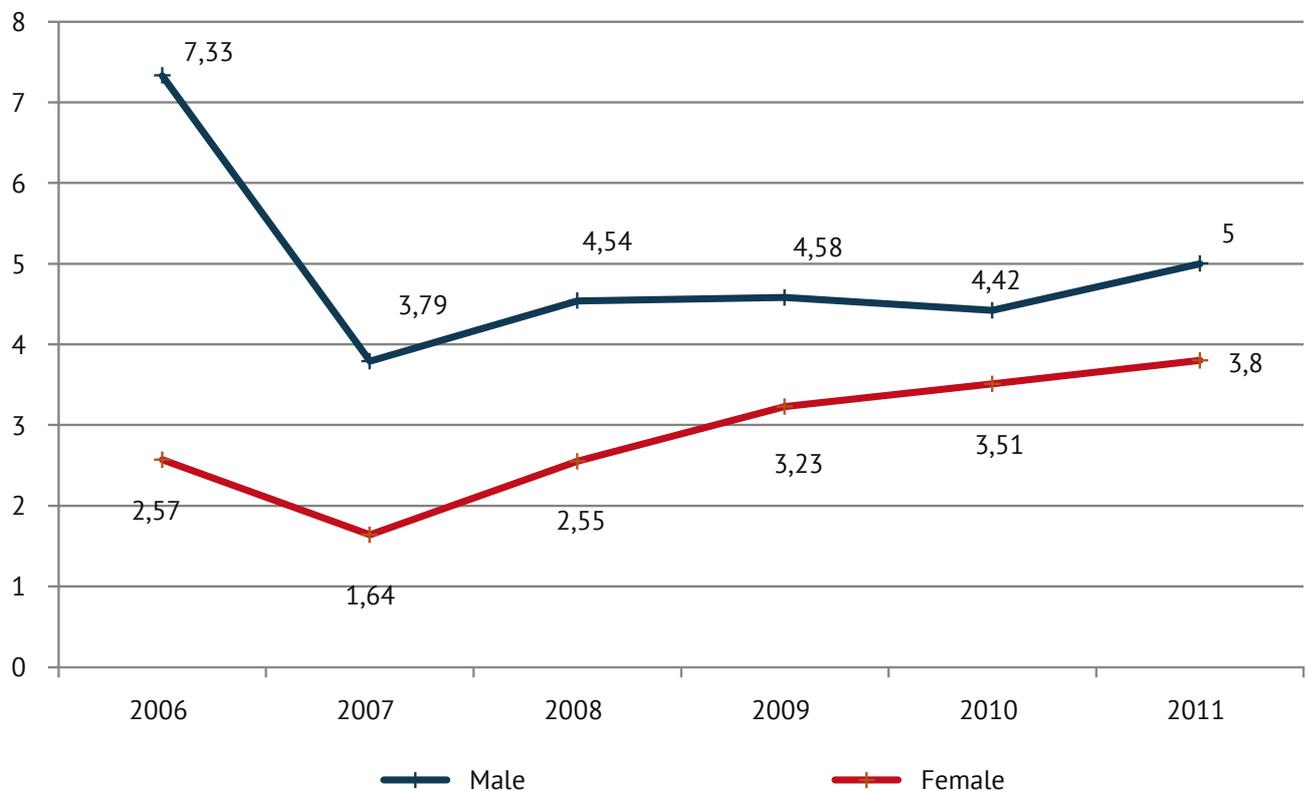


Figure 16. Early-stage entrepreneurial activity by gender, 2006-2011, %  
Source: APS Russia 2006–2011

Data show that 5% of men and 3.8% of women are involved in early-stage entrepreneurship; the ratio of men to women is 55.3% to 44.7% (Fig. 16). Among owners of newly created businesses, almost 60% are men; the gender structure for nascent entrepreneurs is almost identical. The gender structure of established entrepreneurs is almost the same: 53% men and 47% women.

Activity of established entrepreneurs among men in

2011 was somewhat higher than among women, 2.9% and 2.4% respectively (Fig. 17). While activity of male early-stage entrepreneurship exceeds that of women by 1.3 times, the difference between male and female established entrepreneurs is not so significant. This suggests that men are more inclined to entrepreneurial start-ups, but they are less successful at this stage.

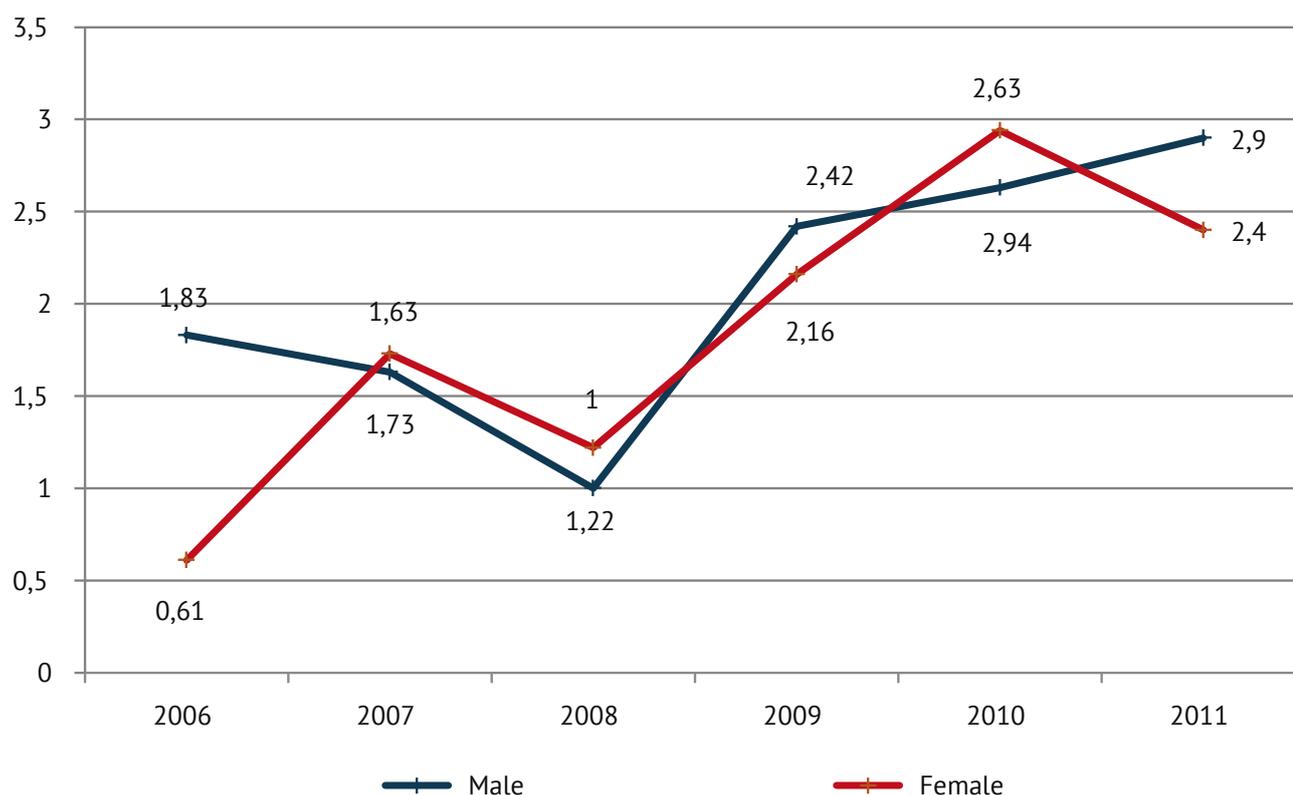


Figure 17. Activity of established entrepreneurs, men and women, 2006-2011, %

Source: APS Russia 2006–2011

In 2011, the tendency of previous years continued: men demonstrated great activity in creating new businesses. It appears that among factors significant to business creation, larger differences will be observed in individual characteristics, than in national characteristics, for the development of entrepreneurship.

Differences between men and women regarding assessments of necessary knowledge skills for opening and operating a business influence the choice of turning to entrepreneurship (Fig. 18). Overall, 89% of men and 83% of women entrepreneurs feel that they possess specialized knowledge to open a business. In this case, such differences are essential for established entrepreneurs, but they are not observed between men and women who are early-stage entrepreneurs.

There are gender differences in assessments of knowledge and skills among non-entrepreneurial strata of society. If the break in average estimations of knowledge and skills for entrepreneurs does not exceed 13%, then for non-entrepreneurs this difference is 35%.

Men and women have different evaluations of how fear can impede creating and operating a business. Fear of failure is considerably higher among women involved in entrepreneurship than among men; for all categories of entrepreneurs, gender differences in evaluating this factor are 40%. For non-entrepreneurs these differences are not so significant. It is possible that women face greater resistance once they begin entrepreneurial activity.

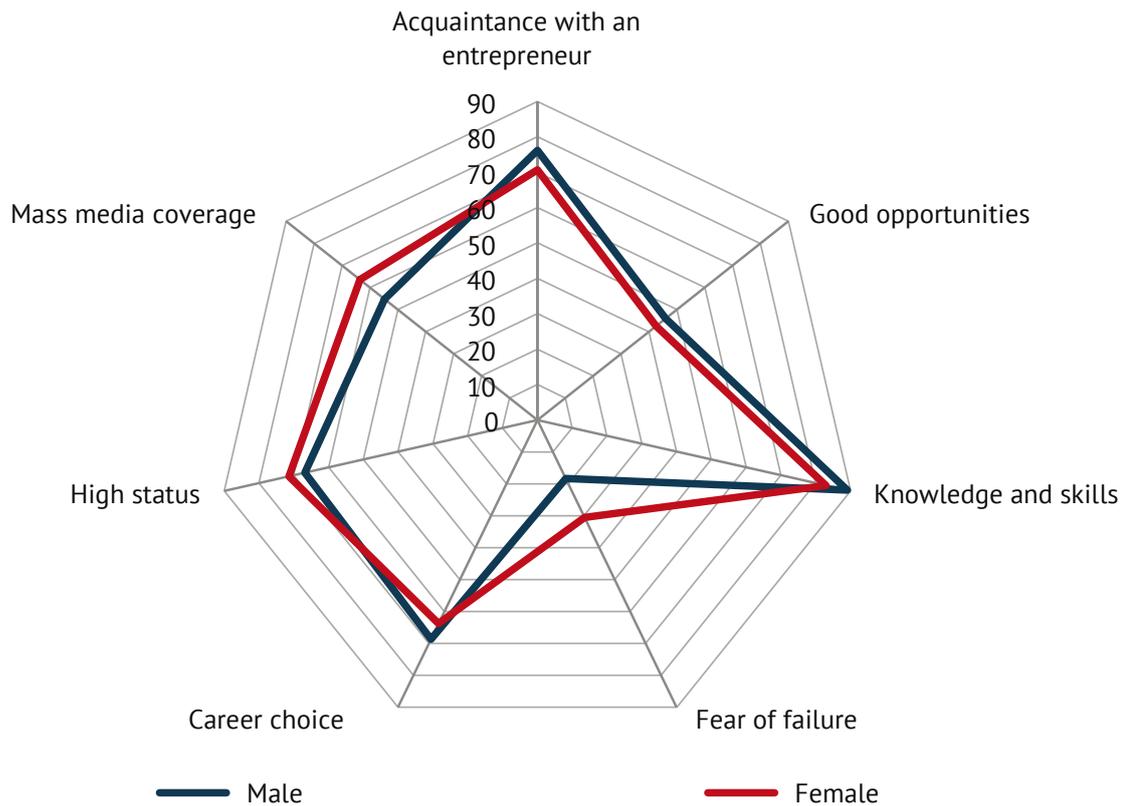


Figure 18. Gender differences in assessment of entrepreneurial attitudes 2011 r., %  
 Источник: APS Russia 2011

**AGE**

The age distribution of Russian entrepreneurs is not uniform. The average age for Russian early entrepreneurs is 36 years. Figure 19 provides the age distribution for early-stage and established entrepreneurs. For the majority of groups of entrepreneurs, the 25-34 cohort predominates. This is true for both men and women early-stage entrepreneurs.

The exceptions to this trend are respondents who plan to open a business, and established entrepreneurs. The activity of those who intend to become entrepre-

neurs declines with age. Young people (18 to 24 years old) demonstrate the greatest activity: 11% of youth and 7.5% of young women in this age group plan to open their own businesses. In the older cohorts, decreasing activity is visible.

For established entrepreneurs, the 35-44 and 45-54 cohorts predominate. Among owners of newly created businesses and established entrepreneurs, men’s activity exceeds women’s across all age cohorts. Among early-stage entrepreneurs, there is practically no difference.

**EDUCATION**

GEM methodology classifies educational level into four groups: “some secondary degree,” “secondary degree,” “post-secondary degree” and “graduate experience” (this last category includes those who have MAs, PhDs, and MBAs.)

Among both early-stage and established entrepreneurs, respondents with incomplete higher education or professional degrees predominate (Fig. 20). More than 80% of entrepreneurs fall into these two categories. Respondents with higher education demonstrate

the greatest activity among the early-stage and established entrepreneurs (7.09% and 4.68%, respectively).

Education correlates with assessments of having necessary knowledge and experience for opening a business. Entrepreneurs with higher education estimate their competence to open a business at 90%; this estimate is 66.7% for early-stage entrepreneurs with incomplete higher education, and 33% for established entrepreneurs with incomplete higher education.

Early-stage entrepreneurs demonstrate some vari-

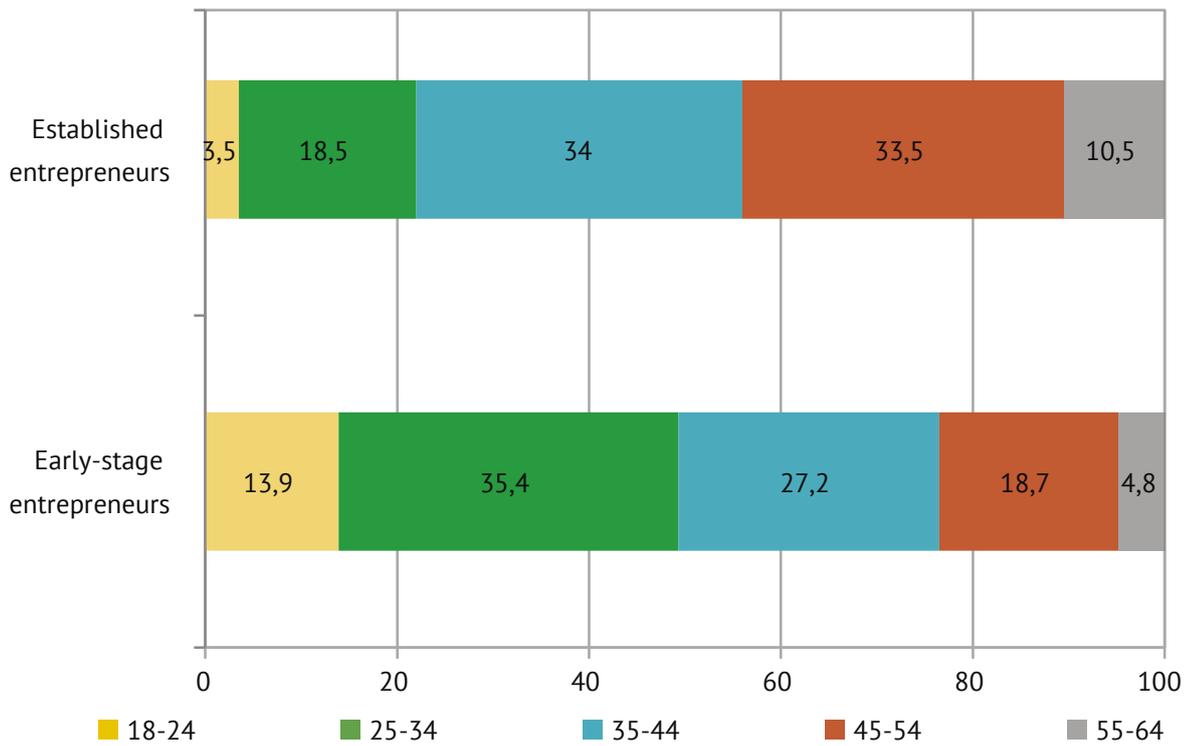


Figure 19. Distribution of early-stage and established entrepreneurs by age cohort, 2011, %  
Source: APS Russia 2011

ation in fear of business failure, but this declines as educational level increases. For respondents with an incomplete secondary education, 50% admitted a fear

of failure, but this figure drops to 21% for respondents with higher education.

