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“Diverging Paths of Entrepreneurship in post-Transformation Countries. A comparative view”

Bruno Dallago

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Diverging Paths of Entrepreneurship in post-Transformation Countries. A comparative view

Bruno Dallago¹

Abstract

This paper considers the findings of academic studies and research on entrepreneurship and looks at what explains the evolution of entrepreneurship in post-transformation countries. Post-transformation countries include Central and Eastern Europe (CEE), the Commonwealth of Independent States (CIS) and other former socialist countries in Europe and former Soviet Asia. The paper shows that there are differences between these countries, even those integrated in the European Union (EU), and the most developed countries of Western Europe and North America. Perhaps less obvious, differences are significant and growing between the countries that are now integrated in the European Union and those that follow a different path. The paper shows that these differences are only in part of policy nature and tend to acquire systemic nature and have great influence over the features and role of entrepreneurship. The paper stresses the importance of entrepreneurship for former transformation countries and shows that the features and role of entrepreneurship and the entrepreneur are not invariant to the context where they arise and act. This is true in general, but is particularly so in the case of systemic change and is largely dependent on the quality of institutions. The study of entrepreneurship is important to highlight similarities and assess and explain differences and divergence among countries.

JEL codes: D02, L26, P27, P31

Keywords: entrepreneur, entrepreneurship, institutions, post-transformation, transformation, Central and Eastern Europe, Commonwealth of Independent States

This paper considers the findings of academic studies and research on entrepreneurship and looks at what explains the evolution of entrepreneurship in post-transformation countries.² The latter include Central and Eastern Europe, the Commonwealth of

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² The term transformation denotes the complex of changes that were needed to transform previously planned economies into competitive market economies. The more popular term of transition has a deterministic and static meaning of going from one known point or situation to another known one. Transformation clarifies that it is a process full of uncertainty, unforeseen and unwanted processes and events, which led different countries to different outcomes and situations. The term transformation renders much better such dynamism, complexity and indeterminacy and is akin the use of the term in other sciences, such as molecular biology or in business economics. According to the BusinessDictionary on line, “[i]n an

Independent States (CEE and CIS) and other countries in Europe and former Soviet Asia.³ It is clear that there still are differences between these countries, even those integrated in the European Union (EU), and the most developed countries of Western Europe and North America. This is a first conclusion that this paper aims at proving.

According to many observers and scholars, these differences are due to the fact that time and generations are needed to develop a proper social and cultural context fostering strong entrepreneurship and proper structures have to be set up and work properly. This is, among others, the position of international organizations. According to others, these differences are only in part of policy nature and tend to acquire systemic nature. Some scholars see these differences as one of the features of a wide “semi-periphery” that has formed in Europe and even within the European Union (EU) which continue to differentiate the new member countries that acceded in 2004 and 2007 from the old member countries (Ágh 2015b, Bohle and Greskovits 2012, Greskovits 2008, Nölke and Vliegenthart 2009, Novák 2014).

Differences are to be meant in economic, political and social terms and, increasingly so, also in geostrategic sense. Although some are due to the generally small size of CEE economies, with the partial exception of Poland, important differences distinguishing countries of Central and Eastern Europe reside in such fields as the lower level of development, their influence in international industrial and financial markets, the role played in international value chains and innovation, relative prices, in particular of labor and land. Differences of growing importance have been going on between the countries of Central Europe that entered the EU, those that hope to do so one day and those that formed the Commonwealth of Independent States. These factors may justify the hypothesis that the need for, the role and the features of entrepreneurship in post-transformation countries may be different in part compared to what we are used to see and consider in highly developed capitalist countries.

But why is entrepreneurship so important in general and why is it so worthy particularly in Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS)? The answer to these questions can be found in the new context that globalization brought about (Section 1). Then I look at entrepreneurship and the entrepreneur in their own merit, to see whether they are up to the role they are called to play and I consider in particular the specific aspects that are important in this perspective (Section 2). The nature and role of entrepreneurship and the entrepreneur, though, are not invariant to the context where they arise and act. This is true in general, but is particularly so in the case of systemic change. In

organizational context, a process of profound and radical change that orients an organization in a new direction and takes it to an entirely different level of effectiveness. ... transformation implies a basic change of character and little or no resemblance with the past configuration or structure.” (<http://www.businessdictionary.com/definition/transformation.html>). Through this paper I shall use the term ‘post transformation’ to identify the countries that shares a socialist past, but went afterwards along different, sometimes divergent paths.

³ Georgia withdrew from the CIS in 2008. Turkmenistan and Ukraine are associate members of the CIS.

this case, entrepreneurship plays the role that is normal in a market context, but has also to contribute to the transformation itself (Section 3). For properly understanding the actual and potential role of entrepreneurship in this context it is important to know where entrepreneurship and the entrepreneurs came from and how they evolved in the process of transformation first and consolidation of the new market context then (Section 4). Finally, considerations are useful in a comparative perspective to assess the present situation in CEE and CIS countries, to both highlight similarities and assess and explain differences and divergence (Section 5). In doing so, I shall look at the relevant literature.

1. Introduction: setting the frame

Entrepreneurship is an important and fashionable topic nearly all over the world, and correctly so. This means, by the way, that the promotion of entrepreneurship is increasingly necessary to keep the pace with other countries and not only a way to get a competitive advantage. Indeed, the openness and integration of most countries and economies (“globalization”) requires that macroeconomic policies are coordinated at international level. International institutions and agreements take care of markets being open and unfairly competitive and beggar thy neighbor policies not being used within the international community.

