

# Entrepreneurship in central-eastern European countries

## Abstract

Entrepreneurship is currently treated as an attitude adopted by a human being, but also as a process aimed at starting one's own business activity or developing new products, services or technological solutions, etc. The issue under consideration is subject to interdisciplinary analysis and hence attention is paid to the influence of particular socio-economic factors on entrepreneurial activity within a society. This article aims to analyse the rate of entrepreneurship among people from selected central-eastern European countries on the basis of the results of a survey conducted by the author and by Global Entrepreneurship Monitor in 2007 and 2008. Furthermore, it is also vital to examine the stochastic relationship between the rate of entrepreneurial development, the economic situation and the policy of particular countries.

**Keywords:** entrepreneurship, entrepreneur, labour market, entrepreneurship index, Global Entrepreneurship Monitor, education and training, post-socialist countries.

## Introduction

Research into entrepreneurship is based on the processes and attitudes adopted by an enterprising individual who is able to notice opportunities occurring in the environment and then use them effectively. Contemporary analyses are geared towards three main economic theories of entrepreneurship, based on the teachings of Cantillon, an economist who laid the foundations of the subject. These are as follows: the theory of the innovative entrepreneur, formulated by Schumpeter; the theory of risk and uncertainty; developed by Knight; as well as the theory of the Austrian school. Each theory equates entrepreneurship with the market opportunities taken by an individual as a result of which a new organisation is established and products or services offered.

Many models aimed at analysing entrepreneurship have been developed on the basis of these theories. However, it is Global Entrepreneurship Monitor that is currently the most popular. This model has been developed by researchers from Babson College and London Business School. It allows the evaluation of the individual motives behind those who undertake ventures, paying attention to the factors that determine entrepreneurial behaviour and the relationship between starting a business activity and economic growth (Acs, 2006; Bosma *et al.* 2009). It also takes account of a number of the economic, social, cultural and psychological factors determining entrepreneurship.

This article is aimed at analysing the main theories of entrepreneurship and then comparing the results of a survey conducted by the author on the level of entrepreneurship in particular central-eastern European countries with the GEM research.

## Concept of entrepreneurship

The theory developed by Schumpeter treats entrepreneurship as innovation introduced by the entrepreneur due to his/her creativity and motivation to take action. Schumpeter considered creativity as a means of conveying new ideas, thanks to which innovations are introduced. He analysed the achievements of entrepreneurs in the context of their psychological traits on the basis of the belief that an entrepreneur wants, most of all, to be better than others, successful, constantly taking up new challenges and creating something unique and original (Arena and Dangel-Hagnauer, 2002). In consequence, the effects produced due to the action taken by an enterprising individual are often not accepted by others as they violate the existing economic order. Schumpeter claims that an entrepreneur must continuously challenge the old structures, habits and stereotypes reinforced within a given circle. This incurs the entrepreneur in high costs, both financial and social.

It is worth emphasising that Schumpeter's theory of entrepreneurship contradicts the classical economic theory of market equilibrium. The economist believes that the entrepreneur, by adopting new solutions, initiates a process which leads to the destabilisation of existing structures, contributing to economic disequilibrium. Furthermore, he is also convinced that only market instability provides the conditions favourable to the development of innovations that are a basis for and the essence of entrepreneurial development.

The theory formulated by Knight constitutes a second economic theory of entrepreneurship to which contemporary researchers in the field make reference. In his treatise entitled *Risk, uncertainty and profit*, he has proved that entrepreneurial action is characterised by a sort of uncertainty and the risk of not achieving the objectives established (Knight, 1921). Such a state of affairs is determined by an environment that is affected by a number of largely changeable factors. Furthermore, the individual-entrepreneur has a limited ability to analyse the future behaviour displayed by other people.

According to Knight, the entrepreneur considers the knowledge acquired as a result of previous ventures as more valuable than the making of any calculations (Ricketts, 2008). Thanks to this knowledge, the entrepreneur may plan future entrepreneurial activity that consists of the following stages (as mentioned by Knight): estimating the demand expressed by society for a given good and service, either of which will meet all the needs of consumers; forecasting the activity aimed at satisfying people's needs; evaluating the probability of achieving a given aim via the taking of the already-planned action (control of the future); and choosing the best action leading to success (more accurate predictions) (Knight, 1971). According to the theory under discussion, it is knowledge that has a strategic importance concerning the action taken by the entrepreneur in a dynamically changing environment, as it improves one's chances of being successful. It is also the most creative resource determining not only the success

or failure of the action taken, but also the position that one occupies in the social hierarchy (Kwiatkowski, 2000).