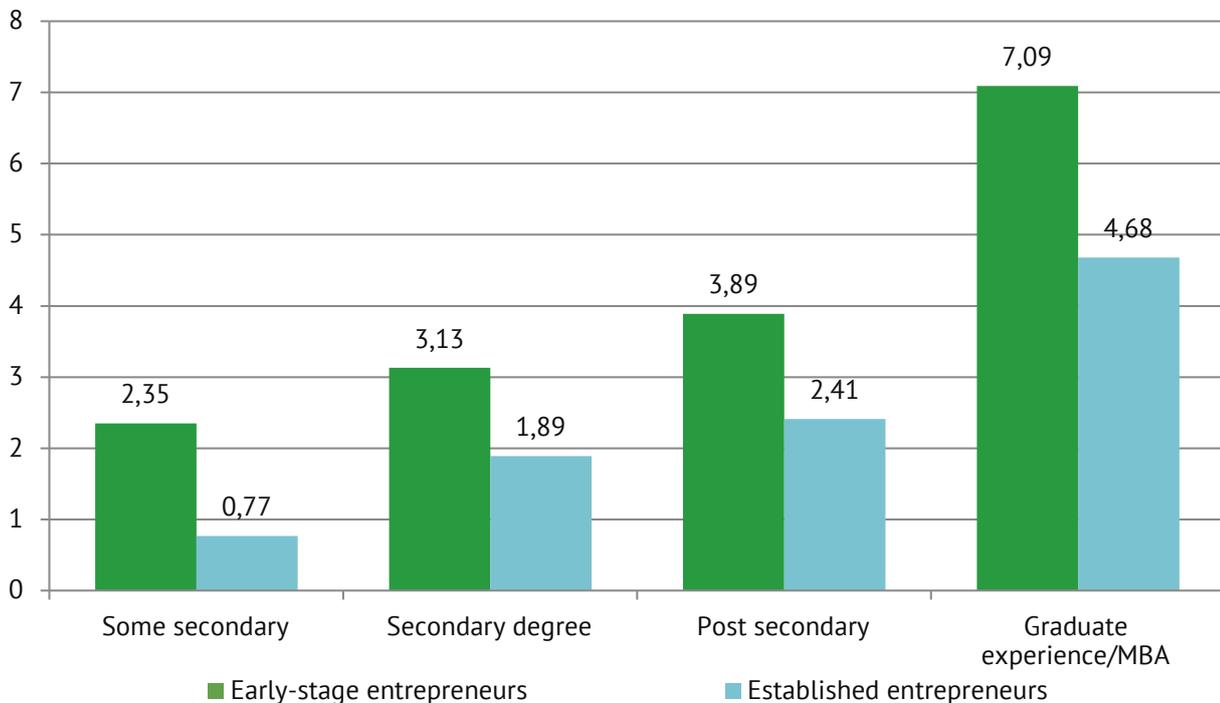


Figure 20. Activity of early-stage and established entrepreneurs by educational level, 2011, %  
Source: APS Russia 2011

### TYPE OF EMPLOYMENT

Research shows that 46% of early-stage and 84% of established entrepreneurs receive income only from entrepreneurial activity. 37% of early-stage and 13% of established entrepreneurs indicate that wages from

a basic job where they are employed full or part time are their primary source of their income. Entrepreneurs in part-time employment demonstrate the greatest level of early-stage entrepreneurial activity.

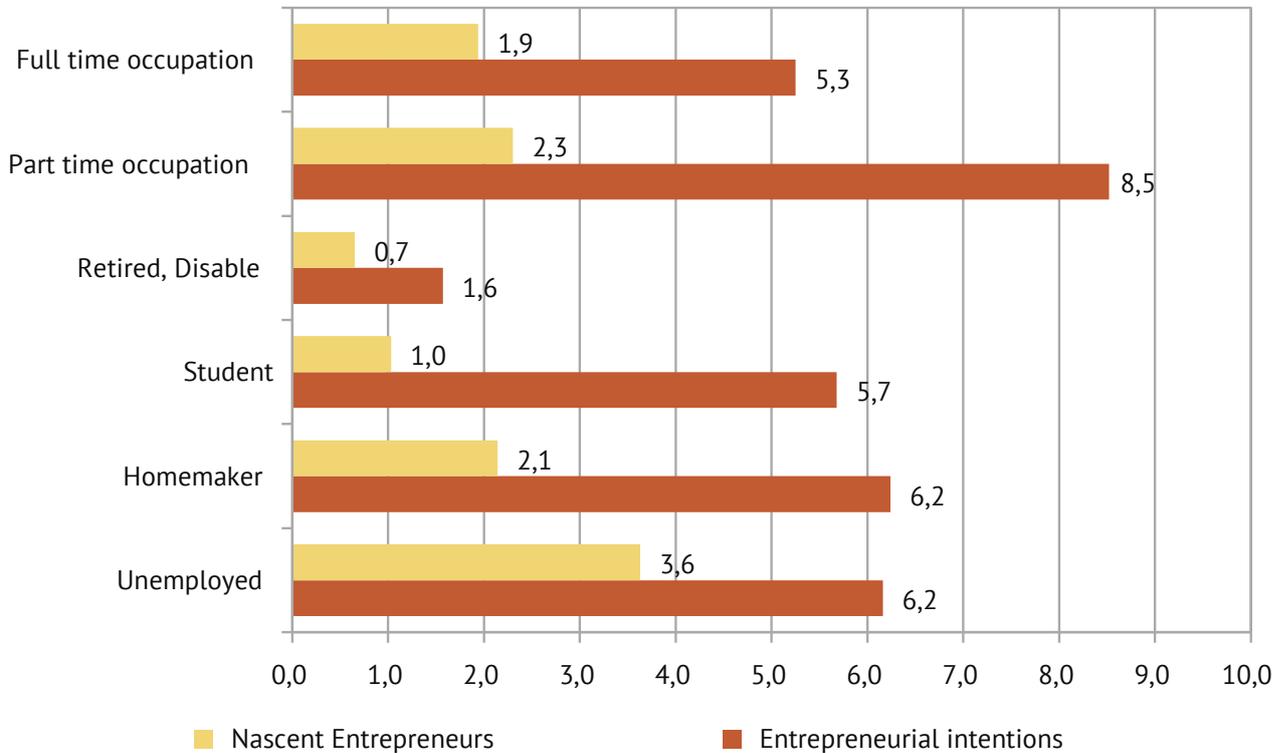


Figure 21. Activity of nascent entrepreneurs and respondents having entrepreneurial intentions, by type of employment, 2011, %  
Source: APS Russia 2011

A comparison of activity of nascent entrepreneurs and of people planning to open a business in the near future, versus status in the labor market, reveals groups of entrepreneurial growth in Russia (Fig. 21). The peak of entrepreneurial intentions is among respondents who are employed part-time (8.5%). This could be due to existing working conditions and wage levels. This group includes students, 5.7% of whom noted that they plan to open their own businesses in the next three years,

although only 1% realized an entrepreneurial start-up. The unemployed display the greatest activity among those attempting to create a business but not yet receiving income. However, in 2011 only each sixteenth expressed the readiness to become an entrepreneur in the future—considerably lower than in 2008, when each seventh unemployed respondent expressed readiness to open a business.

### TYPE OF SETTLEMENT\*

Population density of a settlement, presence of infrastructure, and income level of a population affect conditions for economic activity, including the possibility of realizing entrepreneurial activity.

The structure of entrepreneurial activity is similar

in different types of settlements, with the exception of megapolises—the only type of settlement where the proportion of business closures is higher than the proportion of owners of established businesses. From 51% to 60% of entrepreneurial activity among Russia’s adult

labor force is early-stage entrepreneurship in all settlement types.

The portion of early-stage entrepreneurs among the

adult working population oscillates from 3.41% in small cities to a maximum value of 7% in large cities (Fig. 22).

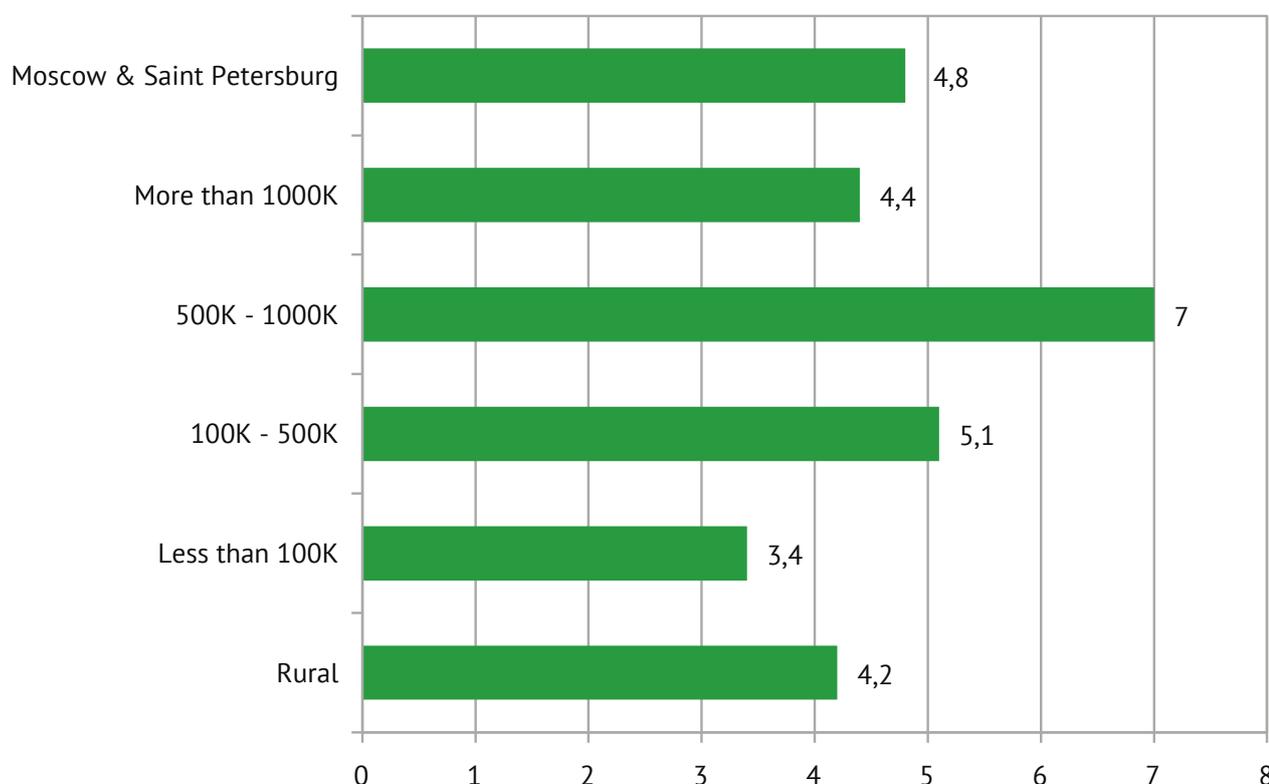


Figure 22. Early-stage entrepreneurial activity by type of settlement, 2011, %

Source: APS Russia 2011

Variation in activity by type of settlement is related not only to peculiarities of regional economic development, but also to social-demographic factors and perceptions. Male early-stage entrepreneurs (53.44%) prevail in the majority of settlement types. The greatest gap between men and women entrepreneurs' activity is observed in large and small cities, where men make up 57% of early-stage entrepreneurs. The outlier is, again, megapolises, where the proportion of early-stage entrepreneurs among women is greater by 6.04%.

The portion of early-stage entrepreneurs with higher or incomplete higher education declines as settlement size decreases (from megapolis to village). In contrast, the proportion of early-stage entrepreneurs with a low level of education grows as settlement size decreases: in large cities this index is 9.8%, while in villages it is 30.26%. Interestingly, in Moscow and St. Petersburg the portion of early-stage entrepreneurs with a low education is only 5.26%, whereas two thirds have higher education.

This is likely because these cities are the largest educational centers in the country, in which the majority of

professional educational institutions are concentrated.

An analysis of educational level for early-stage entrepreneurs allows us to differentially estimate the demands for different types of the training programs needed in different settlement types. Data obtained attest that, as a measure directed toward support and development of small and medium-sized businesses, classical MBA programs and leadership instruction may be effectively realized only in large cities and megapolises. However, in small cities and rural localities, optimum programs would be courses that provide only the most basic skills in calculation, financial planning, and the like.

The least optimistic perspective for opening a business is for early-stage entrepreneurship in the megapolises, as these are characterized by weakest involvement in entrepreneurial social networks and greatest fear of business failure. Early-stage entrepreneurs most confident in success are those who live in Moscow and St. Petersburg. Thus, cities with a million inhabitants—most of which are provincial capitals and have (it would seem) developed infrastructure to support entrepre-

neurship and wider fields of opportunities for entrepreneurial activity—turn out to be Russia most problematic cities, less because of level of development and more because of psychological and motivational peculiarities of early-stage entrepreneurs.

In the majority of settlement types, the motivational

structure for Russian early-stage entrepreneurs can be evaluated as sufficiently favorable vis-à-vis the relation between opportunity-driven and necessity-driven entrepreneurship. Even rural localities today are no longer predominantly places of by necessity-driven entrepreneurship.

## SECTOR DISTRIBUTION

To analyze economic sectors in which entrepreneurs are engaged, GEM uses the International Standard of Industrial Classification of All Economic Activities (ISIC). Sectors are categorized as consumer industries, business services, manufacturing and construction, and extraction (farming, forestry, fishing, and mining). It should be noted that for analysis of some indicators, e.g. evaluating structures by type of activity, the GEM data base is not the optimal source of information, although it

might have utility for discerning general traits of entrepreneurial dynamics.

Throughout this project, general tendencies in sector distribution of entrepreneurs have been emphasized. The majority of early-stage and established entrepreneurs generally work in the consumer sector, although in innovation-driven economies the share of such entrepreneurs is lower than in factor-driven and efficiency-driven economies.

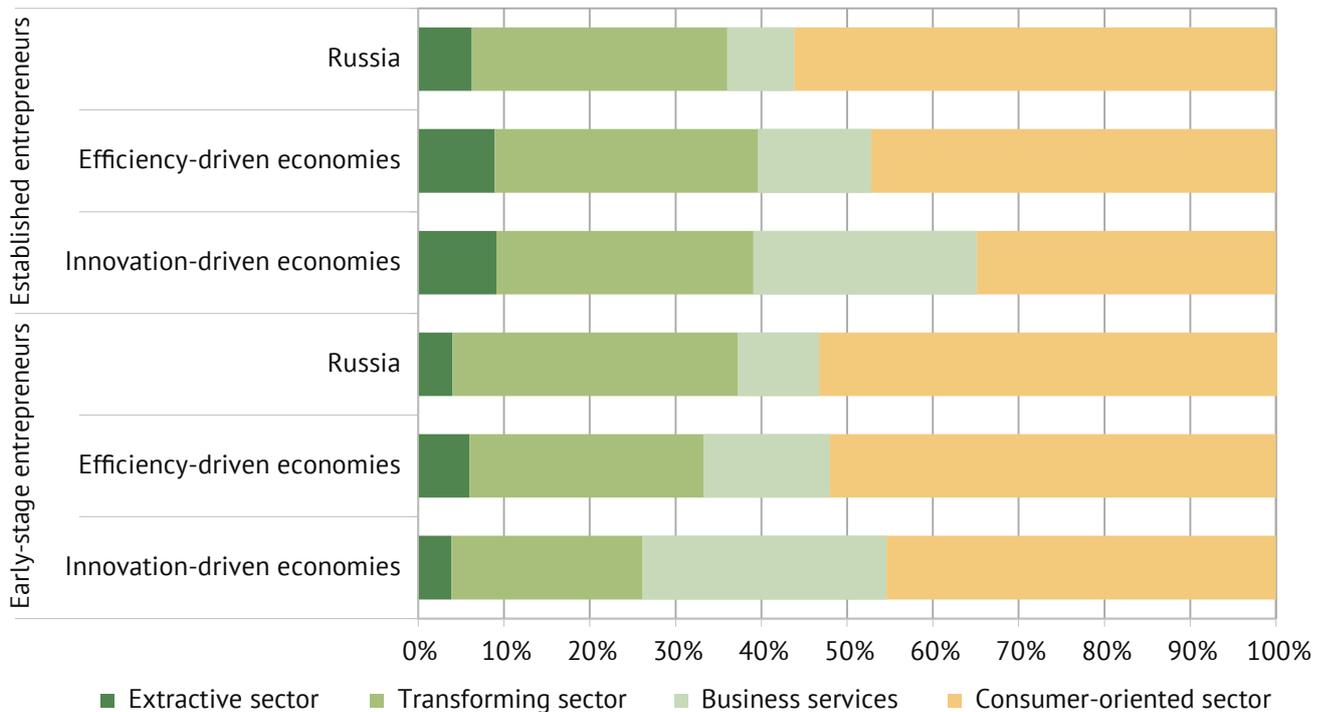


Figure 23. Sector distribution of Russian entrepreneurs, 2011, %  
Source: APS Russia 2011

The majority of Russian entrepreneurs (53% of early-stage and 56% of established entrepreneurs) work in the consumer sector (Fig. 23).

Of no small importance is the low percentage of Russian entrepreneurs working in business services (9% of early-stage and 8% of established entrepreneurs). The proportion of entrepreneurs working in this sector is considerably than the usual structure in innovation-driven economies (28% and 26% respectively) and in

efficiency-driven economies (15% and 13% respectively). This must be considered a negative trait of Russian entrepreneurship. In rendering business-services, competition is based on knowledge and technology; thus, it is not possible to talk of developing an innovation economy without an increase in the number of companies in this sector that are of good quality and have potential for growth.

## BUSINESS DISCONTINUATION\*

Entrepreneurial activity is measured not only by the number of companies created, but also by the number of those exiting the market. In many countries, the level of market exit is comparable to and sometimes exceeds the level of early-stage entrepreneurial activity (table 2). Along with measures of early-stage and established entrepreneurial activity, the level of market exit can be conceptualized as one component of dynamics of entrepreneurship.

A comparison of the level of nascent entrepreneurship (i.e. people involved in opening a business and taking active measures towards this goal) with the level of market exit helps us better understand expansion of entrepreneurship. In most GEM countries in 2011, this coefficient had a value greater than 1. A relationship between the coefficient of expansion and level of economic development was not observed (Fig. 24).