This is not to say that obstacles to trade and finance and the danger of protectionism disappeared. However, these are the exception: international fora exist, primarily the WTO and the IMF, to deal with and possibly solve conflicts among countries. When a country is in difficult economic or financial position and needs particular policies to fix its problems - policies that could disadvantage its competitors - the standard decision is to allow extraordinarily those policies in exchange for conditionalities. It is the duty of international organizations to define, together with national governments, those conditionalities and overlook their implementation.

All this gives order and predictability to international economic relations, but deprives countries of the most powerful, fast and immediate solution to their economic and financial difficulties. To be sure, the international economic and financial playing field is not so levelled. Big and economically – or militarily – strong countries are more difficult to put under pressure to adapt, can oppose more effectively unfavorable decisions in international fora and bargain more effectively in the implementation of international rules. These countries’ threat to disrupt the international economic order is also more credible and intimidating than in the case of small or weak countries. However, these same strong countries have a particular responsibility for the good management of the international economic order that advantages them so much. So, overall the game tends to remain within fair limits.

This opens a serious problem for countries, both those that are in a difficult situation and want to improve it and those that, being in a strong position, want to preserve it. If

macroeconomic policies cannot be used to recover competitiveness to the disadvantage of competitors, alternative solutions should be looked for. There are three such solutions that a country may consider to use for improving its competitiveness.

One such solution is microeconomic policies. Microeconomic policies deal with the behavior of and interaction among economic actors, in particular firms, financial organizations and workers. These policies aim at changing the structure and working of markets, also through the use of incentives or penalties to certain types of behavior, in order to pursue particular economic goals. Short-run measures for promoting entrepreneurship are an important component of microeconomic policies.

A second solution is long-term development policies. These policies involve a set of measures aimed at improving the production capacity and the efficiency of an economy and consequently its competitiveness. Growth policies, policies for developing particular industries or infrastructure, for upgrading education and human capital, creating jobs, developing regions, and the like are important examples of development policies. The promotion of entrepreneurship and its companion, innovation, through long-run measures are fundamental components of long-term development policies.

A third solution is reforms. It is useful to distinguish two types of such reforms: structural and institutional reforms. Reforms are generally meant to improve the efficiency of an economy, thus making it more competitive. However, structural and institutional reforms do so in different ways. Structural reforms are usually meant as changes in the economy leading to decrease costs directly and improve the sustainability of public finances (EC 2015, Canton et al. 2014). In doing so they can improve price competitiveness and thus increase exports, but they typically shrink the domestic market. Examples are changes to the labor market, the pension system or the fiscal system that decrease costs for employing labor, reducing transfers to the population, ease dismissals and decrease public expenditures.

Institutional reforms have broader meaning and aim at making the economic system more efficient and more effective and decreasing transaction costs. They may have the reduction of labor costs as a consequence, but this is obtained through the increase of production. Included in institutional reforms are increased competition, the liberalization of markets, the professionalization of the public administration and increased productivity of public services, the development of an equitable and growth supporting fiscal system, reforming the management of public budgets and decreasing red tape for releasing resources to be invested, setting up structures for better matching demand and supply in the labor and other markets. Adopting measures, setting up structures and taking economic and legal initiative for promoting entrepreneurship belong clearly in institutional reforms.

A drawback of these three solutions is that they are slow to bring effects and are often costly and complex to devise and implement. Their advantage is that they change structurally and permanently the nature and working of the economy, so their outcome

tends to become permanent. When successful, they improve the economy's international competitiveness and bring its growth to a higher path.

Entrepreneurship cuts across all three solutions and may be an important engine and agent of each. From this there derive the great importance of entrepreneurship and the difficulty in fostering its emergence, development and success. Active and successful entrepreneurship is key not only to innovation, but also to change and competitiveness in open and integrated economies. The more open and integrated economies are, the more important the role of entrepreneurship is and the more diffuse it should be. This opens the important questions of which factors foster and mobilize entrepreneurship and of whether proper policies can be devised and implemented to that end.

The issues summarized above involved any of the CEE and CIS countries. The three solutions have been used in each country, after the first years when nearly all of them had to concentrate on macroeconomic issues, with the major exception of Czechoslovakia first and the Czech Republic then, primarily to stabilize the economy. Most of them returned to give priority to macroeconomic policies after the international crisis involved them directly. Most of these countries adopted packages of macroeconomic stabilization first and then most of them tried to improve their economic situation by means of expansionary policies.

Institutional reforms and microeconomic policies have been obviously at the center of the attention of government effort for most of the time. Indeed, this was the core of transformation. Consequently, a great part of the microeconomic effort by governments and also international organizations consisted in creating conditions favorable to entrepreneurship through legal changes and economic policies and setting up structures (such as business incubators) to support new entrepreneurs. Also long-term development policies gave usually prominent space and role to entrepreneurship, usually in conjunction with the promotion of innovation and competitiveness. Less relevant appears to be the case of structural reforms: while on one side these may have decreased the costs and improve other conditions that entrepreneurs had to afford, the restrictions in public finances and the domestic market that they inevitably brought about made the life of entrepreneurs more difficult and opportunities less diffused. However, they may have contributed to foster necessity entrepreneurship, particularly by those who remained unemployed. Having clear the relation between policies and reforms on one side and entrepreneurship on the other would help identifying counteractions for promoting the latter when the former is unfavorable.

