

## 2. Entrepreneurial activity under ‘transition’

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### INTRODUCTION

With this chapter, I present a short overview of the theoretical explanation for the development of bottom-up entrepreneurship in those economies and societies that are most often characterized as ‘transitional’. This involves sharing and drawing upon my own experience of more than 20 years of sociological research into entrepreneurial activities, as well as the development of small- and medium-sized enterprises (SMEs), in Central and Eastern European (CEE) and the states of the Commonwealth of Independent States (CIS).

Overall, after more than two decades of systemic transition, the state and performance of entrepreneurial activity in these countries seems to be less encouraging than expected in the early 1990s. When the transition process started, most experts were rather enthusiastic about the prospects of private entrepreneurship, market economies and democracy in CEE and the CIS. It appeared evident that *de novo* ‘Schumpeterian’ entrepreneurship would be booming, which was seen as inevitable condition for the modernization of economies and societies. The privatization of state enterprises and organizations was judged to be a precondition for private sector development, and the transfer of Western experiences in SME policy and support was assumed to support the rapid development of *de novo* start-ups and small businesses. I shared these hopes at the beginning of the 1990s, too. However, by the mid-1990s it became clear that, *first*, the intensity of entrepreneurship development as a whole was much lower than expected in most of these countries.

*Second*, experts recognized that privatization did not necessarily lead to a widening of possibilities for bottom-up ‘Schumpeterian’ entrepreneurship. In many post-Socialist economies it rather resulted in asset-capture, either by the former ‘nomenclature’ or by transnational big companies. In other words, the phenomenon of so-called ‘predatory entrepreneurship’ arose during the initial transition phase (Feige 1997; Scase 2003; Spicer

et al. 2000). Contrary to initial expectations, businesses were created 'top-down', as a result of the redistribution of former state-owned assets by political entrepreneurs who used their informal affiliation with decision makers (Boycko et al. 1997; Rehn and Taalas 2004). The 'bottom-up' entrepreneurs, involving mostly micro and small firm owners or solo entrepreneurs, even after 20 years, represent what I would label 'proletarian' businesses, because they do not earn enough to buy the premises that they have rented for decades.

## ONE 'TRANSITION' OR DIFFERENT 'TRANSITIONS'?

In spite of more than two decades of systemic changes in the CEE and CIS countries, entrepreneurship under 'transition' is still under-investigated. Special attention should be paid to different (and diverging) *contexts* of 'transition'. The most challenging questions relate to:

- A contextual typology of the 'transitional' economies and societies, that is a typology drawing on the analysis of different institutional settings based on different approaches and data. Work on this has started recently (see Aidis et al. 2008, 2010a; Chepurensko et al. 2012; Estrin and Mickiewicz 2011; Obraztsova and Chepurensko 2010; Welter 2005; and Welter and Smallbone 2011b).
- An interplay of formal and informal institutions and networks influencing different models of entrepreneurial behaviour, which is a discussion started by Batjargal (2006), Commander and Tolstopiatenko (1997) and Rehn and Taalas (2004).
- The role of 'institutional traps' emerging in the process of a transfer of institutions and 'best practices'. Again, the analysis of SME and entrepreneurship policies and their evolution in a 'transition' context, has begun already, see, for example, Welter and Smallbone (2011a).
- The variety and heterogeneity of productive, unproductive and even destructive entrepreneurial types under 'transition' (for example, Gimpelson and Zudina 2011; Rona-Tas and Sagi 2005; Shevchuk and Strebkov 2012; Strebkov and Shevchuk 2011; Tonoyan et al. 2010).

Quantitative measurements need to be embedded into theoretical explanatory models based on a qualitative analysis of the specifics of entrepreneurship rather than on geopolitical presumptions (EU/non-EU etc.).

Some concepts of the new institutional theory, such as different types of 'access orders' and exploration of different types of entrepreneurial behaviour, can be useful in order to recognize the specifics of entrepreneurship performance within different institutional settings.

