Why do People Start-up? Motivation Structure of Early Entrepreneurship and the Innovation Drive in the Netherlands and Russia

Key words: entrepreneurial aspirations; entrepreneurial motives; GEM, Russia, the Netherlands, institutional restriction, innovativeness, early-stage entrepreneurs

Objectives: The paper differentiates the main reasons of entrepreneurial motivation to start-up, and what supports ability to innovate among entrepreneurs in the Netherlands and Russia.

Prior work: There are many studies on entrepreneurial motivations, defined as the motivation for founding a business. They are presented in four main types. (1) studies of reasons or motives to start a firm; such reasons (motives) can be classified as either opportunity or necessity a distinction akin to ‘‘pull’’ and ‘‘push’’. These types of studies, being mostly conducted in developed countries where push motives are less prevalent, report mostly pull motives such as autonomy (independence, freedom). (2) Cost-benefit types of studies - it tries to explain the decision to start a business, material and immaterial risks and gains are brought into some decision function. (3) Studies of entrepreneurial motivation investigating depth-psychological motives. (4) Multinomial logit-type investigations explaining the odds of being in a certain stage of the entrepreneurial process vis-à-vis not considering self employment at all. In our paper we imply the first type of studies, mentioned above.

Approach: The research based on GEM data for 2006-2009 years. We investigated the difference in necessity-motivated entrepreneurs under the pressure of institutional difficulties, social protection system, and risk. Opportunity-motivated entrepreneurs observed as a dependent variable from social support (standards of living, patterns of ideal career, status, and respect toward entrepreneurs) and perceptual factors (perception of fear of failure; knowledge, skills,

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and experience; market conjuncture). Innovation capacity of entrepreneurs investigated in frame of demand factors and competitiveness in the same business, availability of technologies, export ability.

**Results:** Institutional difficulties in Russia are much more restrictive. The thesis about lower rate of risk sharing did not support. Russians look more risky in starting new business. Entrepreneurship for Russians is more risky in the case of social protection system. In that view the share of necessity-driven entrepreneurship is higher in Russia. Consequently they are going to found new business to increase personal income instead of independence or take advantage of business opportunity. As for opportunity motive, perceptual factors are more restrictive in Russia, but in less of significance that had been assumed. As a result the share of opportunity-driven entrepreneurs in the Netherlands is higher due to healthier situation in some specific fields of social support. Innovativeness among early-stage entrepreneurs is higher in the Netherlands. It has strong support from market demand, and also - public support.

**Value:** The study contributes to cross-country comparisons in the field of entrepreneurial aspirations. It demonstrates the difference in predictors of entrepreneurial motives between the innovative Netherlands and factor-driven Russia.

**Preliminary notes**

According to the results of Global Entrepreneurship Monitor 2010 Global Report entrepreneurial activity delivers many benefits to the economy. It depends from many variables and differs across countries.

Motivation is one of the main predictor of entrepreneurial activity. Increasing wealth is the prime motive for becoming self-employed. It mediates the relationship between socioeconomic variables and entrepreneurial aspirations. Independence-motivated entrepreneurs are happy to be able to do the work they want to do and not to have to work for others and that for them a comfortable living is enough of a success (Hessels, Gelderen et al., 2008). At the same time find no evidence of a relation between the increase-wealth motive and innovative entrepreneurship.
But knowledge of how to run a business increases survival rates and contributes to the innovation output of firms (Weterings, Koster, 2007). Risk attitudes do not appear to have a strong role to play in the entry decision overall (Elston & Audretsch, 2011).

Motivation could be different across countries because of many “red tapes” and national characteristics of individuals (Fritsch & Schroeter, 2011). For instance, entrepreneurial motivation of Japanese entrepreneurs is more society oriented while Silicon Valley entrepreneurs are motivated by more individualistic factors such as personal achievement and accumulation of personal wealth (Suzuki, Kim et al., 2002). Such determinants of an individual’s choice as age, risk aversion and wealth could explain some differences in decision of whether or not to become an entrepreneur (Levesque & Minniti, 2006). At the same time risk-tasking propensity varies systematically across cultures and may be related to the uncertainty avoidance dimension of culture or linked to the individualism dimension of culture (Tomas & Mueller, 2000). But even when individuals have favorable perceptions of entrepreneurship, they may nonetheless have few intentions to start businesses. In other words although attitudes and perceptions about entrepreneurship are fairly high, this is not matched by high intentions for starting businesses.

