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Entrepreneurship Development in Russia: Is Russia a Normal Country?

I. Introduction

Shleifer and Treisman (2005) and Treisman (2011) call Russia a "normal country." What they mean is that, while Russia certainly has both economic and political defects, these are about what one would expect of any middle-income country. For instance, they compare Russia with countries like Mexico and Argentina and find similar defects. Leeson and Trumbull (2006) criticize this view, pointing out that Russia may be middle class in terms of per capita GDP but it is very different from the countries Shleifer and Treisman compared it to in terms of many other characteristics of development, including education, political standing in world affairs, military capability, and scientific achievement. Leeson and Trumbull compare Russia not to capitalist countries like Argentina and Mexico, with which Russia has little in common, but with the other transition economies with which Russia has a great deal in common, including per capita GDP, and find that Russia's performance has been anything but normal.

In this paper we examine Russia's entrepreneurial performance. This analysis is based on a unique dataset, the Global Entrepreneurship Index (GEI). The GEI combines the individual-level characteristics of economies based on large surveys from the Global Entrepreneurship Monitor (GEM) dataset with institutional-level measures for each country. Therefore, GEI is a proper analytical tool to examine individual entrepreneurial effort together with country level contextual factors.

II. Entrepreneurship in Transition Countries

The examination of entrepreneurship in the former socialist countries is relatively new. In a strict planned-socialist economy, most forms of private ownership are banned. Limited forms of private ownership and entrepreneurship appeared during the reform period such as Gorbachev's *perestroika* in the Soviet Union and Cuba today. Then, with the fall of the Berlin Wall and, a couple years later, the breakup of the Soviet Union, most of these states rushed to divest themselves of state ownership and establish full-blown market economies based on private ownership. After removing the artificial institutional barriers of business start-ups, millions of private businesses started to flourish (Kornai 1992). Shortages disappeared quickly and new businesses played an important market supplementation role in the early years of economic transition (Tyson et al. 1994). The situation changed in the 2000s. By that time, the main transformation changes to set up the basic institutions of a market economy were finished, economies were mostly liberalized, and the wave of privatization ended. European Union accession became the primary challenge for most of the transition countries outside of the former Soviet Union, requiring a further opening of their economy. Under the increased pressure of

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foreign competition and quickly saturated domestic markets, new venture creation slowed down and the weaknesses of the newly created businesses become relevant.

Most researchers notice significant differences in entrepreneurship between the transition and the developed countries as well as amongst transition countries even today (Nikolova 2012). There are three views on these variations. A group of researchers emphasize the role of institutions that do not support or even retard entrepreneurship (Aidis et al 2008, Ovaska and Sobel 2005, van der Zwan et al 2011). Others highlight the individual aspects and characteristics (McMillan and Woodruff 2002, Cieslik and van Stel 2012). The third group of scholars underlines the importance of both the individual and the institutional aspects (Hashi and Krasniqi 2011). Following Baumol's theory (Baumol 1990), these researchers recognize institutional barriers as well as identify different kinds of entrepreneurship behavior and characteristics resulting in various, in some cases unique, forms of businesses. While there was a lack of high growth, innovative ventures, various underproductive, unproductive, or in some cases even destructive entrepreneurship emerged such as *nomenclatura*, self-employment, part time and informal sector businesses (Smallbone and Welter 2001). Besides formal institutions, Estrin and Mickiewitz (2010) call attention to the slow adaptation of informal institutions, attitudes, and social norms, particularly general trust.

Unlike other transition countries where 'only' two generations of entrepreneurs were missing, Russia had very little experience in entrepreneurship under market principles. While the amount of entrepreneurial potential was huge, the country was dominated by monopolies both in politics and in the economy. The centralized power combined with the overwhelming state ownership control in the Soviet era provided limited autonomy for entrepreneurs to exploit opportunities (Ageev et al 1995, Hisrich and Grachev 1993). In the late 1980s, the Gorbachev-lead *perestroika* and *glasnost* opened up dramatic changes that led to the ultimate end of the Soviet system and the Soviet Union. While, entrepreneurship and small businesses are widely recognizes as vital for successful market transition, several formal and informal institutional constraints are still constraining entrepreneurship in Russia (Dana, 2010, Timofeyev and Yan (2013). After more than ten years of transition, Kihlgren (2003) found that Russia was lagging behind other European transition countries. According to Kihlgren (2003), this slow transition was due to limited historical entrepreneurship experience and to the existence of large and influential interest groups that lead to inefficient resource allocation and unproductive and sometimes destructive entrepreneurship. Thus, our expectation in this paper is that entrepreneurship development in Russian lags behind the transition countries of the former Soviet-bloc countries of Europe, as well as the Baltic countries that were part of the Soviet Union only since 1940.