In recent years, we have had to deal with a new challenge in the comparative research of entrepreneurial bottom-up activity in 'transitional' economies: namely, it is now evident that the *economic and socio-political systems* of the 'transitional' economies and societies, as well as the entrepreneurship profiles (Ovaska and Sobel 2005; Smallbone and Welter 2001; Welter 2005), are diverging more and more. In fact, the term 'transition' seems to cover more than expected as we do not deal with a homogeneous group, but rather with a geopolitical label. The so-called 'common past' – which shaped similar entrepreneurial framework conditions (EFC) at the start of the systemic 'transition' – was rather an oversimplified vision. In reality, in spite of some commonalities, socialist economies and societies showed as many differences as there exist between the so-called 'Western' economies and societies, so it is appropriate to consider the 'varieties of Socialism', in reference to the debate on the 'varieties of Capitalism' (Hall and Soskice 2001). Moreover, the trajectories of transition made by these countries also differed from the very beginning (see Table 2.1).

Taking the above-mentioned non-commonalities into consideration, it becomes evident that the EFC and emerging entrepreneurship landscapes had to be different, too.

## DYNAMICS AND SPECIFIC FEATURES OF ENTREPRENEURSHIP UNDER 'TRANSITION'

At the end of the 1990s it became evident that the *dynamics of bottom-up entrepreneurship development are very different* in several 'transitional' economies (Smallbone and Welter 2001, 2009). The Global Entrepreneurship Monitor (GEM) data about start-up activity in several 'transitional' economies can be used to support this thesis: the variations in the rates of total entrepreneurial activity (TEA rates) between 'transitional' countries, which mainly fall into the group of 'efficiency-driven economies – with the exception of the Czech Republic and Slovenia, are much bigger than between the mature market economies (Bosma et al. 2012, p. 21, Figure 2.2).

Moreover, it became evident that there are some problems with bottom-up entrepreneurship, in particular its strategies and performance. Research has shown during very early transition most of the bottom-up private entrepreneurs in the 'transitional' economies in fact are pushed to start a business, having no or only few resources, little knowledge and little

*Table 2.1 Main differences between countries before and during the 'transition' leading to establishment of different socioeconomic and political orders*

'Varieties of Socialism'	Varieties of 'transition'
<ul style="list-style-type: none"> <li>• Different models of planned economy and political governance before the start of transition (Hungarian 'Gulash Socialism', 'Yugoslavian market model', Soviet 'bureaucratic market', GDR '3-level model' etc.)</li> <li>• Different political regimes (authoritarian in most of them – semi-democratic in Hungary and former Yugoslavia)</li> <li>• Different status of private entrepreneurship in former Socialist countries: it was allowed in some countries (e.g. family business in B2C services, agricultural private firms etc. in Hungary, Poland, GDR), and not allowed in others (Albania, Romania, USSR) → fostered skills and examples of productive entrepreneurship</li> <li>• Different duration of Socialist period (a break of more than two generations) → interruption of traditions and attitudes to entrepreneurship as a normal type of economic activity</li> </ul>	<ul style="list-style-type: none"> <li>• Lack (Russia, Ukraine, Belarus, Romania, Bulgaria) or presence of influential contra-elites (Poland, Hungary, Baltic states) and consensual political agenda supported by broad parts of society before the transition → sustainability and transparency of political regime change</li> <li>• Most CEE and Baltic states from the very beginning were under the legal and political 'umbrella' of the EU: enforcement and incentives to change toward a 'normal' market economy and democratic society</li> <li>• Different modes and pathways of transition (shock or gradual transition; models of privatization with/without restitution etc.) in CEE and the CIS influencing the economic, social, societal and cultural characteristics of actors like entrepreneurs</li> </ul>

motivation (Earle and Sakova 2000; Peng 2001). They have no desire to and can hardly grow their business, or establish new 'smart' jobs, etc. The typical case in Russia were so-called shuttles (*chelnoki*): middle-aged ladies with higher education who lost their jobs after their former employers, large state-owned companies, shut down and who were pushed to begin 'shuttling' over the borders, selling abroad and buying products to take home and sell on the domestic (informal) markets (Eder et al. 2003). Up to the end of the 1990s this was a very big group of self-employed people, providing up to one-quarter of consumer goods imports to Russia. But after the formal economy began to grow in the early 2000s, they frequently moved back from (informal) self-employment to wage employment. Only a