The type of economy: factor-driven, efficiency-driven, or innovation-driven economy, - also exerts significant influence on entrepreneurial activity. For instance, the factor-driven phase is dominated by subsistence agriculture and extraction businesses, with a heavy reliance on labor and natural resources. In the efficiency-driven phase, further development is accompanied by industrialization and an increased reliance on economies of scale, with capital-intensive large organizations more dominant. As development advances into the innovation-driven phase, businesses are more knowledge intensive, and the service sector expands (GEM 2010 Global Report). Countries with higher rates of economic growth tend to have higher proportions of increase wealth-motivated entrepreneurs (Hessels, Gelderen et al., 2008). But the promotion of increase-wealth-motivated entrepreneurship will be challenging for higher-income countries since the incidence of increase-wealth-motivated entrepreneurs relates negatively to the level of
economic development. Firm start-ups are dependent on access to capital in both initial and early stages of development (Elston & Audretsch, 2011). In that case government funding is an important source of capital for potential and nascent entrepreneurs. But also non-financial factors are important. For instance, the regional share of R&D employees exerts a positive effect on employment creation by new businesses (Fritsch & Schroeter, 2011). At all innovativeness does not vary systematically with culture, what means innovation to be a common motivation for the act of new venture formation (Tomas & Mueller, 2000).

According to the World Economic Forum’s Global Competitiveness Report 2010-2011 in Russia presented efficiency-driven economy, in the Netherlands – innovation-driven. The division by type of economy based on two criteria: level of GDP per capita at market exchange rates and the extent to which countries are factor driven (the share of exports of mineral goods and services). The Netherlands improved their index from 2009-2010 ranking and moves up two positions to 8th place. “Dutch businesses are highly sophisticated (ranked 5th) and are among the most aggressive internationally in absorbing new technologies for productivity enhancements (ranked 3rd for their technological readiness). The country’s excellent educational system (ranked 8th and 10th for the two related pillars) and efficient factor markets, especially goods markets (ranked 8th), are highly supportive of business activity. The Netherlands is also characterized by a comparatively stable macroeconomic environment. Russian Federation maintains its 63rd position, reflecting the fact that the deterioration in macroeconomic stability has been somewhat balanced by improvements in other areas, notably infrastructure, health, and education, as well as technological readiness. At the same time, Russia’s competitiveness continues to worsen in what is one of the major areas of concern, the efficiency of goods markets. Competition, both domestic and foreign, is stifled by inefficient anti-monopoly policies as well as restrictions on trade and foreign ownership. These inefficiencies in goods markets reduce the country’s ability to take advantage of some of its strengths, in particular its high innovation potential and its solid performance in terms of higher education and training. A particular challenge for Russia is
related to its very weak institutions. Ranked 118th in this area, the country suffers from insufficient protection of property rights (126th), undue influence (114th), and weak corporate governance standards (119th),” (The Global Competitiveness Report 2010-2011).

Picture1. Country profiles

The biggest gap between countries observed in innovation and sophistication factors: 8th and 80th place for Netherlands and Russia accordingly (Picture 1). By measuring innovation factor main attention paid to the environment that is conducive for innovative activity, supported by both the public and the private sectors. In particular, it means sufficient investment in research and development (R&D), especially by the private sector; the presence of high quality scientific research institutions; extensive collaboration in research between universities and industry; and the protection of intellectual property. As for sophistication factors they measured by quality of a country’s overall business networks and the quality of individual firms’ operations and strategies. According to figures we could find out market size remains one of the most important advantages for Russia. But if we look at the the World Value Survey Cultural Map (picture 2), we will find that Russians are more focused on basic needs, when the Netherlands - on self expression values. In that case the potential of local market could be unclaimed to stimulate and
absorb innovation capacity. Also quite weak institutional environment in Russia could be more restrictive to startup than in the Netherlands because of the level of uncertainty increases.