III. Russia's entrepreneurial Performance Based on the Global Entrepreneurship Index

The calculation of the GEI scores and the description of the methodology are based on Acs et al (2014). Table 1 shows the rank of the countries' overall GEI scores for the 2014 year. While we have institutional data for all the 132 countries, we lack the individual variables for some countries. We denoted with one asterisk those countries where individual data are from previous years and denoted with two asterisks those countries where individual data are estimations.

We highlight the examined transition countries with light grey. There are 21 such countries. The Baltic country Estonia leads the rank of transition countries followed by the other two Baltic countries Lithuania and Latvia. The most developed transition country, Slovenia, is a little bit ahead of the emerging Poland with just below 50.0 GEI points. The two other innovation driven economies, Slovakia and Czech Republic, have lower GEI points than the development implied trend line (46.5-44.5). Hungary and Romania, with 45.3-45.1 GEI points, are ahead of the more developed Czech Republic. Bulgaria, Croatia, with GEI scores clustered in the range of 41.8-40.1. Montenegro, Macedonia, Kazakhstan Ukraine, Russia, Moldova, Serbia, Albania, Georgia, and Bosnia and Herzegovina follow them with much lower GEI scores of 37.6-28.8.

Table 1 The position of the examined transition countries in Global Entrepreneurship Index Rank of the Countries, 2014