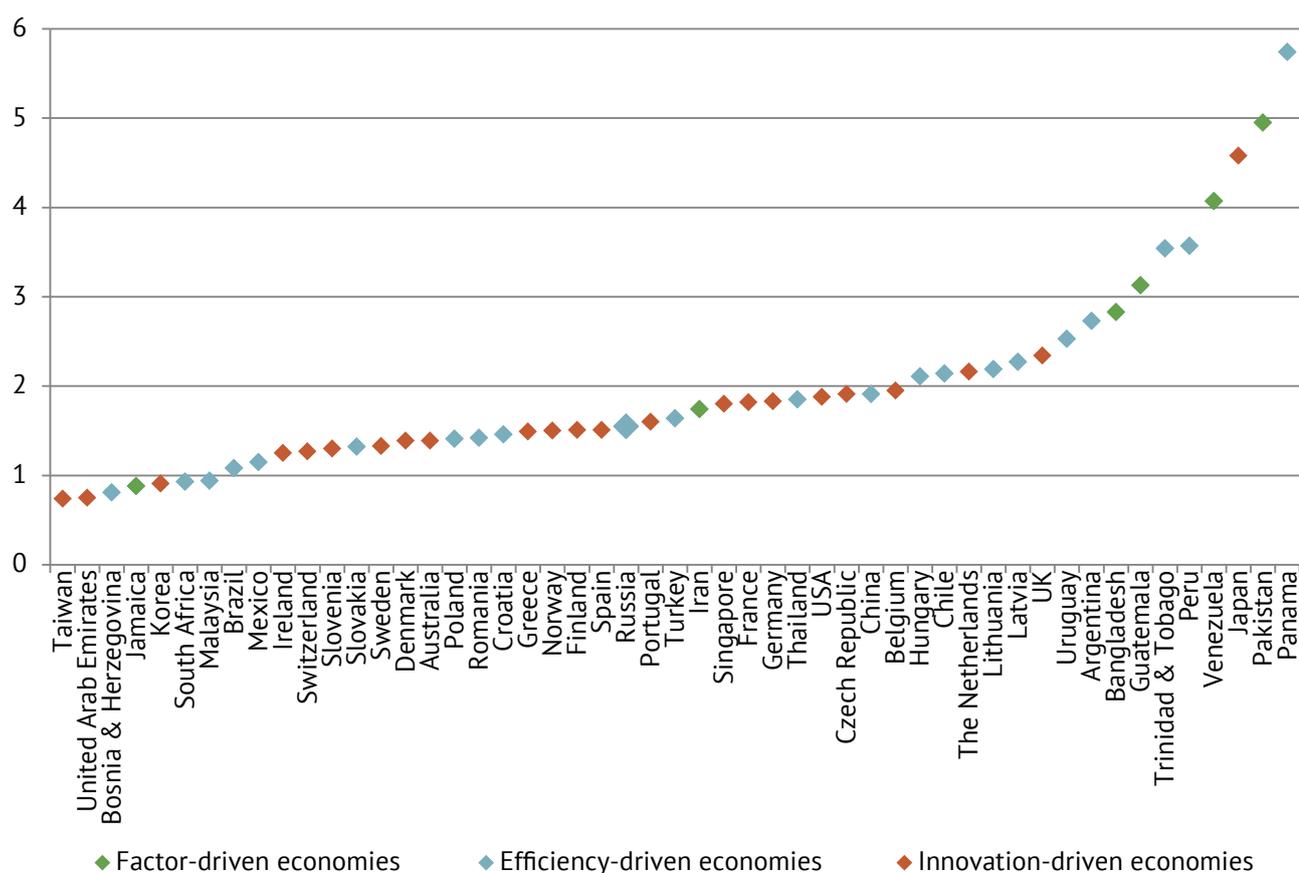


Figure 24. Coefficient of entrepreneurial expansion in different types of economies, 2011, %  
Source: APS 2011

In Russia in 2011 the number of firms beginning business activities exceeded the number of firms exiting the market. The value of the coefficient of entrepreneurial expansion was 1.55.

It should be noted that market exit is not always the same as closing a company, insofar as entrepreneurial firms can persist under new ownership or in a different form after their original owners leave the company. In Russia in 2011 the number of businesses that ceased to exist made up almost 80% of all cases of market exit.

Entrepreneurs with experience in closing a business

can be divided into two large categories: those who retire for good from business, and those who in some way or other link (or intend to link) their activity with entrepreneurship. In Russia in 2011, more than half (58.5%) of those who closed a firm left business for good (Fig. 25). Somewhat less than half (41.5%) comprises a group still remaining in business, e.g. by owning several businesses (54.2% of those remaining in business), while 27% own one other firm in addition to the closed company. 19% planned to return soon to entrepreneurship.

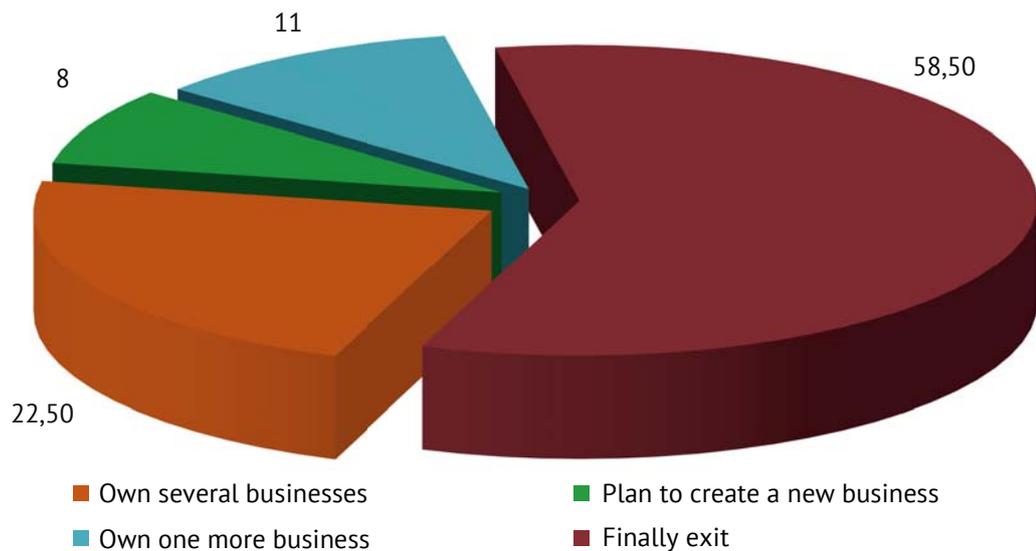


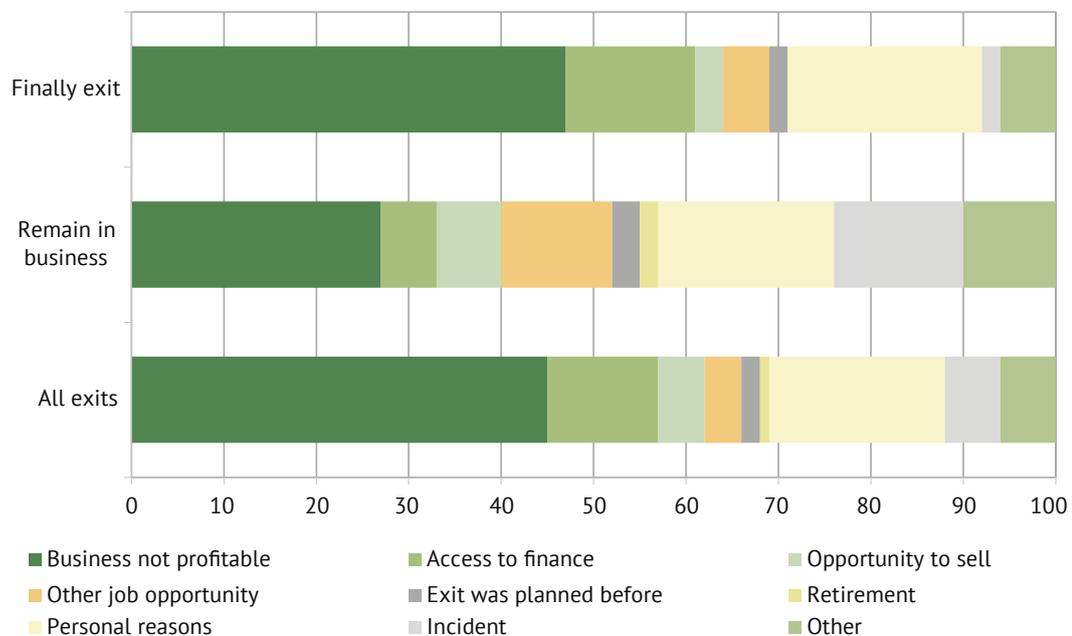
Figure 25. Structure of business discontinuation, 2011, %  
Source: APS Russia 2011

In Russia, the main reason for closing a business was unprofitability; this motive accounted for 45% of all market exits (Fig. 26). Along with access to financing, in 2011 financial reasons provided the push to curtail activity in the last year 58% of entrepreneurs. This is lower than in 2010, when 73% of entrepreneurs left business for financial reasons.

An analysis of reasons for market exit reveals that in Russia the proportion of such reasons as “the possibility of another job,” “the possibility to sell [the business],”

and “planned exit” are twice lower than in innovation-driven economies (11% and 22% respectively). This is due to the state of economic development, which provides more alternatives to entrepreneurship.

The distribution of reasons for closing businesses differs for those leaving for good, versus those intending to remain entrepreneurs. Financial difficulties were the basic reason for the first group to end their activities (more than 60% of exits), while this was the reason for only one third of entrepreneurs in the second group.



Source: APS Russia 2011

# FINANCING EARLY-STAGE ENTREPRENEURSHIP\*

As a rule, neither the banking sector nor investment companies show much interest in small firms that are still accumulating resources and have not yet realized proceeds from the sale of their goods or services. In developed countries, special institutions of informal financing, as well as a wide spectrum of services for attraction of high-risk investment, ensure the viability of recently conceived businesses.

However, in developing economies the basic source of financing is the entrepreneur's personal capital, augmented by funds from state programs and, more rarely, by bank loans (or consumer loans received in the framework of partner agreements) and support of professional investors.

Early-stage entrepreneurs are a source of increased risk not only for credit organizations, but also for institutional and venture capital investors, i.e. investment trusts, business angels, and informal investors. Moreover, above-average profitability is not characteristic for this segment of the Russian market and, as a rule, is observed only for firms with high growth potential and that use new technologies or distribute new product.

In Russia early-stage entrepreneurs, having a permanent job and higher education, turn for financial support to their families, friends, and colleagues to sponsor them. Such investments extend throughout societies characterized by a low standard of living and strong social connections.

## DEMAND FOR FINANCING EARLY-STAGE ENTREPRENEURSHIP IN RUSSIA, 2006-2011

Despite difficult access to external sources of capital, loans dominate the early stage of development of small firms (Fig. 27). From 2006 to 2008, the growth of personal investment, linked to the inaccessibility of formal outside financing and a steady increase in personal income. If in 2006 about 4% of early-stage entrepreneurs were ready to finance businesses independently, then in 2008 such possibilities were available to at least 20%. By 2009 the level of independent financing returned to its original value and gave way to loans—a trend most likely related to reductions in owners' well-being and to unwillingness to risk their own means during the economic crisis.

The dynamic of this index testifies to how early-stage entrepreneurs' financial situations are very sensitive to changes in external conditions that influence the state of their savings and their readiness to invest these savings in opening a business. In 2011, positive expectations about business prospects grew, which led to an increase in the desire to invest in one's own business projects.

Interestingly, practically half of early-stage entrepre-

neurs, willing to finance businesses with their own capital, were either hired employees or independent entrepreneurs, while unemployed respondents were more likely to expect to use outside financing.

Significant differences between opportunity-driven and necessity-driven entrepreneurs are not observed. However, those who turned to entrepreneurship due to a lack suitable work are, to a lesser degree, inclined to use their own means for financing—in contrast to those who voluntarily organize new businesses.

Figure 28 shows the distribution of early-stage entrepreneurs' demand for loans. While using bank loans prevailed in 2006 and 2007, by 2008-2010 relatives were a prime source of capital. In 2011 the picture gradually returned to its pre-crisis form: credit organizations were priority sources of capital, demand for state programs increased somewhat, and preferences for business angels stabilized. Respondents claimed that one of the most significant sources of finance was banks and relatives. Associates' and colleagues' support remained trivial, and in 2011 demand for financial aid

\*This section was written by E. Murzacheva

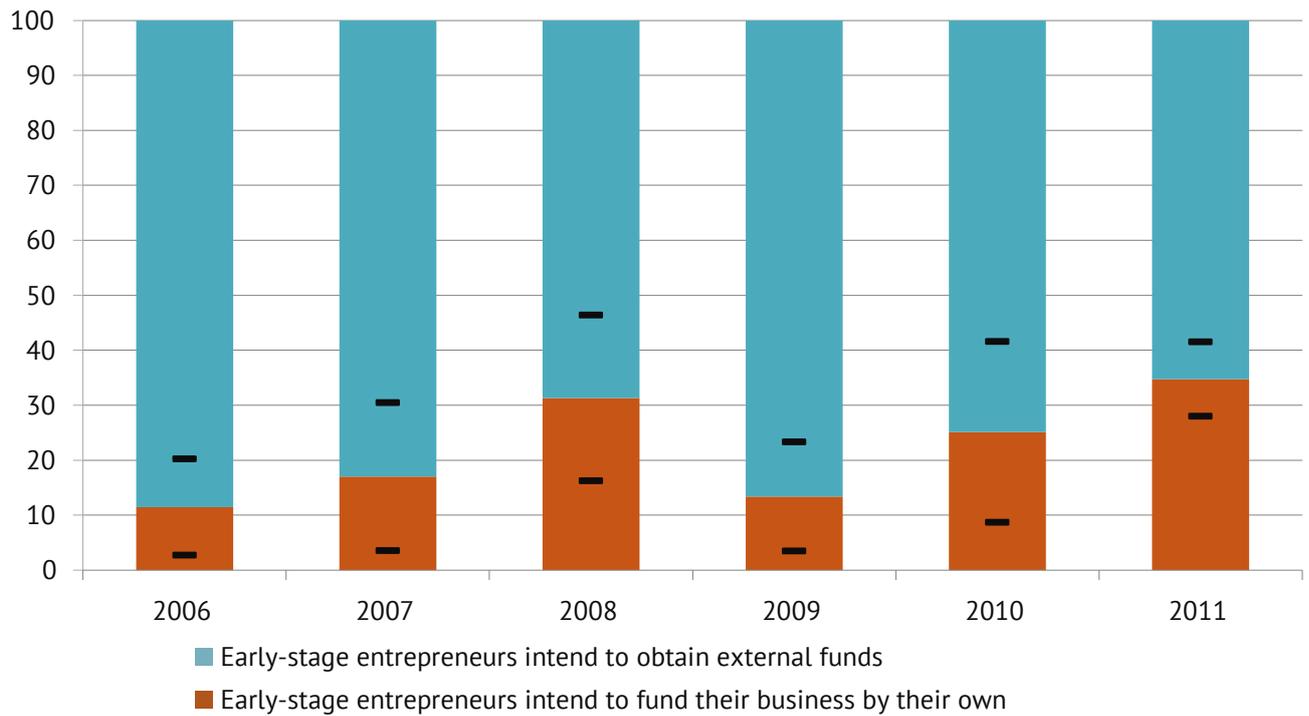


Figure 27. External and internal financing of early-stage entrepreneurship, 2006-2011, %  
Source: APS Russia 2006-2011

Note: The dotted line in the figure represents the border of confidence intervals for the percentage of early-stage entrepreneurs inclined to finance their business on their own, at the 5%-confidence level.

from friends and neighbors decreased. The proportion of early-stage entrepreneurs intending to attract capi-

tal from business angels remains low; this source increased significantly only in 2008.

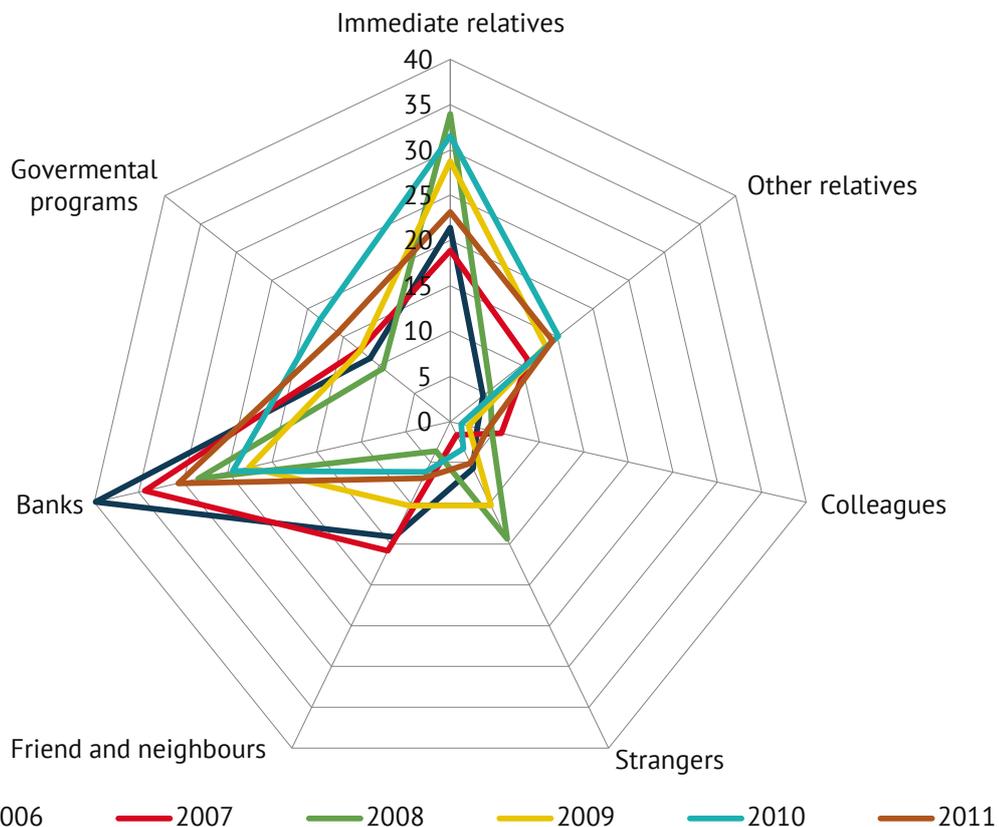


Figure 28. Sources of financing for early-stage entrepreneurs, 2006-2011, %  
Source: APS Russia 2006-2011

Despite the high demand for bank loans in some periods, informal capital remains a consistent source of finance. Moreover, while in 2006-2007 early-stage entrepreneurs equally preferred formal and informal investment, in 2008 demand for financing from relatives, friends, and acquaintances clearly predominated. In 2009 at least half of entrepreneurs preferred informal investors. By 2010 this demand dropped somewhat, and in 2011 the value of this index returned to its pre-crisis level.