One of the scholars representing the Austrian school, namely von Mises, has formulated another important theory of entrepreneurship. He specified the notion of the entrepreneur on the basis of the individual nature of 'human action' and characterised him/her as an individual who takes risks and embarks on courses of action in conditions of continuing uncertainty (Landstrom, 2004). von Mises defines entrepreneurship as the action taken by an individual to fulfil a given objective. He is inclined to believe that everyone is, in one way, enterprising since they meet different challenges. One person wants to achieve his/her aims through changing the factors that determine the functioning of the environment; another creates new value and prices for products to make them generate as high a profit as possible. Still, there are people who develop products and services that meet the needs of society. Each action is a manifestation of entrepreneurship, reflected in the receipt of certain benefits.

Apart from the concept of subjectivism ('human action') formulated by von Mises to describe the actions taken by market entities, there is another theory according to which the entrepreneur occupies a leading role in the functioning of the market mechanism. This reflects the concept of market order (the so-called 'spontaneous order' or 'catalectic order') developed by Hayek. On the basis of spontaneous order, Hayek treats the entrepreneur as a person responsible for the integration and co-ordination of the knowledge which is dispersed among the market players. This knowledge refers mainly to the taking of new opportunities that have not been noticed by any entity functioning on the free market of products and services, the so-called 'flow market for goods' (Callahan, 2004). Hayek stated that the entrepreneur's knowledge of the market environment, its potential and the expectations of market entities allows him/her to gain advantage over others as he/she has a unique piece of information and may use it (Hayek, 1949). In this sense, the competition system is developed and provides, among other things, the integration of ventures undertaken by individual entrepreneurs, freedom of action and access to a number of market transactions (Huerta de Soto, 2008). This is all due to the entrepreneurship that Hayek defines as an action consisting of the integration and dissemination of information existing in the environment.

The current understanding of entrepreneurship, referred to by Baumol and Casson, was developed on the basis of these theories. Baumol believes that the entrepreneur should motivate and inspire other people to take action. The entrepreneur is also often perceived as a leader (also of market processes) who determines economic growth (Baumol, 1968).

Baumol developed a model for the supply of entrepreneurial skills, the so-called 'supply of entrepreneurship', as determined by internal and external factors. The former are the determinants which result from the entrepreneur's personality and, in particular, his/her skills, qualifications, talent, knowledge and value system. The latter are determinants which are connected with the functioning of the economic system and the state of the national economy (Baumol, 1990).

Baumol emphasises that the entrepreneurial activity of an individual does not always have to be equated with the taking of effective action, since it can involve ineffective, or even destructive, behaviour. Everything depends on the rules which function

in the economy and which relate to payment for the individual's activity (Baumol, 2007). Baumol believes that the rules governing the market game determine the remuneration of various entrepreneurial actions and that this has a direct effect on the development of the level of entrepreneurial attitudes adopted by individuals.

The other theory of entrepreneurship, formulated by Casson, is based on two main assumptions. The first refers to the information possessed by the entrepreneur, while the second refers to the so-called transaction costs that the entrepreneur incurred when entering the market.

According to Casson, every decision taken by an individual is based on the information available and does not depend on mechanically-deployed mathematical models. The entrepreneur is presented as a creator and a co-ordinator of market activity who specialises in taking final decisions in terms of the management of existing and rare resources (Casson, 2005). Furthermore, he/she takes dynamic action in conditions of risk and uncertainty, introduces innovation, is perfectly aware of the objectives which must be fulfilled and is 'sensitive' to market opportunities and possibilities (Ripsas, 1998). Casson emphasises that the entrepreneur not only has extraordinary access to full information but also possesses the skills, personality traits and, in particular, the ability to acquire and apply knowledge, analyse the action taken and anticipate its results (Casson, 2005).