Rank	Country	GDP 2013	GEI	DEV.	Rank	Country	GDP 2013	GEI	DEV.	Rank	Country	GDP 2013	GEI	DEV.
1	United States	51 340	86,6	3	45	Greece	24 540	42,3	3	89	Jamaica	8 607	27,4	2
2	Canada	41 894	79,7	3	46	Bulgaria**	15 695	41,8	2	90	Egypt*	10 733	27,4	2
3	Australia	42 831	78,4	3	47	Uruguay	18 966	41,4	2	91	Philippines	6 326	26,9	1
4	Sweden	43 741	76,2	3	48	Italy	34 167	41,3	3	92	Brazil	14 555	26,2	2
5	Denmark	41 991	76,2	3	49	Cyprus**	27 394	41,2	3	93	Paraguay**	7 833	26,0	2
6	Taiwan	40 393	69,8	3	50	Croatia	20 063	40,1	2	94	Lao PDR**	4 667	25,9	1
7	Iceland*	41 250	69,2	3	51	Lebanon*	16 623	39,8	2	95	Swaziland**	6 471	25,8	2
8	Switzerland	54 697	68,2	3	52	Barbados	15 299	38,6	2	96	El Salvador	7 515	25,7	2
9	United Kingdom	37 017	68,0	3	53	South Africa	12 106	38,6	2	97	Sri Lanka**	9 426	25,5	2
10	France	37 154	66,7	3	54	Montenegro*	14 152	37,6	2	98	India	5 238	24,9	1
11	Singapore	76 237	66,2	3	55	Brunei Darussalam**	69 474	37,4	1	99	Ghana*	3 864	24,6	1
12	Netherlands	44 945	66,0	3	56	Malaysia	22 589	36,9	2	100	Venezuela*	17 615	24,1	1
13	Ireland	44 931	65,9	3	57	Macedonia*	11 609	36,7	2	101	Cambodia**	2 944	23,0	1
14	Germany	43 207	64,8	3	58	Costa Rica	13 431	36,2	2	102	Zambia*	3 800	22,9	1
15	Austria	44 376	63,5	3	59	Kazakhstan	22 467	35,1	2	103	Indonesia	9 254	22,8	2
16	Chile	21 714	62,3	2	60	China	11 525	34,9	2	104	Kenya**	2 705	22,1	1
17	Belgium	40 607	62,1	3	61	Argentina	18 709	34,8	2	105	Honduras**	4 445	22,0	1
18	Finland	38 846	62,0	3	62	Tunisia*	10 768	34,5	2	106	Senegal**	2 170	21,7	1
19	Norway	62 448	61,6	3	63	Ukraine**	8 508	33,6	2	107	Guatemala	7 063	21,2	2
20	United Arab Emirates*		61,3	2	64	Thailand	13 932	33,4	2	108	Guyana**	6 336	19,8	2
21	Israel	31 029	57,6	3	65	Jordan*	11 407	33,3	2	109	Pakistan*	4 454	19,8	1
22	Estonia	25 132	57,5	3	66	Botswana	15 247	33,1	1	110	Nicaragua**	4 494	19,5	1
23	Luxembourg	87 737	57,3	3	67	Panama	18 793	32,3	2	111	Suriname	15 556	19,3	2
24	Qatar		56,6	3	68	Russia	23 564	32,2	2	112	Angola	7 488	18,6	1
25	Lithuania	24 483	55,0	2	69	Bolivia	5 934	32,0	1	113	Rwanda**	1 426	18,4	1
26	Latvia*	21 825	53,7	2	70	Peru	11 396	31,9	2	114	Ethiopia**	1 336	17,6	1
27	Korea	32 708	53,6	3	71	Dominican Republic*	11 795	31,5	2	115	Cameroon	2 739	17,6	1
28	Turkey*	18 660	52,9	2	72	Namibia*	9 276	31,3	2	116	Mozambique**	1 070	17,6	1
29	Bahrain**	42 428	52,1	2	73	Moldova**	4 521	31,3	1	117	Myanmar**	0	17,5	1
30	Japan	35 614	50,7	3	74	Serbia*	12 893	31,0	2	118	Gambia, The**	1 608	17,4	1
31	Slovenia	27 576	50,7	3	75	Algeria*	12 893	30,6	1	119	Liberia**	850	17,4	1
32	Spain	31 596	50,6	3	76	Albania**	10 405	30,1	2	120	Côte d'Ivoire**	3 107	17,0	1
33	Portugal	25 596	50,2	3	77	Belize	8 215	29,8	2	121	Tanzania**	1 718	16,8	2
34	Poland	22 877	49,5	2	78	Morocco*	6 967	29,4	2	122	Mali**	1 589	16,6	1
35	Puerto Rico	33 638	48,4	3	79	Libya*	20 371	28,9	1	123	Uganda	1 368	15,9	1
36	Saudi Arabia*	52 068	47,9	1	80	Iran	15 090	28,8	1	124	Benin**	1 733	15,8	1
37	Slovakia	26 263	46,5	3	81	Georgia	6 946	28,8	2	125	Bangladesh*	2 853	15,2	1
38	Oman**	42 649	45,9	2	82	Bosnia and Herzegovina	9 387	28,8	2	126	Burkina Faso	1 582	15,1	1
39	Kuwait**		45,7	1	83	Trinidad & Tobago	29 469	28,3	3	127	Madagascar**	1 369	14,6	1
40	Hong Kong*	51 509	45,4	3	84	Vietnam	5 125	28,2	1	128	Sierra Leone**	1 495	14,4	1
41	Hungary	22 914	45,3	2	85	Nigeria*	5 423	28,1	1	129	Mauritania**	2 945	13,2	1
42	Romania	18 200	45,1	2	86	Gabon**	18 646	27,8	1	130	Malawi*	755	12,4	1
43	Colombia	12 025	44,9	2	87	Mexico	16 291	27,5	2	131	Burundi**	747	11,9	1
44	Czech Republic*	27 959	44,5	3	88	Ecuador	10 541	27,5	2	132	Chad**	2 022	9,9	1

Legend: GDP: 2011 per capita GDP in Purchasing Power Parity, in constant 2011 $ International, World Bank Dev = level of development: 1: resource driven country, 2: efficiency driven country, 3: innovation driven country
*Country individual data are from earlier time period, **Country individual data are estimated,The examined transition countries are denoted with light grey color

These GEI scores also reflect to their lower level of development except Kazakhstan and Russia that should have much higher entrepreneurship scores. Russia occupies the 68st place in the global ranking, ahead of Serbia, Montenegro and Albania but behind Macedonia, Kazakhstan and Ukraine. Table 2 provides us more details about the connection between the GEI scores and the development of the countries. After calculating the third degree polynomial adjusted scores for each of the countries we can examine the differences between the actual GEI scores and GEI scores implied by the per capita GDP (GEI trend).

