

# Thinking Like a Social Scientist: Management

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# Introduction Management

*Planning, organising, leading and controlling  
an organisation towards accomplishing a  
goal*

Wikipedia

# Introduction

Analysis of management includes an understanding of:

- Manipulation of resources to achieve the organisational goal
  - Financial resources
  - Human resources
  - Technological resources
- Motivating or leading individuals to achieve organisational goals
- Designing organisational structures to coordinate activities
- Creating informational systems to track progress
- Multi-disciplinary subject, drawing on economics, finance, sociology and psychology to address specific set of questions

# Introduction

We will illustrate the approach by focusing  
on one aspect of management:

**Entrepreneurship**  
“starting a new organisation”

# Outline of Lecture

- **Definitions:** Entrepreneurs and Transition
- **The background** and literature
  - Barriers to entrepreneurship
  - Networks and entrepreneurship
  - Controls
- **Hypotheses**
  - Institutions and entrepreneurship
  - Networks and entrepreneurship
  - Controls
- Data and definition of variables
- Analysis and results
- Conclusions

# Defining the entrepreneur in the transition context

- We focus on individual entrepreneurs who
  - 1. Perceive and create new market opportunities through innovative activity
    - Kirznian – exploiting opportunities not seen by others
    - Schupeterian – innovating new products and methods
  - 2. Introduce their ideas in the face of uncertainty and other obstacles
  - 3. Create viable business that contributes to the national economic growth and their own livelihood
  - 4. Engage in this activity at the opportunity cost of pursuing other occupations

# Entrepreneurship and stages in transition

<u>Stage</u>	<u>Economic Environment</u>	<u>Types of Entrepreneurship</u>
Early	Inflation, recession, massive need to reallocate resources, great uncertainty	Kirznian
Middle	Stabilised prices, growth resumed, some experience of market prices, reduced but high uncertainty	Kirznian and some Schumpeterian
Later	Market institutions more developed, e.g. capital markets, property rights better defined and enforced, uncertainty tending to Western levels	More Schumpeterian

Changes in environmental and opportunities over time likely to lead to differences in entrepreneurial endeavour, strategies and personal characteristics

# Barriers to entrepreneurship in transition

## ■ Key barriers

- Financial
- Institutional
- Human capital and socio-cultural factors
- Weak cultural recognition of value of entrepreneurship

# Financial barriers

- Usual sources of start-up capital not available at start of transition
  - **Personal wealth** could not be accumulated under communism
  - **Financial markets** almost non-existent at start of transition
  - **Banks** inexperienced in private sector lending and lack organisational capacity to finance entrepreneurs

# Institutional barriers

- Immature legal and institutional system
  - Outdated or non-existent commercial code
  - Laws needed to define key concepts of market economy
  - Legal system inexperienced
  - Weak protection of private property rights, especially investor rights
  - Enforcement of contracts sometimes relies on informal networks or threat of physical force

# Evidence on institutional barriers

- Russia much “worse” than Central Europe
- Taxes, financing and policy instability are among top obstacles mentioned
- Informal institutions e.g., crime or functioning of judiciary also mentioned
- Corruption a serious problem

# Data on institutional environment

	Bulgaria	Hungary	Poland	Russia	UK
Entering a contract (days)	440	365	1000	330	288
Starting a business, procedures	11	6	10	9	6
Corruption Perception Index (rank)	54	42	67	90	11

# Nature of entrepreneurship: entrepreneurial strategies in transition economies

- Entrepreneurs adopt strategies to circumvent burdensome institutions or create substitutes for missing ones
  - Reputational incentives substitute for court enforcement of contracts
  - Trade credit for bank credit
  - Networking for market relationships
- These strategies allow entrepreneurs to operate in volatile environments
- Unclear whether these strategies become institutionalised and go on to hinder evolution of more efficient market institutions