More than others, in 2011 early-stage entrepreneurs

not employed counted on capital from relatives, friends, acquaintances, and neighbors to finance business ventures. At the same time, no more than 20% of early-stage entrepreneurs already managing their own businesses intended to ask relatives and friends for material assistance to start a new venture. Almost no one in the latter group intended to draw on investment from business-angels, and only one fifth relied on bank loans. Data suggest that experienced early-stage entrepreneurs are oriented to using mixed sources of financing.

### DYNAMICS OF DEMAND FOR INFORMAL CAPITAL IN RUSSIA, 2006-2011

Informal investment is found not only in efficiency-driven economies, where access to bank loans is difficult and fixed venture investment is absent, but also in innovation-driven economies. Further, demand for finance generates its supply, flowing from the need to realize entrepreneurial activity as a means to ensure an acceptable standard of living. Moreover, the significance of social connections implies the inevitability of attracting capital from relatives and friends to develop new businesses. As far as the second group of countries is concerned, informal capital can be only an additional resource in the initial stage of starting up a project; it is used for financing businesses with low capital intensity; and it remains the most accessible and cheapest means

to realize business ideas.

In Russia, the proportion of informal investment into a third party's business, independent of conditions of these investments, remained steady among the adult labor force for 2006-2011, comprising no more than 2.2%.

In the pre-crisis period, the proportion of informal investors among entrepreneurs increased on average by 30% per year; at least one third of entrepreneurs provided relatives and acquaintances with capital to start new businesses. However, during the economic crisis, this activity dropped almost to null, probably because of the absence of surplus capital: by 2010 almost no entrepreneurs played the role of informal investor (Fig. 29).

However, informal capital from non-entrepreneurial

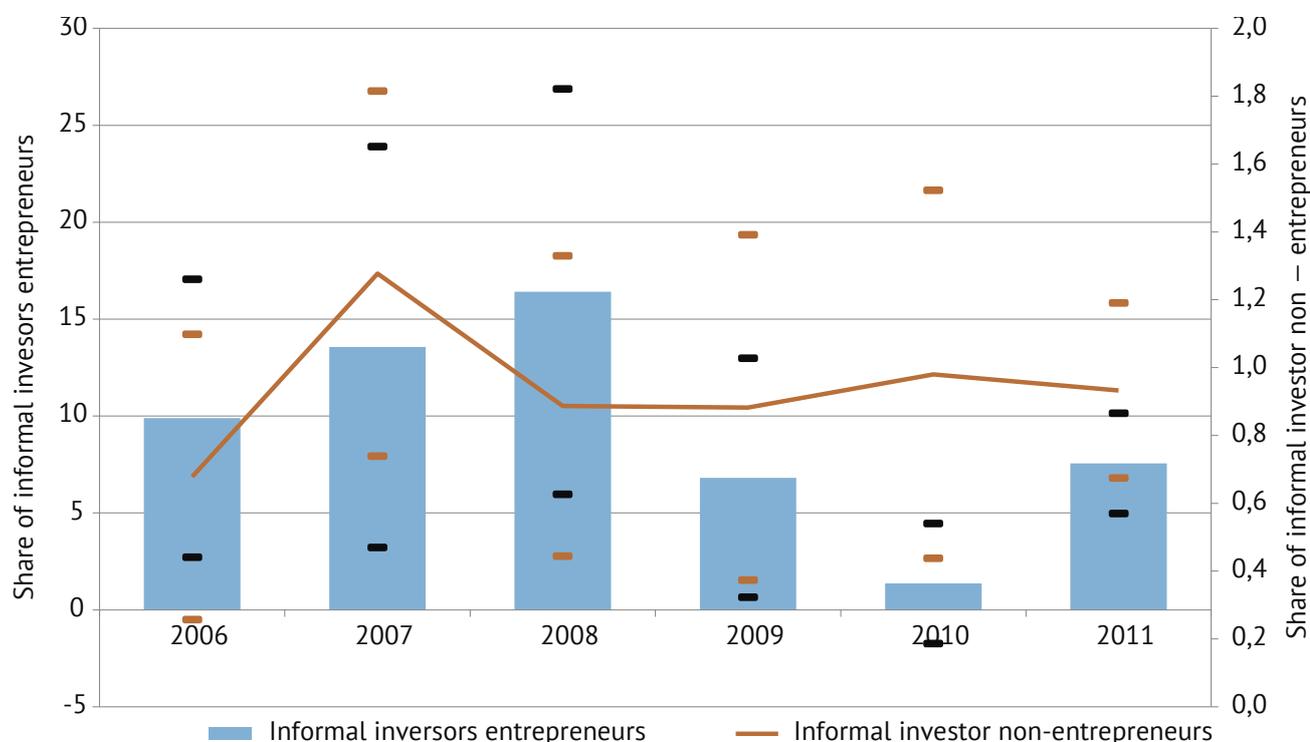


Figure 29. Informal investors by type of economic activity in Russia, 2006-2011, %

Source: APS Russia 2006-2011

Note: Red and blue dotted lines in the figure are boundaries of confidence intervals

strata worked differently. In 2006 and in 2008-2011, the proportions of such investors remained stable: no less than 7% of the population not involved in entrepreneurship supported family members, friends, and colleagues.

It is difficult not to notice a significant increase in the proportion of informal investors among entrepreneurs in 2011—apparently related to the advent of surplus capital as the economy improved.

Figure 30 shows the distribution of informal investors by type of borrowers (to whom they rendered financial support over the past three years). For 2006-2008, nearly half of informal capital went to financing friends, colleagues, and acquaintances.

Clearly, during the crisis close family members and

relatives proved to be the sole source of support for starting businesses, emphasizing a necessity of such investments against the background of deteriorating well-being of colleagues, friends, and family. As the macroeconomic situation improved, “moral obligations” to relatives and especially to close family members remained, while “friendly” investment relations grew.

As one would expect, to a large degree informal non-entrepreneur investors tended to finance friends and neighbors, while investors running their own businesses tended to be more interested in financing projects based on another criterion—a good business idea—and so their clients tended to be strangers or others with whom they were not acquainted earlier. However, both

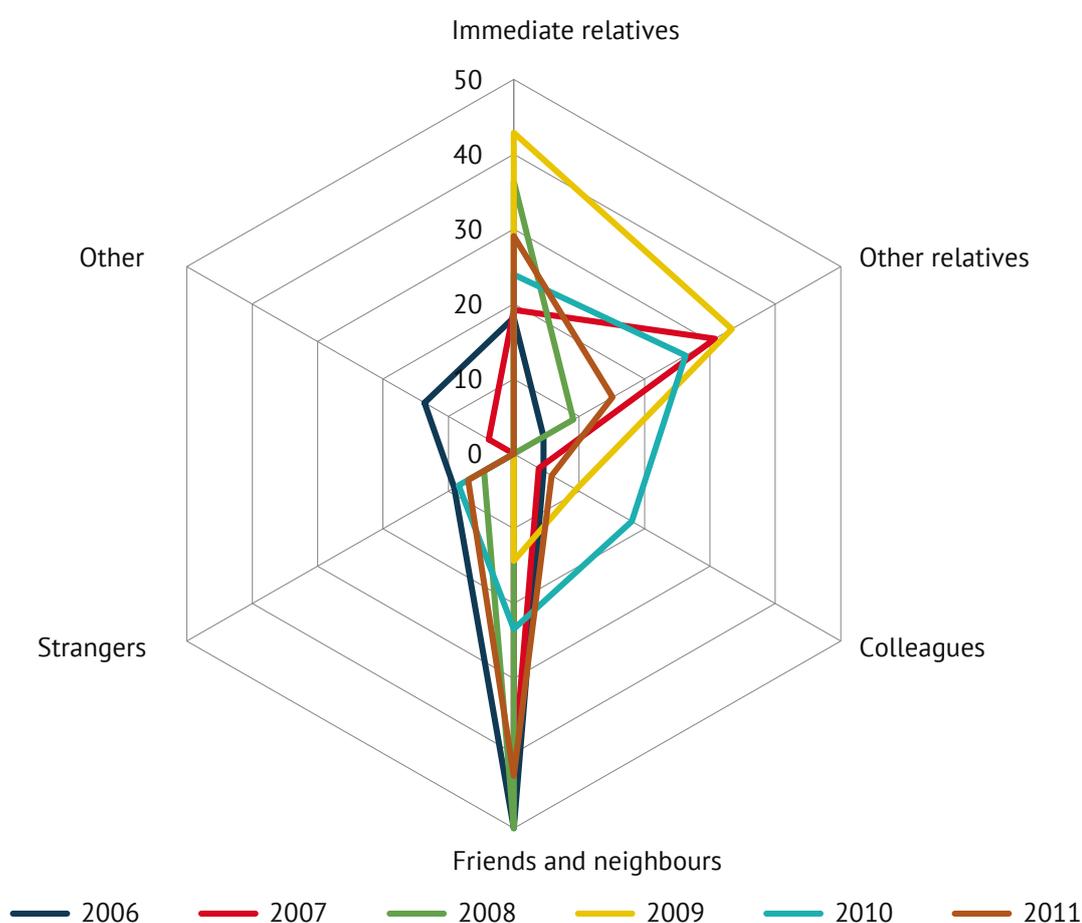


Figure 30. Informal investors by type of borrower, 2006-2011, %  
Source: APS Russia 2006-2011

invested equally in projects by their colleagues and relatives, which highlight moral obligations involved in making financial decisions, both for entrepreneurs and their creditors.

For example, the distribution of investment volume is characterized by high heterogeneity: the majority of investors frequently invest large sums of money, in particular in 2006 and 2008. In the same period differen-

tiation of informal investors was at its peak: the 10% loaning the most capital loaned 200 times more than the 10% that loaned the least capital.

Informal investors who are entrepreneurs are more uniform in the amount of capital provided, most likely because of a certain professional similarity by this category of people. Informal investors who are not entrepreneurs, on the contrary, are characterized by high differentiation, apparently due to disposable income and relations to the borrower, rather than economic interest.

This conclusion is confirmed by examination of employment status of informal investors as an indirect sign

of constant income, as the factor, which affects amount of capital loaned. Unemployed suppliers of informal capital are the most heterogeneous group; their representatives invest either very large or insignificant sums.

This is evidence of the significance social relations with borrowers, especially when the source of funds is not an individual's budget but accumulated capital of an entire family. An almost uniform distribution of informal investors by volume of loans is observed among independent entrepreneurs, which places this group apart, revealing prerequisites for forming business networks that place investment on a more efficient foundation.

# ENTREPRENEURIAL ASPIRATIONS\*

Entrepreneurial aspirations reflect the qualitative nature of entrepreneurship. Countries vary not only by level of entrepreneurial activity, but also by how entrepreneurs introduce new products, carry out production, approach foreign markets, develop their companies, and attract capital for development. Ambitious aspirations

can render considerable impact on the level of entrepreneurial activity in a given country.

GEM uses such indicators as innovativeness of entrepreneurial activity, export orientation, and expected growth of business to assess entrepreneurial aspirations.

## ENTREPRENEURS WITH HIGH GROWTH EXPECTATIONS

Different entrepreneurial firms did not have the same impact on economic growth. Companies aiming for active development create a greater number of jobs and, consequently, make a greater contribution to a country's economy. To estimate a company's growth, GEM used indicators for the creation of new jobs. "Rapidly growing companies" expect to create more than 20 jobs in the five years after creation of the business, and "moderately growing companies" look to create 5 to 19 jobs in the same time frame. For already existing firms, an additional criterion is the increase in the number of jobs over 50%.

In Russian early-stage entrepreneurship, companies employing from 1 to 5 people are the majority (62.9%); self-employed make up 7.7% of the overall number of entrepreneurs, while early-stage entrepreneurs employing 20 or more people are at least 6%. The distribution of company size in relation to number of employees for established businesses is similar in nature. Companies with 1 to 5 employees make up 51% of established businesses, while companies with 6 to 19 employees make up 25.3% of businesses; only 8.6% have 20 or more employees. Self-employed entrepreneurs with experience make up 12.1%.

Entrepreneurial aspirations, estimated from an analysis of the planned increase in number of jobs over five years, attests to an overcoming of crisis tendencies, as manifested in a focus on growth in 2009-2010. 19.2% of early-stage and 24.3% of established entrepreneurs

planned to create 20 or more jobs over the next five years (Fig. 31).

A tendency towards increasing the number of employees suggests that Russia's entrepreneurs are ready to create about 4 million jobs over five years. However, early-stage entrepreneurs might be too optimistic in assessing prospects, and so not all intentions to create jobs will be realized.

Regarding gender, men predominate among entrepreneurs with high potential for growth. This characterizes both for early-stage and established entrepreneurs. Men comprise 60% of early-stage entrepreneurs and 76% of established entrepreneurs.

Educational attainment also positively affects tendencies to growth. Half of early-stage entrepreneurs hoping to increase jobs by 50% have a higher education; among established entrepreneurs this figure is 71%.

Clearly, possibilities for growth are related to a company's sphere of activity and prospects for development in that sector. The minimally necessary size for companies in consumer services does not stimulate increases in the number of employees at these companies. Therefore, only 17.5% of early-stage entrepreneurs and 4.6% of established entrepreneurs are attempting to increase the number of employees.

The greatest reserve for growth is in companies rendering business services: 31% of new companies and 28.6% of established companies plan to increase jobs by more than by 50%.

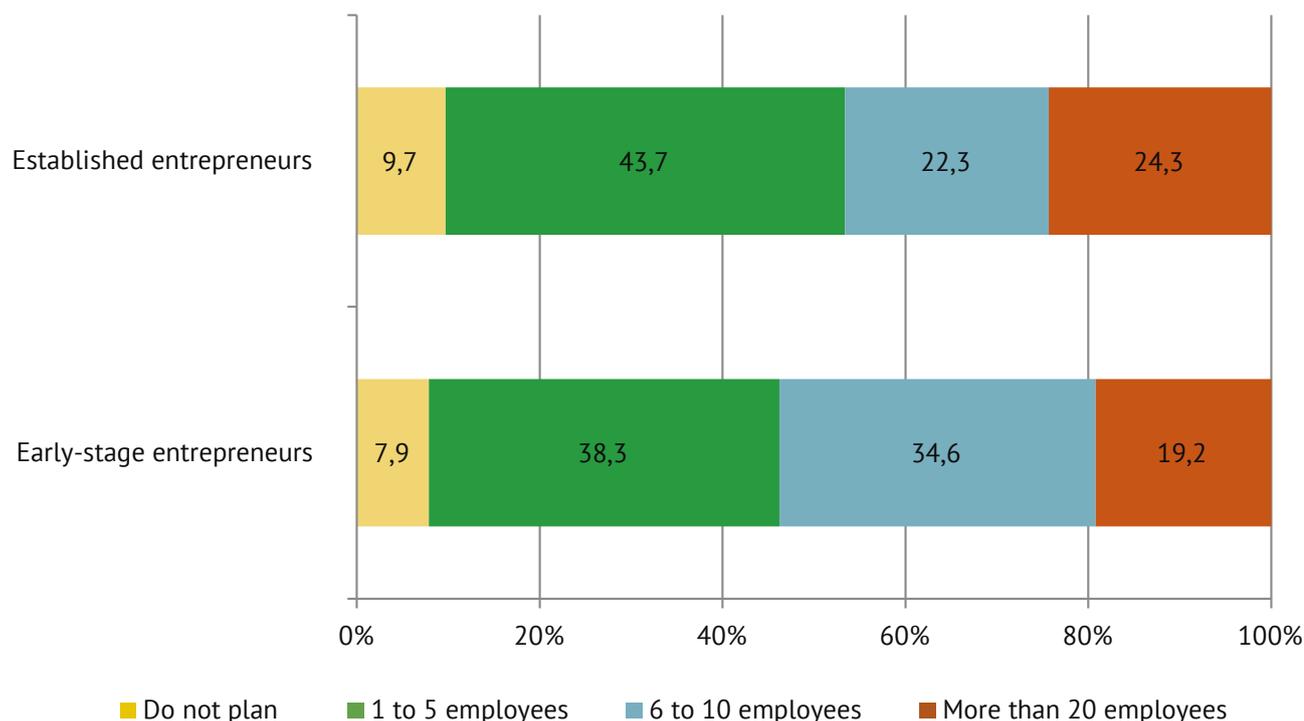


Figure 31. Distribution of entrepreneurs in relation to plans to increase work places over 5 years, 2011, %  
Source: APS Russia 2011

Among factors shaping the entrepreneurial climate, assessments of favorability of the business environment revealed significant differences. Established entrepreneurs aiming for expansion saw more possibili-

ties for growth. No significant variation was observed regarding perceptions of knowledge and skills. Factors related to perceptions had little real impact on early-stage entrepreneurs oriented to growth.