Picture 2. The World Value Survey Cultural Map 2005-2008(worldvaluessurvey.org)

**Methodology**

In our paper we focused on the predictors in entrepreneurship motivation. Attention paid just for early-stage entrepreneurs, i.e. nascent entrepreneurs (activity no more than 3 months) and young firm or baby business (activity no more than 3.5 years). For the research purposes we used Global Entrepreneurship Monitor database for 2006-2009 for two countries: Russia and the Netherlands. We used some special filters to separate early stage entrepreneurs (which identify the age of the business by measuring the date of wages or other payments). To collect specific information about country characteristics we have used Eurostat Database and Federal State Statistics Service of Russian Federation.
For the hypothesis development we used some concepts. To make it clear we give the meaning some of them:

- Risk sharing - in that case we mean sharing the risk between participants involved in start-up phase: the more participants involved - the less risk has each of them.

- Institutional difficulties - barriers linked to macroeconomic level and expressed in such measures like time, number of procedures, costs to start a business.

- Social protection system - variable benefits such as: disablement benefits, unemployment benefits, benefits income support, old age pensions, family allowances, benefits surviving relatives, early retirement, national sickleave, - measured in total expenditure on social protection in % of GDP.

- Necessity motivated - persons, who involved in entrepreneurship to increase income because of no better choices for work.

- Perceptual factors - in our case - perception of fear of failure; knowledge, skills, and experience; market conjuncture.

- Social support - influence, exerted by society across standards of living, patterns of ideal career, status and respect toward entrepreneurs.

- Opportunity-motivated - persons, who reporting take advantage of business opportunity as a major motive.

- Demand on innovations - in our case enterprises demand evaluated by share of innovative enterprises as % of total amount of enterprises.

- Public support of innovations - evaluations of potential customers about product novelty and readiness to buy it.

- Innovation-motivated - the share of early-stage entrepreneurs, who offers innovative and globally competitive products.

We’ve determined 3 hypotheses. Two of them have additional hypotheses.
Hypotheses

**Hypothesis 1.** The share of necessity driven early-stage entrepreneurs is higher in Russia than in Netherlands due to a different rate of risk on start-up stage and much weaker social protection system (Picture 3).

Resources and institutions exert significant influence on ability to start-up and an impact differs across countries (Fritsch & Schroeter, 2011). In that case we suppose well designed social protection system could provide minimal well-being conditions, which exerts influence on readiness to apply challenges generated by imperfect institutions that serve the process of new venture creation. The intentions to compete with imperfect institutions in case of low social protection system, which does not provide minimal well-being conditions, will appear because of necessity. We expect to find out weaker social protection system and institutions in Russia than in the Netherlands and as a result - higher rate of necessity driven early entrepreneurs in Russia than in the Netherlands. To evaluate social protection system we review two measures: total expenditure on social protection (% of GDP) and total unemployment (% of total labor force). Institutional difficulties are measured by number of start-up procedures to register a business, number of days required to enforce a contract, number of months involved in starting business, and cost of business start-up procedures (% of GNI per capita). Additional variables are to be obtained from Eurostat and World Bank statistics.

![Diagram](pic3)

**Picture 3 Hypothesis 1 and 1.1**

**Hypothesis 1.1.** The rate of risk among start-up-stage entrepreneurs is higher in Russia than in the Netherlands because of much more institutional difficulties in starting new business and lower rate of risk sharing on startup stage (Pic.3).
We suppose such environmental predictors like: weak protection of legal rights, considerable tax payments; significant time costs required enforcing a contract and registering property, - increase total risks in entrepreneurial activity. In the context of our research it could be determined as environmental restrictions toward willing to start-up. At the same time there are different ways to decrease risks. One of it is sharing risks between partners (owners). We expect to identify lower risk sharing in Russia than in the Netherlands and at the same time much more difficult environmental restrictions in Russia, which at all determine higher level of risk taking readiness among early entrepreneurs in Russia than in the Netherlands.

**Hypothesis 2.** The share of opportunity-driven early-stage entrepreneurs is higher in the Netherlands than in Russia due to a difference in perceptual factors and a significant social support of entrepreneurs, which makes entrepreneurship a regular practice (Pic.4).

Social opinion could be served as a main predictor to create new venture. In that case our preposition that in the Netherlands there are higher social aspirations to start new business than in Russia and as a result – higher share of opportunity driven early entrepreneurs. At the same time we expect to find out higher rate of total entrepreneurial activity in Netherlands. According to Drucker, regular entrepreneurial activity determines an ability to search and explore opportunities (Drucker, 1985). In that case Netherlands would have much more experience in searching and exploring opportunities that will determine the share of opportunity driven entrepreneurs. To evaluate social support we include in our research measures towards familiarity with entrepreneurs, similar standards of living, starting new business as a desirable career choice, status of entrepreneurs in society, media involvement.