Table 2: The deviation of GEI scores from the development-implied trend line (after third degree polynomial adjustment)

Country	GDP World Bank international $ 2011	GEI 2014	GEI trend	Trend difference
	Innovation driven			
Czech Republic	27 959	44.5	50.3	-11.47%
Estonia	25 132	57.5	47.2	21.95%
Slovakia	26 263	46.5	48.4	-3.89%
Slovenia	27 576	50.7	49.9	1.55%
	Efficiency driven			
Albania	10 405	30.1	30.8	-2.19%
Bosnia and Herzegovina	9 387	28.8	29.0	-0.80%
Bulgaria	15 695	41.8	36.3	15.25%
Croatia	20 063	40.1	41.4	-3.04%
Georgia	6 946	28.8	26.3	9.74%
Hungary	22 914	45.3	44.7	1.49%
Kazakhstan	22 467	35.1	44.1	-20.38%
Latvia	21 825	53.7	43.4	23.74%
Lithuania	24 483	55.0	46.4	18.38%
Macedonia	11 609	36.7	31.5	16.43%
Montenegro	14 152	37.6	34.5	8.98%
Poland	22 877	49.5	44.6	10.90%
Romania	18 200	45.1	39.2	14.98%
Russia	23 564	32.2	45.4	-29.10%
Serbia	12 893	31.0	33.0	-6.22%
Ukraine	8 508	33.6	28.0	19.81%
	Resource driven			
Moldova	4 521	31.3	23.6	32.71%
Average	17973	40.7	38.9	5.7%

The average deviation score of the transition countries is 5.7% with relatively high differences. The lowest developed Moldova has relatively the highest entrepreneurship score, its GEI score almost 30% higher than implied by its per capita GDP. The Baltic countries, Bulgaria, Ukraine, Macedonia, and Romania also perform relatively well. On the other side, Russia's entrepreneurship score is almost 30% below to development-implied trend line, the most out of the transition countries.

Comparing Russia to the other transition countries, Russia's 2014 GEI score is by 21% lower than the transition country average. Having a closer look at the three components, it is clear that Russia is behind to the transition countries in terms of all three sub-indexes but in a varying

degree (Table 3). While Russia's lag behind the transition countries is 13% in attitudes and 6% in abilities, it is 41% in aspirations. A note that the aspiration sub-index is the strongest component of the transition countries. It may also imply that new Russian startups are not entrepreneurial enough to replace already existing established firms. Table 3 also reveals that Russia's entrepreneurship score basically was unchanged over the 2002-2014 time period.

Table 3: The change of Russia's GEI scores and the three sub-indexes, 2002-2014 and the transition country averages

Country	Year	ATT	ABT	ASP	GEI
Russia	2002	16.5	27.8	31.3	25.2
Russia	2006	26.4	40.0	29.9	32.1
Russia	2007	21.4	41.1	28.9	30.5
Russia	2008	20.8	39.5	28.3	29.5
Russia	2009	25.0	36.2	28.5	29.9
Russia	2010	24.7	33.7	26.1	28.2
Russia	2011	29.2	35.9	25.1	30.1
Russia	2012	31.3	36.1	24.9	30.8
Russia	2013	31.0	37.0	25.8	31.3
Russia	2014	34.0	36.4	26.2	32.2
Transition average	**2014**	**38.9**	**38.9**	**44.3**	**40.7**

Figure 1 provides us further details about Russia's entrepreneurial profile in the variable level. Russia is among the best countries (25%) in three variables and above average in another five variables. Most of Russia's institutional variables are in the below average yellow zone except corruption, technology absorption, and business strategy. Nine out of Russia's individual variables are in the red zone implying that the entrepreneurial characteristics of new Russian entrepreneurs, nascent and startup businesses, is very low compared to other countries.

	PILLARS		INSTITUTIONAL VARIABLES		INDIVIDUAL VARIABLES	
Entrepreneurial Attitudes	Opportunity perception	0,42	Market Agglomeration	0,88	Opportunity Recognition	0,38
	Start-up skills	0,45	Tertiary Education	0,90	Skill Perception	0,33
	Risk acceptance	0,22	Business Risk	0,37	Risk Perception	0,51
	Networking	0,69	Internet Usage	0,80	Know Entrepreneurs	0,63
	Cultural support	0,19	Corruption	0,39	Career Status	0,59
	Entrepreneurial Attitudes	**34,0**				
Entrepreneurial Abilities	Opportunity startup	0,32	Economic Freedom	0,61	Opportunity Motivation	0,36
	Technology absorption	0,26	Tech Absorption	0,46	Technology Level	0,42
	Human capital	0,94	Staff Training	0,55	Educational Level	1,00
	Competition	0,27	Market Dominance	0,60	Competitors	0,31
	Entrepreneurial Abilities	**36,4**				
Entrepreneurial Aspirations	Product innovation	0,25	Technology Transfer	0,58	New Product	0,44
	Process innovation	0,34	GERD	0,71	New Tech	0,30
	High growth	0,50	Business Strategy	0,50	Gazelle	0,69
	Internationalization	0,09	Globalization	0,58	Export	0,15
	Risk capital	0,27	Depth of Capital Market	0,80	Informal Investment	0,36
	Entrepreneurial Aspirations	**26,2**				
	GEI	**32,2**	**Institutional**	**0,62**	**Individual**	**0,46**

