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Entrepreneurship in Transitional Economy

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ABSTRACT

This paper explores the relationship among socio-political culture and the economic environment. It places the entrepreneur at the forefront of the Transitional Economy and identifies the entrepreneur as a catalyst for change and progress.

Within wider world changes, this discussion and interrogation of entrepreneurial development in the Transitional Economy provides new knowledge from the perspective of both the authors and the perceptions of 638 respondents who contributed to the research.

The concluding model makes explicit that the constructs Freedom and History serve as moderators for entrepreneurial development in the Transitional Economy and suggests that the strength of an individual is created by societal construct. The progress of entrepreneurs is enhanced where there is political and economic freedom to operate, informed by historical knowledge.

INTRODUCTION

The complexity of change means that such a task is much broader than just presenting the state and development of economics as usually understood or taught. Transitional change in any society happens via the integration of socio-political culture and the economic environment (Birley & Cromie, 1988; Butler and Hansen, 1991; Greve & Salaraff 2003; Hansen, 1995; Powell, 1990; Stevenson & Jarillo, 1990; Timmons, 1994). Transition is a historic process of change from state ownership and bureaucratic regulation to a free market economy.

The transformation requires the development of integrated independent institutions, regulated pace of privatization and overall entrepreneurial characteristics of the society (Kolodko, 2000; Murray and McMillan, 1998). Entrepreneurial operation and market competition is an essential driving force in producing efficient results. The success of this change is largely dependent on the integration of economic, social and political dimensions.

There is little empirical evidence on the relationships among socio-political culture and the economic environment. However, this might be due to the fact that little research has been dedicated. There is little research that has been dedicated to investigating the factors that either inhibit or promote the growth of an entrepreneurial culture or spirit within a country. Supported by George and Zahra, (2002) culture bears a profound impact on all faces on entrepreneurship in societies. In an effort to shed more light on this, we have begun an empirical study which explores the correlation of these factors and its role in creating progressive and successful transitional change.

Successful transitional change is the readiness of society to confront challenging, uncomfortable or even threatening situations, and finding ways to cope with the changing environment (Grote & James, 1991). Entrepreneurs in transitional economies bring genuine welfare gains through their drive and persistence in creating new ways of thinking. However, this is not just an economic phenomenon, as it is fundamental to the creation, as well as the stabilisation of democracy. (Kowalik, 2001)

PURPOSE AND METHODOLOGY

The main purpose of this paper is to examine the relationship among socio-political culture and the economic environment. In order to achieve this aim the questionnaire was developed consisting of 3 categories; General Information, Political and Social Issues; and Entrepreneurship. Category 2 and 3 comprised further detailed questions identifying issues from the past and present, across an additional 100 questions, and was distributed in the fall of 2007, to 700 business, governmental organizations, and individual respondents. A total of 638 completed questionnaires were collected out of 700 that were originally distributed representing a response rate of 91%. The responses reflect two distinct areas and were designed to reveal responses to set characteristics from both the past and the present: the past system of Communism and the current Free Market Economy.

In addition, we were able to establish connections with many parties, namely 7 major universities within the country, as well as past and present political leaders, whom we surveyed. This vast selection of the diversified respondents provided an excellent opportunity to gain crisper knowledge about the entrepreneurial activities in the country of the past politico/economic settings and of its present economic position.

Implications

We believe that this paper will make three significant contributions.

- First, it will add substance to understanding the needs of an entrepreneur when operating in a transitional economy, or indeed any other economic system.
- Second, essential elements and factors within a transitional economy are identified informing entrepreneurial progress.
- Thirdly, a unique model was constructed and is presented depicting the relationship between the past, the present and the influence of various factors on entrepreneurial development.

LITERATURE REVIEW

There are three distinct intellectual traditions propagating entrepreneurship: (i) the Austrian tradition, based on von Mises (1949), Kirzner (1973), and Schumpeter (1911), focussing on disequilibrium and human action (ii) the German tradition with a focus on innovation and change with protagonists von Thünen (1826) and (iii) the Chicago tradition focusing on uncertainty based on Knight (1921). As noted by Hébert and Link (1989) entrepreneurship, represents a multidimensional concept of vision, drive, and supply of finances, innovation and decision-making. Entrepreneurship is both stimulating and imperative in times of economic stability and transitional change. It is one of the most fascinating and one of the most Indescribable concepts in the subject of economic analysis (Brock and Evans, 1989; Freiling, 2005).