Table 2.2 Variety of entrepreneurial types – by motivation and sources of rent

	Entrepreneurship		
	Productive	Unproductive	Destructive
Necessity driven	‘Shuttles’	‘Roofs’ (policemen engaged in informal economic activity)	–
Opportunity driven	High growth potentials (‘gazelles’)	State and semi-state natural monopolies	‘Violent entrepreneurship’ (street gangs, semi-criminal M&A)

few of them became owners of mature entrepreneurial firms. These necessity driven entrepreneurs represented only one type of entrepreneurial behaviour in the ‘transitional’ economies. They can serve as an example to illustrate Baumol’s (1990) idea of the existence of unproductive and even destructive entrepreneurship, instead of reflecting Schumpeterian productive entrepreneurship (Sauka and Welter 2007).

An attempt to further develop this approach was made recently, based on the idea of ‘dysfunctional entrepreneurship’. The latter is understood as a complex of different forms of criminal, controversial, corrupt, corrosive, controlling and careless entrepreneurship (Zahra et al. 2013). Unfortunately, the criteria used for this attempt seem to be quite arbitrary. That is why I made an attempt to develop another approach introduced in the following text, by combining two axes: the prevalent type of motivation and the prevalent type of rent (see Table 2.2). I suggest using the combination of motivation and rent as a basis, although the first has been criticized as too simple a concept. However, its advantage is that it can be operationalized and measured, and the same is true for the dominant source of rent. Therefore, this typology may be used to further analyse the variety of types of entrepreneurial strategies under ‘transition’, as well as in any other environments.

When speaking about productive entrepreneurship I refer to entrepreneurs who benefit from any kind of innovations, while unproductive entrepreneurship implies the usage of economic power to redistribute the rent, and destructive entrepreneurship is based on the use of power to redistribute assets and even property rights. However, the specific forms of entrepreneurial strategies of both unproductive and destructive entrepreneurs may differ according to the dominant motivation. While state-owned and semi-public monopolies are pulled by the possibility to use their

economic and political power to gain additional earnings, there are some bottom-up forms of unproductive entrepreneurship resulting from state agents exploiting their formal or informal influence on other entrepreneurs to increase their earnings by gaining incremental benefits (like bribes). Often, policemen and representatives of state-controlled inspection agencies 'helped' entrepreneurs by 'closing eyes' to breaches of law such as envelope wages, the informal hiring of employees, avoiding sanitarian norms, fire safety regulations, etc. With this, the generally poorly paid policemen and representatives of different inspections and regulatory institutions at the lowest level ensured a modest wellbeing for their households.

Productive entrepreneurship consists of many entrepreneurial types, with the exception of 'shuttles' and other necessity driven unwilling pawns of systemic change and globalization. It includes also B2B and B2C ventures, as well as 'gazelles'. Most of them emerged when home currencies were depreciated and economic growth slowed down considerably, and their number expanded before the crisis of 2008–09, as the growing demand opened new niches. They were based on developing 'smart' business ideas and strong intrinsic competences, which enabled a sustainable increase of their turnover and rent (Yudanov 2013).

Different levels of formality in entrepreneurial strategies also should be taken into consideration. The reasons to pursue informal activity under transition are multiple and diverse in nature. First, there are long breaks in or even a lack of traditions of formal market institutions (Aidis et al. 2010b; Ovaska and Sobel 2005; Puffer et al. 2010; Smallbone and Welter 2001, 2009) and the social anomie of the 1990s, strengthening informal networking and informal entrepreneurship. Furthermore, a high level of distrust in newly established formal institutions enabled a legitimization of any form of tax avoidance, and informal entrepreneurship based on personal trust embedded relations, such as *blat* (Batjargal 2003, 2006; Ledeneva 1998, 2008; Raiser et al. 2003; Smallbone and Welter 2009; Tonoyan et al. 2010; Welter and Smallbone 2011b).

High inflation in the early stages of market transition in most CIS and some CEE countries, as well as the lack of liquidity, led to mass wage arrears, non-payments and barter as 'rational' reactions of privatized firms to the multiple market shocks, as experienced in Russia and some other CIS countries in early 1990s. In fact, entrepreneurs could not survive without informal activities because in weak environments formal institutions are largely substituted by personal trust and other informal norms and values (Puffer et al. 2010; Raiser et al. 2003; Rehn and Taalas 2004).