Legend: dark blue: best 25%; light blue: best 50%; yellow: worst 50%; red: worst 25%

Figure 1: **Russia's Full traffic of individual variables, institutional variables and the fourteen pillars**

Finally we examine Russia's position in terms of individual and institutional development. In order to do this, we calculated the averages of the fourteen individual and the fourteen institutional variables (Table 4). It is straightforward that the innovation-driven countries are better than the efficiency-driven countries (both transition and nontransition) both in the individual and the institutional average scores. However, the differences are much larger in the institutional variable case (0.13) than the individual variable case (0.03). Transition efficiency-driven countries are better than nontransition efficiency-driven economies only in institutional development; the difference between them is 0.04. How does Russia fit into this picture? Russia's overall institutional variable score is 0.62, above both the transition and nontransition efficiency-driven country averages. However, Russia is below all the innovation-driven countries, as well as the most developed efficiency-driven countries of Hungary, Latvia, Lithuania, and Poland. Examining Russia's performance in the individual variable case, it is straightforward that out all of the transition countries Russia has the lowest score, 0.04 point below the second lowest Georgia. Russia has much less individual entrepreneurial potential than the other transition countries.

Table 4: The Individual and the institutional variable averages for the transition countries and the nontransition efficiency-driven countries (except the resource driven Moldova)

Country	Institutional average	Individual average
Innovation driven average	**0.69**	**0.63**
Czech Republic	0.71	0.58
Estonia	0.72	0.65
Slovakia	0.64	0.63
Slovenia	0.69	0.66
Efficiency driven average	**0.56**	**0.60**
Albania	0.48	0.56
Bosnia and Herzegovina	0.47	0.58
Bulgaria	0.57	0.61
Croatia	0.58	0.59
Georgia	0.49	0.50
Hungary	0.67	0.54
Kazakhstan	0.51	0.64
Latvia	0.65	0.67
Lithuania	0.70	0.66
Macedonia	0.53	0.60
Montenegro	0.52	0.66
Poland	0.69	0.59
Romania	0.57	0.65
Russia	**0.62**	**0.46**
Serbia	0.48	0.57
Ukraine	0.53	0.58
Transition average	**0.59**	**0.60**
Nontransition efficiency-driven average	**0.55**	**0.60**

IV. Summary and Conclusions

While many former socialist transition countries have already successfully transitioned to a market economy, Russia shows a different picture in many respects. Examining Russia's entrepreneurial performance based on Global Entrepreneurship Monitor data and the Global Entrepreneurship Index methodology, our analysis reinforces that Russia is a unique transition country. In particular we have found the following: (1) Russia has a much lower overall entrepreneurship score than the other European and former Soviet Union countries. The deviation from the development implied trend-line is almost 30%. (2) Russia's GEI-based entrepreneurship performance is not only low but it was basically unchanged over the 2002-2014 time period. (3) Russia is behind to the transition country averages in all three sub-indices. The lag is the largest in the aspiration sub-index. (4) While Russia's overall institutional scores fit its economic development the individual characteristics are very low. (5) From Russia's fourteen pillars, it is evident that the country is providing good entrepreneurial opportunities for startups and human capital is strong. However, internationalization is extremely low, as is cultural support, and there are still effective barriers preventing high potential market entry.

Why does Russia find itself so far behind in terms of entrepreneurship? The level of entrepreneurial activity is affected by both objective conditions (market infrastructure, institutions) and subjective conditions (perceptions of opportunities, own abilities, etc.) (van der Zwan et al, 2011). Our results show that Russia scores poorly on most measures of both objective and subjective conditions. Russia has very poorly developed market institutions, as its listing in the Mostly Unfree category (143 out of 178 countries) in the Heritage Foundation's 2015 Index of Economic Freedom. The country is highly corrupt, scoring a very low value of 2.8 on Transparancy International's Corruption Index, well below the next lowest score of 3.9 for Serbia and well below Estonia, the highest among the post-socialist countries of Europe, at 6.4. The Bertelsmann-Stiftung Transformation Index of Democratic Status and Market Status scores Russia well below the other post-socialist countries, as well. In short, Russia has a long way to go to become a normal country where entrepreneurship thrives.

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