The impact of entrepreneurship on economic development is quite often portrayed as controversial and its role may substantially differ (Baumol, 1990; Thurik, 1996; Audretsch and Thurik, 2000 and 200; Carree, Van Stel, Thurik and Wennekers, 2001). However, what has been agreed by scholars is that the level of

entrepreneurial activity varies systematically both across countries and over time (Rees and Shah, 1986; Blanchflower, 1999; Blanchflower and Meyer, 1994).

The classic contributors to the economic theory of entrepreneurship, such as Cantillon, Say, Schumpeter, Knight, Mises, Kirzner, treat entrepreneurship as ubiquitous; and a attribute of the market mechanism that can never be absent. According to modern economic theory, an entrepreneur is an individual who takes on particular tasks based exclusively on the perception of market opportunities and how such opportunities may be executed to create a business. Thus, the entrepreneur is (i) a person who accepts the risk associated with uncertainty; (ii) an innovator, who undertakes to introduce on a commercial basis new products, new productive techniques, or new forms of businesses (iii) a decision maker, who sets the course of the business; (iv) an industrial leader; (v) a manager or superintendent; (vi) an organiser or coordinator, (vii) a proprietor of an enterprise, (viii) an employer of factors of production, (ix) a contractor, (x) an arbitrageur, (xi) a person who directs resources to alternative uses, and (xii) quite often a supplier of initial financial capital (Dilts, Hallam, Birmingham and Craig 1997; Hébert and Link 1982).

Thus, one may draw the conclusion that entrepreneurs in all cultures are those who are willing to accept a level of risk for the opportunity and future prospects of independence and internal satisfaction. William Baumol (1990, 1993) compared the impact of direct economic institutions in ancient Rome, Medieval China and the Dark and high Middle Ages in Europe. He concluded that entrepreneurial individuals are gifted with initiative and creativity and have existed in every historical period. (Dilts, Hallam, Birmingham and Craig 1997; Hébert and Link 1982).

Entrepreneurs were perceived as robbers ever since Aristotle introduced the persistent idea of economic activity as a *zero-sum game*, indicating that *one man's gain is another man's loss*. However, there are contradicting views to that. Jean-Baptiste Say's (1803) theory of the entrepreneur arises from his explicit rejection of the *zero-sum game* economy (Praag, 1999).

The new theories of industry evolution propagate that entrepreneurs stimulate economies and generate growth by introducing and implementing innovative ideas. These ideas include product, process, market innovation, and organizational innovations. The successful implementation, initiated by entrepreneurs, of these new ideas gives rise to the market stimulation and the economic progress of the nation (Praag, 1999). For Schumpeter (1934), the entrepreneur opens up new opportunity by turning their dreams into reality, placing stress on innovation, not on the invention. The entrepreneurial function consists not of inventing but rather of bringing knowledge to life and into the market. The entrepreneurial function precludes inventing, but includes the bringing of knowledge to life, which eventually reaches the market. In addition, Schumpeter believed that with innovation, existing structures are destroyed. With better and more efficient allocation of resources, competition arises. This results in the innovations of entrepreneurs destroying the existing market equilibrium. (Praag, 1999). Entrepreneurs in varying degrees are risk takers, resource managers, innovators, arbitragers, Are both creators and destroyers, albeit creators of new businesses, and destroyers of some conventional business models. Entrepreneurs perceive opportunities based on personal judgements and visions that others within the society either cannot see, or are unable to take and manage risks. Entrepreneurs serve as the stimulants who reshape economic growth around the world, as well as contributors as well as to the flexibility of the economy particularly in terms of innovation and the necessary adaptation to the rapid changes of demand and supply. Such an approach was clearly visible in the Transitional Economy context where entrepreneurs served as the most dynamic element in the progress of transition (Birch, 1987, Goffee and Scase 1987; Hull, Galen and Spencer, 1999; Karwowska and Mrozinska 1993).

The economic transformations experienced by industrialised countries and transitional economies of Europe, Asia and South America during the last decades have led to a re-evaluation of the entrepreneur's role in economic progress. With a number of theories on entrepreneurs and their roles within economies they remain focused on two main issues: (i) opportunity recognition, and (ii) new venture creation (Wennekers and Thurik, 1999; Ucbasaran, Westhead and Wright, 2001).