2. Entrepreneurship and the entrepreneur

Entrepreneurship is defined in different ways and means dissimilar entities for different people, depending on the perspective taken and the goal pursued. Generally, definitions go from the process of funding a business to a particular mindset encompassing a novel way of thinking and acting, solve problems and create value. In between there is a wide range of

different definitions, such as turning an idea into a business, pursuing more generally change and innovation, or discovering new ways of combining resources. Entrepreneurship is generally defined as a process or as a function which is undertaken by the entrepreneur. Since entrepreneurship penetrates the inexistent and unknown, it is a process dealing with change and innovation. As such it entails uncertainty and risk. If successful, entrepreneurship generates a gain (a surplus) that can be appropriated. In most cases the approach is closer to the concept of funding or running a business. This is true also for former transformation countries and is in line with their prevailing nature of middle-level countries (for more innovative cases see Mets (2017) on Estonia and Shevchuk and Strebkov (2017) on Russia).

It is important to notice that entrepreneurship is not limited in any sense to economics and may characterize many different disciplines and fields. It can be both an independent process and function aimed at creating something new, or internal to existing organizations, in which case it is defined as intrapreneurship and aims at reorganizing and innovating what already exists. This latter case is important in at least two senses: the innovative capabilities of employees and incentives. It is increasingly appreciated that employees have knowledge and capabilities that can be precious and innovative for an organization and that nobody else can replace.⁴ This view is akin to the concept of tacit knowledge introduced by Michael Polanyi and requires that employees are involved in the process of entrepreneurship. Similarly important is the fact that such involvement strengthens incentives for employees to contribute to production. This view is opening a new line of research and of activity, including the EU's workplace innovation.⁵ The contribution and participation of employees to entrepreneurial activities remain an under-researched topic in any economy. This offers an excellent opportunity for further research also in former transformation countries.

Following Schumpeter's approach, I define entrepreneurship as including the processes (mental, psychological, organizational, technological, financial, economic, social, political) that are necessary to engage in innovation and lead the latter to an economic outcome. Hence entrepreneurship is the capacity and willingness to innovate: e.g. start of new

⁴ According to the knowledge spillover theory of entrepreneurship (Acs et al. 2009, Acs et al. 2013), knowledge created endogenously results in knowledge spillovers, which allow entrepreneurs to identify and exploit opportunities. Moreover, the context in which decision-making is derived can influence one's determination to become an entrepreneur. According to Stam (2013), who adopts the knowledge spillover theory, in advanced capitalist economies, entrepreneurial employee activity is often prevailing over independent entrepreneurial activity. Innovation indicators are positively correlated with the prevalence of entrepreneurial employee activities, but are not correlated or are even negatively correlated with the dominance of independent entrepreneurial activities. Moreover, the existence of high-skilled and young workers – who are more likely to have entrepreneurial attitudes - are conducive to growth in terms of both the number of employees and full-time equivalents (Koch et al. 2013).

⁵ Workplace innovation is part of the EU innovation policies and indicates different issues, including a change in relationships in the work environment: "It improves motivation and working conditions for employees, which leads to increased labour productivity, innovation capability, market resilience, and overall business competitiveness. All enterprises, no matter their size, can benefit from workplace innovation" (https://ec.europa.eu/growth/industry/innovation/policy/workplace_it).

businesses, introduce a new product or production process, discover a new market. As such, business foundation is certainly an act of entrepreneurship,⁶ particularly in a difficult context as that present in various transformation countries. Business foundation is as entrepreneurial as the reorganization of an existing business, the opening up of new market, the introduction of a new product, the adoption of a new production process. While one could speak of entrepreneurship also at systemic level – being systemic change in transformation countries the most prominent such case in recent years – I limit the use of the concept to the microeconomic level, for the purpose of clarity and lack of ambiguity. Even within such narrower domain, entrepreneurship can take place in many ways, cover many different fields and be at different levels, from small scale, nearly individual initiatives to the very large scale of transnational companies.

Entrepreneurship is generally considered to be a valuable asset for both the individual and the country, because the resource that it uses - the cognitive ability of the entrepreneur - is scarce. Such ability is important to collect and process information quickly and accurately; use effectively social skills in order to acquire information and knowledge from other people; and make use of imagination to visualize opportunities that have not yet been exploited and to conceptualize new products that have not yet been developed.

One can follow Baumol (1993) in supposing that the supply of entrepreneurship is similar in different countries and regions. However, comparative observation and attempts at measuring entrepreneurship give distinct results, and sometimes significantly so, in different countries and regions. Sauka and Chepurens (2017) gives clear evidence of such differences as those existing, e.g., between CEE countries and CIS, although entrepreneurship is in general lower than in Western Europe, both of the North and the South (Szerb 2017). In some CEE countries entrepreneurship is high and apparently diffused (see, e.g., Mets 2017). In others, it is low and probably concentrated among limited groups of people (Bzhalava et al. 2017, Isakova 2017, Pobol and Slonimska 2017). In other cases, notably that of Russia, the picture is more complex, with highly entrepreneurial parts of the economy and others lagging behind (Alimova 2017, Chepurens et al. 2017, Shevchuk and Strebkov 2017). Also other countries tend to present a mixed picture, such as Bulgaria (Chavdarova 2017), Latvia (Paalzow and Krūmiņa 2017), and even Slovakia (Pilková and Holienka 2017).

How can such strikingly different conclusions - equal supply of entrepreneurship and polarized presence of entrepreneurship - be reconciled? Clearly the answer lies in the difference between potential entrepreneurship and the actual existence in a country or a region of effective entrepreneurship. But what is behind these events? The institutional literature correctly stresses the importance of institutions (Baumol 1993, Hodgson 2006, North 1994), both formal and informal (Estrin and Mickiewicz 2010), while different brands of economic geography stress the fundamental importance of the context to this

⁶ Or, following Langlois (2005), “The firm exists because of entrepreneurship”.

end (Audretsch et al. 2012, Etzkowitz and Klofsten 2005, Feldman 1999, Porter 2000).⁷ International organizations, such as the OECD, put the emphasis on the quality of policies (OECD 2016). A rather new brand of literature looks for an explanation in culture, which can be considered a set of deeply rooted institutions which influence economic and social institutions (Guiso et al. 2006, Tabellini 2010).

