

SEZZ4901: Free Standing Dissertation

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"Discuss the nature of entrepreneurship under transition conditions: exploring regional and gender differences"

Abstract: In this paper I will examine the nature of entrepreneurship under transition conditions in Eastern Europe, paying particularly close attention to regional disparities and gender differences. Starting with entrepreneurship during socialism, I will explore the subject right up until the present day using data and studies from Croatia, Slovenia, Russia, Lithuania, Poland, Hungary, Czech Republic, Ukraine, Belarus, Moldova, Latvia, Slovakia, Kyrgyzstan, Uzbekistan, Kazakhstan, the US and the UK.

Introduction

This paper is split into two distinct sections. First, I will be talking about entrepreneurship in transition economies in a general sense, then I will focus on women specifically and how female entrepreneurship differs to male entrepreneurship in the transition economies, if at all. I will start by defining entrepreneurship and will briefly look at entrepreneurship during communism. I will then move on to discuss whether or not the socialist entrepreneurs 'survived' the transition process. Continuing, I will then discuss post-socialist entrepreneurship; particularly looking at the business environment, role of state, business owner characteristics, the role of social networks and the proliferation of corruption. Throughout this discussion I will attempt to draw comparisons between the different regions. I will then take a closer look at entrepreneurship in Russia and Lithuania, two very interesting transition economies to examine, as we shall see. Following this I will then focus specifically on women, first providing a background of female entrepreneurship in transition economies, and then looking at their motivations and the various barriers women experience. Throughout this latter section I will be looking at where gender differences occur and highlighting regional differences where applicable. Finally, I will conclude my findings as to whether or not there are regional and gender differences in entrepreneurship in transition economies.

A note on the literature

Entrepreneurship in transition economies is a relatively new and specialist subject and for that reason there is a lack of published research on the region. A lot of my research comes from the same authors, particularly Welter and Aidis. Whilst this is not ideal as my

sources may be more prone to bias from these authors, it is impossible to research this subject without regularly encountering the same academics. When choosing this research subject I was aware that this could be an issue but have sought to find all the published material on this region that I could. It is also important to bear in mind that statistics from transition countries are inherently unreliable, this is a problem that will only ease with time and is understandably beyond my control. I have made every effort to use larger studies and surveys to obtain a broad picture of the various transition countries, where studies have involved a particularly small number of participants or have been focused on a select city in a transition economy I have pointed this out to avoid generalizing the results to the entire country in question.

Defining Entrepreneurship

Much has been written and debated over the precise definition of the term ‘entrepreneur’. The invention of the term is often attributed to Richard Cantillon who first used it in the 18th century¹. Although many economists have modified and established their own working definitions of entrepreneurship, the essence of the entrepreneur being a ‘risk taker’ is still widely agreed upon as in Cantillon’s original definition. Interestingly, this traditional definition of someone seeking profit by taking risks does not specify that the person is contributing positively to the economy, so to take an extreme example a drug dealer would be an entrepreneur. In transition economies many have been ‘entrepreneurial’ but in a corrupt fashion, extorting local businesses or bribing local officials for example. Baumol (1993)² established that as the entrepreneur’s reward for engaging in innovative activity is a blend of power, prestige and profit, the different types

¹ The Concise Encyclopedia of Economics, <http://www.econlib.org/library/Enc/Entrepreneurship.html>,

² Page 8, Aidis, Ruta, *Entrepreneurship and Economic Transition*

of entrepreneurial activities we witness in different settings are therefore determined by the local mixture of these social and economic incentives. Baumol cited the example of war, where innovative economic activity takes place but it is of a violent nature and enriches the entrepreneur at the cost of the rest of society. Joseph Schumpeter has been another important contributor to entrepreneurship theory, he identified the entrepreneur as someone who ‘introduced new combinations into the economy’ in his book, *The Theory of Economic Development* (1912)³.

Richard Scase (2000)⁴ has particularly looked at the transition economies of Central and Eastern Europe when devising his definition for entrepreneurship. In this region, Scase has found a distinction between ‘entrepreneurship’ and ‘proprietorship’, with the majority of small business traders in this locality actually falling into the second group rather than being entrepreneurs. He defines entrepreneurs as having a commitment to capital accumulation and business growth whereas proprietors are less interested in long-term capital accumulation and more likely to consume rather than invest any surpluses they generate. The reason he gives for the tendency towards proprietorship in transition economies is that individuals are trying to protect themselves from the inevitable risks that come with operating in an emerging market economy; they use their increased revenues for raising their living standards as opposed to reinvesting in their enterprise. Dallago (1997)⁵ also focused on defining entrepreneurship in a transition context and he also divided entrepreneurs into two groups; economic entrepreneurs and systemic entrepreneurs. Economic entrepreneurs are innovative and transform business structures,

³ Page 4, Aidis, Ruta, *Entrepreneurship and Economic Transition*

⁴ Page 251, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

⁵ Page 10, Aidis, Ruta, *Entrepreneurship and Economic Transition*

they may also engage in either productive or unproductive activities. These types of entrepreneurs are by no means exclusive to transition economies and can also be found in the West. Systemic entrepreneurs on the other hand are unique to transition economies and seek to work within existing systems rather than to promote change.

The definition for entrepreneurship I will mainly be working from for this dissertation is based upon the definition presented by Aidis (2003)⁶ of 'productive entrepreneurship'. This definition includes solo employment as, in a transition context, this can be seen as requiring innovative flair and risk taking whereas it would not be viewed in this light in Western markets. 'Productive entrepreneurship' encompasses the ability to create new economic opportunities through innovative activity, to function in a market with obstacles and relative uncertainty, and for these efforts to then result in an enterprise that contributes to national economic growth and personal livelihood.

It is also important to establish what we mean by 'transition'. When does a transition country become a post-transition country? It is an interesting question, but as this paper draws mainly on historical data and writings about the transition process, the recent EU members will be referred to as transition countries although now in 2008 they would be categorized differently. Also, when this paper moves on to discuss the role of women, the 'transition country label' will still be fitting for the new EU members as female participation in entrepreneurship is still developing and is not yet at the levels of fully functioning market economies in the West.

Entrepreneurship during communism

Although the focus of this dissertation is entrepreneurship in transition, it is important to remember that there wasn't a complete dearth of entrepreneurship *during* communism.

⁶ Page 13, Aidis, Ruta, *Entrepreneurship and Economic Transition*

Although private business was in many cases illegal, there were examples of private enterprises that were not licensed but were ‘tolerated’ by authorities⁷. There were also private businesses in some sectors that had actually been granted legal status; this was true of some craft businesses in Poland and certain business work partnerships in Hungary⁸.

Entrepreneurial skills were necessary for those needing to barter for a livelihood and were facing severe shortages, as was so common in the Socialist system⁹.

Understandably, those of a certain age who lived in the CEEB countries had an advantage in that they had a memory of self-reliance and capitalism¹⁰. The term ‘socialist millionaire’ seems paradoxical, but it was an achievable feat for those nomenklatura that were able to combine their powerful position with entrepreneurial skill. If these people were loyal to superiors and able to gain free rein over staff and resources then they could stand to be financially rewarded for their entrepreneurial skills and successes¹¹. Benacek (1994)¹² went as far as to determine three specific types of socialist entrepreneur; the marketers (private farmers, artisans, tradesmen, cab drivers, shop assistants, ringleaders of organized crime), the nomenklatura (directors of companies and their deputies, heads of divisions, high ranking bureaucrats) and the outsiders (those with low entrepreneurial aspirations under the communist regime such as doctors, engineers, scientists).

⁷ Page 250, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

⁸ Page 250, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

⁹ Page 69, Brzeski, Andrzej et al, *Encouraging Entrepreneurship in Eastern Europe: A CRCE Conference in Bled*

¹⁰ Page 69, Brzeski, Andrzej et al, *Encouraging Entrepreneurship in Eastern Europe: A CRCE Conference in Bled*

¹¹ Page 70, Brzeski, Andrzej et al, *Encouraging Entrepreneurship in Eastern Europe: A CRCE Conference in Bled*

¹² Page 71, Brzeski, Andrzej et al, *Encouraging Entrepreneurship in Eastern Europe: A CRCE Conference in Bled*

Did the socialist entrepreneurs 'survive' transition?