It is needless to say that world market's have progressed from the "regulated" economy of the fifties and sixties which, was dominated by the managerial firms to the entrepreneurial economy of the eighties and

nineties dominated by the small companies. Since the end of the seventies, beliefs about entrepreneurs began to move from the concept of greed, exploitation, selfishness, and disloyalty towards new and a more forward-looking approach. Today, entrepreneurship is associated with vision, creativity, enhanced economic growth, job creation, profitability, innovativeness, and generosity (Bangs and Pinson, 1999; Baumol, 1968; Berkowitz and DeJong, 2001; Vesper and Gartner, 1997)

Entrepreneurship is evident today inside or outside companies, in profit or not-for-profit companies, and in business or non-business activities in order to propagate creative ideas. Therefore, one may argue that Entrepreneurship today is an integrated concept permeating businesses in an innovative way. Consequently, This has resulted in the revolutionisation of business conducted at every level worldwide (Kuratko and Hodgetts, 2004).

European politicians who recently reached agreement on entrepreneurship and its value stated that the new entrepreneurial economy is superior to the old management economy (Audretsch and Thurik, 2001). As a result, documents published by the European Union (2001) and OECD (2001) have emphasized the importance of entrepreneurship In order to raise developmental prospects of their member countries.

The 20th century has been described as the “century of the entrepreneur” (Audretsch and Thurik, 1999; CEC, 2001; OECD, 2001). Entrepreneurs and their actions can no longer be viewed as “different” or “insignificant” but, need to be accepted as an integral part of the world economy. Perhaps, entrepreneurs should be recognised as the single most powerful force creating social and economic progress.

An economic system is a product of history and society. While the beginning of the transition in Poland commenced in the 1990s some, of the undertakings commenced in the late 1980s when Poland began to experiment with significant reforms that notably contributed to change. This included simultaneous change of both the political and economic aspects. This in turn served as a foundation for the successful “Shock Therapy”, implemented as the Balcerowicz Plan. As a result, a new sequence of change has emerged in Poland in which broad democracy came first and a free-market economy developed later. This path is the reverse of the classic sequence of “capitalism first and broad democracy later” (Kozminski, 1998; Lipton and Sachs, 1990).

Published research on entrepreneurs has ranged from psychological to demographic studies and, includes aspects of start-up obstacles. Overall, the research has focused on economic backgrounds, motivations, and techniques. The literature on entrepreneurial competencies argues that people with certain behavioural characteristics are able to perceive the opportunities available in the environment and seize such opportunities to eventually convert them into a profitable venture. Furthermore, psychological character of a nation has been shown to have some relationship to the predisposition to initiate a business. It may be suggested that many people in various cultures possess sufficient entrepreneurial characteristics to undertake the process of business creation. In the contexts of Poland, a successful transitional period would be indicated by Polish entrepreneurs possessing some unique predispositions. This may be further supported by the fact that the actual rate of business formation involves several factors, including the historical path, strength of the existing culture and business climate (Blanchflower and Oswald, 1999; Gartner, 1989; Piasecki and Rogut, 1993; Wyznikiewicz, Pinto, and Grabowski, 1993).

The spontaneous and forward-looking approach of the Polish society in the nineties has remained under the influence of the new market reality when compared to the previous social and political system. With changing circumstances in the politico-economic environment, both new and existing entrepreneurs adjusted quickly without the need to be taught, thus suggesting that entrepreneurship has been a long-standing phenomenon within Polish society.

The post-socialist systemic transformation is a historic process of gradual transition from a centrally-planned socialist economy based on the domination of state ownership and bureaucratic regulation, to a capitalist Free Market Economy based on the domination of private ownership of the means of production and on liberal deregulation. This exceedingly complex process depends on economic, social and political factors. One may raise the question, how strongly did politics and history influence and possibly harden Polish entrepreneurs? And if the answer to the question is true, how then was entrepreneurship perceived

prior to these changes? Transformation is a simultaneous process of social, political and economic changes, and entrepreneurship is more than just economic undertakings. It may be argued that entrepreneurship serves as a foundation in the creation and stabilisation of democracy (Kołodko, 2000).

The economic transformation of the 1990's resulted in a rapid development of entrepreneurship within the Polish society leading to the creation of thousands of small, private-owned firms. These firms created new jobs by employing new people and those which exited the restructured state-owned enterprises. (Bywalec, 1995; Czyzewski, 2002)

The entrepreneurial undertakings played a critical and significant role in the transformation. Furthermore, entrepreneurs delivered new habits and behaviour consequently serving as new models for action in a changing economical environment. Moreover, with the progress of transition, entrepreneurs are more willing to adapt their businesses and products to fit the existing and changing circumstances. Consequently, they create fast paced competitions to both large and small organizations, which serves as a stimulant for change (Gatian and Gilbert 1996; Karwowska and Mrozinska, 1993)

Politico-economic changes may lead to unique circumstances where entrepreneurial undertaking may be initiated. This seems to be true in both historical and contemporary society. In essence, it may be stated that the entrepreneurial eagerness has long been associated with Polish society, only to be unveiled during the significant events this country has faced.