Most transformation countries put great efforts in promoting entrepreneurship, albeit with different and variable intensity and dissimilar outcomes (see Table 1). Why is the outcome so strikingly different in diverse countries?⁸ If one supposes that the supply of entrepreneurship is potentially similar in different countries and regions (as surveys on entrepreneurial inclination or aspirations apparently suggest), we can follow Baumol (1993) in stressing that what matters is how entrepreneurial abilities are allocated among different possible ends (see also Scase 2003). Such allocation can be towards productive, unproductive or destructive ends and depends fundamentally on institutions and policies. Institutions define constraints, incentives and roles. Policies influence conditions, resources, costs and support. Institutions (both formal and even more so informal) are a legacy of the past and are changed through evolution, reforms and policies. Institutions in turn influence policies that are chosen, how they are implemented and the response by economic agents.

Table 1 about here

As other brands of literature of psychological, sociological, and cognitive economics nature stress, further fundamental elements and processes are important, including the role of trust, processes of social learning, the features of human actors, including the endowment with knowledge and information, skills, and capabilities (Algan and Cahuc 2014, Asheim and Parrilli 2012). Individual psychology and social attitudes have also much to do with the allocation of entrepreneurship. Central and Eastern European countries offer hints to appreciate the importance of these factors. A fuller inter-country comparison of these factors and their influence on entrepreneurship is still waiting for a more detailed analysis.

Policies and institutional reform can do a lot in order to promote entrepreneurship and put it to socially useful use. Transformation governments and international organizations engaged in institutional reforms and policies addressed to promote and give a central role to entrepreneurship. Among the factors that played a role in fostering entrepreneurship were liberalization of entrepreneurial activities, legal frames and provisions, generational change and growing numbers of female entrepreneurs, education and training, access to international technology, immigration of entrepreneurial people, purposeful structures

⁷ Audretsch et al. (2012) explain that it is important to concentrate the analysis on regions, because it is regions that provide locational factors which determine the industry structure and with it entrepreneurial opportunities, whose exploitation influences regional dynamics.

⁸ Maryann Feldman (2014) similarly asks, referring to regions more than to countries: “Why do investments in certain places yield jobs, growth, and prosperity while similar investments made in seemingly identical places fail to produce the desired results?” The answer is straightforward: “What matters most is human agency—the building of institutions and the myriad public and private decisions that determine what I call the character of place—a spirit of authenticity, engagement, and common purpose.”

(such as entrepreneurial centers and business incubators), support programs, role models proposed by successful entrepreneurs and the role of families (see Basco and Štangej (2017), Iakovleva (2017), Laužikas and Miliūtė (2017), Lechman (2017)). The inflow of foreign capital appears to have ambiguous significance. In early 1990s entrepreneurial attitudes were incredibly spread, more than in well-established market economies. While an important part of those attitudes derived from naïveté and inexperience in a market economy, another important part could not survive competition or were downsized by unfavorable institutions, policies, and administrative practices and by the consequently negative experiences of the first years of transformation (Krasniqi and Desai (2017) take a skeptical view). With the accumulation of capabilities and the refinement of policies and reforms, the surviving entrepreneurship consolidated, but not all developed in a socially productive direction.

While entrepreneurship is a process, a function, a behavior and a state of mind, the economic role and importance of entrepreneurship go through the role and activity of its human agent, the entrepreneur. The entrepreneur has been the subject of a very extensive body of economic and business literature, along with other disciplines, particularly of institutional and applied nature, although it hardly gets any consideration in economic theory. The most promising studies, in particular from the perspective of systemic change and development, look at the role of entrepreneurs in promoting innovation and competition. In this way entrepreneurs contribute to foster change and upgrade the economy and its development.

An entrepreneur, then, is someone who innovates: e.g. exercises initiative by organizing a venture to take benefit of an opportunity and, as the decision maker, decides what, how, and how much of a good or service will be produced. However, entrepreneurs have been defined in many and varied ways (Baumol 1993, Casson 2005). Without the pretense of being exhaustive, the following are among the most important. For some, the fundamental feature of entrepreneurs is their function: innovation, risk taking, judgement in project selection. Perhaps the best known economic scholars of the entrepreneur take this view. For Schumpeter, the entrepreneur is an endogenous innovator providing creative responses to novel situations. According to Knight, the entrepreneur is the risk-bearer under fundamental (uninsurable) uncertainty, from which he gets a residual income. Austrian economists devoted significant attention to the entrepreneur and saw his fundamental function in the pursuit of equilibrium, although the latter is never reached, due to the very activity of entrepreneurs. In Kirzner's view, the entrepreneur's function is to discover unexploited profit opportunities, while for Menger the entrepreneur is a processor of information. According to Hayek, the entrepreneur discovers price variations and consequently re-allocates resources. For Schultz, the entrepreneur diffuses technology and,

by enhancing efficiency through, moves towards the current technology frontier. Also interesting is Baumol, who sees the entrepreneur fundamentally as a rent-seeker.⁹

Another spread set of approaches pay attention to the role that the entrepreneur plays in the economy and the consequences this has for economic performance. In this perspective, the entrepreneur is an innovator in the sense that he can be the founder of a firm, owner-manager, partner in a business, salaried chief executive (Drucker 2002). What matters is his role, which is one of planning, organizing, and managing. This perspective is spread among practitioners and in management studies and is the basis for most statistics available on the entrepreneur. An important brand of this approach among economists looks at the entrepreneur's performance. In this view, success is typically measured by wealth accumulation and reputation, although quality of lifestyle may also be a factor. Success reflects the availability of opportunities, good luck and appropriate personality and competence. It also reflects the receptive or negative attitude of the more general social and political context (see in particular Aidis 2017).