## INNOVATIVENESS

An important characteristic of entrepreneurship is innovativeness. GEM research analyzes early-stage and established entrepreneurs for the following:

- novelty of product/service that the firm produces or will produce;
- the Competitive environment that the firm faces;
- novelty of technology used.

Assessments of product or service novelty differ across GEM countries. Both early-stage and established entrepreneurs are considerably more involved in producing goods already in the market. Nevertheless, one general trend over time is that early-stage entrepreneurs are more optimistic about the novelty of their goods and services, whereas there are fewer established entrepreneurs with such confidence. This suggests that early-stage entrepreneurs do not have sufficient knowledge of the market for an objective evaluation of novelty.

In Russia in 2011, 70% of early-stage and 80% of es-

tablished entrepreneurs noted that their products were not new for consumers (Fig. 32). One should note that early-stage entrepreneurs' confidence in novelty has declined somewhat over time; earlier, almost 16% of young entrepreneurs claimed their products were definitely new.

In assessing the competition, one notices a general tendency across all GEM countries: entrepreneurs encounter a highly competitive environment. Russia is no exception: almost 64% of early-stage and 75% of established entrepreneurs assume that they will face intense market competition (Fig. 33). These figures are somewhat lower than assessments from 2010. One reason for high competition is the special feature of sector distribution of Russian entrepreneurs: the majority of them work in the consumer sector, in which the number of companies offering standard lines of goods is considerably higher than in high-tech sectors.

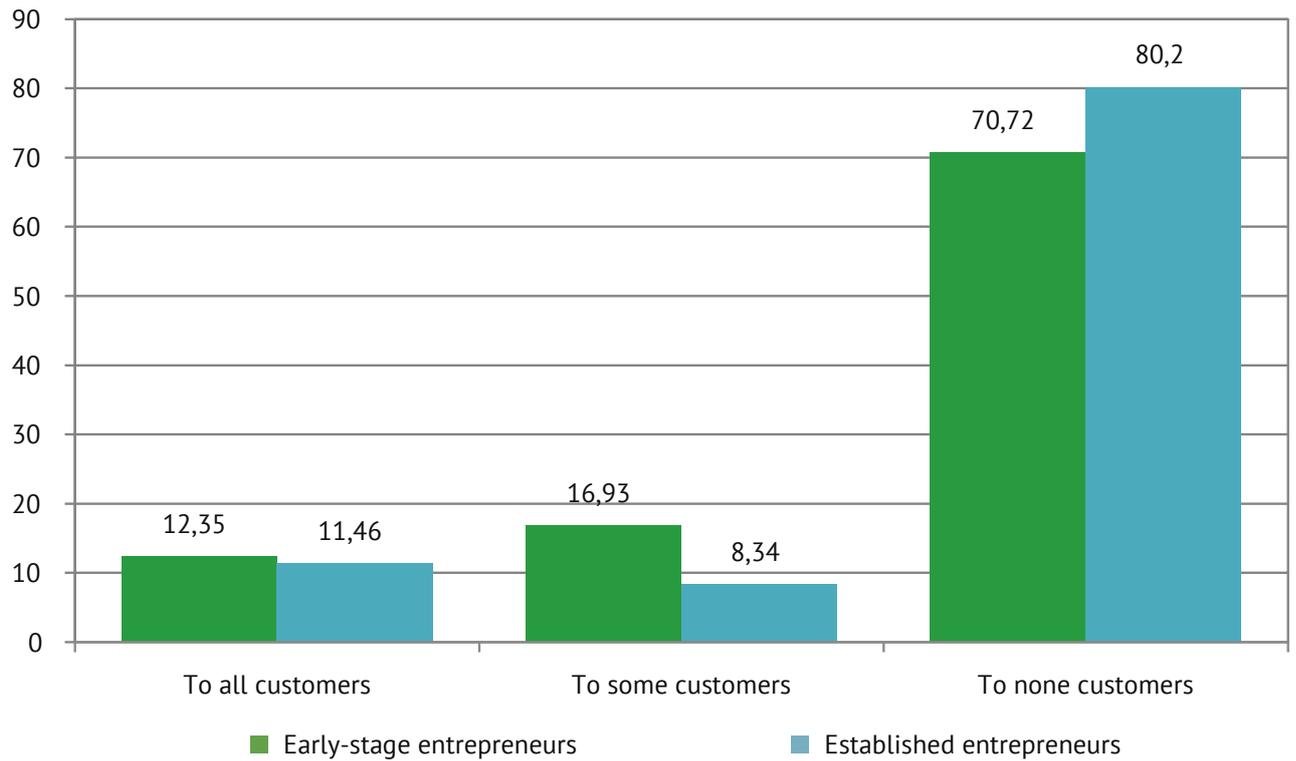


Figure 32. Product/service novelty for early-stage and established entrepreneurs, 2011, %  
Source: APS Russia 2011

Among established entrepreneurs, only 3.4% of respondents evaluated their environment as noncompetitive; 6% of early-stage entrepreneur respondents

optimistically assessed the competitiveness of their markets.

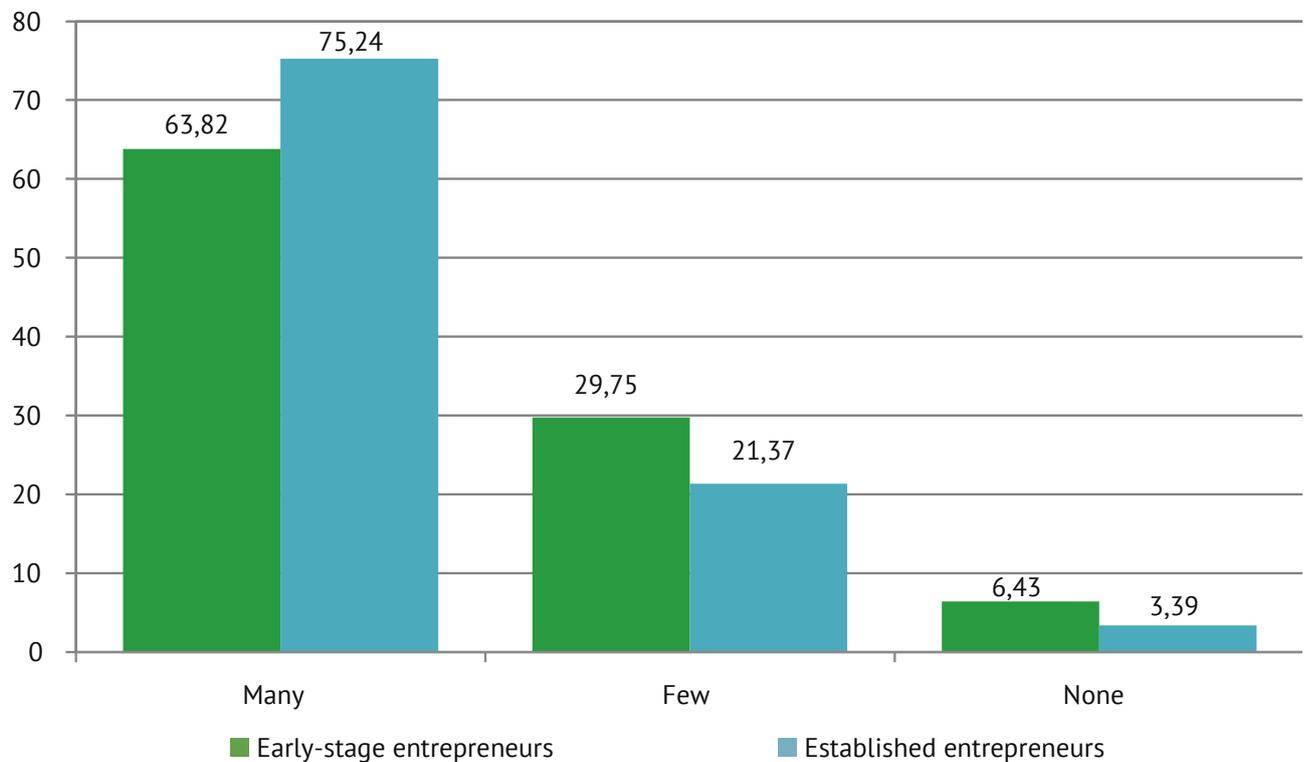


Figure 33. Competitive environment for early-stage and established entrepreneurs, 2011, %  
Source: APS Russia 2011

Assessments of technology appear to follow a trend similar to that for assessing novelty (Fig. 34). The vast majority of entrepreneurs—85% of early-stage and 92% of established entrepreneurs—admitted that they do not use newer technology in their business activity. Among early-stage entrepreneurs, 14% of respondents (versus 27% in 2010) were confident that they were using newest technologies (out over the last year) or relatively new technologies (developed sometime in the last five years). Among established entrepreneurs, slightly more than 7% provide the same response. However, the proportion of those who assess their technology as up-to-

date does not always provide an accurate picture about innovativeness in an economy as a whole.

The higher value for this indicator in many factor-driven and efficiency-driven economies – in contrast to a lower measure in innovation-driven economies – is due to the fact that technologies considered new in the first two groups are not considered so new in developed economies. Furthermore, in economically developed countries it is larger companies that use and develop new technologies; in less developed countries undergoing technological development, smaller and average sized companies are more involved in this process.

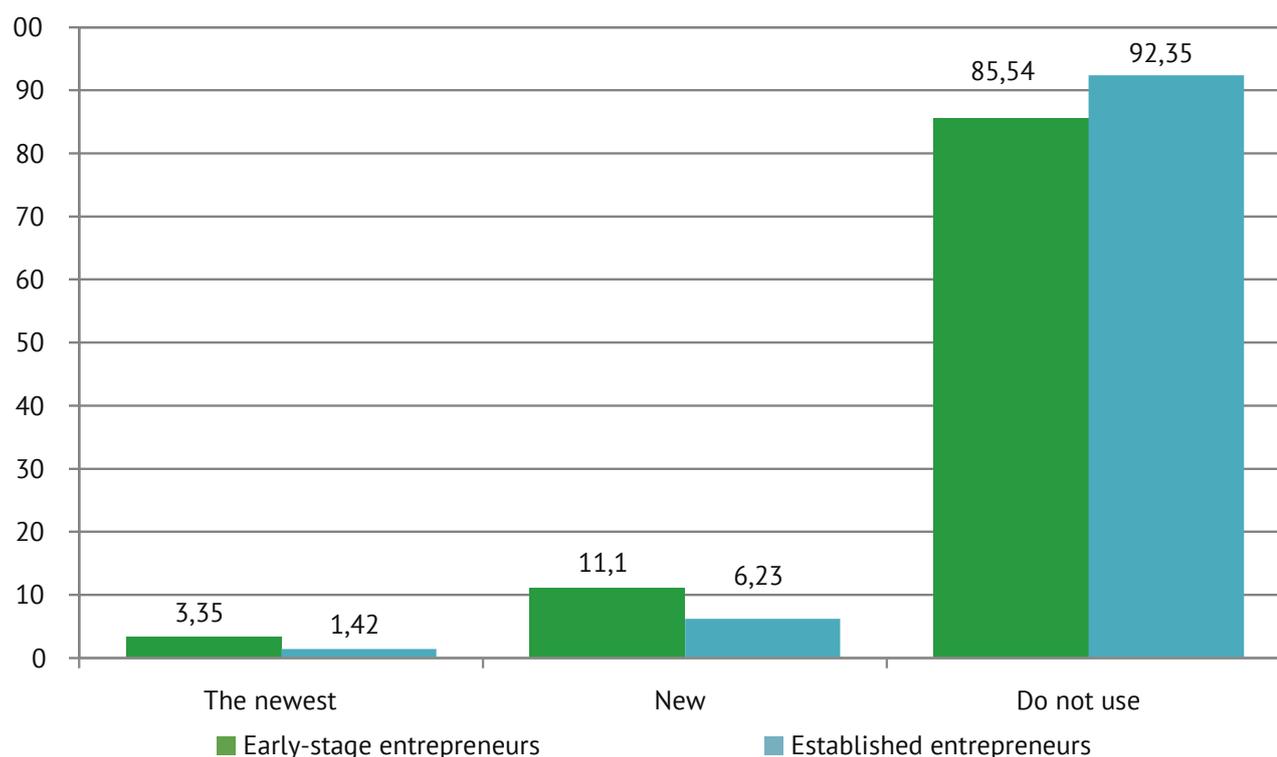


Figure 34. Use of technology by early-stage and established entrepreneurs, 2011, %  
Source: APS Russia 2011

To measure a country's potential for innovation an index is used from a combination of indices of product novelty and intensity of competition. This reflects a quantity of entrepreneurs who consider that their product or service is new and novel for all or several consumers and at the same time has little or no competition.

Figure 35 shows the value of this index for four coun-

tries, which represent different types of economies and regions. Brazil and China were chosen because of discussions about general development trends in these countries and in Russia. The United States represents a developed entrepreneurial culture.

As is clear, these countries differ by degree of innovativeness (Fig. 35). The highest measure for this index is observed in the United States, where every third early-

stage entrepreneur describes his or her product as novel and without competition. Among Russian early-stage entrepreneurs, the proportion evaluating their products in this manner was 17%. In China 14% of early-stage entrepreneurs assume to produce a novel product with-

out competition. It is possible that this is related to the underdevelopment of China's internal market.

Business experience makes entrepreneurs assess their environments more critically, and so established entrepreneurs indicate the possibility of facing compe-

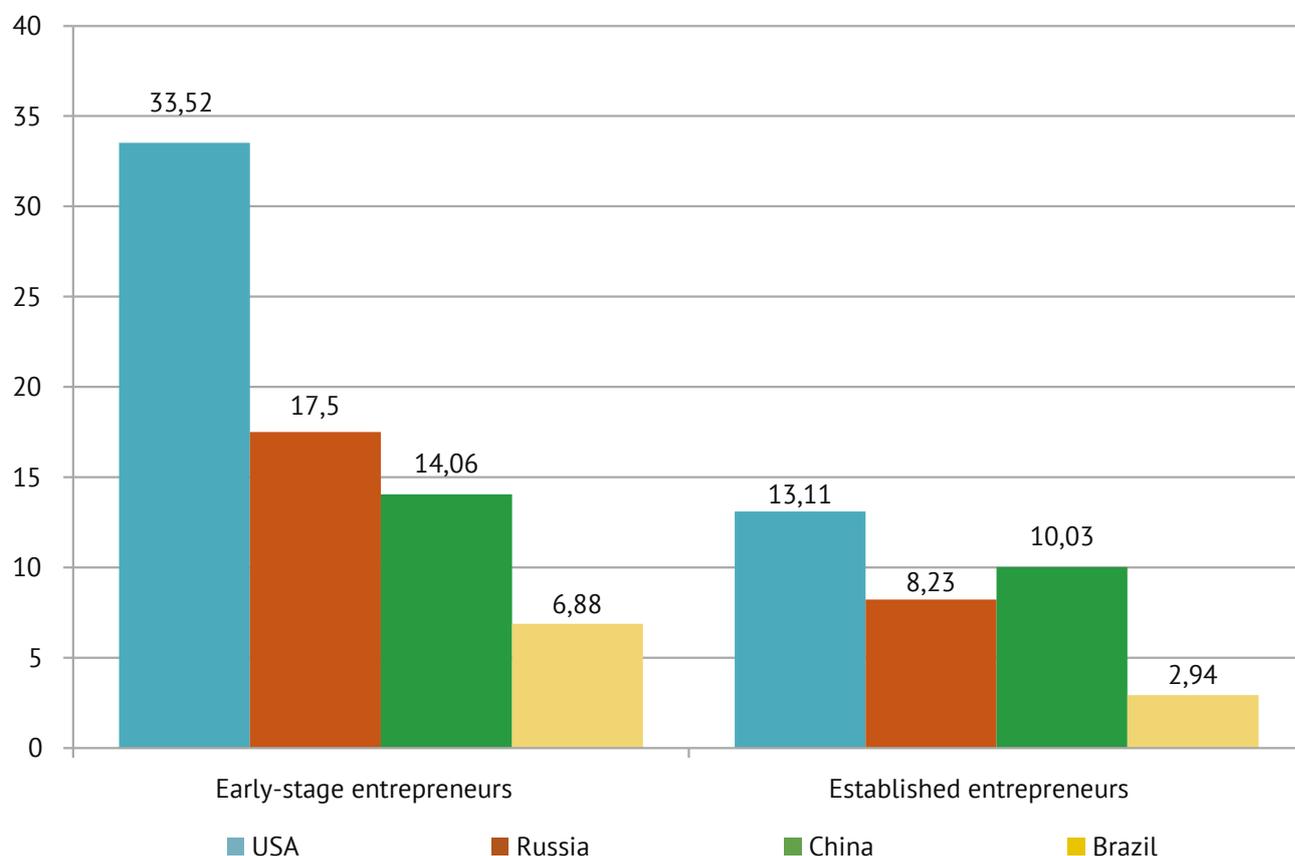


Figure 35. Index of novelty of product/intensity of competition for early-stage and established entrepreneurs across countries, %, 2011  
Source: APS 2011

tition for supplying their goods or services twice as often as colleagues with less entrepreneurial experience.