In formulating his theory of entrepreneurship, Casson in a fashion combined the main neoclassical theories. He claims that the entrepreneur has the characteristics mentioned by Schumpeter, i.e. dynamism and the innovativeness of changes introduced; those mentioned by Knight, i.e. taking continuing risks in conditions of uncertainty; and those by Hayek, i.e. applying the knowledge that he/she has acquired. He also highlights certain abilities that the entrepreneur possesses – particularly the managerial skills according to which he/she combines and co-ordinates resources that are rare in the economy.

To sum up, in the light of these concepts, entrepreneurship should be considered as a tendency displayed by individuals towards the creation of value added and reflected in new market investments. Taking the main aim of this article into account, the issue in question will be analysed from just such a perspective.

### **Implications for policy**

As far as these main concepts of entrepreneurship are concerned, it can be noticed that, on the one hand, the level of entrepreneurship demonstrated by an individual is determined by internal factors, i.e. his/her personality traits; and, on the other, by the external factors reflected, among other things, in the institutional-legal environment and, to be more precise, in the economic policy pursued by state market institutions.

A pro-entrepreneurial economic policy has an effect on the entrepreneurial action taken by an individual since it provides economic freedom and protection for private property. Obeying these rules guarantees the development of a coherent legal system (without any loopholes) that defines the legal order which must be followed by particular market entities and institutions that provide one with freedoms, i.e. economic freedom, democratic freedom and the right enjoyed by the state freely to interfere in

economic processes. Furthermore, a guarantee offered by the state, namely that the entrepreneurial activity undertaken by an individual will generate profits, as well as the elimination of negative procedures, norms and patterns for the functioning of entrepreneurship in a given area (mainly through institutional and social forms of control), are also essential for encouraging entrepreneurial action (Landers, 2000). The protection of these rights provides individuals with the freedom to act and to believe in their success, and hence to stimulate and foster entrepreneurial spirit. Otherwise, individuals lose their confidence in a given institution – although this may, however, also stem from a complicated system of supervision and control typical of societies that curb individual entrepreneurship (Ignaciuk and Kiwak, 2006). This makes people passive and lacking in entrepreneurial initiative.

Apart from state institutions, local governments also play a major role in encouraging society to take entrepreneurial action. They have the competence to pursue an active economic policy (Rosner, 2000), yet use it very seldom as a result of which a local community is less active. Such a state of affairs results from a model of the relationship between authorities and citizens, in which the former enjoy certain rights and the latter has obligations, which has existed up to now and which has been largely adopted by local governments (Rosner, 2000). An active policy pursued by local governments should result in a number of initiatives supporting entrepreneurial action being undertaken by a local community.

The factors determining the pursuit of a pro-entrepreneurial economic policy by the state ought to be popularised better in countries that are undergoing economic transformation, and mainly in post-socialist countries that functioned formerly on the basis of a centrally-planned economy. This type of economy curbed the development of entrepreneurship and made society passive, i.e. it was not concerned to undertake any entrepreneurial action (Mugler, 2000).

The process of transformation, which consisted in the reduction of state interventionism, the liberalisation of economic processes, the restructuring of the economy, privatisation, price realignment and the elimination of complicated social insurance schemes, certainly contributed to a change in the attitudes and behaviour displayed by enterprising individuals (Zakrzewski, 2003). Together with the market economy, new private enterprises were established and, over the course of time, their production replaced the goods and services previously provided by state enterprises (Bruner, 1993). However, the consequences of the transformation did not only manifest themselves in the growing adaptation of society to the ongoing market situation, but also had a negative effect on the development of entrepreneurial processes and attitudes. The economic reforms changed the socio-occupational structure of post-socialist countries (Earle and Sakova, 2000). The result was that the unemployment rate increased several fold into a two-digit number (thus, the employment rate was subject to decline). Poverty began to be noticed, particularly in non-urban areas (Dzun, 2005). This exaggerated the differences in economic development which are observed between particular countries and their regions (Huber, 2002). These activities curbed the development of entrepreneurship within particular local communities.

Consequently, it appears that the state needs to introduce regulations and establish institutions which support entrepreneurship so as to enable individuals to achieve self-

fulfilment and self-realisation. Taking the economic development of post-socialist countries into account, it is also vital to follow a sustainable economic policy that will have a positive effect on any kind of activity undertaken by the society and which, hence, will naturally contribute to the dynamic development of entrepreneurship.