Second, it was the model and performance of privatization of former state property (Boycko et al. 1997; Spicer et al. 2000), on the one side, and the formalization in some transitional countries of initially more

developed semi-criminal entrepreneurship (Peng 2001), on the other side, with 'contrasting psychologies' of business founders. The group of 'predatory proprietors' formed a demand in services and goods which could only partly be provided in the formal economy. The dominant role of proprietors in some transitional economies led to a very specific mix of formal and informal practices in everyday business behaviour.

Finally, there were also reasons for informal entrepreneurial activities on the micro-level imposed by a very quick opening of weak markets to international competition. It led to a massive influx of cheap mass consumption goods in a situation when domestic producers at the beginning of the 1990s could not compete with imported consumer goods. Usually, they delivered B2C services for households, such as the repair of electronics, renovation of apartments, etc. The demand for this kind of services was mostly (1) hidden, because many households used incomes from unobserved economic activities and were not been inclined to make any public offers, and (2) embedded in local networks of friends and acquaintances. In such a situation, only informal entrepreneurship became efficient.

There are also more general societal factors which are difficult to quantify, such as the important role that the 'path dependency' of a specific sociocultural system plays in the performance of each transitional society. One of the common features is the high power distance (Hofstede 2010) which, as said above, implies a high distrust in the state and its institutions – hence, a low level of institutional trust (Raiser et al. 2003; Welter et al. 2005).

Thus, it is important to distinguish between countries with a prevalence of productive entrepreneurship, where informal entrepreneurial activity is only of a secondary and temporary nature, and countries with a prevalence of unproductive entrepreneurship where the 'push' to informal entrepreneurial behaviour is stronger. But neither official statistics nor GEM data and other quantitative based approaches to research entrepreneurship provide reliable data concerning the set of incentives leading to the prevalence of productive, unproductive or even destructive entrepreneurship. For this purpose, cases of typical entrepreneurial practices and the role of informal activities in them should be used.

Some factors may depend on the size of the respective country. In some bigger transitional countries, like Russia or Ukraine, the spatial factor is important, as the longer the distance from a bigger city, the higher the level of subsistence economy and neighbourhoods' reciprocal relations. This tradition is deeply embedded in post-socialist societies, but the transition to market economy and changes in employment structure in rural areas are transforming the reciprocal relations into mutual servicing on a paid basis. Informal entrepreneurship in rural areas finds its roots in this process,

partly because it is not evident for its participants that their traditional business relations need any formalization.

A major and underestimated country specific factor that affects informal entrepreneurship, in particular in Russia, is a big wave of immigration from former Soviet republics. Some representatives of Caucasian states, owning human and social capital, as well as finance, usually establish new ventures, mostly informal ones, and provide jobs for less educated and partly illegal immigrants from Central Asian countries in construction, repair and related fields across Moscow, St Petersburg and other bigger cities. On the other hand, there are Chinese and Vietnamese merchants who establish trade or confectionary firms without any registration, operating informally in the suburbs of the Russian metropolis. The reasons for the emergence of ethnic entrepreneurship through the use of diaspora resources, as well as its informal and even illegal character, are well-known (Aldrich and Waldinger 1990). In some transitional countries, for example the independent states of former Yugoslavia and the CIS, it was the influence of war, and the collapse of the formerly common economy, or both, which led to the primitivization of the economic structure.

However, from a Kirznerian point of view, all these types and forms of entrepreneurial practices during the 'transition' are forms of alertness that enable some people to discover and exploit entrepreneurial opportunity (Shane and Venkataraman 2000). The different structure of entrepreneurial types and their objections may have impact on the macroeconomic performance of entrepreneurship. Moreover, the composition of the entrepreneurial strata changes over time and looks very different, depending on the context.

## HOW TO MEASURE DIFFERENCES IN ENTREPRENEURSHIP FRAMEWORK CONDITIONS AND ENTREPRENEURIAL ACTIVITY

The varieties of entrepreneurship under 'transition' could be explained on the basis of a meso-level theory of 'varieties of transition', thus, providing a sound explanation of the specifics of the EFC, as well as of the quality of entrepreneurial activity itself. The first of them reflects the structure of early entrepreneurial activity; the second stands for the quality of the EFC.