The 'socialist entrepreneurs' did not automatically become 'transition entrepreneurs' after the fall of the iron curtain, in fact the survival rate was incredibly mixed. Earle and Sakova (2000) reported positive results, finding that business owners who had operated pre-1988 would have a greater probability of owning a business with employees in 1993¹³. Szelenyi (1998) had similar findings, noting that a number of transition entrepreneurs had either been active in the second economy during socialism or occupied leading positions in state owned enterprises¹⁴. Chepurensko (1998) had more mixed results, finding that formerly legal private enterprises, such as in the Polish craft industry, continued to exist during the transition period but the adjustments to the requirements of a market economy often created great difficulty for the entrepreneurs¹⁵. Winiński perhaps painted the worst picture for the socialist entrepreneurs, stating that the emergence of new business opportunities after 1989 caused bankruptcies not only among the state firms but also among the old private businesses and restructuring caused a shrinkage of the old private sector by 40-75%¹⁶.

If we use Benacek's 'socialist entrepreneur types' discussed previously, it appears 'the outsiders' gained from transition with a large increase in self-employment in this group (Selowsky and Mitra et al 2002)¹⁷. This group had always been talented and skilled, but had never had the opportunity to exploit these qualities for commercial gain. However,

¹³ Page 7, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

¹⁴ Page 250, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

¹⁵ Page 250, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

¹⁶ Page 73, Brzeski, Andrzej et al, *Encouraging Entrepreneurship in Eastern Europe: A CRCE Conference in Bled*

¹⁷ Page 73, Brzeski, Andrzej et al, *Encouraging Entrepreneurship in Eastern Europe: A CRCE Conference in Bled*

Czech data shows that only 0.8% of the outsiders managed to overcome the barrier of self-employment and become entrepreneurs who were actually employed¹⁸. The nomenklatura were particularly successful at surviving transition to become post-socialist entrepreneurs, with 29% of the top ranks and 16% of all nomenklatura becoming business owners with employees (Djankov, 1999)¹⁹. However their successes have perhaps been short-lived, as privatization has moved forward since 1989 the young elite without any links to former communist networks have been favoured and the role of the nomenklatura among entrepreneurs has steadily declined²⁰. The marketeer group generally didn't survive transition, as we have already seen the private sector that had been established under socialism contracted dramatically. Their inability to adjust was probably due to the fact that entrepreneurial conditions were so different under socialism; this group had thrived due to the shortages in the planned economy, black market prices and corrupt state bureaucracy²¹. Entrepreneurship under market conditions had very different incentives and required different skills which this group lacked.

Entrepreneurship post-transition

Although there are differences within the region, we can safely assume that certain conditions affecting entrepreneurship are common to all transition countries. The obvious binding factor between these countries is the transition process itself; they have all changed from operating as centrally planned economies to a market-oriented system,

¹⁸ Page 74, Brzeski, Andrzej et al, *Encouraging Entrepreneurship in Eastern Europe: A CRCE Conference in Bled*

¹⁹ Page 74, Brzeski, Andrzej et al, *Encouraging Entrepreneurship in Eastern Europe: A CRCE Conference in Bled*

²⁰ Page 86, Brzeski, Andrzej et al, *Encouraging Entrepreneurship in Eastern Europe: A CRCE Conference in Bled*

²¹ Page 73, Brzeski, Andrzej et al, *Encouraging Entrepreneurship in Eastern Europe: A CRCE Conference in Bled*

albeit at different speeds and success rates. This part will be broken down into three sections: the environment, the role of state and business owner characteristics.

The Environment

The transition environment is a unique one and it has many aspects, all of which have an effect on entrepreneurship and business creation. Aside from the general switch to a market oriented system, the transition countries shared the need to ‘accept’ private enterprise²². For so long, private business had been seen as ‘evil’ and illegal, now perceptions had to change to seeing private enterprises as healthy, legal and necessary for the transition process. Those who wanted to start enterprises were also having to contend with a hostile economic environment. The instability caused by transition had led to high inflation rates, declining real wages and high unemployment²³. Lack of financing is an issue for entrepreneurs across the CIS and CEEB countries²⁴. Private business had generally not existed before transition, at least not in recent years, and in the few examples where there were operating private businesses during socialism it was on a very small scale. This in turn meant that there was no business infrastructure and governments were slow to respond and implement the necessary institutions²⁵. This lack of infrastructure is the main reason that private networks became so important as they filled the gap where formal institutions weren’t working. We will look at these in more detail later. The historical lack of private business also meant a lack of business skills, even those who had been entrepreneurial during socialism found it difficult to transfer these skills to a transition setting, as we have already discussed.

²² Page 18, Aidis, Ruta, *Entrepreneurship and Economic Transition*

²³ Page 18, Aidis, Ruta, *Entrepreneurship and Economic Transition*

²⁴ Page 5, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

²⁵ Page 18, Aidis, Ruta, *Entrepreneurship and Economic Transition*

Although there are high education levels in the transition countries, it is the skills mismatch and lack of qualified workers that proves a problem in the region, as Bohata and Mladek (1999) pointed out²⁶. There are many anecdotal examples of highly skilled professionals becoming travel agents or clothes sellers, as they have reacted to consumer demand rather than pursuing a career that utilized their specialist training. Smallbone and Welter (2001)²⁷ found that an impressive 80% of surveyed SME owners in the Ukraine, Belarus and Moldova were educated to university or higher education level and 74% of this same group had previous management experience before starting their venture. However, only 14% had previous management experience in a private sector enterprise and some authors argue that this is what is crucially necessary for productive entrepreneurship in transition. On the other hand, some authors such as Kusnezova (1999)²⁸ argue that the experience of ‘muddling through’ during socialism was an important preparatory learning experience for entrepreneurs who would go on to operate in the risky and uncertain transition environment.

The role of state

The state plays an important role in facilitating entrepreneurship and in some of the transition countries the state has often erected more barriers than it has managed to dismantle. Frequent changes to already ambiguous tax policies are cited by many authors, including the World Bank (1995)²⁹, as a barrier to entrepreneurship development. In the early stages of transition, governments introduced inadequate and incomplete policies³⁰.

²⁶ Page 5, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

²⁷ Page 254, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

²⁸ Page 255, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

²⁹ Page 6, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

³⁰ Page 18, Aidis, Ruta, *Entrepreneurship and Economic Transition*

This is understandable bearing in mind governments had little, if any, experience in business legislation. But these shortcomings in the earlier years were later overcompensated for, causing new problems of a different nature. This mainly affected the CIS countries, whilst the CEEB countries gradually grew into a working market economy with an 'invisible hand model' where the government limits intervention or interference in private business development³¹. Poland and Hungary for example have established an appropriate legal system (which is enforced) and infrastructure to facilitate the development of entrepreneurship³². The CIS countries on the other hand have suffered from a 'grabbing hand model', they have had to endure increased over-regulation and continual interference from the state, which has negatively affected the private sector. Smallbone and Welter (2001)³³ found examples in Belarus of private property being expropriated if entrepreneurs become too successful, the state could do this because 'legally' neither individuals nor companies have a right to own property. We will discuss this in more detail later and how this has become one of the main reasons behind the high levels of corruption we witness in the CIS transition economies. The way the state views entrepreneurs is important for small business establishment. The CIS countries have been criticized for treating entrepreneurs as a potential source of tax revenue as opposed to being a crucial part of the fabric that will establish the transition economies as market-oriented systems. Those who wish to become entrepreneurs are already going to be facing a number of problems because of the unstable economic environment and ambiguity over property rights, so there needs to be a real incentive for

³¹ Page 11, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

³² Page 259, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

³³ Page 259, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

entrepreneurs to work on long term projects. If the state recognizes the contribution of entrepreneurs and their importance in developing the economy then the state will actively establish the necessary preconditions for entrepreneurship to flourish by reforming the tax system, by taking measures such as to try to eliminate corruption and rent seeking behaviour³⁴.

Business Owner Characteristics

The legalization of private business opened up the potential for ‘anyone’ to become a business owner. The business infrastructure was limited as we have already discussed, but with the help of private networks many business owners in transition countries were able to obtain profitable results. This was in spite of the fact they were using relatively rudimentary and primitive business methods (Roberts and Zhou 2000)³⁵.