![Picture 4. Hypothesis 2 and 2.1](image-url)
Hypothesis 2.1. Perceptual factors are much more restrictive in Russia than in Netherlands

In case that confidence in one's ability to perform tasks relevant to entrepreneurship is a robust predictor of start-up (Townsend, Busenitz et al., 2008) and Russian Subjective Well-Being Index significantly lower than the same in the Netherlands we suppose such perceptual factors like fear of failure, self-efficacy, and estimated conditions for entrepreneurial activity in home location in coming 6 months could be much more restrictive in Russia than in the Netherlands.

Hypothesis 3. There are significantly higher rates of innovation driven early entrepreneurs in Netherlands than in Russia because of a strong and consistent demand for innovations and public support of innovations (Picture 5).

In our case to identify innovation driven early entrepreneurs we suppose that the innovation field is linked to few or no one’s competitors in the same business, recent availability of technologies or procedures required for the product or service, and high proportion of customers normally live outside home country. Demand for innovations is determined by enterprises and customer demand for innovations. To evaluate enterprises demand we have used share of innovative enterprises in countries economy. Data about customer demand is incomplete. In that case we used evaluation of customer readiness to buy new goods and services.

Picture 5. Hypothesis 3

Main results

Hypothesis 1.1. To evaluate difference between Russia and the Netherlands in starting new business we used three variables: number of procedures to start a business, time cost and financial costs, - weighted by average values of the same variables for 9 top cities represented in Easy of Doing Business Ranking. As a result institutional environment to start a business in 3,8
times more difficult in Russia than in the Netherlands. From 2006 till 2009 we could face higher rate of respondents, involved in total early-stage entrepreneurial activity. But the real difference among the Netherlands and Russia we could find in frequencies. In the Netherlands the rate of early-stage entrepreneurs in 1.8 - 3.1 times higher than in Russia. There is quite clear tendency in decreasing amount of owners on start-up stage in Russia: from 62.5% in 2006 to 31.5% in 2009. In the Netherlands there is the same tendency, but it is going not so fast. There is no significantly difference between Russia and the Netherlands in imagine number of future amount owners or managers of new business. As we could see from cross-tabs in the Netherlands much more higher rate of people, who evaluate negative future perspective and at the same time they are preparing themselves for entrepreneurship. Our suggestion about much more restrictive institutional difficulties in Russia is supported, but the thesis about lower rate of risk sharing doesn't. Opposite we face tendency in decreasing rate of risk sharing in both countries. And in addition with the first thesis it means Russians are more risky in starting new business.

**Hypothesis 1.** The share (%) of necessity driven early-stage entrepreneurs is higher in Russia. Increase income absolutely dominating motive among baby-business in Russia. "No better choices for work" presence in both countries cases, but mostly in Russia. Nascent business in Russia is aiming "increase personal income" motive. For the Netherlands there is no such data. People in the Netherlands have much more developed social protection system. At the same time it does not stimulate unemployment. So we may conclude it decreasing some risks for households (in case it provides minimal wealth). Our suggestion about higher rate of necessity driven entrepreneurs in Russia than in the Netherlands is supported. We found the rate of risk is higher in Russia in case of much more restrictive institutions serving the business. Also social protection system much better designed in the Netherlands. As a result it decreases the risks household keeping, when entering new business. Russian entrepreneurship is much more risky in that case. And that's why the rate of necessity drive entrepreneurs is higher in Russia. Mainly
they are going to increase personal income instead of independence or take advantage of business opportunity.

**Hypothesis 2.1.** In both countries respondents declared absence of opportunities in the closest 6 months for starting a business: in Russia - 66%, in the Netherlands – 63% of respondents declared presence of opportunities among early-stage entrepreneurs. As for perception about own knowledge, skills, and experience to start new business, - in the Netherlands the share of persons, who think they have it, higher by 5% than in Russia. The fear of failure is much more significant in Russia: 36%. It exceeds the same level in the Netherlands by 20%. But we didn’t find any strong support to the assumption fear of failure could significantly restrict the ability to create new venture. It means in accepting hypothesis 1.1 we mostly should rely to such predictors like perception of opportunities, skills, and knowledge. As for these variables we could declare there is a correlation between opportunity-motivation and perception of market opportunities, knowledge & experience at the level of significance 0.05. As a result we could make a conclusion that the perceptual factors are more restrictive in Russia than in the Netherlands, but not so much as it assumed.