## **Methodology of the survey**

For the purposes of analysing the rate of entrepreneurship in central-eastern European countries, the author refers to the results of the questionnaire survey he conducted among Lithuanian, Latvian, Russian, Polish and Ukrainian people, as well as the findings of the GEM 2007 and GEM 2008 research studies.

In order to examine the relationship between entrepreneurship, economic development and countries' policies, Cramer's V coefficient was employed. This determines the relationship between variables that are expressed on a nominal scale. Cramer's V coefficient is within (0;1) range. In the case of the stochastic independence of characteristics, it amounts to zero; in the case of a functional relationship, V=1. Cramer's V coefficient is calculated with the use of the following formula:

$$V = \sqrt{\frac{\chi^2}{N \min((w-1), (k-1))}}$$

where:

$\chi^2$  – calculated in accordance

k – number of columns

w – number of rows

N – total size

whereas min refers to the smallest difference w-1, k-1.

To investigate the importance of the dependence between the characteristics, the author chose the independence test and  $\chi^2$  statistics, which allow verification where two characteristics under examination are independent of each other. The result is that one may learn if the hypothesis on the independence of the characteristics (caused by too considerable differences in empirical size and theoretical size) can be rejected.

$\chi^2$  statistic was calculated in accordance with the following formula:

$$\chi^2 = \sum_{i=1}^w \sum_{j=1}^k \frac{(n_{ij} - \hat{n}_{ij})^2}{\hat{n}_{ij}} = \sum_{i=1}^w \sum_{j=1}^k \left( \frac{\hat{n}_{ij}}{\hat{n}_{ij}} \right)^2 - N$$

Subsequently, the results were compared with the research conducted as part of the Global Entrepreneurship Monitor in 2007 and 2008.

## **Analysis of entrepreneurship potential**

In order to examine the potential for enterprise of people living in eastern Europe, the first question on the questionnaire referred to readiness to start a business activity. Over

53 % of respondents were definitely not going to start a business activity, while fewer than 47 % considered that there was such a possibility.

It is interesting to analyse the structure of answers given by respondents, divided between the countries participating in the survey (Table 1).

**Table 1 – Do you intend to start a business activity?**

|     | <b>Latvia</b> | <b>Hungary</b> | <b>Lithuania</b> | <b>Poland</b> | <b>Russia</b> |
|-----|---------------|----------------|------------------|---------------|---------------|
| Yes | 53.2          | 50.5           | 43.8             | 41.3          | 42.4          |
| No  | 39.8          | 45.5           | 47.2             | 57.7          | 52.6          |

*Source: own elaboration based on the results of the survey.*

The largest percentages of people being ready to start business activity were recorded in Latvia, Hungary and Lithuania, whereas the lowest were in Poland and Russia. This tendency was reflected in the structure of the answers given by respondents from particular countries to questions about opportunities and the barriers to starting and conducting business activity. In order to present the results in a lucid way, Table 2 shows the ranking of each particular determinant in the overall hierarchy and then the percentage of respondents (in brackets) who selected it.

**Table 2 – Opportunities arising from and the barriers to starting and conducting one's own business activity**

|   | <b>Hungary</b> | <b>Latvia</b> | <b>Lithuania</b> | <b>Poland</b> | <b>Russia</b> |
|---|----------------|---------------|------------------|---------------|---------------|
| <b>Opportunities arising from starting and conducting business activity</b> |                |               |                  |               |               |
| Security of employment and pay  | 6 (4.4)        | 8 (4.0)       | 10 (2.6)         | 7 (5.3)       | 11 (0.9)      |
| Higher earnings   | 2 (20.8)       | 2 (21.4)      | 2 (22.1)         | 2 (20.9)      | 2 (16.9)      |
| Fast-track possibilities  | 4 (11.6)       | 7 (4.8)       | 8 (4.1)          | 9 (0.5)       | 8 (5.0)       |
| Higher prestige   | 7 (4.1)        | 5 (9.1)       | 5 (7.7)          | 8 (2.9)       | 6 (7.3)       |
| Good on-the-job atmosphere  | 5 (5.3)        | 6 (8.1)       | 3 (12.6)         | 5 (7.1)       | 5 (8.7)       |
| Narrower duties and responsibilities  | 8 (3.1)        | 11 (0.5)      | 11 (1.0)         | 11 (0.3)      | 10 (1.8)      |
| Wider duties and responsibilities   | 10 (2.5)       | 4 (9.3)       | 6 (6.9)          | 6 (5.6)       | 3 (11.4)      |
| Self-realisation and job satisfaction                                       | 1 (24.8)       | 1 (22.2)      | 1 (22.8)         | 1 (30.7)      | 1 (26.9)      |
| Risk of capital loss  | 11 (1.3)       | 10 (3.8)      | 9 (3.1)          | 9 (0.5)       | 7 (5.5)       |
| Non-standard working hours  | 3 (18.9)       | 3 (12.8)      | 4 (11.8)         | 3 (18.0)      | 4 (10.5)      |