Roberts and Tholen (1998) looked at small business owners in the CEE countries and found that they tended to see their business ventures as full time endeavours and were specialized in their activities³⁶. Again, there is a distinction here with the tactics seen in the CIS countries where business owners are focused on short-term gains rather than long-term strategies. CIS business owners were also found to be less engaged with their venture and often supplemented their income with other employment, because of this their ventures were often a part-time activity as opposed to the full time ventures we see in CEE countries. However, Smallbone and Welter (2001)³⁷ do point out that part-time businesses could become full-time business as the owner grows with confidence.

³⁴ Page 260, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

³⁵ Page 19, Aidis, Ruta, *Entrepreneurship and Economic Transition*

³⁶ Page 20, Aidis, Ruta, *Entrepreneurship and Economic Transition*

³⁷ Page 257, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

Smallbone and Welter (2001)³⁸ found in their 1997 study of small business owners in the Ukraine, Moldova and Belarus that 22% were involved in the ownership of multiple businesses. They also found that in the former Soviet republics, firms were much more likely to have multiple owners than in the CEE countries, this is probably because of the longer tradition of private enterprise and reduced risk in the CEE countries.

Although we may almost 'look down' upon some small business owners for entering into the role to escape unemployment as opposed to exploit change and innovation for profit, it's important to remember that a business owner's aspirations may change with time i.e. they may have entered into the role out of necessity but then they might gradually become more entrepreneurial and stay in the role because of opportunity. Chiosi (2001)³⁹ argued that the 'utter newness' of private enterprise in the transition context meant that even those who entered into proprietorship out of necessity would still have to be more entrepreneurial than their Western counterparts.

Motivations for entrepreneurship differ from person to person and region to region. But, as we have already discovered when discussing Scase's work on 'proprietorship', it is safe to say that not all small business owners are aiming to grow and expand their businesses. Smallbone and Welter (2001)⁴⁰ believe that this emphasis on 'proprietorship' becomes less important as transition moves forward. This is understandable as when the free market systems become more established, business owners are surrounded by less risk and more opportunity and are therefore more likely to reinvest into their ventures.

³⁸ Page 257, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

³⁹ Page 26, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

⁴⁰ Page 251, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

We have already discussed the nomenclatura entrepreneurs but this group will have been motivated by private gains rather than necessity. These entrepreneurs have used their political weight for their own gain and their personal successes have been at the detriment to society where they have been allowed to have monopolistic powers. In Russia, oligarchs have used their influence to dictate legislation and lobby for changes that benefit them as a small group of individuals⁴¹. Small business owners in Russia have not had this opportunity and although the distance between politics and business has grown since the late 90s⁴², oligarchs are still in a much more favourable position than small business owners and the oligarchs do not appear to have any desire to promote change that will enhance SME creation.

A 1997 study of small business owners in the Ukraine, Moldova and Belarus by Smallbone and Welter (2001)⁴³ found that 'independence' or 'autonomy' was by far the most cited reason given for starting a business, followed by a 'desire to boost income' and 'personal fulfillment'. 'Unemployment' was only given as a reason for start up by a small minority, which shows us that towards the end of the 90s people were actively seeking opportunity by becoming entrepreneurs rather than falling into the position as a means to survive. These responses were not hugely dissimilar to a comparable survey conducted in Poland and the Baltic States two years previously.

Family background is an important motivator in Western economies, but obviously in the early stages of transition there was little recent family experience to be motivated by, if

⁴¹ Page 2, Guriev, Sergei and Rachinsky, Andrei. *The role of oligarchs in Russian capitalism.*

⁴² Page 1048, Yakolev, Andrei, *The evolution of business - state interaction in Russia: From state capture to business capture?*

⁴³ Page 253, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

any. That being said, Lageman et al (1994)⁴⁴ surveyed business owners in the Czech and Slovak Republic, Hungary and Poland in 1993 and found that 9% cited 'family history' as a motivator for starting their business. Smallbone et al (1999) conducted a similar survey in the Ukraine, Moldova and Belarus and found that only a very small number of respondents cited 'family background' as a reason for starting their venture. Although this is only two surveys, it could be taken as evidence of a difference between CIS and CEE countries and the difference is understandable as CEE countries would have living memory of private business, and in some trades family businesses may have even operated during socialism.

The proliferation of corruption and grey entrepreneurs

Corruption is a serious problem facing entrepreneurs in the transition economies, with many entrepreneurs having to pay bribes to rent-seeking bureaucrats and/or organized criminal networks. The long term competitiveness of the transition economies will not be fully realized, or at least not as quickly, whilst private businessmen are having to deal with all the problems corruption causes. Corruption may also act as a deterrent meaning people who have the skills to be successful entrepreneurs and could positively contribute to the economy are not stepping forward because of the risks, or they are taking their skills abroad and not returning. Alternatively, these entrepreneurs may start to operate themselves in the grey economy, which perpetuates the problem further⁴⁵.

⁴⁴ Page 257, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

⁴⁵ Page 259, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

It is important to note that there is great variation in the level of corruption and size of the parallel economy across Eastern Europe. Johnson, Kaufmann and Shleifer (1997)⁴⁶ estimated that the unofficial economy was 15% in Poland compared with 50% in Russia and the Ukraine. Johnson et al (2000)⁴⁷ reported that 90% of their Russian and Ukrainian respondents said that it was normal to pay bribes whereas in Slovakia only 40% said the same and only 20% said the same in Poland and Romania. Hohmann and Welter (2004)⁴⁸ surveyed 400 small entrepreneurs across 4 different Russian regions (100 each from Moscow, Nishny Novgorod, Voronesh and Kaluga) and found that 43% believed the share of shadow income in SMEs like their own could be anything up to 75%, 2.5% believed that 100% of income came from shadow operations. Hohmann and Welter concluded that it was possible that up to half of all the surveyed firms were engaged in shadow transactions that were on a scale at least equal to their legal transactions. This same surveyed group believed all levels of state authorities are more of a constraint to business than they are helpful, 83.8% found procedures with authorities too time consuming, 77.5% complained of excessive paperwork and 63.5% believed state officials lacked competence⁴⁹. A clear distinction can be made between corruption levels in the CIS countries and those in the CEEB countries, with the higher levels of corruption being found in the CIS countries. Frye and Shleifer (1997) criticized government officials in the CIS countries for pursuing their own personal enrichment to the detriment of the rule of law and entrepreneurship development⁵⁰. In Lithuania, which is hard to place in either the

⁴⁶ Page 10, Dana, Leo Paul, *When Economies Change Hands*

⁴⁷ Page 10, Dana, Leo Paul, *When Economies Change Hands*

⁴⁸ Page 81, Hohmann, Hans-Hermann and Welter, Friederike, *Entrepreneurial Strategies and Trust*

⁴⁹ Page 103, Hohmann, Hans-Hermann and Welter, Friederike, *Entrepreneurial Strategies and Trust*

⁵⁰ Page 13, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

CIS or CEE category, tax evasion and avoidance was widespread with an estimated 40% of economic activity taking place in the grey or black markets in the late 90s⁵¹.

The following table, created using select corruption perceptions index results from Transparency International⁵², highlights the differences between CIS and CEEB countries:

Country Rank	Country Name	CPI Score 2007
27	Slovenia	6.6
41	Czech Republic	5.2
49	Slovakia	4.9
51	Lithuania	4.8
61	Poland	4.2
64	Croatia	4.1
118	Ukraine	2.7
143	Russia	2.3
150	Belarus	2.1
150	Kazakhstan	2.1

Note: For comparison, in 2007 the United Kingdom had a country rank of 12 and a CPI score of 8.4

⁵¹ Page 172, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

⁵² Transparency International CPI 2007 Regional Results, http://www.transparency.org/policy_research/surveys_indices/cpi/2007/regional_highlights_factsheets

Both Roberts & Tholen (1998) and Kontorovich (1999) found that many private businesses in transition economies function in *both* the official and informal economy⁵³. But, as Winiecki points out⁵⁴, grey entrepreneurs cannot enjoy the normal benefits of entrepreneurship in a market economy. They cannot benefit from financial services, their ownership titles are very tenuous and their businesses are exposed to a greater risk of extortion from those in authority.

The importance of social networks

Trust and social networks have proven important for the development of entrepreneurship in transition economies. In a business environment where there are political and economic risks, social networks and trust can help to mitigate against any instability.