A popular approach looks at the personality and attitudes of entrepreneurs. The distinctive personality of entrepreneurs is centred in self-confidence, both imaginative and pragmatic. The entrepreneur takes a distinctive view of the world, more optimistic and active. This picture comes out of many psychological studies of the personality of entrepreneurs, although economists prefer to highlight the entrepreneur's competence and behaviour. Characteristics that the former approach typically stresses are good judgement, the capacity of seeing the bigger picture ("putting the jigsaw together"), looking for the hidden snag, and the mastery of basic business skills (law, accountancy, IT, etc.). The entrepreneur's relevant behaviour includes the willingness and capacity to take responsibility, make timely decisions and motivate (rather than alienate) colleagues and subordinates. Prominent economic explanations of the entrepreneur include Witt's (2007) view of the entrepreneur as a cognitive leader in founding a firm, who has the ability to implement and defend one's business conception. According to Leibenstein (1968), the entrepreneur is someone who has the ability for "gap-filling" and "input completing" of incomplete knowledge about parts of the production function.

Different theories saw the entrepreneur in different ways, as coordinator (allocating resources), generalised arbitrageur (involving a range of commodities over a period of time – labour, capital, advertisement, marketing), opportunity-seeker (from information asymmetry and under the incentive of profit), innovator (problem-solver and market-maker, coordinator of people and organizations), pre-emptor (innovator with comprehensive range of strategies to deter imitation), judgemental decision-maker (in different fields and cases under incomplete information), risk-taker (of uninsurable risk), project manager (choosing persons and taking decisions).

⁹ Baumol (2003, p. 1), defines the entrepreneur as "as the partner of the inventor - as the businessperson who recognizes the value of the invention, determines how to adapt it to the preferences of prospective users and whose tasks include bringing the invention to market and promoting its utilization."

To be sure, different types of entrepreneurs exist. A popular way of characterizing entrepreneurs is to distinguish between business founders and managers, innovative entrepreneurs and imitators. The role of the latter in the innovation process is particularly important, since it is the imitation of path-breakers that lead an innovation to become the new normal and as such irreversible. This third category was particularly important in transformation countries, since many entrepreneurs started to imitate foreign investors and entrepreneurs (see Delener, Farooq and Bakhadirov 2017).

Whatever the particular theory of the entrepreneur one subscribes to, it is evident that socially productive entrepreneurs are only a part of those who have an entrepreneurial inclination and related personality. Being unhappy with what exists is important for someone to become an entrepreneur, but it is not sufficient. This observation leads to the discussion of the factors that determine how a certain person (or group of persons) uses his entrepreneurial capabilities, be it in a socially productive way, or in an unproductive and destructive way. Thus, and while economists typically see the entrepreneur as an allocator of resources, it is also important to see him as a resource that can be allocated to alternative uses. This I shall do in the next section looking at the experience of transformation countries.

3. Systemic change and entrepreneurship

While the concepts of entrepreneurship and entrepreneur may be invariant to the general circumstances in which they exist, it is inevitable that the latter influence the ways and modes in which entrepreneurship and entrepreneurs take existence, exercise their action and influence economic performance. This holds true in both idiosyncratic and intertemporal perspectives. In an idiosyncratic perspective (such as that of the Varieties of Capitalism approach), what is essential is that economic systems and their institutions and the conditions of economic activity vary from one country to the other and even from one place to the other. Indeed, many studies have stressed and analyzed the various facets of the localization of entrepreneurship and entrepreneurs, sometimes in conjunction with a similar concept of local or regional innovation systems (Asheim et al. 2008). The intertemporal perspective looks at how circumstances change through time, be these of systemic and institutional nature, or of economic, financial, social or political nature.

The process of transformation in Central and Eastern Europe has been prominent in both senses. So the study of entrepreneurship and the entrepreneur in these countries should pay attention to their general features, common to the rest of the world; to idiosyncratic features which differentiate these countries from other countries and also among themselves; and to intertemporal features, which cause the changing features of entrepreneurship and entrepreneurs through time in the same location.¹⁰

¹⁰ In Sauka and Chepurens (2017) both perspectives are represented (on the former see, e.g., the comparative chapters by Aidis; Szerb and Páger; Krasniqi and Desai; Delener, Farooq and Bakhadirov;

General features show that entrepreneurs in transformation countries have the same basic attributes as in any other country. Indeed, entrepreneurs innovate in one way or the other, although the particular way may be idiosyncratic. They are led to do so, similarly to entrepreneurs in other contexts, by the desire for gain, prestige, pleasure, or personal satisfaction that opportunities provide, or more simply by necessity. They may innovate products or processes, look for new markets on both the input and the output side of their activity. They may reorganize their enterprise and business network to make them more effective and efficient. The book offers ample proof and various examples of these general features, as much as of other general features. Entrepreneurs have generally more open and active personalities and are among the most ambitious and forward looking people of the society; they are well inserted in social networks; are better educated than the average of their fellow citizens; pay attention to their reputation and to the buildup of assets, from which their access to credit depends, and consequently are keen to keep good relations with credit institutions; are interested in public life, since this influences their costs and outcome; have an interest in having good relations with their stakeholders, including the employees and customers.