|  | <b>Hungary</b> | <b>Latvia</b> | <b>Lithuania</b> | <b>Poland</b> | <b>Russia</b> |
|--|----------------|---------------|------------------|---------------|---------------|
| Possibility of improving one's qualifications                                  | 8 (3.1)        | 8 (4.0)       | 7 (5.4)          | 4 (8.2)       | 8 (5.0)       |
| <b>Barriers to starting a business activity and its subsequent functioning</b> |                |               |                  |               |               |
| High taxes   | 1 (23.3)       | 4 (13.6)      | 1 (18.4)         | 2 (19.0)      | 5 (8.9)       |
| High labour costs  | 3 (13.3)       | 6 (6.4)       | 7 (5.4)          | 5 (11.2)      | 8 (3.4)       |
| Inflexible labour legislation  | 9 (5.0)        | 9 (4.1)       | 9 (3.6)          | 8 (5.4)       | 9 (3.0)       |
| Bureaucratic regulations   | 5 (7.8)        | 5 (11.6)      | 3 (13.9)         | 1 (21.0)      | 2 (21.0)      |
| Lack of consistency in law-making  | 6 (7.4)        | 7 (6.1)       | 6 (7.5)          | 6 (7.2)       | 6 (6.0)       |
| Low prestige of entrepreneurs  | 11 (2.6)       | 11 (3.4)      | 11 (2.4)         | 11 (0.4)      | 11 (1.5)      |
| Difficulties in raising capital  | 7 (6.8)        | 1 (15.6)      | 5 (11.2)         | 3 (14.3)      | 1 (21.2)      |
| Fierce competition   | 2 (14.7)       | 3 (15.2)      | 2 (15.4)         | 4 (13.5)      | 4 (13.1)      |
| Developing globalisation and unification of economies                          | 8 (5.6)        | 8 (4.7)       | 8 (4.9)          | 9 (1.1)       | 10 (2.4)      |
| Problem of finding the right market niche                                      | 4 (10.4)       | 2 (15.5)      | 4 (13.8)         | 7 (6.3)       | 3 (14.8)      |
| You yourself   | 10 (3.3)       | 10 (3.8)      | 10 (3.5)         | 10 (0.6)      | 7 (4.6)       |

*Source: own elaboration based on the results of the survey.*

The majority of respondents chose self-realisation and job satisfaction, as well as the possibility of earning at a higher level than while working in another company, as the main determinants of starting and conducting business activity. Non-standard working hours were of major importance to Hungarians, Latvians and Poles. Latvians, Lithuanians and Poles did not pay much attention to the narrower duties and responsibilities. Hungarians regarded the risk of capital loss as the least important, whereas for Russians it was security of employment and pay.

Taking into account the barriers to setting up and managing one's own firm, attention needs to be paid to regional differences. Hungarians and Lithuanians considered that high taxes were the major barrier; Latvians and Russians saw difficulties in raising capital; whereas Poles regarded bureaucratic regulations as the most important. Subsequently, respondents mentioned high labour costs and fierce competition. Furthermore, it is interesting that the entire population under analysis regarded the low prestige of entrepreneurs as only a minor barrier to starting business activity.