Another indicator characterizing entrepreneurs' potential for innovation is employment in the high-tech sector. Figure 36 presents data on entrepreneurs' activity in high-tech industries. Countries are ranked according to the proportion of entrepreneurs (early-stage and established) in high-tech industries.

It appears that involvement in high-tech is signifi-

cantly higher in innovation-driven countries, where on average 15% of entrepreneurs are employed in these sectors. In efficiency-driven economies, 8% of entrepreneurs are in this sector, while this measure is 2.5% for factor-driven economies.

In Russia in 2011, only 2% of early-stage entrepreneurs claimed that their business was involved in the high-tech sector; among established entrepreneurs, this measure was 1%.

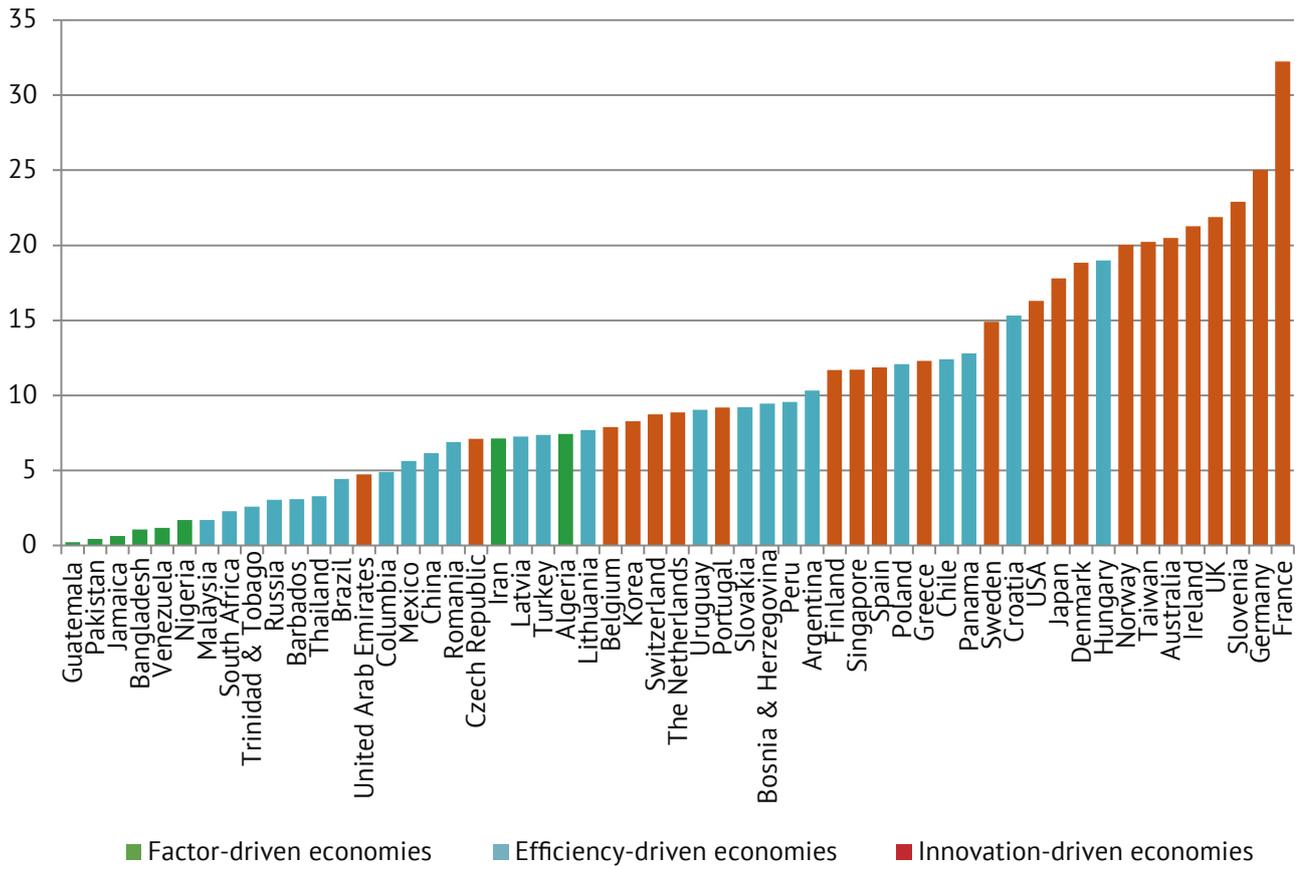


Figure 36. Activity of entrepreneurs in the high-tech sector, 2011, %  
 Source: APS 2011

## INTRAPRENEURSHIP

In 2011 a new theme was studied: employees' entrepreneurial activity. This work focused on those employees who play key roles in creating and developing entrepreneurial ideas within those companies where they work. This could include entrepreneurial initiatives by senior managers as well as by line workers.

GEM defines intrapreneurship broadly, as any employee activity towards developing parts of new goods

and services or creating new business units within an existing organization.

On average, only 3% of the population is involved in intrapreneurship, although there is variation: from 0% in Bangladesh, to 14% in Sweden (Fig. 37). In Russia, 0.4% of respondents claimed to be currently involved in entrepreneurial initiatives in their organizations.

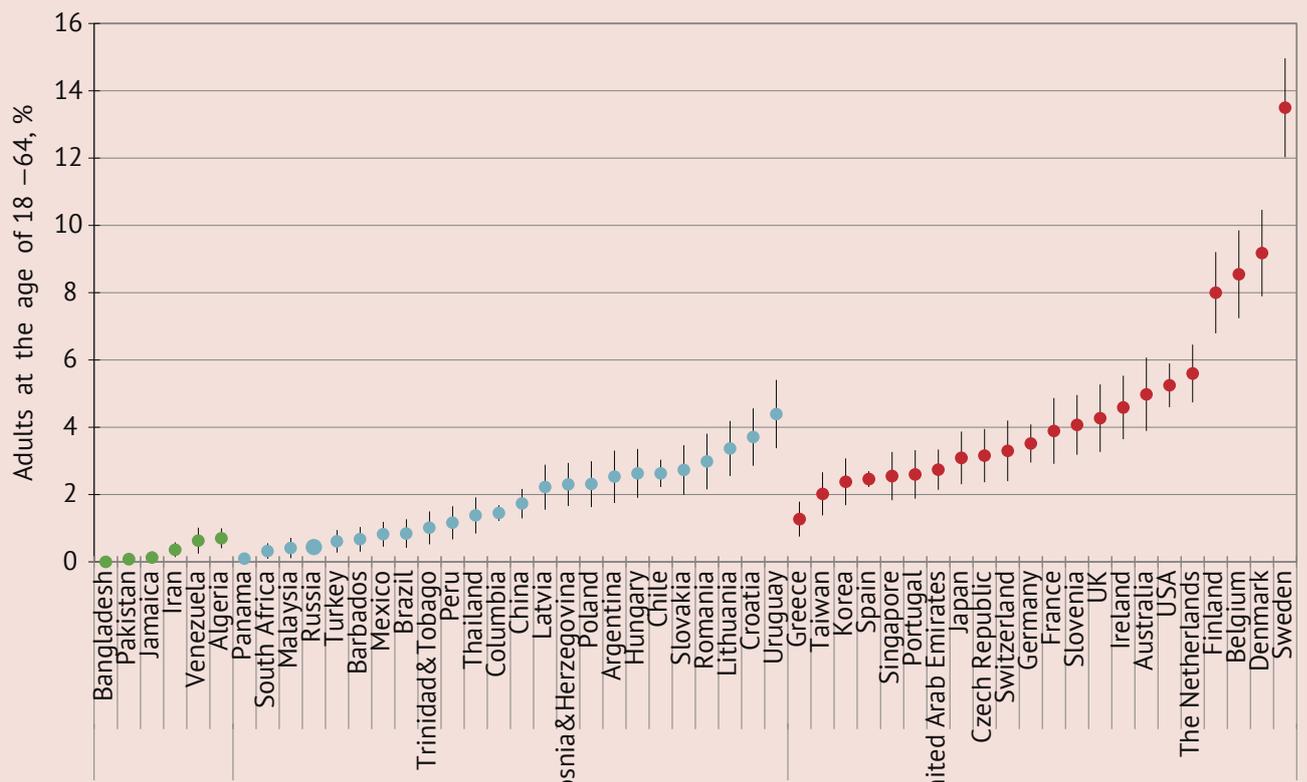


Fig. 37. Distribution of countries by level of intrapreneurship, 2011, %  
Source: APS 2011

# ENTREPRENEURIAL FRAMEWORK CONDITIONS (NATIONAL EXPERT SURVEY)\*

GEM classifies conditions for entrepreneurship (Entrepreneurial Framework Conditions, EFC) that reflect fundamental characteristics of the socioeconomic con-

text that aid the development of entrepreneurial activity (Table 3).

Table 3

## Entrepreneurial Framework Conditions

|      |   |
|------|---|
| EFC1 | <b>Financial support.</b> Availability of financial resources and support (including grants and subsidies) for new and developing firms. Also includes access to and quality of financial support (one's own capital, start-up capital, and loans); understanding of entrepreneurship in the financial community (e.g. knowledge and skills to evaluate entrepreneurial potential, business plans and small business needs in capital resources, readiness to deal with entrepreneurs and to take risks). |
| EFC2 | <b>State policies.</b> Regional and federal policies and their practical application to taxation and regulation of business activity. Availability of state support for small and large firms. The impact of state policy on the development of emerging firms. Their dependency (or independence) on the size of companies, as well as the extent to which above-mentioned policies support or impede new and developing firms.  |
| EFC3 | <b>State programs.</b> The existence of programs of direct support for new and emerging firms at all levels (national, regional, and municipal). This parameter also includes: access to and quality of state programs; presence and quality of human resources in the civil service and their ability to administer concrete programs; effectiveness and efficiency of the civil service.  |
| EFC4 | <b>Education and professional training.</b> The existing system of education and training for creating and managing small, new, and growing businesses is embedded in the general system of education and training at all levels.   |
| EFC5 | <b>R&amp;D transfer.</b> The level of development of research and development (R&D), which leads to the creation of new opportunities for business. Also the availability of R&D products to new, small, and growing firms.   |
| EFC6 | <b>Commercial and professional infrastructure.</b> The level of development of commercial, accounting, and legal services and organization that support new, small, and growing businesses.   |
| EFC7 | <b>Market openness/barriers to market entry.</b> The stability of commercial relations and the opportunity for new and growing firms to compete with and to replace established suppliers, subcontractors, and consultants. Two important components of this framework condition are market openness and degree of market changes due to globalization.   |
| EFC8 | <b>Access to physical infrastructure.</b> The accessibility and quality of physical resources—communications (phone, mail, internet), communal services, transportation (roads, air and sea shipping), land, offices, parking places, rent, and natural resources—that can provide advantages for potential entrepreneurial growth and development.   |

\*The section was written by O. R. Verkhovskaia and M. V. Dorokhina

|       |   |
|-------|---|
| EFC9  | <b>Cultural and social norms.</b> Existing social and cultural norms that support individuals' activities that can lead to the creation of new forms of business activity; and the general societal attitude to entrepreneurship and entrepreneurs. |
| EFC10 | <b>Protection of intellectual property rights.</b> Level of legal protection for new and growing firms.   |

## ENTREPRENEURIAL FRAMEWORK CONDITIONS IN RUSSIA

In 2011 the sample was made up of 36 experts, who used a five-point scale to evaluate structural conditions for the development of entrepreneurship and who determined those factors that favorably and negatively affect entrepreneurial development. They also proposed measures that, in their opinions, would stimulate entrepreneurial activity in Russia. For evaluating each structural condition, 5-7 questions were used. For ex-

ample, when evaluating entrepreneurs' access to financing, experts were asked to estimate the accessibility of different sources of financing: one's own capital, loans, venture capital, and state subsidies. To evaluate state policies, experts were asked to assess measures of state support and complexities of registering new companies and licensing of their activity. Figure 38 presents average values of expert evaluations\* in different blocks.

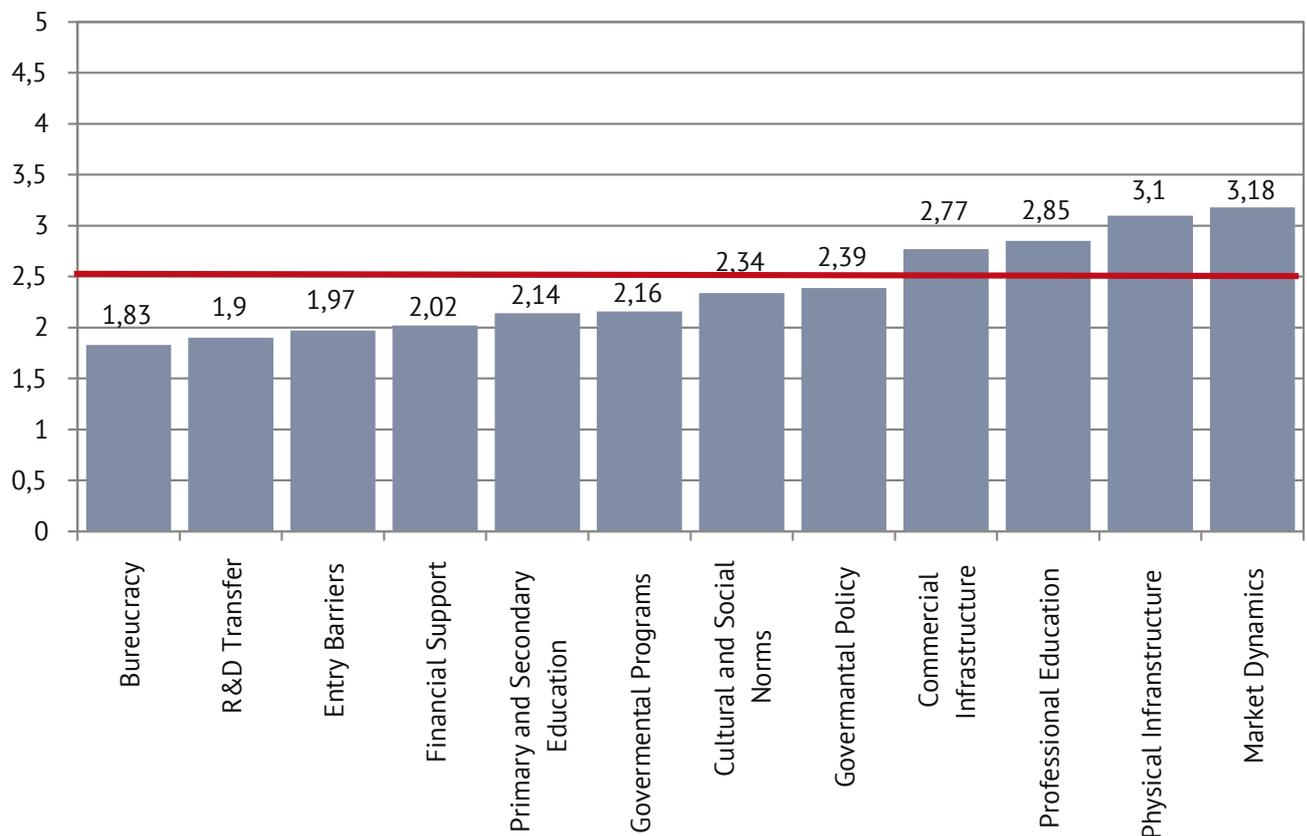


Figure 38. Average value for expert assessments of framework conditions of Russian entrepreneurship development, 2011

Source: NES Russia 2011

Experts consider that market behavior, state of physical infrastructure, professional education, and commercial infrastructure do not exert a basic negative influ-

ence. Experts named just these factors in 2011 as those favorably influencing the entrepreneurial climate in Russia. The remaining evaluations are in the zone below

2.5 on the 5-point scale, indicating that these factors impede the opening of new companies and development of existing businesses.

Traditionally, experts claim that realization of state policy is one factor negatively influencing entrepreneurial development (an average mark of 2.39). Critical factors are the length of time necessary for obtaining necessary licenses and other forms of red tape (1.44) and the sequence of state policies in regards to small and developing firms (1.94). Against this background, experts assess the priority assigned by federal and local bodies to supporting new and growing firms as relatively satisfactory (2.69 for federal bodies, 2.6 for local bodies). However, there is a significant spread in evaluations—state officials provide high evaluations, and entrepreneurs and other groups of experts provide low evaluations.

The absence in the national culture of a clearly expressed orientation to entrepreneurship (2.34) also exerts a negative influence on the development of entrepreneurship in Russia. Experts are critical appraise popular opinions about personal success achieved by one's own abilities (2.22) and a supported culture of personal (not collective) responsibility for one's own deeds (2.23).

Another reason for Russian citizens' low entrepreneurial identification is the system of primary and secondary education (2.14). Experts believe Russian pre-university education does not help students gain knowledge and skills necessary to pursue one's business interests (1.73), and nor does it encourage sufficient creativity, self-sufficiency, and personal initiative (2.35).

Many experts call into question the effectiveness of state programs for supporting small businesses (2.16). While experts believe there is a sufficiency number of support programs, accessing them by contacting one organization is practically impossible (1.75). Further, experts raised doubts about the competence of state officials implementing such support programs (1.81), and they also noted selectivity of these programs. In contrast, technoparks and business incubators provided more effective support for business development (2.88)

Experts gave negative evaluations for a block of questions on accessibility of financial resources for new and growing companies. In assessing finance accessibility, experts assume that entrepreneurial firms have insufficient capital and face complications in obtaining state subsidies. Small firms have practically no chance to obtain capital from public share offerings. All these factors received evaluations ranging from 1.65 to 1.94 on a 5-point scale. Experts claimed that the more accessible source of financing was friends, relatives, and colleagues. Furthermore, according to experts, entre-

preneurs can draw on venture capital (2.34).