The EFC are important because entrepreneurship development is context-dependent (Welter 2011). It seems that the concept of 'free' versus 'limited access order' (North et al. 2009), although stemming from observations in 'non-transitional' societies, could provide a frame to contextualize the entrepreneurship development in different 'transitional' environments.



But how do we measure the EFC on the one side, and the quality of the entrepreneurial activity on the other? Within the GEM model, the EFC are understood as a complex set of institutions influencing both the quality of entrepreneurial potential and the environment to realize it. However, there is no general indicator of the EFC available. We assume that the country's EFC quality index could be based on some non-arbitrary physical indicators of entrepreneurial activity being directly affected by the EFC. More precisely, it is the share of new, or 'baby', business owners, which may increase or diminish being influenced by both macroeconomic environmental factors and individual changing perceptions of the EFC. Such indicators are market entries and exits: although being dependent on personal reasons, in most cases they reflect the actors' estimations of the EFC. Hence,

$\Delta$  of  $TEA = (BBO - BUS_{disc})$ , where  
*BBO* is the share of baby business owners, while  
*BUS<sub>disc</sub>* is the share of those who discontinue a business during the last year

which measures the difference between two contradictory flows of entrepreneurs during the same period of time, being inspired/enforced to entry versus to discontinue a business, could be used as a robust reflection of the EFC in the respective country.

The quality of entrepreneurial activity should be an indicator reflecting the ability of entrepreneurship in the respective country to contribute to growth and employment. We assume that the quality of the entrepreneurial activity is resulting in entrepreneurial performance (growth, new jobs, etc.). Hence, the factors which are behind the ability/readiness of entrepreneurs to grow, to create new jobs and to expand to other markets are the true predictors of the quality of entrepreneurial activity.

Thus, the motivation structure (improvement driven entrepreneurship, IDE, versus necessity driven entrepreneurship prevalence) could be used as proxy for the quality of entrepreneurial activity. As shown in the literature (Arenius and Minniti 2005; Hessels et al. 2008; Shane et al. 2003), different types of motivation have a very different impact on the strategy and performance of emerging and developing entrepreneurial firms, that is, on their growth propensity, export and innovations. The concept of the GEM (Reynolds et al. 2005) draws our attention to the differences in the structure of entrepreneurial motivation between countries, especially to explain the impact of the so-called U-shaped curve of entrepreneurial activity on economic performance in different groups of economies. The variety

in dominant motivations to start up or to do business (IDE or necessity driven), weighted by the share of those who show mixed motivation, or

$(TEA_{IDE} - TEA_{nec}) : TEA_{mixed}$  where

$TEA_{IDE}$  – is the share of improvement driven early entrepreneurs

$TEA_{nec}$  – the share of necessity driven early entrepreneurs

$TEA_{mixed}$  – the share of early entrepreneurs with a mixed motivation

could be used as an indicator of the quality of the entrepreneurial activity itself, because it strongly correlates with growth aspirations and jobs creation. The  $TEA_{mixed}$  is important because there are some economies where the majority of early entrepreneurs are driven by both types of motivation, hence, even a strong prevalence of one of the ideal types of motivation would have a very limited impact on the whole sample.

Using the available GEM data for 2011, we receive the following picture for the 'transitional' countries (Table 2.3).

As both indicators vary, taking the quality of entrepreneurial activity and the quality of EFC as axes, we arrive at a clustering of 'transitional' economies with different values of both indicators (see Table 2.4).

$\Delta$  of  $TEA < 0$  means that the respective country has very poor EFC,  $0 < \Delta$  of  $TEA < 2$  indicates that the EFC are more or less satisfactory, and  $\Delta$  of  $TEA > 2$  confirms relatively good EFC.

Using the same classification for different levels of entrepreneurial activity, we can assume that the characteristic of  $(TEA_{IDE} - TEA_{nec})$ :

Table 2.3 Indicators of the quality of the EFC and entrepreneurial activity in 'transitional' GEM countries

Country	$(TEA_{IDE} - TEA_{nec}) : TEA_{mixed}$	$(BBO - BUS_{disc})$
Bosnia	-2.329	-1.3
Croatia	-0.135	1.7
Hungary	-0.045	2.5
Latvia	0.728	3.8
Lithuania	0.770	3.5
Poland	-2.110	1.8
Romania	-0.285	1.7
Russia	0.481	0.9
Slovakia	0.164	2.2
Czech Republic	1.802	2.4
Slovenia	1.065	0.4

Source: Bosma et al. (2012).