Smallbone and Welter went so far as to say that networks and connections are “essential” for entrepreneurship under transition conditions⁵⁵. Those who had business experience or political clout during socialism are likely to have found it easier as an entrepreneur during transition as they could call upon their old networks and connections to help develop their enterprises (Yan and Manolova, 1998)⁵⁶. Even if they were unable to exploit their old connections, they may have found it easier to establish new connections as they would have gained valuable networking experience during socialism which other entrepreneurs may not have had.

Private networks have the advantage of filling the gaps in business infrastructure, of which there will inevitably be many in the initial stages of transition. Trust is important

⁵³ Page 20, Aidis, Ruta, *Entrepreneurship and Economic Transition*

⁵⁴ Page 70, Winiecki, Jan et al, *The Private Sector after Communism*

⁵⁵ Page 251, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

⁵⁶ Page 256, Smallbone, David and Welter, Friederike, *The Distinctiveness of Entrepreneurship in Transition Economies*

because honesty and reliability bring repeat business. Increased levels of trust can enhance entrepreneurship and encourage growth but it is also necessary to facilitate entrepreneurship and establish the market in the first place.

Although we will be examining gender differences in more detail later, now is an appropriate time to look at gender differences in social networks. Welter et al (2004) examined survey research in Moldova and Ukraine and found that female networks are in fact *not* very helpful for business growth⁵⁷. However, this is not necessarily to do with gender, it is rather the quality of the networks that the different genders have access to. Men appear to find it easier to successfully utilize social capital, but they are also likely to have connections from Soviet times. Even if they do not have connections from the past, the large majority of successful businessmen are male and prejudice may mean that men find it easier to network with these people for advice than women do. Women are at risk of becoming ‘trapped’ in small female business networks and often have to rely on family connections or their husbands to enter higher quality networks where entrepreneurs have more experience and acumen⁵⁸.

A closer look at Russia

As we have seen, there are many common entrepreneurship experiences binding the transition economies. But we have also noticed a distinction between the CIS and CEEB countries, whilst talking about general entrepreneurship it is interesting to highlight the case of Russia.

Russian statistics are inherently unreliable, but we can assume the statistics Russia offers for entrepreneurial density in the country are likely to be on the optimistic side. Even so,

⁵⁷ Page 14, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

⁵⁸ Page 14, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

Winiiecki (2004)⁵⁹ found that the ratio of the number of entrepreneurs per 1000 inhabitants in the late 1990s in Russia was almost ten times lower than that for Poland. Clearly, there is a difference. There are many reasons given for this lagging behind in Russia, perhaps the most important being that Russia was simply not prepared enough for transition. Irreversible political change and strong enforcement of law and order has never really emerged in Russia⁶⁰, which has left Russia a risky place to do business, above and beyond the general risk levels associated with emerging markets. As the state has tried to dominate over business, the 'rules of the game' have become obscured and regulation and bureaucracy has become increasingly excessive, so much so that the most law-abiding Russian enterprises are bound to break the law at some point⁶¹. According to one ex-minister, "if everyone followed every rule and instruction in Russia, the country would grind to a halt"⁶². Smolchenko (2005)⁶³ surveyed small businesses in Russia and found that they were more afraid of governmental inspectors and police than the Mafia. The fact that the Mafia exists in Russia highlights one major problem, but the fact that Russian entrepreneurs are more scared of governmental bodies demonstrates the extent of Russia's difficulties.

Unfortunately for the CIS countries, the dominance of old Russian language networks has continued to link them with Russia, and this means being linked to all of Russia's troubles⁶⁴. The pseudo market economy that Russia is establishing is negatively influencing the development of capitalism in the CIS countries and it is important to

⁵⁹ Page 72, Winiiecki, Jan et al, *The Private Sector after Communism*

⁶⁰ Page 72, Winiiecki, Jan et al, *The Private Sector after Communism*

⁶¹ Page 1048, Yakolev, Andrei, *The evolution of business - state interaction in Russia: From state capture to business capture?*

⁶² Russia's Economy, Smoke and Mirrors,

http://www.economist.com/world/europe/displaystory.cfm?story_id=10765120

⁶³ Page 18, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

⁶⁴ Page 9, Aidis, Ruta, *Entrepreneurship in Transition Countries: A Review*

remember that the CIS countries have no memory of private business and that political power has not really changed hands.

A closer look at Lithuania

Lithuania is an anomaly in many ways; Lithuania was part of the Soviet Union but, as a Baltic country, has an affinity with Western Europe. This connection with Western Europe has been further cemented by Lithuania's entry to the European Union in 2004⁶⁵. So where there is normally a distinction between CIS and CEE countries, Lithuania doesn't comfortably fall into either category. The resulting effect on entrepreneurship is therefore a mix of the trends we see in the CIS and the CEE countries. It shares similarities with the CIS countries in that it used to belong to the Soviet Union, and like these countries Lithuania has not experienced a full rotation of political power since the end of socialism, with power being retained by the ex-Communist Party elite. But unlike the other CIS countries, Lithuania has recent memory of private business as a market-based economy had developed during its independence in between the First and Second World Wars⁶⁶.

When it comes to the role of state, Lithuania also falls somewhere in between the 'invisible hand model' witnessed in CEE countries and the 'grabbing hand model' witnessed in the CIS countries. Aidis (2003)⁶⁷ refers to Lithuania's role of state model as being an 'interfering hand model'; there is continual government interference which negatively affects private business development, but there is not the extreme rent seeking behaviour and corruption that we witness in the CIS countries.

⁶⁵ Member States of the EU – Lithuania,
http://europa.eu/abc/european_countries/eu_members/lithuania/index_en.htm

⁶⁶ Page 21, Aidis, Ruta, *Entrepreneurship and Economic Transition*

⁶⁷ Page 22, Aidis, Ruta, *Entrepreneurship and Economic Transition*

Business owner characteristics in Lithuania don't fit comfortably in the CIS or CEE category either. Most Lithuanian entrepreneurs have short-term business goals as in the CIS countries, but their endeavours are usually full time as in the CEE countries. As for ownership, there is a mixture of joint ventures and partnerships (common to CIS businesses) and individual enterprises (common to CEE countries)⁶⁸.

Female Entrepreneurship

Now we will focus our attention on female entrepreneurs in transition economies and how they differ to their male counterparts. Unfortunately, the difficulties in finding accurate data from transition countries seem to be exacerbated further when looking at women specifically. There isn't a huge amount of data in the public domain and although the Global Entrepreneurship Monitor publishes detailed statistics on female entrepreneurial activity annually, they do not cover all countries and the oldest data I could access for a historical comparison was from 2004 and Croatia and Slovenia are the only transition countries that the GEM has been following consistently since this time.

⁶⁸ Page 22, Aidis, Ruta, *Entrepreneurship and Economic Transition*

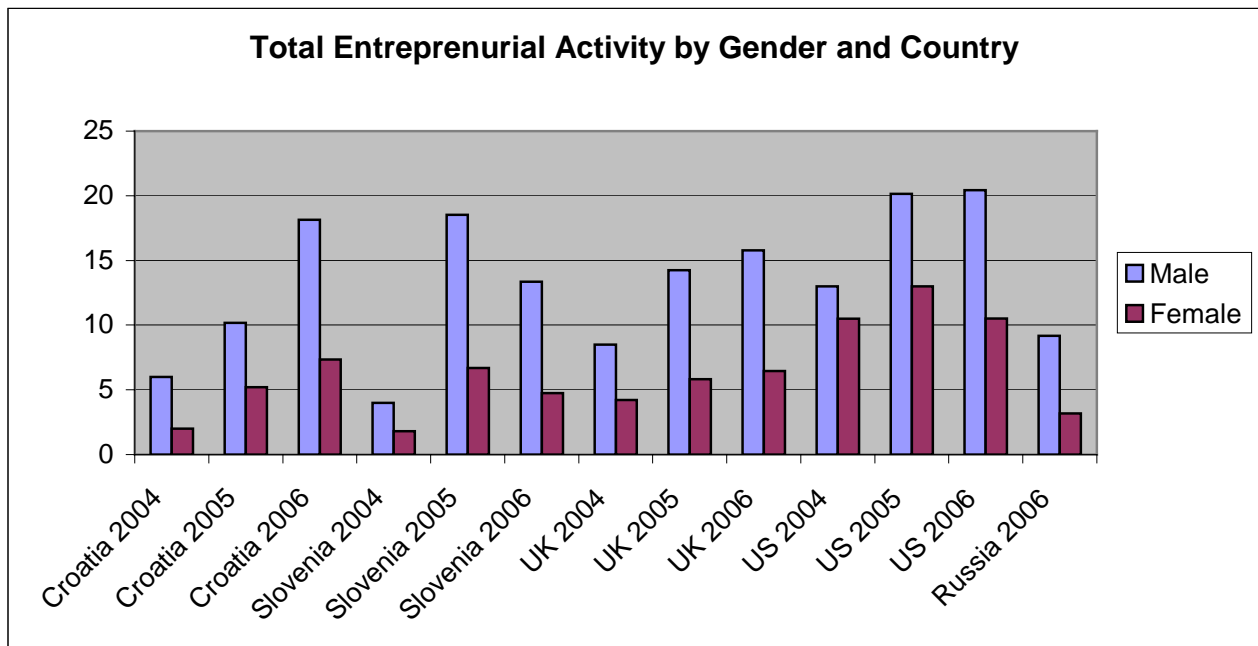


Table 1 – Created using GEM data from 2004⁶⁹, 2005⁷⁰ and 2006⁷¹.

