

National systems of entrepreneurship in transition economies: An empirical analysis of spatial institutional variation in Russia

Introduction & theory

There is little discussion in the scientific community about the positive effects of Entrepreneurship. High entry rates create growth, jobs and a more adequate distribution of income. They are also substantial for economic development and innovation capabilities of countries ([Klapper et al., 2006](#); [McMillan and Woodruff, 2002](#); [Baumol, 1990](#)).

The literature on entrepreneurship assumes that most of the findings have been taken as being general and valid across countries. Moreover entrepreneurship researchers have focused to a great extent on individuals and tended to ignore the regulating effect of context on individual action. A great deal of the trade-offs and opportunity costs faced by entrepreneurs are regulated by national context – for example through its broad range of different institutional settings, formal and informal, different cultures, norms and values and attitudes toward entrepreneurship which all effect entrepreneurial performance ([Autio et al, 2015](#)).

With regard to this, Acs, Autio, Szerb ([2014](#)) introduced a novel theoretical framework concept, i.e. National Systems of Entrepreneurship (NSE). NSE are resource allocation systems that are driven by individual-level opportunity pursuit, through the creation of new ventures. Within those systems, efforts towards venture creation are regulated by country-specific institutional characteristics. Thus NSE consider contextualization of the entrepreneur and not just its personal characteristics and aspirations, which recognizes that national entrepreneurship processes are always embedded in a given country's institutional framework ([Acs et al., 2014 & 2016](#)). Moreover, the systemic approach of NSE allows for interactions between components of National Systems of Entrepreneurship. Though business barriers can be examined in isolation of one another, exploring their interrelatedness can provide a deeper level of understanding with regards to the interactions between business barriers ([Acs et al., 2014](#); [Aidis, 2005](#)).

Various studies have analyzed cross-country heterogeneity in entry rates and hypothesized a link with the domestic institutional context. These studies, nevertheless, could only partially control for macroeconomic differences, legislation, socio-cultural and other country specific factors – a major disadvantage of cross-country studies ([Bruno et al., 2013](#); [Klapper et al., 2006](#); [Djankov et al., 2002](#)). Thus, as countries usually are not homogeneous, regional systems of entrepreneurship provide a useful focus for empirical research. Numerous studies emphasize the local incentive structure for

entrepreneurship. Local market potential at the regional level is an important factor influencing the decision for firms to enter (Fritsch and Wyrwich, 2012, 2014a, 2014b; Audretsch et al., 2006; Berkowitz and DeJong, 2005; Baumol, 1990). However, there is significant spatial variation in the entrepreneurship context across regions that impacts entrepreneurial activity and which calls for a profound analysis.

The context of the Russian Federation provides an ideal setting in addressing the question of how institutions influence new firm entry, especially in view of regionally differentiated processes of transition to a market economy. Even after more than twenty-five years of transition, Russia is still one of the countries with the lowest share of founders and innovative companies (Chepurenko, 2011). Moreover western best practices in an environment of apparently hampered institutions could neither prevent nepotism nor meet the special context of a transition economy (Chepurenko, 2011). This is in line with general literature, which argues that in malfunctioning institutional frameworks, entrepreneurs do not take new ventures or restrict their activities to unproductive types of entrepreneurship (Glaeser et al., 2003; Johnson et al., 1997; Baumol, 1990). In Russia, the variety of economic conditions and the considerable scope for regional governments to influence local institutions have resulted in significant divergence of regional development paths. Those inter-regional differences in both formal and informal institutions might have a significant effect on regional entry rates in Russia (Bruno et al., 2013; Popov, 2001).

Methodology

With regard to this, two research questions will be addressed:

- 1) Which institutional factors significantly influence Russia's entrepreneurship activity?
- 2) Is the performance of the Russian national system of entrepreneurship subject to institutional bottleneck constraints?

The empirical work is driven by a combination of different data sources within a panel regression model. The exogenous variable is derived from a comprehensive new longitudinal enterprise data set taken from Bureau van Dijk's "ORBIS" database. From this data set I calculated entry rates per year, Russian region and industry (according to NACE classification).

On the endogenous side I consider several sources of information concerning institutions at the regional level (*data sources in brackets*). Those data comprise factors like criminality (Rosstat; Rochlitz, 2014), bureaucracy (Rosstat), performance of regional executive authorities (ICSID Database of HSE University), quality of public administration, political and legal risks, and other

aspects (RA Rating Agency), corruption, financing, administration, infrastructure and human resources (Opora Rossii) and moreover several factors regarding sub-aspects of democratization, e.g. liberalization, political pluralism, independent media, etc. (Carnegie Center Moscow). Furthermore it will be controlled for different levels of economic development and intra industry competition.

With regard to the cross-regional structure of the study – as outlined before – results are expected to be more comparable within same country borders. Notwithstanding their specific regional development paths, the different regions are subject to the same federal law, a common market, the same history and similar social/cultural characteristics that influence the appearance of entrepreneurship. Considering this, the statistical model will be more reliable regarding the ceteris paribus assumption and omitted variable bias.

Potential results & contribution (*work in progress*)

The results are expected to provide evidence, that regional variation in institutional quality impacts on entry rates. Moreover I expect to identify specific bottleneck factors that constrain Russia's entrepreneurial performance. This assumption is based on two related theories, the theory of the weakest link and the theory of constraints, which argue that the performance of dynamic systems is characterized by interdependencies and feedback loops depends on the element with the lowest value. According to those theories, improvements can only be achieved by reinforcing the weakest link (i.e. the bottleneck) that constrains the performance of the system ([Acs et al., 2014](#); [Tol and Yohe, 2006](#); [Goldratt, 1994](#); [Yohe and Tol, 2001](#)).

This study will also contribute to the emerging literature on national systems of entrepreneurship, particularly with regard to regional institutional contexts. Additionally, the results will contribute to the discussion on institutional impacts on entry in a general context, pioneered by [Djankov et al. \(2002\)](#), [Wennekers et al. \(2005\)](#) and [Van Stel et al. \(2007\)](#) as well as particularly to literature with focus on a transition economies context ([Chepureenko, 2011 & 2015](#)).

Due to the assumption, that regional institutional ecosystems play an important role in nurturing new venture seeds into value-adding growth ventures ([Autio and Thomas, 2013](#)), there's also a practical impact in identifying bottleneck factors constraining entrepreneurial performance. Thus, policy discussions around shaping framework conditions for entrepreneurship should focus not only on the size of government spending but also on its design ([Aidis et al., 2009](#)), with particular attention to bottleneck components that require most attention. This will help to set tangible targets for policies and support initiatives designed to alleviate the bottleneck factors identified.

Literature

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