While Russian experts positively evaluated market dynamics for consumer goods and services, entry barriers remained a large obstacle to moving into new markets (1.97). New and growing firms experience particular opposition from companies already established in those markets (1.86). High expenses for entering new markets, along with ineffective anti-monopoly legislation, mean that small and growing companies face daunting challenges to survival.

Active discussions over the last two years about developing innovativeness and innovations served to draw experts' close attention to problems of R&D transfer for small and growing companies. As in 2010, experts gave this factor an extremely low evaluation (on average less than 2 points). Experts claim that the existing system of the state subsidies does not help new and growing firms acquire new technologies (1.68), which not every firm can afford (1.74). Besides this, effective methods for R&D transfer between universities or research centers and small companies is absent (1.79), and larger companies have relatively better access to new technologies and output of scientific research. In this context, a more positive possibility is that existing scientific and technical developments can act as a potential springboard for creating high-tech entrepreneurship at a global level (2.58).

An important brake on entrepreneurial development in Russia, in experts' opinions, is the high level of bureaucracy and excessive taxation on new and growing companies. This factor obtained the most critical assessment, an average of 1.83.

Blocks of questions for expert interviews were not limited to structural factors. Surveys included questions for studying relations between society and entrepreneurship among the adult labor force. These include the study of possibilities for creating new businesses, assessing knowledge and capabilities necessary for creating new businesses, and evaluations of the social image of entrepreneurship.

Experts demonstrated optimism when assessing existing possibilities for creating new businesses. In their opinion, there are more possibilities than people who desire to take advantage of them. They also noted an increase in opportunities for new firms over the past five years. The average assessment of this factor was more than 3.5. However, faith that people can easily these opportunities obtained a lower estimation (2.54).

An analysis of surveys of the adult labor force revealed that the non-entrepreneurial part of the population holds its knowledge and skills regarding opening a business in low esteem. Experts also suggest that the majority of people do not know how to create and operate a business, how rapidly to react to opportunities,

and how to attract resources necessary for a new business. The average assessment according to these factors runs from 1.97 to 2.19.

Expert opinions and those of APS respondents coincide over the social image of entrepreneurship. Experts consider that overall, successful entrepreneurs have high status and respect in society. In their opinion, entrepreneurship is not a desired career choice for the majority of the population (2.64). Experts and entrepreneurs were not unanimous in the answer to this question, however: the latter's assessments were considerably higher than those of experts, who are not business owners.

Separate blocks of expert interviews were dedicated to protection of intellectual property rights. Experts unanimously agree that relevant legislation is not comprehensive, although legal enforcement is effective. It is difficult for new and growing firms to count on strict observation of copyrights.

The last blocks of questions addressed separate aspects of the development of entrepreneurship, e.g. female entrepreneurship, entrepreneurial activity with

high potential for growth, innovativeness, and intra-organizational entrepreneurship.

Experts do not believe there are particular obstacles for women who want to open their own businesses. The ability to use opportunities does not depend on gender factors, with which the majority of experts agreed (an average mark of 3.8). However, this has a reverse side: in experts' opinions, effective programs to support women, that encourage at opening their own businesses, are practically nonexistent.

Insofar as firms make unequal contributions to GDP, researchers are interested in businesses with high potential for growth. Experts' average assessment for this block of questions was 2.84. The sufficiency of initiatives directed to entrepreneurial activity with high growth potential and politicians' realization of its importance were evaluated higher than the competence of people supporting intensively growing companies.

Analysis of expert opinions about innovation in Russia reveals differences in interest towards innovations among consumers and products of goods and services.

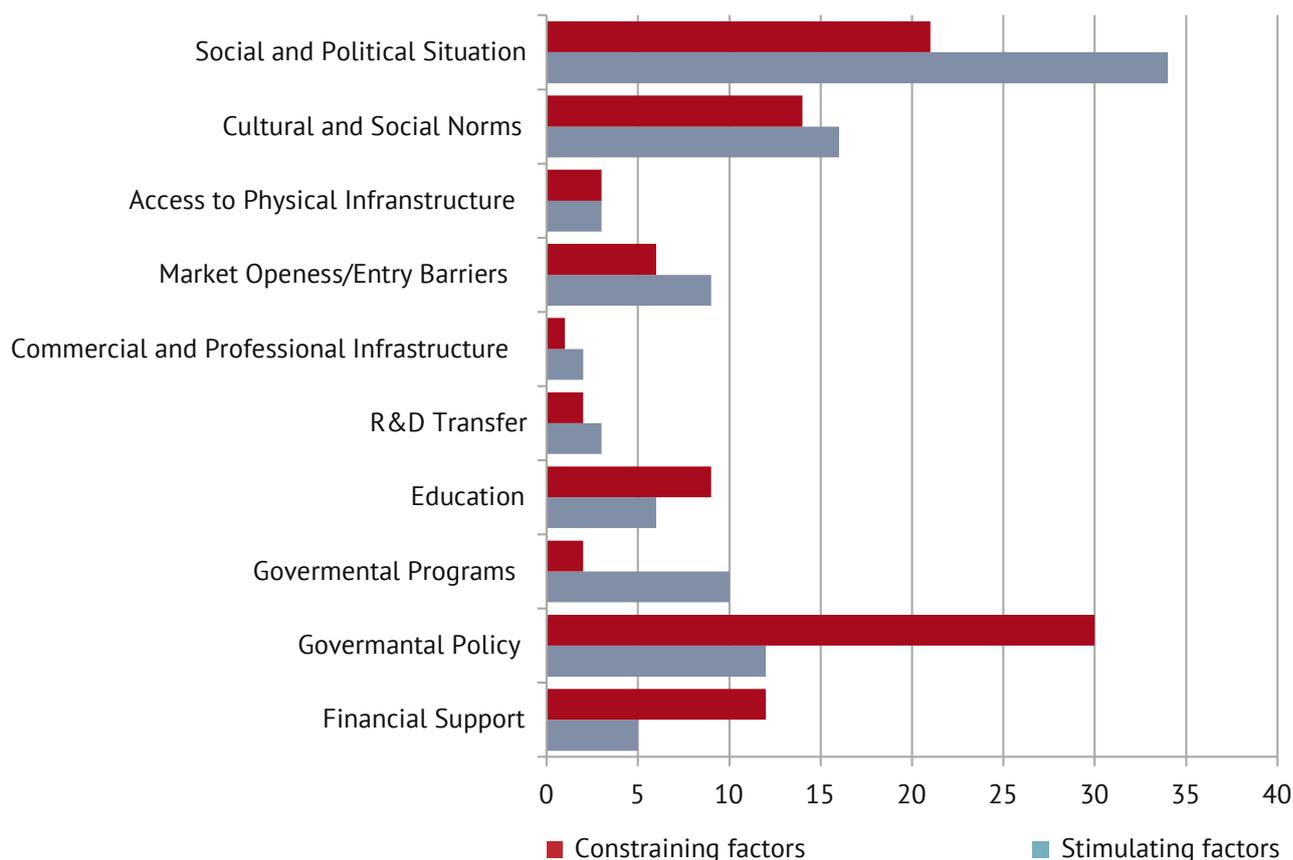


Figure 39. Russian experts' assessment of factors inhibiting and facilitating the development of entrepreneurship, 2011, %

Source: NES Russia 2011

According to experts, consumers give high assessments to opportunities to test (3.33) and to use innovative products (3.14), while producers are not ready to experiment with new products and services (average expert assessment of 2.5).

The majority of experts noted that “top-down” strategic decision-making prevails over “bottom-up” decision-making in large and in small and average companies (4.26 and 3.86 respectively). Clearly, Russian companies do not encourage entrepreneurial activity among employees. Against this background, the relatively high value of evaluations of this factor, which describes employer support for employees who propose new ideas (3.37), looks contradictory.

Besides a quantitative assessment of structural conditions for the development of entrepreneurship, experts suggested factors impeding and facilitating improvements in the country’s entrepreneurial climate, and they also propose recommendations to improve the situation. Figure 39 reflects experts’ assessments of factors that exert especially strong influences.

According to experts, state policy has the most negative effect on the development of entrepreneurship—as it has been for many years of expert interviews. From year to year many experts have noted the inconsistency and unpredictability of state policies and weaknesses in legislation that does not consider many aspects of business development. Experts pay special attention to additions to the tax code that came into force in 2011, which not only increases the tax burden, but also introduces additional confusion into some sections of the law.

Experts also consider the general sociopolitical climate unfavorable for the development of entrepreneurship. To a large extent this is due both to ineffective state administration, the distance between words and deeds (and thus issues of state credibility), corruption at all levels of authority, and the absence of systematic protection of intellectual property rights.

Among factors impeding entrepreneurial development, experts add peculiarities of Russian culture. Entrepreneurship, some experts claim, is not a “acknowl-

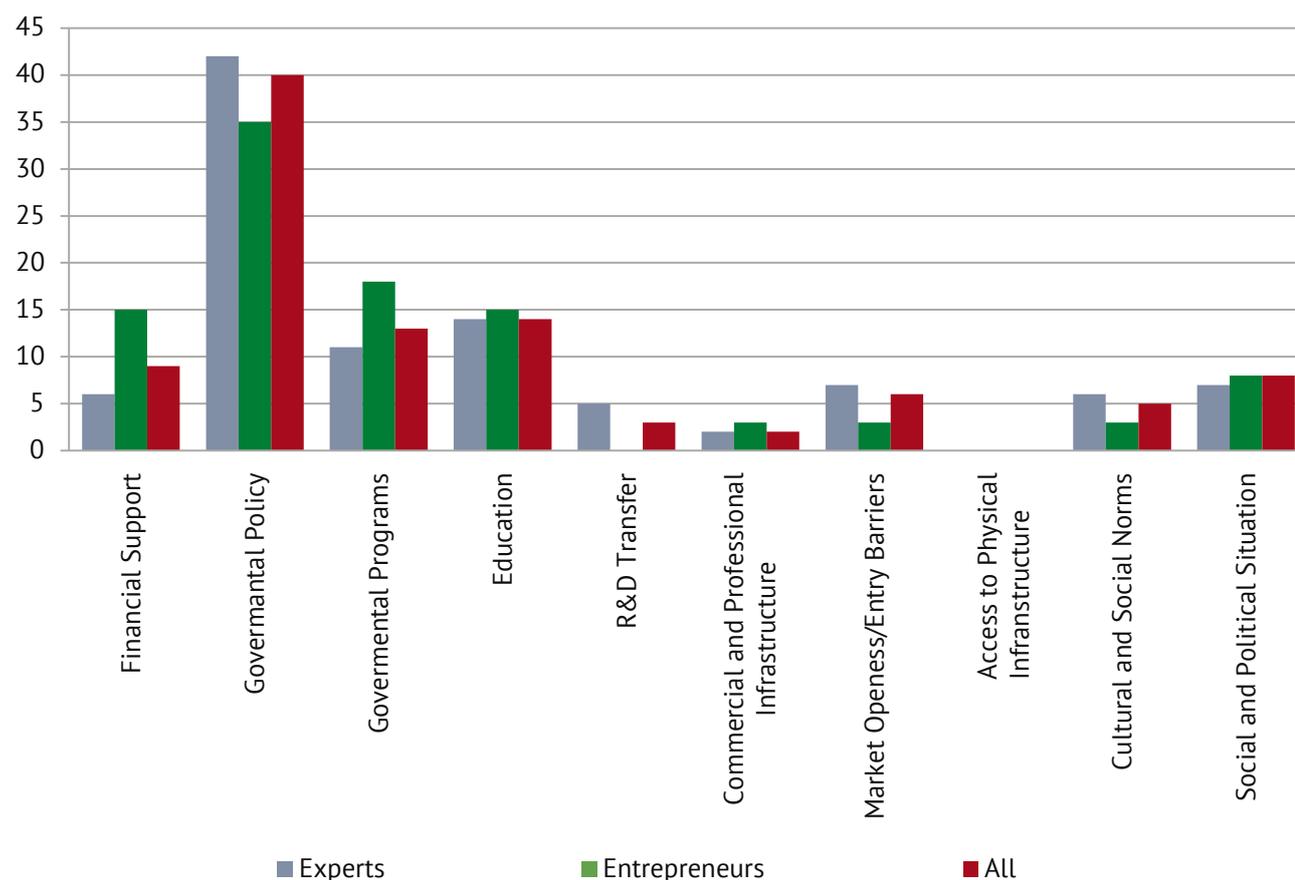


Figure 40. Experts’ and entrepreneurs’ recommendations for improving the entrepreneurial climate in Russia, 2011, %

Source: NES Russia 2011

edged and respected means” for achieving social status in Russian society. Financial support is also traditionally has a negative effect on development of entrepreneurship. Nevertheless, experts referred to this issue less frequently than in the past. The weakness of legal field regarding venture investment, and the closed nature of the state system of subsidizing, remain critical factors.

Entrepreneurs and experts unanimously agreed that balanced and clear state policies are important stimuli to entrepreneurial activity (Fig. 40). Additional resources for improving the situation might be found in the

quality of education, development of state support programs, and access to financing. Further, to improve the entrepreneurial climate, experts proposed isolating factors that stimulate entrepreneurial activity. Among the most significant is improving the socio-political climate, developing the culture of entrepreneurship, improving state programs, raising the effectiveness of state programs, and increased market openness. Interestingly, entrepreneurs more frequently spoke out about these last three factors, whereas professional experts, as a rule, accentuated the need for improving state policies.

## ENTREPRENEURIAL FRAMEWORK CONDITIONS IN INTERNATIONAL COMPARISON

Using a unified questionnaire for different countries facilitates an estimation of the state of framework conditions in GEM countries. However, there are difficulties with making policy recommendations based on these evaluations alone, insofar as they characterize framework conditions inside a country and identical values for this or that condition in different countries would

not reflect the quality of its development. This said, comparisons can reveal some critical factors in development for different countries. For clarity, the values of indicators were converted into a scale running from -3 (very poor state of this structural factor) to +3 (very good state of this structural factor).

For a number of factors—e.g. education, market dy-

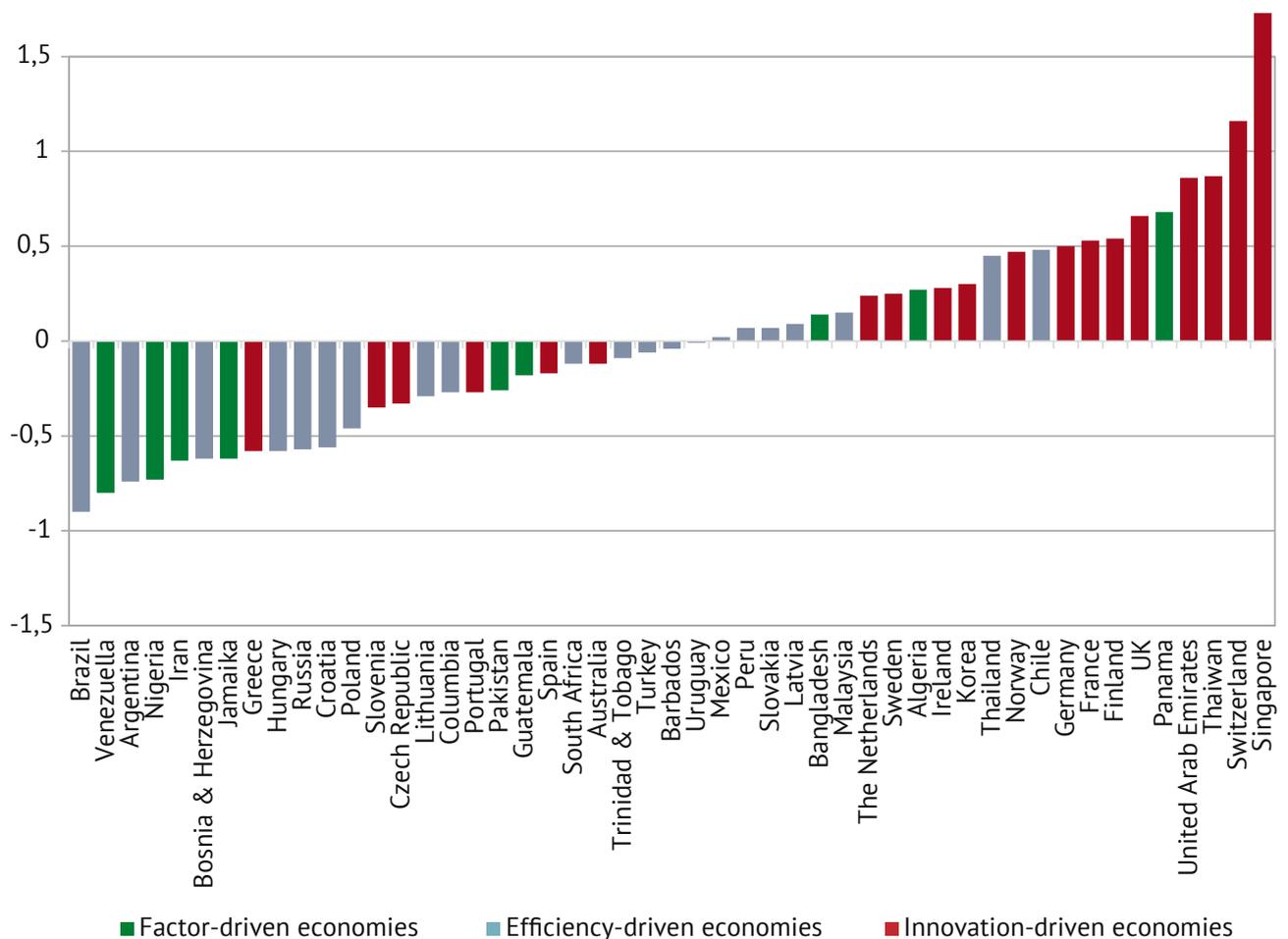


Figure 41. Level of bureaucracy in GEM countries, 2011  
Source: NES 2011

namics, commercial infrastructure, cultural and social norms—there appears to be no relation between level of development and structural conditions of entrepreneurship. Clearly these factors are not only influenced by level of economic development, but also reflect special features of historical legacies or the nature of entrepreneurship. Thus, it is normal that cultural and

social norms in former socialist countries do not beget stimuli for creating and developing new companies. Experts from all these countries claim that the cultural climate interferes with entrepreneurial development.