The above graph clearly demonstrates a steady rise in entrepreneurial activity in Croatia since 2004. However, although there has been an annual increase in male and female entrepreneurship, the most recent data shows that females are less than half as likely as males to be entrepreneurs. In Slovenia there has also been an overall increase but male and female entrepreneurial activity itself has decreased between 2005 and 2006, interestingly the level of female entrepreneurship decreased less than the male level. This may demonstrate that women are better able to survive or it may just be that there were more male ‘get rich quick’ entrepreneurs and it is these entrepreneurs that have left. The UK and US are included for comparison, they help us see that it is ‘normal’ in mature market economies for there to be sizable difference in the number of male and female

⁶⁹ Page 19, *Global Entrepreneurship Monitor 2004 Report on Women and Entrepreneurship*

⁷⁰ Page 11, *Global Entrepreneurship Monitor 2005 Report on Women and Entrepreneurship*

⁷¹ Page 11, *Global Entrepreneurship Monitor 2006 Report on Women and Entrepreneurship*

entrepreneurs. The GEM first published results for Russia in 2006, so although we can't make year-on-year comparisons, we can see that in 2006 Russia's level of entrepreneurial activity is behind that of Slovenia and Croatia for both male and females.

Welter et al (2006)⁷² found that female-owned businesses account for 1/3 of all small businesses in the countries they surveyed (Ukraine, Uzbekistan, Moldova, Kyrgyzstan, Lithuania, Slovenia, East and West Germany) except in the case of Lithuania where female-owned businesses accounted for 43% of the share. Over the period of 1996 – 2002, the percentage of female entrepreneurs in Lithuania increased whilst the number of registered SMEs actually declined. The fact that female entrepreneurship is increasing despite a negative turn in SME development, could mean that female entrepreneurs have higher survival rates than their male equivalents. It could also mean that female participation rates are increasing whilst male participation rates are decreasing. Either way, in the six-year period between 1996 and 2002, the share of female business owners increased from 28.6% to 43.3%⁷³. Tominc and Rebernik (2006)⁷⁴ found that women in Hungary, Slovenia and Croatia were less likely to be involved in entrepreneurship than men, but once they started a business their average growth aspirations were as high as their male counterparts.

Female entrepreneurs in Ukraine, Uzbekistan, Moldova, Kyrgyzstan, Lithuania, Slovenia and East and West Germany were found to be similar to women in the Western world in that they operated in a limited number of sectors, namely the retail and service sectors.

The average female entrepreneur in these countries was found to be married with children

⁷² Page 203, Welter, Friederike et al, *Enterprising Women in Transition Economies*

⁷³ Page 163, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

⁷⁴ Page 606, Tominc, Polona and Rebernik Miroslav, *Gender Differences in early-stage Entrepreneurship in Three European Post-Socialist Countries*

and aged between 30 and 49⁷⁵. Aidis (2003)⁷⁶ also found that 80% of Ukrainian female entrepreneurs were aged 30-49 years old. This is similar to what Baygan (2000)⁷⁷ found of female entrepreneurs in mature market economies, where the average female entrepreneur in this setting was also found to be married with children and aged between 35 and 44.

If we go back to using Scase's distinction between 'proprietor' and 'entrepreneur', Welter believes that a large number of female SME owners would, at the initial stage of venture creation, fall into the 'proprietor' category. This is because they were 'pushed' by a need to support themselves and their families as opposed to being 'pulled' by an opportunity. However Welter does point out that later, the share of women wanting to grow their ventures was relatively high, contradicting the perception that females are more likely to be 'proprietors' than 'entrepreneurs'⁷⁸. Again this is similar to in Western economies where Baygan found that 'push' factors were more important than 'pull' factors for females wanting to start a business, although the 'pull' factors were growing in importance. The high levels of education amongst transition entrepreneurs that we have previously discussed, apply equally to female entrepreneurs who are also highly educated⁷⁹. Aidis (2003)⁸⁰ actually found that slightly more Lithuanian female business owners were found to be educated to degree level than their male equivalents, with 71% of the female entrepreneurs having a university degree vs. 69% of males. Aidis also

⁷⁵ Page 203, Welter, Friederike et al, *Enterprising Women in Transition Economies*

⁷⁶ Page 166, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

⁷⁷ Improving knowledge about women's entrepreneurship, paper presented at the OECD Second Conference on Women Entrepreneurs, <http://www.oecd.org/dsti/sti/industry/indcomp>

⁷⁸ Page 215, Welter, Friederike et al, *Enterprising Women in Transition Economies*

⁷⁹ Page 214, Welter, Friederike et al, *Enterprising Women in Transition Economies*

⁸⁰ Page 166, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

found 73% of Ukrainian female business owners to be educated to degree level; this was slightly less than their male equivalents where 78% were university educated. However, although women in transition economies tend to be well educated, they generally lack business skills, which can act as a barrier to their success⁸¹.

In terms of size and success, Welter et al (2006)⁸² found female owned businesses were typically smaller in revenue and employment than their male equivalents. Aidis (2003)⁸³ surveyed 91 women owned enterprises in Lithuania and found one in six to have no employees and nearly all employed less than ten people, the majority of female SME owners were not generating enough revenue to cover their living expenses. Aidis also surveyed 297 women owned enterprises in Ukraine and found nearly all employed less than ten people and the majority of female owned businesses were found to not perform as well as male owned businesses, slightly over a quarter were clearly profitable enterprises⁸⁴.

Although there are clear differences in male and female entrepreneurs, mainly in terms of the barriers they face (as we will come to discuss), Western studies have found more similarities than differences between male and female entrepreneurs and Welter et al (2006)⁸⁵ believe the same is true for the transition economies. Zapalska (1997)⁸⁶ examined male and female entrepreneurs in Poland and found their personal

⁸¹ Page 80, Lituchy, Terri and Reavley, Martha, *Women Entrepreneurs: A Comparison of International Small Business Owners in Poland and the Czech Republic*

⁸² Page 203, Welter, Friederike et al, *Enterprising Women in Transition Economies*

⁸³ Page 166, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

⁸⁴ Page 166, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

⁸⁵ Page 213, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

⁸⁶ Page 80, Lituchy, Terri and Reavley, Martha, *Women Entrepreneurs: A Comparison of International Small Business Owners in Poland and the Czech Republic*

characteristics to be similar; these were mainly dominated by ‘masculine’ traits such as aggressiveness, determination and strong leadership. And even when it comes to barriers, Lituchy and Reavley (2004)⁸⁷ found that Czech women didn’t see gender as a barrier to success. They didn’t believe it had an effect on the way they were treated by financial institutions, customers or suppliers. This was also true of the Polish women surveyed except for one woman who felt disrespected when trying to access social networks and had to enlist her son to do the networking on her behalf.