# Coping strategies 1: risk and capital scarcity

- Capital scarcity a problem for establishment of new firms and their growth. Coping strategies include:
  - Engagement in trade for initial capital accumulation
  - Creating several businesses simultaneously to hedge against volatility, especially in manufacturing
  - Entrepreneurship only a part-time activity
  - Multiple ownership of entrepreneurial firms
- These strategies may hinder the subsequent development of business efficiency. More common in Russia

# Coping strategies 2: networking

- Networks crucial in most transition economies
- Networks substitute for missing formal property rights enforcement mechanisms; long term relationships as repeated game to prevent cheating
  - Batjargal finds in Russia, where market transactions subject to high transactions costs, ability to access resources through networks enhances growth
  - Impact of networks can be positive, as in China, or negative as in Russia

# Personal characteristics of entrepreneurs

## ■ CEE: entrepreneurs

- Often come from families with pre-communist entrepreneurial traditions
- Often had lived abroad and returned home after the fall of communism
- High education level and previous managerial experience, usually in SOEs. Often young

# Personal characteristics of entrepreneurs

- Russia: entrepreneurs more likely to have
  - Family exposed to business experience
  - Higher cognitive test scores and proxy for “greed”
  - Positive attitude to government and society
  - Lower perception of corruption

# Hypothesis

- Hypothesis 1: Due to their weak institutional environment, entrepreneurial activity will be lower in former Soviet-type economies than in developed and emerging markets
- Hypothesis 2: levels of entrepreneurial activity will be even lower in Russia (and the former Soviet Union) than in other former socialist economies
- Hypothesis 3: Networks may substitute for weak institutions. Individuals already embedded in entrepreneurial networks have a significant advantage in Russian start up

# Datasets

- Combine data on individuals within countries – entrepreneurs and non-entrepreneurs – using GEM surveys with country specific data on institutions
- GEM data copies contains stratified samples of at least 2000 individuals in 32 countries 2001 - 2005

# Definition of variables

## Dependant Variable:

- **Entrepreneurship** – whether individual is involved in start-up activity in past year  
(0:1 dummy variable)

# Definition of variables

## Independent Variables:

■ **Institutional Quality** - From La Porta *et al*, 1999.

Countries classified by legal environment:

- English
- French
- German
- Scandinavian
- Transition (former socialist)

Plus Russia dummy variable

Prediction: English legal heritage more conducive to entrepreneurship

# Definition of variables

## Independent Variables:

### ■ Networks

- Individual personally knows entrepreneur
- Individual is currently business owner

Prediction: coefficient on networking variables positive

# Definition of variables

## Control Variables include      Prediction

- |                         |   |
|-------------------------|---|
| ■ Gender (Male)         | + |
| ■ Age                   | - |
| ■ In current employment | + |
| ■ Access to finance     | + |
| ■ Low education         | - |

# Summary of results

## 1. Entrepreneurship and Institutions

- Individuals with given characteristics more likely to become entrepreneurs in countries with English legal heritage
- Individuals even less likely to become entrepreneurs in former socialist economies than in any other legal system
- Individuals in Russia less likely to have enterprises than those in other socialist economies

# Summary of results

## 2. Entrepreneurship and Networks:

- Individuals who are members of networks in Russia are more likely to be entrepreneurs. This does not pertain in other comparable emerging markets

# Summary of results

## 3. Control Factors

- Young educated males are more likely to become entrepreneurs
- People with superior access to finance more likely to become entrepreneurs
- People currently in employment more likely to become entrepreneurs

# Conclusions

- Focus of analysis – determinants of entrepreneurial activity in transition economies
- Hypotheses developed – based on historical and cultural factors as well as resource questions
- Data – combined individual level and cross-country information
- Results – confirms main hypotheses

# Conclusions

- Implications – increasing levels of entrepreneurship in transition economies requires policy towards
  - Individual characteristics – education, training
  - Human and cultural barriers
  - Resources available – financial barriers
  - Institutions – notably legal framework underpinning market. Networks do improve things but cannot substitute for market