**Hypothesis 2.** In the Netherlands the share of opportunity-driven early-stage entrepreneurs is higher than in Russia: 79% versus 70% of total early-stage enterprises accordingly.

In the previous hypothesis we determined a higher restrictive ability of perceptual factors in Russia. As for another part of the hypothesis – social support – we also could declare some difference, and they are not as critical as it could be assumed.

In Russia we could face more share of familiarity with individuals, who started a business in the past 2 years. It is higher by 29% in total. There is the difference between countries in social opinion about starting new business as a desirable career choice. In the Netherlands starting a new business is a more desirable career choice only in average in 1.7 times. The difference in the level of entrepreneurs’ status and respect in the society is less high. In average by 24% Dutch entrepreneurs have more respect in society (Pic.6). The rate of entrepreneurs’ popularity in
media is also higher in the Netherlands by 12%. There is a strong correlation between opportunity-motivation and public support such as desirable career choice, familiarity businessmen, status and respect, and popularity by media on confidence interval 95%. As a result we may conclude that the share of opportunity-driven entrepreneurs is higher in the Netherlands because of healthier situation in some specific fields of social support.

Picture 6. The share of respondents (valid %), who supported the answer: "In my country, those successful at starting a new business have a high level of status and respect".

**Hypothesis 3.** The share of innovative enterprises is significantly higher in the Netherlands. It exceeds an average value for 2006-2009 years in 4.3 times (Pic.7)

It means in the Netherlands there is a quite strong market of commercial innovations. We found 25% of Dutch companies have more than 50% of customers are normally living outside the country. It exceeds the same in Russia more, than 6 times. The usage of new technologies or
procedures required for the product in the Netherlands also higher than in Russia. In the Netherlands the share of usage technologies or procedures, which are available no more than 5 years, is higher by 13% than in Russia (Tab. 1).

Table 1 How long have the technologies or procedures required for this product or service been available?

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<th>Russia</th>
<th>Netherlands</th>
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<tbody>
<tr>
<td>Less than a 1 year</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Between 1 to 5 years</td>
<td>19%</td>
<td>32%</td>
</tr>
<tr>
<td>Longer than 5 years</td>
<td>63%</td>
<td>48%</td>
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<tr>
<td>Total</td>
<td>100%</td>
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Public support of innovations in the Netherlands is also higher than in Russia. According to “Special Eurobarometer 236 «Population Innovation Readiness»” and Russian Innovation Survey 2009-2011 readiness to consume innovation product instead of products are already in usage in the Netherlands 90%, in Russia – 62%. In that case 48% in the Netherlands are ready to buy innovation product, even if it’s more expensive; in Russia – only 26% (2006). As a result we may approve our hypothesis about significantly higher rate of innovation driven early entrepreneurs in Netherlands than in Russia because of a strong and consistent demand for innovations and public support of innovations.

**Conclusion**

During our research we’ve tested 3 hypotheses. In the first one our suggestion about much more restrictive institutional difficulties in Russia is supported, but the thesis about lower rate of risk sharing doesn't. Russians are more risky in starting new business. Entrepreneurship for Russian individuals is also more risky in the case of social protection system. That's why the share of necessity-driven entrepreneurship is higher in Russia. They are going to start-up just to increase personal income instead of independence or take advantage of business opportunity.
The second hypothesis linked to opportunity motivation. We found perceptual factors are more restrictive in Russia but not so much. As a result we may conclude that the share of opportunity-driven entrepreneurs is higher in the Netherlands because of healthier situation in some specific fields of social support.

As for innovation drive – we’ve approved our hypothesis about significantly higher rate of innovation driven early entrepreneurs in Netherlands than in Russia because of a strong and consistent demand for innovations and public support of innovations.

During the research we’ve faced some restrictions linked to low response rate in some specific questions. In that case we were limited in usage of some statistical measures. Also many variables in our field are nominal, that’s why the most popular instrument in our research is cross-tabs. Anyway the research on GEM database allowed us to support our ideas about difference in motivation structure between Russia and the Netherlands and reject some inappropriate assumptions.

References


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