Motivations for female entrepreneurship

In the countries surveyed by Welter et al (2006)⁸⁸, motivations for why women became entrepreneurs were diverse but the majority highlighted ‘independence’ and ‘self-realization’. This is similar to the motivations we have discussed previously for why entrepreneurs in general start their own ventures in the transition economies. Sharnina (1999)⁸⁹ conducted a study on 37 female entrepreneurs in Novosibirsk, Russia. 96% of the respondents gave ‘providing a proper life for themselves and families’ as one of the key reasons they started their venture, 50% cited ‘economic necessity’ and only 12% cited ‘personal ambitions’. This study is only small, but demonstrates that ‘push’ factors rather than ‘pull’ factors were the important motivators for women in this region. Aidis (2003)⁹⁰ noted that even in Lithuania, a more advanced transition economy, necessity and other push factors remain important motivators for women thinking of becoming entrepreneurs. But as we have already discussed, motivation can change with time and

⁸⁷ Page 81, Lituchy, Terri and Reavley, Martha, *Women Entrepreneurs: A Comparison of International Small Business Owners in Poland and the Czech Republic*

⁸⁸ Page 214, Welter, Friederike et al, *Enterprising Women in Transition Economies*

⁸⁹ Page 4, Ylinenpää, Håkan and Chechurina, Maya, *Perceptions of Female Entrepreneurship in Russia*

⁹⁰ Page 168, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

where a woman (or man) may have entered into private business through necessity, they might stay in business because of opportunity. Aidis (2003)⁹¹ found 'independence' to be the main motivator cited by female business owners in the Ukraine for starting their venture, this result was mirrored by the male business owners Aidis also surveyed. However, the male respondents did emphasize the potential to boost their income and the availability of resources (pull factors) whereas the women emphasized the need to supplement their income (push factors). Zapalska (1997)⁹² surveyed 110 male and 40 female entrepreneurs in Poland and noted that women stated more frequently than both their male counterparts and their female equivalents in the West that they had strongly disliked their previous bosses and that they felt they could do a better job. Interestingly, Zapalska (1997)⁹³ also found that 99% of Polish male respondents had started their ventures for the purpose of short term economic gain whereas 89% of the female respondents considered themselves to be more focused on long-term capital accumulation. This 'long term' approach is good for female entrepreneurship in the long run.

If we use GEM data again, opportunity driven entrepreneurship has actually decreased for females in Croatia between 2004 and 2006 (table 2). In Slovenia, opportunity driven entrepreneurship has increased. Looking just at 2006 data, Croatia actually has the lowest levels of opportunity driven entrepreneurship for females out of all the transition countries monitored (table 3). Motivations for female entrepreneurship in Slovenia are almost a mirror image of the UK's. Russia does not stand out as being particularly

⁹¹ Page 167, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

⁹² Page 4, Ylinenpää, Håkan and Chechurina, Maya, *Perceptions of Female Entrepreneurship in Russia*

⁹³ Page 171, Dana, Leo Paul, *When Economies Change Hands*

different to the other transition economies; perhaps it is fair to say that by 2006

opportunity vs. necessity motivators have leveled out between CIS and CEE countries.

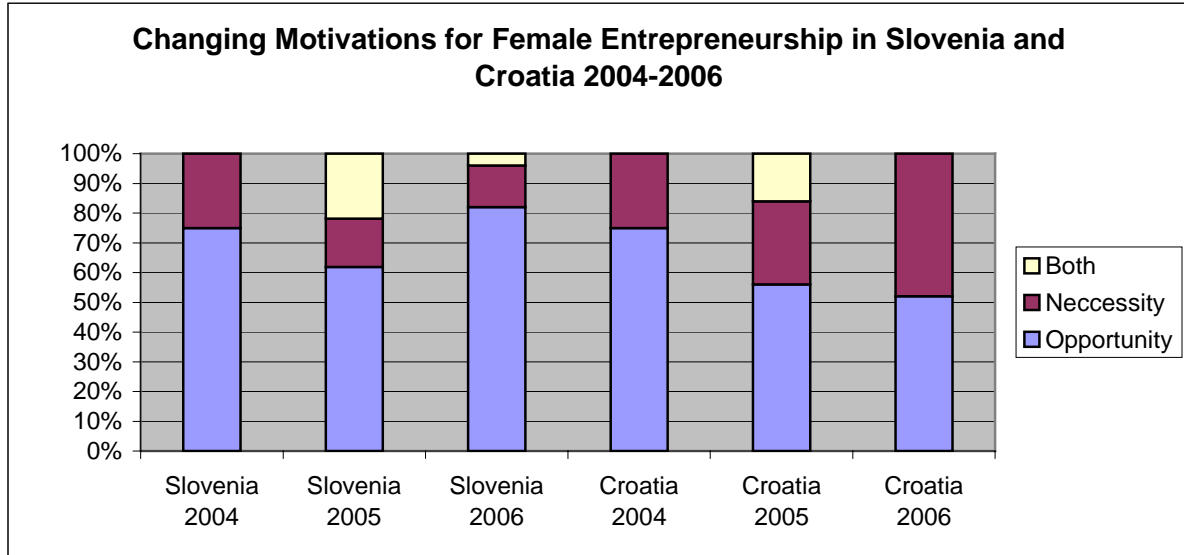


Table 2 - Created using GEM data from 2004⁹⁴, 2005⁹⁵ and 2006⁹⁶

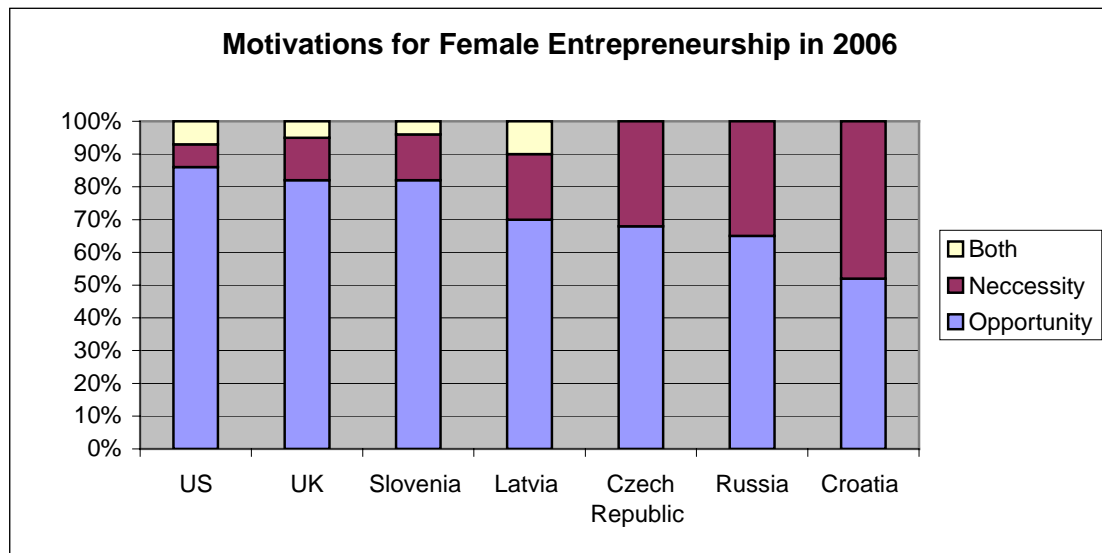


Table 3 - Created using GEM data from 2006⁹⁷

⁹⁴ Page 19, *Global Entrepreneurship Monitor 2004 Report on Women and Entrepreneurship*

⁹⁵ Page 14, *Global Entrepreneurship Monitor 2005 Report on Women and Entrepreneurship*

⁹⁶ Page 15, *Global Entrepreneurship Monitor 2006 Report on Women and Entrepreneurship*

Barriers to female entrepreneurship and the role of the state

All the barriers to entrepreneurship that we have already discussed in the first section of this paper, such as over regulation, corruption and frequent changes in tax laws, affect female entrepreneurs as they do their male counterparts. So any improvement to the business environment will be of benefit to female entrepreneurs. Where we earlier called for the state to recognize the valuable contribution small business owners make to the transition process, it is important for the state to recognize the important role women play as well and for there to not be discrimination against them. As female entrepreneurs are almost exclusively focused in the retail and service sectors, any policies affecting these sectors will have a disproportionate impact on women⁹⁸. It is also important for the state to actively encourage female entrepreneurship as female owned businesses are more likely to employ other women which will help reduce discrimination in the labour market, and reduced female unemployment will help to decrease the high levels of female trafficking seen in many of the transition countries. It is also important for young females to have role models and females who are successful in business may prompt younger females to go into business themselves, all of this will be to the benefit to the general economy and transition process⁹⁹. Barkovic (2004)¹⁰⁰ examined results of a MediaNet survey in Croatia where people were asked to name Croatian businesswomen. Out of the 406 people surveyed, 80% could not name a single businesswoman in Croatia and only

⁹⁷ Page 15, *Global Entrepreneurship Monitor 2006 Report on Women and Entrepreneurship*

⁹⁸ Page 211, Welter, Friederike et al, *Enterprising Women in Transition Economies*

⁹⁹ Page 158, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

¹⁰⁰ Page 13, Bliss, Richard and Garratt Nichole, *Supporting Women Entrepreneurs in Transition Economies*

1.7% could name three or more. Clearly, state measures to encourage female entrepreneurship are necessary.