Idiosyncratic features derive from the particular culture and context in which entrepreneurs operate, but also from the distinctive features of transformation countries. In spite of the time elapsed since 1989 or 1991, these circumstances are still partially different from those typical of older and well established market economies. We can divide idiosyncratic features in structural and policy features, social features and personal features.

As to structural and policy features, some prominent differences exist between transformation countries and Western European countries and among various transformation countries.¹¹ The average size of existing businesses, nearly all of which being either new or privatized and deeply restructured – hence having entrepreneurial features – is generally very small in CEE countries (notably Poland and Hungary) and employment in small businesses is particularly high. There is similarity here with Southern European countries, but great difference with Northern European countries. However, in CIS countries, particularly Russia but not Ukraine, the average size of businesses is rather high, higher than in Western European countries and a large part of employment continues to be in large companies.

Another prominent structural feature is that most entrepreneurs are in traditional branches of both manufacturing and services and a relatively large share is aiming more at surviving than at investing, upgrading and growing. But there are significant differences among CEE and CIS countries, with entrepreneurs in the Visegrad 4 (Poland, the Czech Republic, Slovakia and Hungary) having a more sophisticated and innovative profile and more open

Basco and Štangej; Iakovleva; and, with a regional approach, the chapter by Chepurensko, Popovskaya and Obratsova; on the latter see country chapters).

¹¹ In Sauka and Chepurensko (2017), Iakovleva (2017) addresses directly this issue. However, the issue clearly transpires from various other chapters, particularly so from the comparative chapters.

to both exports to Western countries and international cooperation also in production (Dallago and Rosefielde 2016). Entrepreneurs and entrepreneurial firms in South-Eastern and Eastern CEE countries tend to have a more traditional profile and the share of entrepreneurs fighting for survival is relatively high.

Other important differences are in the link of entrepreneurs with credit organizations, less well established than in Western Europe, but better managed in the Visegrad 4 than in other transformation countries, with the partial exception of the Baltic countries. Similar differences hold in the relation of entrepreneurs with their peers, both in production in the form of clusters and other kinds of cooperation and the existence of well-organized and working trade associations and chambers of commerce (Sauka and Chepurenko 2017).

Differences also exist regarding costs not directly linked to production, such as taxation and administrative costs. Transformational reforms have dramatically decreased red tape in these countries. Taxation on businesses is generally low or very low, particularly in the countries belonging in the European Union, lower than in nearly all Western European countries (except Ireland and perhaps Great Britain). Some of them – again, particularly the Visegrad 4 and even more so the Baltic countries - feature relatively well in the World Bank Doing Business ranking, better than Southern European countries, but not compared to North European countries. Others, both in South-Eastern Europe and the CIS get lower ranking.

Social features also exhibit differences. In some countries the transformational origin of entrepreneurs – often from politics, public administration and the technical ranks of former large state owned companies – is still evident and old social and professional networks still have a significance. However, in other cases, particularly the Visegrad 4 and the Baltic countries, these features have less relevance and the origin of entrepreneurs tends to reflect both social mobility and the establishment of some entrepreneurial dynasty. The critical issue of intergenerational succession – prominent after more than a quarter of a century since the liberalization of entrepreneurial activities – is becoming more important in all these countries. It is generally problematic anywhere, more than in Western countries, but the Visegrad 4 in particular have started to set up structures for supporting entrepreneurs to afford intergenerational succession. Another social feature dividing transformation countries is reference models. While among the member countries of the European Union it is Western models of competitive enterprises and open entrepreneurs which prevail, in other countries the models are often more conservative and more linked to political power (Sauka and Chepurenko 2017).

Finally, there are some differences also in the case of personal features. Entrepreneurs in transformation countries tend to have higher level of education than their Western European peers and also younger age. They tend to be more open internationally, although this may depend in part on their specialization and the very small or relatively small size of many of these countries, the important presence of foreign capital and their being part of international value chains.

It is reasonable then to raise the question of whether these differences are the outcome of transformation and therefore transitory or whether they should be considered as permanent and reflecting deeply ingrained structural and other factors, such as cultural or social factors. This leads to consider the intertemporal features of entrepreneurs and entrepreneurship.

4. The origin and transformation of entrepreneurship and entrepreneurs

The main development in transformation countries is the growing split between EU and non-EU countries. In part, this split pre-existed the start of transformation. What became later the Visegrad 4 had much more open economies, more integrated with Western countries, particularly since the early 1980s. Poland and Hungary (not Czechoslovakia) also obtained a sizeable inflow of foreign capital before 1989, although this was primarily capital for macroeconomic stabilization in Poland and consumption support in Hungary. Both countries participated in different forms of mixed ventures with Western firms. In the years before transformation, state owned enterprises also had the possibility to export to and import directly from abroad without having to go through central specialized organizations. Reforms since the late 1960s and more so in the 1980s effectively enlarged the managers' autonomy and discretionary power in state owned companies and introduced a limited amount of self-management. Part of the revenue was kept by enterprises and used to their discretion for investments and wages and revenue for the managers.

Also the three Baltic countries had in a sense a special position within the Soviet Union, since they concentrated much of the most advanced industry and also ports (Riga in particular) trading with the West. They were also the beneficiary of important Soviet investments. In other countries, with the partial and temporary exception of Romania, nothing like this took place and the countries remained strongly integrated within the Comecon (or the Soviet Union) and economically separated from the West.