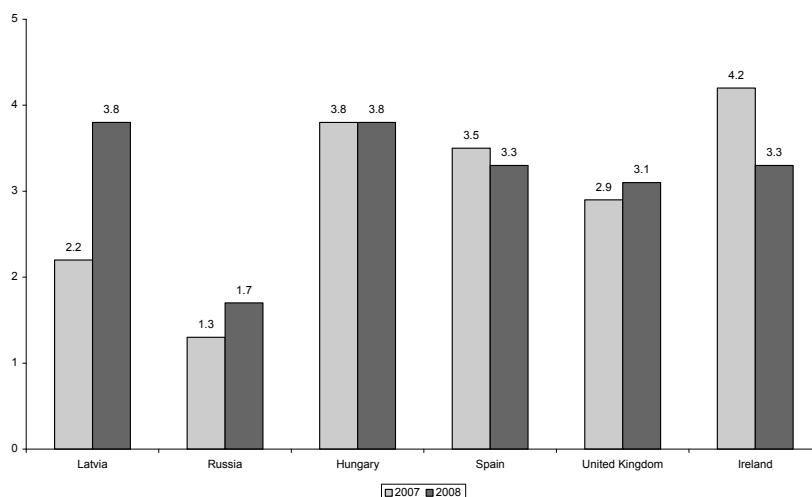
These results refer to the willingness to start and conduct one's own business activity and seem to confirm the findings of GEM research conducted in 2007 and 2008. Lithuania and Poland did not participate in the GEM research, so comparative analysis will be carried out on the basis of the results derived from Latvia, Hungary and Russia.

What is more, the analysis will be supplemented with results from selected western European countries.

According to GEM methodology, one of the indicators determining the rate of entrepreneurial activity is the share of people aged 18-64 in the total population who want to start business activity, i.e. Nascent Entrepreneurs.

The data presented in Chart 1 suggest that the largest percentage of people who want to start a business activity is recorded in Latvia and Hungary, whereas the lowest is in Russia. Attention should be paid to the percentage of respondents who are willing to set up their own firms in central-eastern Europe being higher than in western European countries. Such a tendency should not be surprising since the countries under analysis were subject to economic transformation in the 1990s. This process was accompanied by the development of new markets that specialised in satisfying newly-created consumer needs. The result was that private enterprises could take action to fill the existing niches and, hence, make society notice market opportunities and possibilities, thereby improving their entrepreneurial activity (Piergovanni and Santarelli, 2006).

**Chart 1 – Nascent Entrepreneurs (%)**



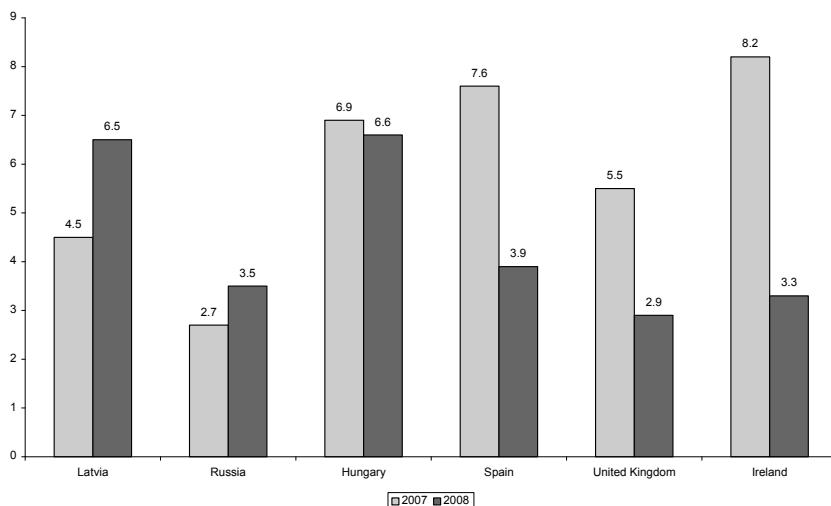
Source: own elaboration based on N. Bosma, K. Jones, E. Autio and J. Levie (2009) *Global entrepreneurship monitor: 2008 executive report* Babson Park, MA and London, UK: Babson College and London Business School, p. 20; N. Bosma, K. Jones, E. Autio and J. Levie (2008) *Global entrepreneurship monitor: 2007 executive report* Babson Park, MA and London, UK: Babson College and London Business School, p. 16.

TEA is the main index used in the GEM research. It illustrates the rate and development of entrepreneurship and measures the extent to which a society is involved in undertaking new ventures overall (Bosma *et al.* 2008). Chart 2 compares indices of entrepreneurial activity.