Table 2.4 Different groups of 'transitional' economies by the EFC and entrepreneurial activity quality indicators

	$(TEA_{IDE} - TEA_{nec}):$ $TEA_{mixed} < 0$	$0 < (TEA_{IDE} - TEA_{nec}):$ $TEA_{mixed} < 1$	$(TEA_{IDE} - TEA_{nec}):$ $TEA_{mixed} > 1$
$\Delta$ of $TEA < 0$	Bosnia and Herzegovina	–	–
$0 < \Delta$ of $TEA < 2$	Croatia, Poland, Romania	Russia	Slovenia
$\Delta$ of $TEA > 2$	Hungary	Latvia, Lithuania, Slovakia	Czech Republic

Source: Own calculations based on Bosma et al. (2012).

$TEA_{mixed} < 0$  is a sign of negative quality of entrepreneurial activity, economies with the entrepreneurial activity within the interval of  $0 < (TEA_{IDE} - TEA_{nec}): TEA_{mixed} < 1$  may be characterized as those with satisfactory quality of entrepreneurial activity, while those with entrepreneurial activity  $(TEA_{IDE} - TEA_{nec}): TEA_{mixed} > 1$  are economies with the best quality of entrepreneurial activity.

Based on these considerations, we receive a ranking of the EFC and entrepreneurial activity quality of the 'transitional' economies as follows:

1. Best entrepreneurship quality + best EFC: Czech Republic
2. Medium entrepreneurship quality + best EFC: Latvia, Lithuania, Slovakia
3. Best entrepreneurship quality + medium EFC: Slovenia
4. Medium entrepreneurship quality + medium EFC: Russia
5. Low entrepreneurship quality + best EFC: Hungary
6. Low entrepreneurship quality + medium EFC: Croatia, Poland, Romania
7. Low entrepreneurship quality + low EFC: Bosnia and Herzegovina

Despite the fact that the positions of Russia and Hungary look much better than one would have expected listening to expert estimations and economic news coming from these countries, while the position of Poland is worse than expected, the above ranking seems to confirm the fact that after more than 20 years of systemic transition the realities in post-socialist economies and societies are very different, and require different improvements in order to support the bottom-up business activity. Hence different policy recommendations are required for different economies.

Although other approaches to measure the performance of entrepreneurial activity exist, we assume that the field is not yet fully covered. For instance, assessment such as 'Doing business' and similar attempts are based on experts' estimations of the ease of doing business in capitals and major cities around the world. Hence, a certain arbitrariness and dependence on the quality of EFC in capitals are unavoidable when using this approach.

A rather new invention is the so-called Global Entrepreneurship Development Index (GEDI), a complex structure consisting of a number of variables (31), pillars (14), and sub-indices (3). First, all variables are taken from different data sets; second, the final aggregate is non-weighted (Ács and Szerb 2011). The latter contradicts the fact that different EFC factors play different roles in survey-based rankings of obstacles to business. Hence, some biases in the GEDI ranking are predetermined. That is why the ranking model proposed above, which is rather simple and robust, could be used to measure the differences in entrepreneurial environments and entrepreneurship activity itself among countries participating in the GEM.

## RUSSIA (AND OTHER 'LIMITED ACCESS ORDER' COUNTRIES): A 'TRANSITION' TOWARDS . . . ?

What about Russia and some other CIS countries? Unfortunately, we cannot obtain data in order to compare economies and societies with limited access orders as they usually do not participate in surveys measuring entrepreneurial activity, except Russia, which has participated in the GEM since 2006, scoring among the lowest TEA rates and demonstrating moderate entrepreneurial performance. Therefore, we can only use some internationally monitored rankings and expert estimations of the state of EFC and entrepreneurial activity in those countries. According to the World Bank's 'Doing business' survey, the Human Development Index and the Index of Economic Freedom, most limited access order countries belong to the group of less successful societies, scoring much worse than all of the CEE countries in these rankings.