Tominc and Rebernik (2006)¹⁰¹ argue in their paper that there needs to be more measures for increasing female entrepreneurship in the transition countries, suggesting special support programmes, female advisors and social networking for female entrepreneurs. They believe that the type of barriers we have discussed can be reduced and that the problems females encounter accessing finance need to be addressed. As they found that women in Croatia, Slovenia and Hungary do not, on average, start their entrepreneurial activities with lower growth expectations than men, they see no reason for female entrepreneurs to be less effective than their male counterparts if they receive the necessary support. Lituchy and Reavley (2004)¹⁰² agree with this view that governments need to do more to support training programmes as a high-quality human resource pool is vital for SME development. Poland has done particularly well as a transition economy, this is partly due to the fact that the government has acted to encourage entrepreneurship by implementing legal and regulatory changes, including changes in the tax system, lowering labor costs and revising labor standards¹⁰³. Also, Poland's history of private business, some of which was sustained during the Soviet period, has given Poland an advantage as entrepreneurship is seen as an acceptable occupation. Poland is likely to benefit from more entrepreneurial role models than the majority of the other transition

¹⁰¹ Page 607, Tominc, Polona and Rebernik Miroslav, *Gender Differences in early-stage Entrepreneurship in Three European Post-Socialist Countries*

¹⁰² Page 82, Lituchy, Terri and Reavley, Martha, *Women Entrepreneurs: A Comparison of International Small Business Owners in Poland and the Czech Republic*

¹⁰³ Page 62, Lituchy, Terri and Reavley, Martha, *Women Entrepreneurs: A Comparison of International Small Business Owners in Poland and the Czech Republic*

economies. These people can act as mentors during the difficult early stages of start-up, which will help contribute to overall success¹⁰⁴.

Aidis (2003)¹⁰⁵ found that Lithuanian female business owners saw 'taxation' as the most important barrier to entrepreneurship, followed by 'low purchasing power of potential customers'. Complaints about tax regulations are common across the transition economies; in Lithuania there were almost twenty different taxes on businesses at one time¹⁰⁶. In 2004, there was significant tax reform and concessions were made for micro-enterprises. Although the policy was not aimed to help female business owners, it benefited the high number of Lithuanian female entrepreneurs that had few or no employees¹⁰⁷. Aidis (2003)¹⁰⁸ also found that 'taxation' was seen as the most important barrier to entrepreneurship in the Ukraine, this was true for male and female entrepreneurs. Frequent changes to tax policy were seen as more detrimental than the level of tax itself.

Barriers to female entrepreneurship and informal institutions

Although formal institutions such as childcare infrastructure and gender equality laws are important for encouraging female entrepreneurship, informal institutions are also important in determining the level of female entrepreneurship participation.

Discrimination against women in the workplace, traditionalist attitudes (forbidding

¹⁰⁴ Page 63, Lituchy, Terri and Reavley, Martha, *Women Entrepreneurs: A Comparison of International Small Business Owners in Poland and the Czech Republic*

¹⁰⁵ Page 169, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

¹⁰⁶ Page 172, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

¹⁰⁷ Page 172, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

¹⁰⁸ Page 169, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

certain work for women), religious beliefs, perceptions that entrepreneurship is a male activity, society's attitude towards women and employment, family values and attitudes inherited from the socialist period can all act as barriers towards female entrepreneurship¹⁰⁹. In Russia, the female bears the responsibility for the housework and raising the children, so any female that does go into business has to face the 'double burden' of being responsible for her venture and of her household¹¹⁰. Leinert-Novosel (2000)¹¹¹ studied female entrepreneurship in Croatia and found that the Soviet legacy of the role of church and 'woman as homemaker' has considerably worsened the status of women and discouraged them in their attempts to improve their own status in society through work and career development. In Hungary and Slovenia, it remained socially acceptable for women to work and have professional careers post-socialism, but household duties and childcare remained the sole responsibility of women and this was to take precedence¹¹². Barkovic (2004) argues that women in transitional economies have been victims of generating new roles in the economy while not having their traditional family roles revisited¹¹³. Interestingly, Klugman¹¹⁴ found that female entrepreneurs were the most likely to raise the 'managers of tomorrow'. So where some may criticise female entrepreneurs for 'turning their back' on their maternal duties, the offspring of these women may in fact be the ones most likely to be entrepreneurs themselves and to contribute positively to the economy.

¹⁰⁹ Page 160, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

¹¹⁰ Page 3, Ylinenpää, Håkan and Chechurina, Maya, *Perceptions of Female Entrepreneurship in Russia*

¹¹¹ Page 591, Tominc, Polona and Rebernik Miroslav, *Gender Differences in early-stage Entrepreneurship in Three European Post-Socialist Countries*

¹¹² Page 591, Tominc, Polona and Rebernik Miroslav, *Gender Differences in early-stage Entrepreneurship in Three European Post-Socialist Countries*

¹¹³ Page 12, Bliss, Richard and Garratt Nichole, *Supporting Women Entrepreneurs in Transition Economies*

¹¹⁴ Goodwin, Robin and Emelyanova, Tatiana, *The perestroika of the family? Gender and occupational differences in family values in modern day Russia*

Pre-Soviet societal attitudes and values saw marriage and family responsibilities as the main social goals of women and up until the Soviet period they were deprived of economic and political dependence. Women entered the workforce en masse during the Soviet period but this was not due to the sexes now being viewed as 'equal', it was to boost the economy. Women did leave the Soviet period well educated and with vast work experience, but they had also suffered from years of being excluded from the top positions in society¹¹⁵. Lithuanian studies have found that women experience greater difficulties than men in finding employment due to lack of contacts and discrimination by firms in the way that vacancies are announced and interviews are conducted. This is despite the fact it is illegal and the Lithuanian Parliament has appointed a special gender ombudsman¹¹⁶. A similar story is true in Russia, where formal institutions are in place to prevent discrimination and yet it still occurs; the constitution for the Russian Federation states equality for men and women but in reality women have very limited options in achieving leading industry positions¹¹⁷. In Poland, Bliss and Garrat (2001)¹¹⁸ found that many private employers avoided hiring women due to the costs incurred by maternity leave, sick-child leave and other 'pro-family' policies. Aidis (2003)¹¹⁹ surveyed Lithuanian female entrepreneurs who mentioned that they felt their legitimacy was questioned more than their male counterparts and because of this they felt a pressure to prove their worth. However, even when they did prove their abilities they did not receive

¹¹⁵ Page 171, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

¹¹⁶ Page 172, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

¹¹⁷ Page 3, Ylinenpää, Håkan and Chechurina, Maya, *Perceptions of Female Entrepreneurship in Russia*

¹¹⁸ Page 337, Bliss, Richard and Garratt Nichole, *Supporting Women Entrepreneurs in Transition Economies*

¹¹⁹ Page 173, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

comparable recognition. The younger female entrepreneurs felt particularly alienated as they were breaking societal convention so much, some felt that the image of an independent wealthy female was deemed as too much of a threat. The female entrepreneurs surveyed felt that Soviet attitudes about the female role were still being perpetuated through Lithuania's free market system.