Analysing the rate of entrepreneurship recorded by particular European countries with the use of the TEA index, it should be stated that, in 2007, the highest rate was recorded in Hungary (6.9 %), with the average fluctuating around 5.5 percentage points. Latvia was another country characterised by a high TEA index (namely, 4.5 %). Russian society was the least willing to undertake entrepreneurial activity (2.7 %). Comparing this data with western Europe, it can be noticed that Spanish and Irish people (7.6 % and 8.2 % respectively) were clearly more oriented towards entrepreneurial activity compared to people in central and eastern Europe. However, this tendency is subject to radical change and, in 2008, the TEA index was higher in post-socialist countries than in western European ones. Such a situation might stem from the lasting economic crisis that has made societies of less-developed countries seek alternative forms of economic activity and, hence, to start business activity.

Summing up the above analysis, it can be stated that entrepreneurship is subject to development in central-eastern European countries, something confirmed by the results of the questionnaire survey conducted by the author as well as by the measures used for the purposes of the GEM research, i.e. TEA and Nascent Entrepreneurs. Therefore, it is beyond any doubt that the transformation has had a positive effect in terms of enhancing the understanding of entrepreneurship as the ability to generate profit. It has also made people equate an entrepreneur with anyone who can effectively use capital generated and, hence, receive benefits.

**Chart 2 – TEAs for selected central-eastern and western European countries (%)**



Source: own elaboration based on N. Bosma, K. Jones, E. Autio and J. Levie (2009) *Global entrepreneurship monitor: 2008 executive report* Babson Park, MA and London, UK: Babson College and London Business School, p. 20; N. Bosma, K. Jones, E. Autio and J. Levie (2008) *Global entrepreneurship monitor: 2007 executive report* Babson Park, MA and London, UK: Babson College and London Business School, p. 16.

## Economic development vs. entrepreneurship

Examining the entrepreneurial potential demonstrated by people living in central-eastern European countries, one should not disregard the economic determinants that do not depend on a given individual but which do have a direct effect on the form and development of entrepreneurial activity. One of these such determinants is the economic development of a particular country which, in the face of the economic crisis, has an even more profound influence on entrepreneurial processes and attitudes.

Hence, taking the main aim of this article into account, it is worth examining the statistical relationship between the economic situation and readiness to develop entrepreneurship, as demonstrated in the countries under investigation. The results of the questionnaire survey carried out by the author will be presented first, followed by the findings of the GEM research.

An analysis of the influence that an evaluation of the economic situation has had on respondents' readiness to start business activity suggested a stochastic relationship, which was also confirmed by the coefficient of determination calculated for this relationship (Table 3).

**Table 3 – Cramer's V coefficient and  $\chi^2$  test for relationship between readiness to start one's own business and evaluation of economic situation and policy**

| Country   | Cramer's V coefficient | Chi-square statistic |
|-----------|------------------------|----------------------|
| Lithuania | 0.23636                | 40.54323             |
| Poland    | 0.35252                | 68.11352             |
| Russia    | 0.30343                | 54.33212             |
| Hungary   | 0.32433                | 62.35464             |
| Latvia    | 0.38142                | 57.30456             |

*Source: own elaboration based on the results of the survey.*

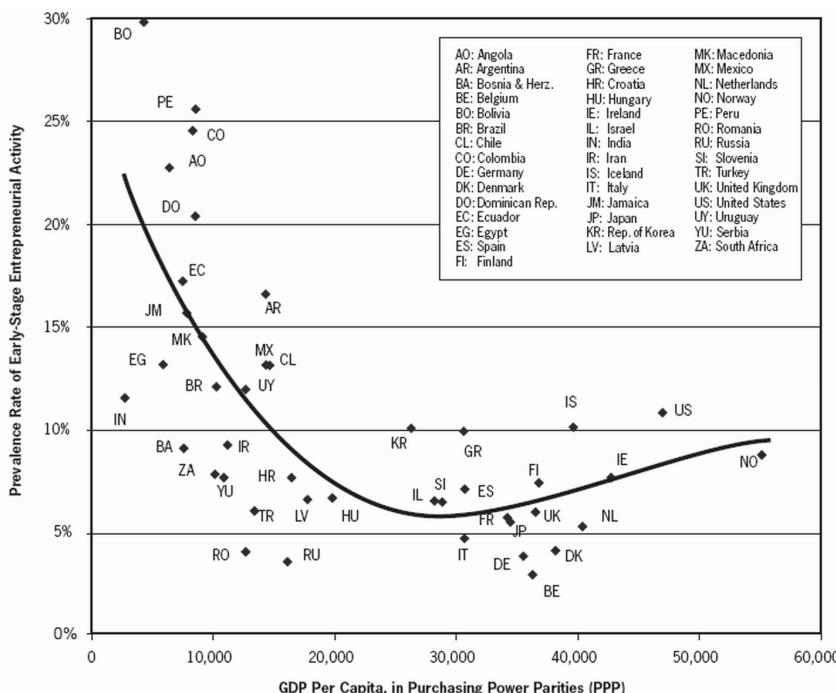
The relationship under discussion differs from country to country. The closest relationship is found in Latvia, where Cramer's V coefficient (0.38142) suggests that the correlation is really strong. It can be fairly stated that, in Latvia, there is a statistical relationship between the economic situation and the readiness demonstrated by society to start business activity.