The consequences for pre-transformation entrepreneurship were important. In both Poland and Hungary there was a significant part of the population involved in tolerated private or semi-private activities, which played an important role in the production of national income (Dallago 1989, Dallago 1991). These activities, though, were entrepreneurial in a peculiar sense. Indeed, entrepreneurs were innovating, but this they did within the peculiar features of a centrally planned and shortage economy, as clearly analyzed by Kornai. Although these entrepreneurs mostly did not have the skills and capabilities necessary to be successful in a competitive market economy, the social climate they contributed to create was one conducive to entrepreneurship. All this prepared a more favorable ground for entrepreneurship than in other countries and was fruitful later on. However, it was mostly people of different professional origin who captured the chance when transformation started or right before it: managers of successful state-owned and cooperative enterprises, researchers and middle political ranks (Lane et al. 2007).

In South Eastern Europe and CIS countries the situation was different. These economies were closed to the West and managed more according to administrative practices than economic principles. Little autonomous productive activity existed outside a few professions (such as lawyers) and the control over managers in state owned enterprises was stronger. However, in state owned enterprises there were kinds of entrepreneurial activities (Ledeneva 1998). These were the activities that particular employees (“*tolkachi*”) dealt with through their informal connections in order to help their enterprise to implement plan targets. In a shortage economy it was difficult to actually get the necessary inputs, central planning notwithstanding, and the inputs obtained were often of low quality or plainly useless. In order to avoid disrupting the plan, and with the implicit knowledge of central planners, managers activated a submerged and unofficial market for getting the needed inputs. This was a market of a sort, yet strongly influenced by shortage and the lack of a proper price system. Yet a part of the new entrepreneurs came from these people, since they had a good control over resources, proper connections and could take the chance of privatization to accumulate valuable assets.

There were two other types of activities that had some resemblance to entrepreneurship. There was an ample and diffused second economy, which included the tolerated private activity - mainly in agriculture, handicrafts and services - and the plainly illegal, underground economy (Grossman 1977). The latter may have had some criminal traits, but much of it took place on the side of the socialized sector. Finally, with Gorbachev the so-called new cooperatives were introduced in the Soviet Union (Nutti 1992). Although formally cooperatives which used mostly socialized assets, they were actually run as private companies. Rumors on their engagement with the criminal underworld were diffused. Both second economy and cooperative activities could accumulate significant assets that were in part utilized during privatization. However, the bulk of the new entrepreneurs came from political leaders (in good part from the Komsomol, which was authorized to run its own independent business activities during Gorbachev’s time) and from previous ministerial directors and industrial managers (Lane et al. 2007).

What differentiated most entrepreneurs in the Visegrad 4 and, in part, the Baltics was their approach to privatization and liberalization and their reaction to competition, the driving forces of change in a market economic domain. To be sure, this reaction was deeply embedded in the origin of entrepreneurs, but was also influenced by reforms and policies and the access to the EU. Different was in good part what happened in the CIS countries and also in South-Eastern Europe. Both the rent-seeking and adaptive origin of most businessmen, the weak and contradictory institutional reforms, the way in which privatization took place, the disastrous state of the economy after the disruption of the old system, the limited liberalization, the weak competition and conservative and protectionist policies addressed many businessmen to rent-seeking activities or to survival and not to innovative and competitive entrepreneurship.

EU membership played an outstanding role in fostering the development of entrepreneurship and the entrepreneurs in the Visegrad 4 and the Baltic countries. This

concerned institutions, policies, the supervision and support from the EU and the substantial flow of material and immaterial resources that entered these countries from the EU. These included EU organs, with their expertise and funds, and individual member countries. This situation not only provided assets and capabilities that were used to upgrade the economies and enterprises. It also offered the possibility for entrepreneurs and would-be entrepreneurs to visit and spend time in the older member countries, thus learning and establishing connections. Particularly important were different forms of cooperation that were established between enterprises of different countries and the possibility to enter international value chains. All this had beneficial effects for the modernization of entrepreneurship and entrepreneurs in the Visegrad 4 and the Baltic countries. The effect was weaker, but still beneficial for Bulgaria and particularly Romania.

Different was the situation in the post-Soviet countries, excluding the Baltic countries. In various countries, the instability of the economic and political situation, military conflicts, the diffusion of poverty which contributed to shrink the domestic market, the isolation from the more innovating and competitive economies of the West, migration patterns and the development of authoritarian or autocratic political regimes willing to control the economy took much of the breath away from entrepreneurs. A large part of businessmen became subordinated to the political will. This is hardly a situation promoting innovative and competitive entrepreneurship.

In a sense, the evolution of entrepreneurship in transformation countries offers a path dependent perspective. This is not a deterministic path dependence, since many cases of true innovative entrepreneurship exist also in countries which overall present a less innovative perspective (see Chavdarova 2017, Pobol and Slonimska 2017, Shevchuk and Strebkov 2017).

5. Conclusions

After more than a quarter of a century of continuous changes, reforms, policies and adaptation, the landscape of entrepreneurship and entrepreneurship itself have substantially evolved in all transformation countries. There was a selection of entrepreneurs, illusions faded away, and the situation appears overall more stable and predictable. A new generation entered or is entering in all countries, a generation that lived neither the socialist system nor transformation. For them a market economy is the natural economic environment, albeit this has different meanings in distinct countries. This allowed them to better master the market context, adapt to it and use the opportunities it offers.

Although there certainly was a common evolution in the above sense, at the same time also divergence progressed. As noticed, there were serious inter-country differences even before the start of transformation and many more and deeper added up during the change. It is perhaps the move eastward of the “economic curtain” that matters most: while CEE countries entered the EU and found themselves in an open, integrated, and competitive

economy, CIS countries remained out. Regional integration efforts were not able in their case to change much the reality of rather isolated economies. The impact on entrepreneurship could not be greater.