Barriers to female entrepreneurship and social networks

We have already discussed the amount of importance placed on private networks, especially in the early stages of transition and in the CIS countries where business infrastructure has been slow to build up. We know that transition entrepreneurs call upon social capital to assist in gaining access to finance, resources and to gain market influence. Lituchy and Reavley (2004)¹²⁰ found that Czech businesswomen often had to consult others when making decisions because they did not feel they had the knowledge or skills to act on their own. This shows the important role social networks can play and the disadvantage female entrepreneurs can be at if they don't have access to them. Aidis (2003) found that social capital is an important enabling factor for female entrepreneurs, almost half of the surveyed women said they dealt with business problems by cooperating with other entrepreneurs (male or female). Spouses and other family members were also cited as substitutes for formal aid, especially in the early days of start up. Slovenian research by Drnovsek and Glas (2006)¹²¹ showed that female entrepreneurs were weaker in social networking and also emphasized that they had to rely on ties with family members to assist them. This means that these women were missing out on the social capital their male counterparts were enjoying. Family members and friends have had to

¹²⁰ Page 80, Lituchy, Terri and Reavley, Martha, *Women Entrepreneurs: A Comparison of International Small Business Owners in Poland and the Czech Republic*

¹²¹ Page 207, Welter, Friederike et al, *Enterprising Women in Transition Economies*

become an important port of call for female entrepreneurs trying to finance a new venture. Lin (1999)¹²² found that the strong social networks that women most often engage in are those related to family tasks, participation in valuable business networks was much harder to achieve.

However, in the Central Asian CIS countries where bazaars are so prevalent, women are not at a disadvantage¹²³. At the bazaar, interpersonal relationships are essential for recruitment, purchasing decisions and all manner of transactions. Consumers in this scenario are not necessarily looking for the best price or quality, they are instead interested in doing business with those who they have built up the most favourable relationship with and will remain loyal to this seller¹²⁴. Women can, and do, create viable opportunities for themselves at these bazaars and they can evolve their social capital in this setting.

Barriers to female entrepreneurship and personal traits

Ylinenpää & Chechurina (2000)¹²⁵ conducted a survey of 670 citizens of the Mrmansk region, Russia and found 'personal traits of women' (e.g. risk aversion) to be the most commonly cited barrier to female entrepreneurship. The second most commonly cited barrier to female entrepreneurship was 'lack of start up capital'. This study is particularly interesting because it looks at ordinary citizens and their perceptions on female entrepreneurship, as opposed to studying female entrepreneurs themselves. Although the study is only reflective of one region in one transition economy, broader studies have shown that female entrepreneurs do see themselves as more risk averse and do have

¹²² Page 594, Tominc, Polona and Rebernik Miroslav, *Gender Differences in early-stage Entrepreneurship in Three European Post-Socialist Countries*

¹²³ Page 207, Welter, Friederike et al, *Enterprising Women in Transition Economies*

¹²⁴ Page 7, Dana, Leo Paul, *When Economies Change Hands*

¹²⁵ Page 13, Ylinenpää, Håkan and Chechurina, Maya, *Perceptions of Female Entrepreneurship in Russia*

problems accessing capital as we will go on to discuss. In self-evaluations, women reported themselves as more risk averse and less able at problem solving than their male counterparts. Interestingly, where women didn't think there was a gender difference in ability at tasks such as management, exporting, innovation and market development, men did think there was a difference in ability, with males being stronger at these tasks¹²⁶. This demonstrates, at least in the countries surveyed, that men see themselves as better entrepreneurs and this may explain some of the troubles women have in accessing private networks or accessing finance if men have 'less faith' in them. But not all female entrepreneurs identify themselves as more risk averse than men, Tominc and Rebernik (2006)¹²⁷ found that female entrepreneurs in Croatia and Hungary did not evaluate themselves as less risk-averse than the male business owners who were also surveyed. However in Slovenia, the women surveyed were much more likely than the men surveyed to indicate a fear of failure in starting a venture.

Barriers to female entrepreneurship and access to finance

In the Russian study by Sharina (1999)¹²⁸, the most significant barriers the surveyed female entrepreneurs encountered were lack of demand for their products and services (75%), lack of financing (46%), unfavorable labor conditions (43%), high taxes (39%), severe market competition (36%), difficulties in cooperating with local authorities and taxation inspectors (29%), insufficient knowledge in legislation (21%), high costs for trading licenses etc. (14%), and high location rents (11%). Women tend to have fewer resources to start up a business; the main reasons appear to be lack of personal savings

¹²⁶ Page 206, Welter, Friederike et al, *Enterprising Women in Transition Economies*

¹²⁷ Page 601, Tominc, Polona and Rebernik Miroslav, *Gender Differences in early-stage Entrepreneurship in Three European Post-Socialist Countries*

¹²⁸ Page 4, Ylinenpää, Håkan and Chechurina, Maya, *Perceptions of Female Entrepreneurship in Russia*

and difficulty in proving success¹²⁹. Women also tend to start their businesses with less capital than men¹³⁰, but this may be due to the fact women are concentrated in the retail and service sectors which require less capital investment as opposed to gender differences. Aidis (2003)¹³¹ found that female entrepreneurs in Ukraine regularly identified legal and regulatory issues and access to finance as barriers to entrepreneurship whereas these factors were reported less by men. Most women in the Ukraine started their businesses relying mainly on self-financing, combined in some cases with financial support from informal sources, such as family and friends. Few obtained a bank loan and few had even tried to obtain one¹³². This demonstrates yet again the unique problems women face in accessing capital to help fund their ventures. Lituchy and Reavley (2004)¹³³ looked at barriers that female entrepreneurs face in the Czech Republic and Poland and found the main obstacles to be access to capital, attracting business and finding and retaining employees. They noted that this is similar to the barriers found by female entrepreneurs in Canada and the US. Polish entrepreneurs tried to get around the problem of employee retention by hiring family members, but this shouldn't be seen as a long-term strategy.

Barriers to female entrepreneurship and EU accession

The CEE countries that gained accession to EU membership in 2004 and 2007 (Hungary, Latvia, Lithuania, Czech Republic, Estonia, Poland, Slovakia, Slovenia, Bulgaria and Romania) will see benefits from their accession for their female entrepreneurs. EU

¹²⁹ Page 206, Welter, Friederike et al, *Enterprising Women in Transition Economies*

¹³⁰ Page 6, Ylinenpää, Håkan and Chechurina, Maya, *Perceptions of Female Entrepreneurship in Russia*

¹³¹ Page 169, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

¹³² Page 170, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

¹³³ Page 79, Lituchy, Terri and Reavley, Martha, *Women Entrepreneurs: A Comparison of International Small Business Owners in Poland and the Czech Republic*

policies for SME development have been adopted which improves and simplifies SME legislation and regulation, this will benefit men as well but we have already seen that women have cited particular difficulties with legislation. Also, specific measures are put in place by the EU to encourage women to start new businesses¹³⁴. However, it is important to remember that EU membership also brings increased competition which small entrepreneurs may not be able to cope with. Also, talented workers from transition economies may emigrate to more mature market economies further West as emigration becomes easier. This could lead to a lack of talented workers for local transition entrepreneurs to employ¹³⁵ and we have already seen that female entrepreneurs face human resources problems anyway.

Conclusion

We have certainly seen stark differences in entrepreneurship in transition economies, whether comparing the region with the West, comparing the CIS countries with CEE countries or looking at single countries as anomalies such as Russia and Lithuania. The real differences between the CEE and CIS countries lie in their different economic histories, their rotation of political elites post-socialism, state policies and their different levels of bureaucracy. That being said, there is much that binds all the transition countries and nobody has had a 'smooth ride' during transition. As for gender, we have seen that women suffer from the same barriers to entrepreneurship as their male counterparts but are further afflicted by other barriers that are unique to women. The double burden of housework/mother and entrepreneur, the lack of access to private

¹³⁴ Page 173, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

¹³⁵ Page 173, Aidis, Ruta, *Female entrepreneurship in transition economies: the case of Lithuania and Ukraine*

networks, the lack of access to capital, the lack of previous managerial experience and general societal prejudices being the main issues women have to confront. The majority of these problems could be remedied by a pro-active state; if the state were to promote the idea of female business owners and provide specialist assistance and access to capital then the real potential of female entrepreneurs could be realized.

I have thoroughly enjoyed researching this topic and have found it incredibly insightful, hopefully the entrepreneurs of Eastern Europe will continue to operate and overcome the various barriers in their respective economies. I'm sure that as more and more success stories develop, future generations will be inspired by those before them and will take upon themselves the challenge of business ownership and venture creation. SMEs are the backbone of economies worldwide and the more people in transition economies that become entrepreneurs, the faster transition economies will be able to proudly reach their goals of becoming mature market economies.

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