The least significant relationship was found in Lithuania (0.23636). It is not as close as in the case of the other countries, but it is crucial from the perspective of the aim of this article and the methodological assumptions it has made. Nevertheless, that respondents considered the economic situation and policy to be positive clearly has a profound influence on the development of entrepreneurial attitudes and processes, reflected in people's readiness to start business activity. Therefore, it can be concluded that the better the economic situation (as evaluated by people living in central-eastern European countries), the more eager people are to set up their own firms.

The above results are also confirmed by the results of analysis into the correlation between the possibility of starting one's own business and GDP *per capita* in purchasing power parities, as set out in the GEM 2008 report.

The researchers recorded the highest rates in the less-developed countries. This is also the case with the central-eastern European countries under analysis, particularly Hungary and Latvia. These states are characterised by a considerably lower GDP *per capita*, yet observe a much closer stochastic relationship between the level of economic development and readiness to start a business activity (compared to developed countries). Such a situation is mainly caused by national income *per capita* being subject to increase in the countries under analysis, which has had a positive effect on rates of self-employment (Storey, 1999; Audretsch *et al.* 2001). The growing level of income is reflected in growing consumer demand for various products and services, resulting in the creation of new branches of industry, technological developments and, hence, opportunities and chances for newly-established firms to take. Furthermore, the trading structure of enterprises is subject to change; namely, the number of manufacturing enterprises is decreasing in favour of enterprises in the services sector (Wennekers, 2002). It is cheaper to set up and manage the latter and, hence, more and more people are deciding to establish such firms from a long-term perspective, which contributes considerably to an increase in the rate of entrepreneurship in a given country.

Chart 3 – Early-stage entrepreneurial activity rates and GDP per capita, 2008



Source: own elaboration based on N. Bosma, K. Jones, E. Autio and J. Levie (2009) *Global entrepreneurship monitor: 2008 executive report* Babson Park, MA and London, UK: Babson College and London Business School, p. 22.

On the basis of the statistical conclusions drawn, the results of the questionnaire survey carried out by the author as well as the GEM research, it can be stated that there is a significant relationship between the rate of entrepreneurship and the level of economic development. This relationship is proven by statistics of correlation coefficients, particularly in central-eastern European countries, on the basis of which one may identify a close relationship between entrepreneurship and the economic situation of a country.

## Conclusion

In order to examine entrepreneurship rates in countries situated in central and eastern Europe, both primary and secondary data was analysed to fulfil the main aims of this article. Apart from the literature on the subject, analysis of the secondary material was based on the statistical data published by GEM 2007 and GEM 2008. In contrast, primary data was analysed on the basis of material collected in the course of a questionnaire survey conducted by the author.

The verification of the research material has explicitly proven that entrepreneurship is subject to sustainable development in central European countries. It is worth stressing that the GEM research showed that entrepreneurship rates there were very often higher than in western European countries. This undoubtedly proves that (in accordance with the teachings of Schumpeter, Knight, Casson or Baumol), people living in the countries under discussion are consistently seeking business opportunities and chances so as to create market value added. This tendency is reflected in the establishment of new firms and organisational structures, as well as in the development of new products and services. It is beyond any doubt that such behaviour results from the political transformation occurring in these countries, but it has also had a positive effect on evening out the socio-economic imbalance between central-eastern and western European countries. This is all due to entrepreneurial processes and attitudes (illustrating the extent to which a given country is competitive) and the possibilities for the functioning of market entities in the global economy.

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