What do we know about entrepreneurial activity in Russia, as one of the best performing among them, for instance? The development of bottom-up entrepreneurship in Russia is characterized by a low impact on both GDP (21 per cent) and employment data (25 per cent) compared with established market economies; there appears a big difference in both the numbers and density of SMEs among regions (according to official statistics for 2011, in some cases more than 1000 per cent difference!); and a relatively high share of 'gazelles' (10–12 per cent of medium-sized

**Table 2.5** *Most important differences in institutional settings between economies and societies with 'free' and 'limited' access orders*

Free access orders	Limited access orders
Strong civil society, biggest part – middle class (its values dominating)	Emerging civil society, biggest part – underclass ( <i>diverging</i> values within the society)
Established rule of law, efficient enforcement	Contradictory law, weak enforcement
State bureaucracy serving articulated public interests	State bureaucracy as a ruling class, 'self-governance'
Corruption: exceptional case	Corruption: best functioning, general tool of social interaction
Social lifts: education, entrepreneurship	Social lifts: 'connections', role within state bureaucracy
Innovations matter (Schumpeterian entrepreneur dominates)	Rent seeking behaviour matter (unproductive or destructive entrepreneurship dominate)

firms) compared with established market economies. Moreover, a significant part of employment (as well as of the bottom-up entrepreneurship itself) takes place in the informal sector: around 22 million adults, based on estimations by Gimpelson and Zudina (2011), which is more than the official employment figure for the whole SME sector, plus a high level of informal entrepreneurial activity among established SMEs, which, according to the leading SME business association of Russia, OPORA, is close to 46 per cent.

To explain such specifics of bottom-up entrepreneurial activity in Russia, again, the concept of 'limited access order' could help, compared with 'free access order' societies (North et al. 2009). The EFC in these countries are predetermined by different sets of conditions, or by different types of institutional environments which are covered in Table 2.5.

Starting with the 'institutional traps' of privatization and the dominance of state corporations in the economy, the institutional framework in Russia is extremely unfriendly towards Schumpeterian innovative entrepreneurs. Unproductive entrepreneurs dominate over productive ones and there appear to be high levels of 'push' rather than 'pull' motivations for start-up. The perspectives of an economy based on bottom-up private activity, in most of these countries, are as uneven as they were before the start of 'transition' – as the desirable goal of 'transition' itself is understood by political and economic elites as quite different from what could be called a free market economy supported by an open political competition.

Can such institutional settings be changed? Yes, as in some non-'transitional' countries it has happened (Chile, Korea), but this is a different story and may take long period of time.

## CONCLUDING REMARKS

The concept I explained above, which could help to establish some indicators for measuring distinctions between 'transitional' economies as regards the EFC and the quality of entrepreneurial activity, is not without its weaknesses. First, we cannot obtain data for all 'transitional' countries. Hence, without a wider participation in GEM, the concept provides insight only for part of the 'transitional' landscape. Second, there are some doubts with regards to the position in the ranking of some of them (where Russia and Hungary seem to take too high positions while Poland, on the contrary, takes one that is too low) as this contradicts other knowledge and evidence about the economic and political situations in the countries. Collecting data for several years of observation and refining the method could help.

Third, we have a heterogeneity problem, in two senses. First of all, the motivation structure is *not independent* from the EFC, that is why a more precise quantifiable notion of the EFC based on the GEM model and data is needed. Second, the EFC indicator is based on entries and exits, but entries and exits may be the result of reasons other than EFC ones (personal reasons, etc.). That is why a stronger indicator based on GEM data is needed. For instance, it may be possible to take only those who are not pushed to entry respective to escape (this implies additional cleaning of both indicators based on the self-perceived reasons for starting or quitting a business).

In summary, the main results of this chapter are as follows:

1. There is no homogeneity among post-transitional economies and societies – rather, different smaller sub-groups.
2. Establishing a quantitative entrepreneurship performance monitoring, independent from arbitrary notions, is possible yet it needs additional approval and adjustment.
3. Such a ranking could help to monitor and evaluate the progress in entrepreneurship development in different countries.
4. The ranking shows that no 'general' political advice to 'transitional' countries as a homogeneous group is possible, as no such group exists. Rather, there are some sets of focused measures adapted to the institutional frameworks and possibilities in each respective cohort of 'transitional' economies needed.

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