Hand in hand with such a geopolitical bifurcation went institutional change and policy diversity. CEE countries voluntarily adapted to institutions that evolved through the integration of well-established and developed competitive market economies with the support of the European Union. Those institutions were and are supportive to productive entrepreneurship and discourage less desirable forms of unproductive and destructive entrepreneurship. Such institutional evolution did not go fully through in CIS countries, attempts notwithstanding. One could even maintain that various ill conceived, harsh and rushed reforms made formal institutions unbalanced, often disrupted and in any case less effective. While this took place also in some CEE countries up to a point, it was in CIS countries that became dominant. Under the stress of reform attempts, informal institutions took a regressive, protective and plotting character, which favored unproductive (rent-seeking) and often also destructive outcomes. The allocation of entrepreneurship abilities was thus influenced by the domestic and international economic, political and social context that evolved in these years.

However, it is important to say that differences and a degree of divergence also developed within each of the two groups of countries and also among different regions within the same country. These processes were definitely more pronounced than within the old socialist system. There is a serious need for proceeding in the analysis and understanding of the intricacies of transformation processes and for policies and reforms that take better into consideration the national and local context, a fundamental key to their sustainability.

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Table 1. A comparison of the main features of entrepreneurship in CEE&CIS countries¹²

	1	2	3	4	5	6	7
Belarus	Weak/fair (Pobol)	Weak (Pobol)	Weak/fair and partial (ICT) (Pobol)	Necessity, high bottom-up (Pobol) (Pobol)		Weak/variable (Pobol)	Low, mixed (Pobol) Good (Delener)
Bulgaria	Unstable/varying (Chavdarova) Uncertainty (Chavdarova)	Informal (Chavdarova)	Negative, uncertainty (Chavdarova)	Bottom-up, mixed opportunity/necessity (Chavdarova)	Fair (Chavdarova)	Negative/uncertainty, networks (Chavdarova)	Modest (Chavdarova)
Czech Rep.	Favorable (Szerb) Favorable (Lukeš)	Good (Lukeš)	Favourable, generational (Lukeš)	Favorable (Lukeš)	Good (Lukeš)	Modest/ambivalent (Lukeš)	Mildly stronger (Szerb)
Estonia	Favorable (Aidis) Good sectoral (Mets)	Very favorable (Aidis) Good/strong (Mets)	Positive and strong (Aidis) Good/strong (Mets)	Bottom-up, opportunity (Mets)	Strong (Mets)	Good sectoral (Mets)	Productive (Aidis) Strong (Szerb) Strong, productive (Mets) Modest (Lechman) Fair (Delener)
Georgia	Weak (Bzhalava)	Weak (Bzhalava)	Weak and inter-sectoral (Bzhalava)	Bottom-up/informal, Necessity (Bzhalava)	Weak (Bzhalava)	Weak (Bzhalava)	Weak, informal (Bzhalava) Weak (Delener)
Hungary	Favorable (Szerb)						Weak (Szerb)
Latvia	Favorable (Szerb)	Varying (Khumina)		Prevailing necessity in crisis (Khumina)			Weak (Szerb) Good (Lechman) Good (Delener)
Lithuania	Favorable (Szerb)					Strong (Lauzikas)	Weak (Szerb) Modest (Lechman) Very good (Delener)
Poland	Favorable (Szerb)						Fair (Szerb) Good (Lechman)
Russia	Unfavorable, state capture (Aidis) Weak (Alimova)	Unfavorable (Aidis) Strong (Shevchuk)	Unfavorable (Aidis) High (Chepureenko) Dualism (Alimova) Fair (Shevchuk)	Negative and weak (Aidis) Variable (Chepureenko) Bottom-up, opportunity (Shevchuk)	Important/varies (Alimova)	Weak/informality (Shevchuk)	Rent-seeking, capture (Aidis) High, productive (Shevchuk) Modest (Alimova) Very good (Delener)
Slovakia	Favorable (Szerb) Insufficient (Pilkova)	Problematic improving (Pilkova)	Insufficient (Pilkova)	Weak opportunity (Pilkova)		Insufficient (Pilkova)	Weak, fair/ (Szerb) Fair (Pilkova) Strong (Lechman)
Slovenia	Favorable (Szerb) Fair (Rebenik)	Good but weakening (Rebenik)	Good (Rebenik)	Good (Rebenik)	Good (Rebenik)	Insufficient (Rebenik)	Strong (Szerb) Strong (Lechman) Good (Rebenik)

¹² This table includes extremely synthetic assessments that I derived from the chapters in Sauka and Chepureenko (2017) that deal with issues of general importance. Chapters dealing with more particular issues, not considered elsewhere in the book, are not included. The synthetic assessment inevitably oversimplifies the more detailed analysis of the chapters, but the intent is to give a comparative glimpse of transformation countries along important matters. In parenthesis only the name of the first author is reported, in case of two or more authors. Whenever no chapter deals explicitly with a particular matter in a particular country, the relevant box is left empty.

Ukraine	Very weak (Isakova)	Low (Isakova)	Very low (Isakova)	Top-down, necessity (Isakova)	Low (Isakova)	Weak (Isakova)	Low, informal (Isakova) Weak (Delener)
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Legenda:

- 1 = the state of institutional reforms important for entrepreneurship and public administration efficiency and support
- 2 = mental models and popular/family support for entrepreneurship
- 3 = Business climate and political support for entrepreneurs; interregional and sectoral differences of entrepreneurship
- 4 = the prevalence of entrepreneurship led by opportunities or by necessity and informality and of bottom up entrepreneurship vs top down entrepreneurship
- 5 = the role of competition in open and closed economies/countries;
- 6 = policies for entrepreneurship and the availability of structures supporting entrepreneurship, including education
- 7 = innovation, technical level of exports and the prevalence of productive over unproductive/destructive entrepreneurship