Assessments of such factors as level of bureaucracy, ease of R&D transfer for small and growing companies, high entry barriers, and protection of intellectual prop-

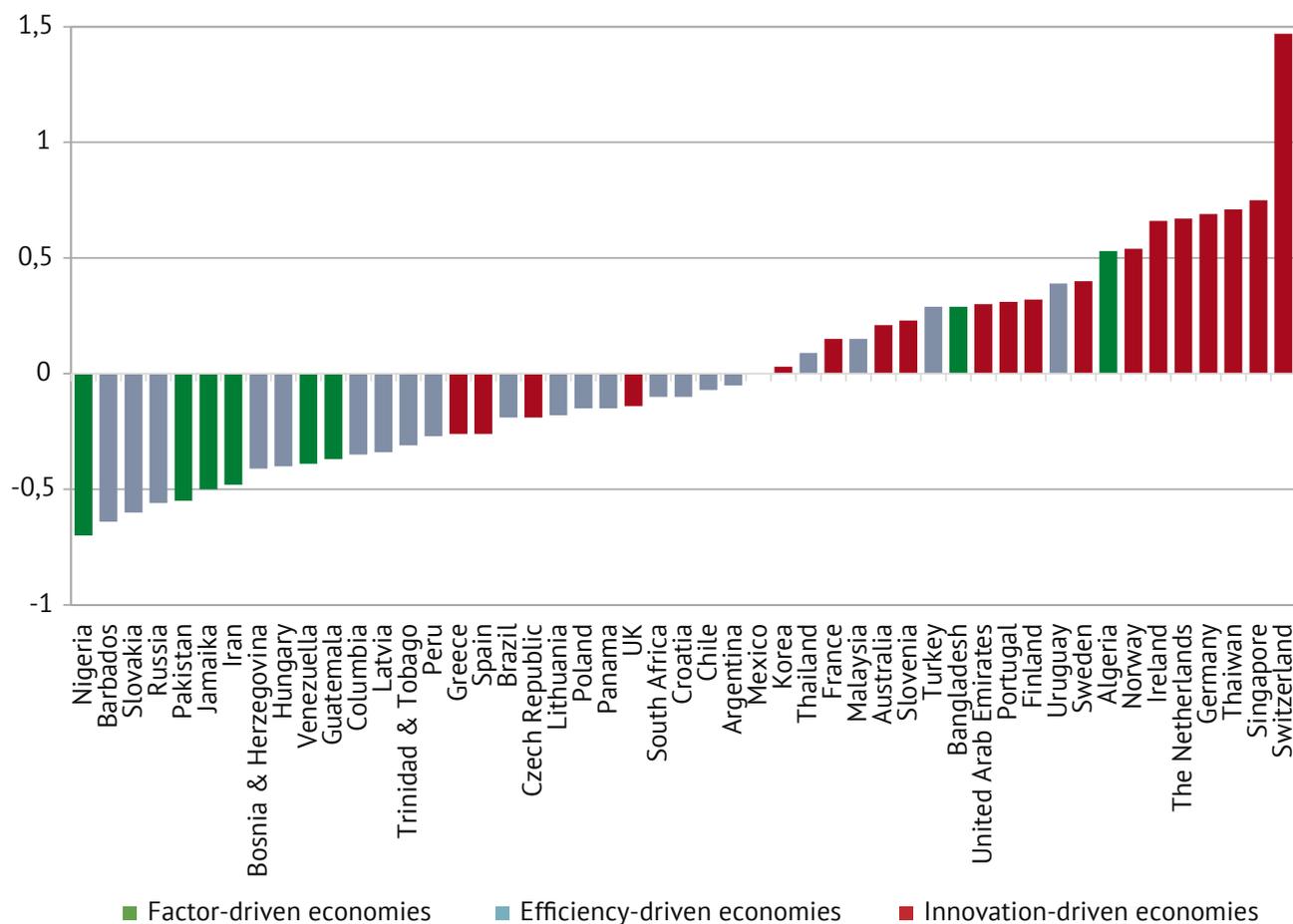


Figure 42. R&D transfer in GEM countries, 2011  
Source: NES 2011

erty rights differ across factor-driven, efficiency-driven, and innovation-driven economies.

As was noted, Russian experts calculated that the high level of bureaucracy is one factor acting as a brake on entrepreneurial development in Russia. A comparison with other countries participating in GEM in 2011 shows that bureaucratic barriers are a negative factor in countries with a similar level of economic development (Fig. 41). For example, Brazil, Venezuela, Argentina, and Nigeria are located in the negative zone for this factor. At the same time, in the majority of European countries experts do not consider bureaucracy to be a detrimental factor—except for Greece, Slovenia, the Czech Republic,

and Portugal.

Significant differences in relation to level of economic development are observed in evaluating the accessibility of R&D for small and growing businesses (Fig. 42). For the majority of innovation-driven, experts believe that R&D transfer overall facilitates the development of entrepreneurship. The exceptions are Greece, Slovenia, the Czech Republic, and Spain. However, in Chile and South Korea, characterized by lower GDP per capita, experts believe that new and growing companies have access to innovations. Despite of the course the Russian economy towards modernization, experts, as noted, negatively evaluate the impact of this factor on

entrepreneurial development there. Experts delivered a similarly low evaluation for Nigeria, Barbados, Slovenia, Pakistan, and Jamaica.

The majority of experts in countries with innovation-driven economies claim that small and growing companies can enter new markets without much difficulty and are able to cover entry costs. There are some exceptions to this rule: France, Spain, Greece, and South Korea are negative for this measure. Russian experts, like experts in Iran, Bosnia and Herzegovina, see high entry market barriers as an obstacle to entrepreneurial development (Fig. 43).

An analysis of estimations of protection of intellectual property rights reveals differences related to level

of economic development. Figure 44 shows that, with exception of Greece and Spain, experts in innovation-driven economies find that legislation and its use to a greater or lesser degree facilitate entrepreneurial development. According to experts, in the majority of efficiency- and factor-driven economies, the absence or ineffectiveness of mechanisms for protecting intellectual property rights negatively affects entrepreneurial activity.

Russian experts negatively evaluated legislative efficiency in protecting intellectual property rights. Russia's rating is similar to that of Iran, Venezuela, Guatemala, Pakistan, and Nigeria, where observation of property rights is also a critical factor to entrepreneurial development.

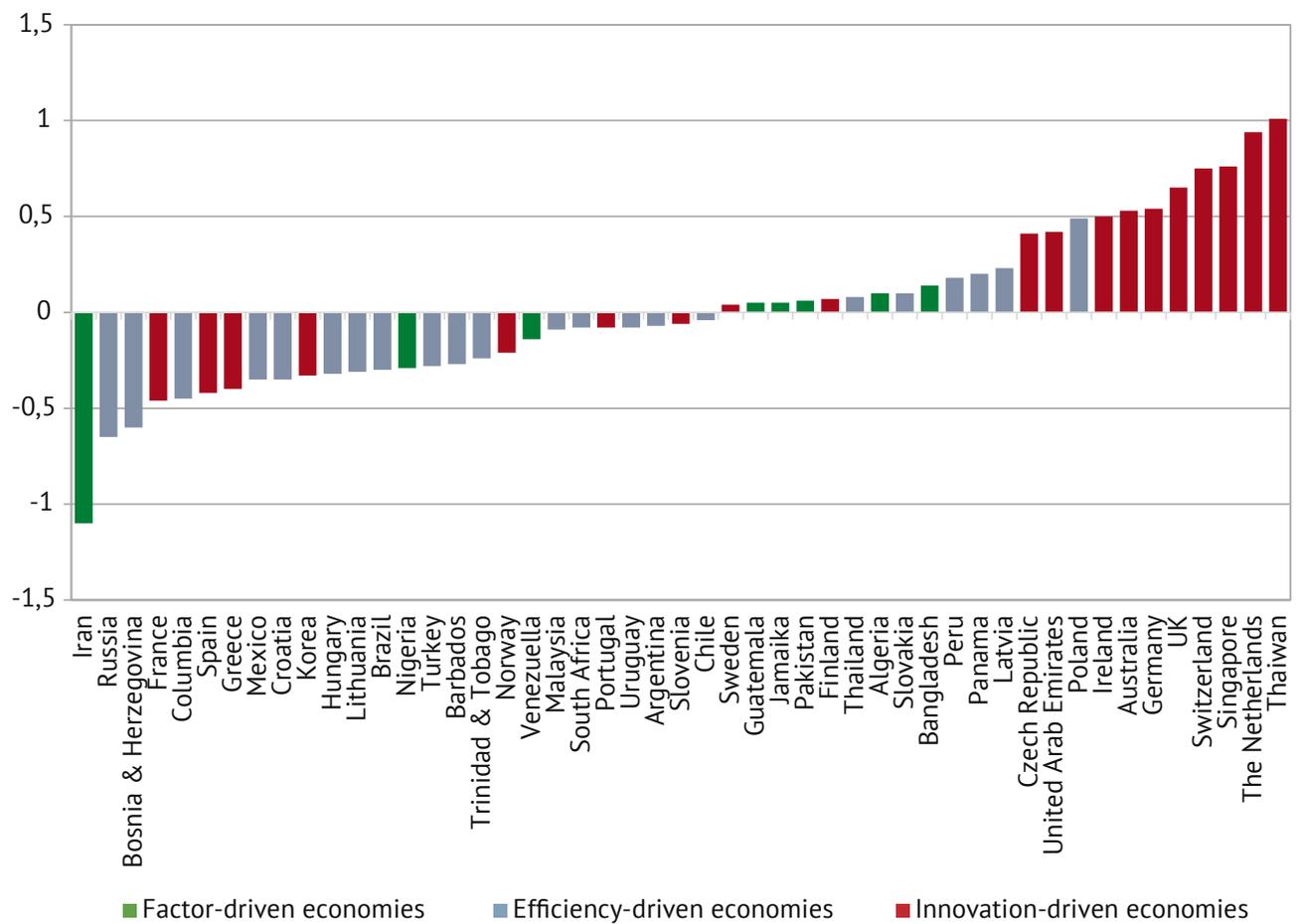


Figure 43. Barriers to market entry in GEM countries, 2011  
Source: NES 2011

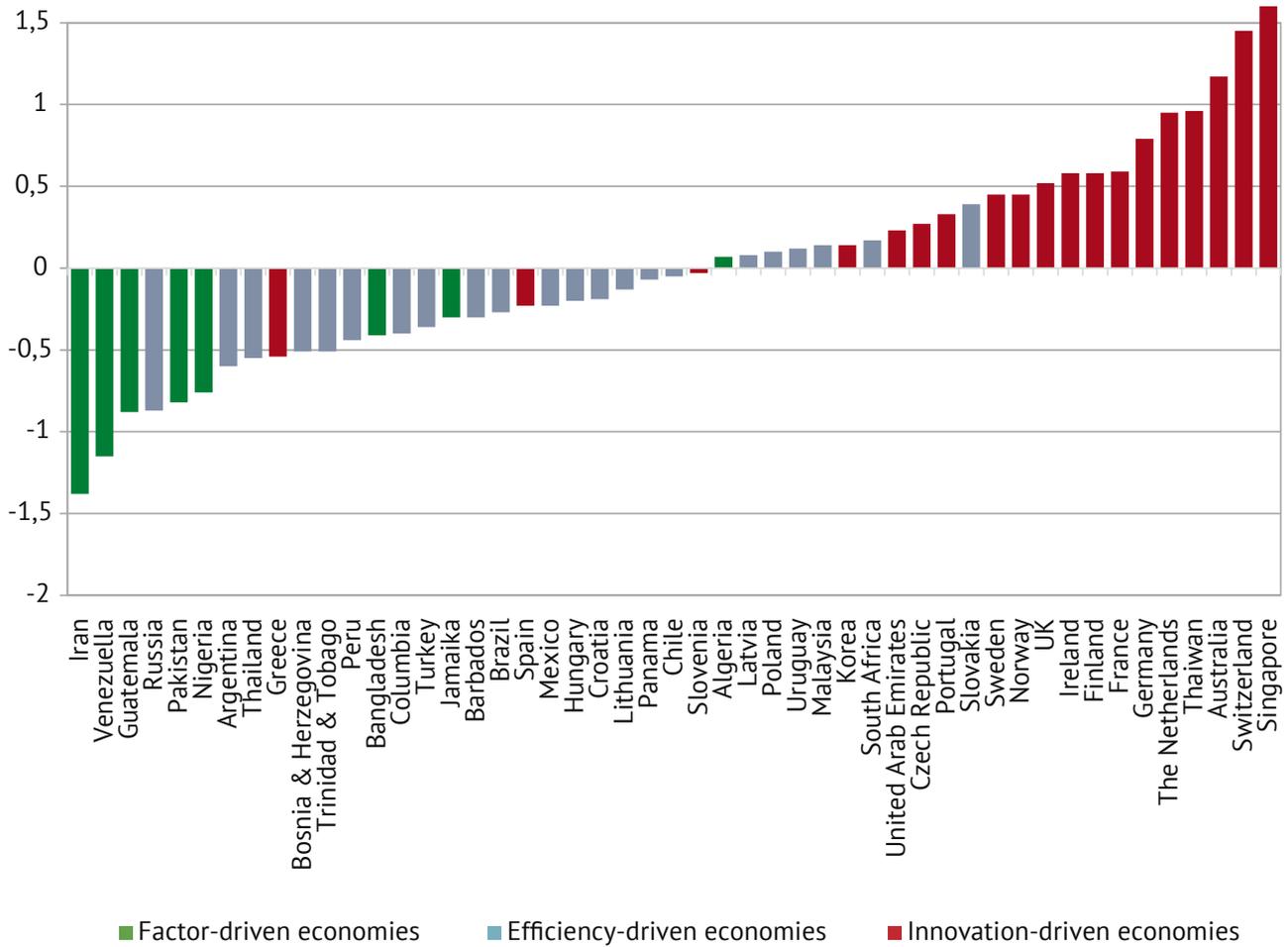


Figure 43. Barriers to market entry in GEM countries, 2011  
 Source: NES 2011

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## NATIONAL TEAM GEM RUSSIA

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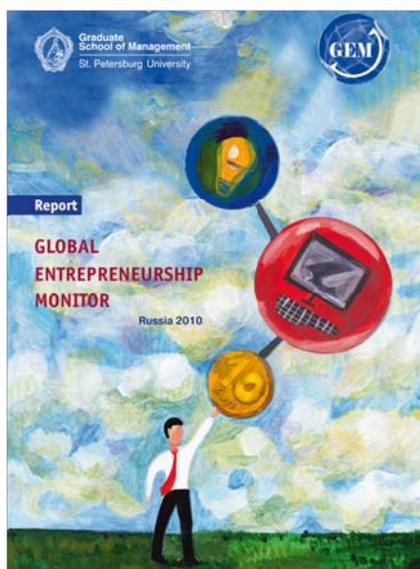
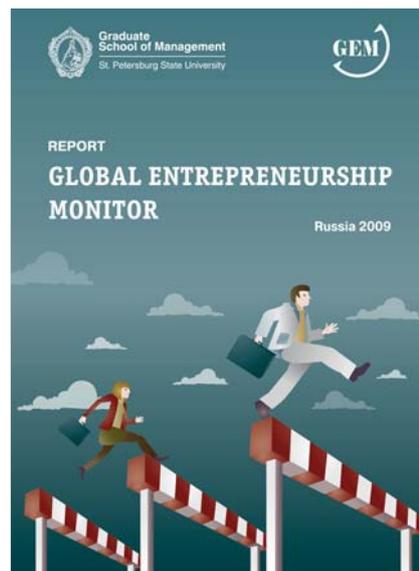
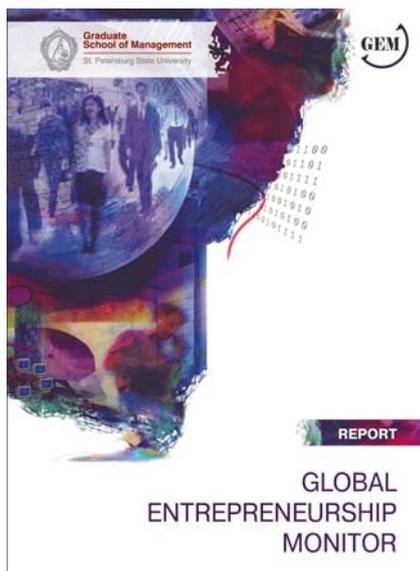
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