Schumpeter, through *Theorie der wirtschaftlichen Entwicklung* (1912), was the first to assert that entrepreneurship is an important factor that spurs economic growth (Blaug, 1994). Furthermore, entrepreneurship serves as a catalyst in the development of transitional economies, as without the participation of risk takers, economic growth would be significantly limited (Kao, 1991; Shane and Venkatraman 1999, 1997).

Prior to the 1980s, the centrally planned Polish economy was dominated by large government organizations producing limited consumer goods. The incentives for entrepreneurial activities were lacking due to legal restrictions and limited business flexibility. Examples include limits imposed on access to financial credit, the number of workers employed, and the restrictions of sectors of operations. Entrepreneurs operating their businesses were dependent upon the state sector for resources and in many cases, served as cooperating subdivisions of the larger state-run companies. Despite these government restrictions, a large number of entrepreneurs of that era survived (Kołodko, 1998; Paradiso, 1990).

Throughout history, the Polish people have undertaken an immense challenge, which has created social cohesion and resilience. Since the 1980s, Polish society was greatly stimulated by encouraging an entrepreneurially minded population to seek new opportunities outside the state sector, which led to the expansion of entrepreneurial potential and, the start of both human and financial capital accumulation in the private sector. Moreover, the reform driven attempts carried out in the eighties were made to implement elements of the market economy into the socialist system, and not necessarily replacing the latter with the market economy (Kołodko, 1998; Paradiso, 1990)

By the 1990s, entrepreneurs and their businesses managed to rapidly fill the niches that were ignored under socialism in a majority of existing industries. With sweeping reforms, greater flexible prices and wages, Polish entrepreneurs responded by starting-up new businesses at a rapid rate. In 1995, small and medium size entrepreneurial companies accounted for 99 percent of all registered private sector organizations. They produced one-third of the Gross Domestic Product (GDP) in excess of US\$180 billion, and employed 60 percent of the workforce (CASE, 1999). It is also to be mentioned, that employment in the public sector has drastically diminished by 4.2 million people between 1990-1997 (CASE, 1999). This eventually led to the growth of privately undertaken business initiatives.

The entrepreneurial activities not only created jobs for the unemployed but, also provided incentives to expand the private sector which is in-line with Venkatraman's (1997) arguments. More importantly, entrepreneurs brought the new management skills and private funds that were necessary for the working capital and new investments. (CASE, 1999; Kakiet-Springer and Ludwig, 1998; Venkatraman, 1997).

Although most existing small businesses were in the hands of private entrepreneurs in the times of socialism, the politico-economical change of the nineties enabled these entrepreneurs to attract new capitals and invest in lucrative undertakings. The rapid growth of entrepreneurial companies contributed to accomplish the recovery and growth of Poland in a relative short time frame.

It is apparent that the development of entrepreneurship had a permanent feature in Poland and other Central European transitional economies. In effect, this has led to a successful movement from one stage of market development to another. Further, market transition was fully guided through government intervention in the form of privatisation. This is unique to Poland where government intervention added value and a free fall in the market economy was avoided, which was seen through Russia's severe adjustment problems. In the Polish case, the government in Poland fostered entrepreneurship by building market-supporting infrastructure, and encouraging robust patterns of entrepreneurial developments at the same time, resulting in high rates of economic growth, in contrast, Russia endured a period of economic stagnation during transition, which resulted in relatively sluggish entrepreneurial development (McMillan, and Woodruff, 2001).

It can be shown that the entrepreneurial development in Russia has been held back by a combination of factors such as permanent resistance to change in the prevailing bureaucratic-administrative business culture, underdeveloped legal and financial infrastructure, considerable administrative discretion and corruption in various government offices, restrictive taxation, high interest rates, sky rocking inflation, and lack of management expertise and skills (Connor, 1991; Kaser, 1995; Kornai, 1995).

In comparison, this may further suggest that the specific environmental factors such as family and support systems, financing sources, employees, customers, suppliers, strength of local communities, viable and uncorrupted government agencies, strong culture, political and economic environment significantly affect entrepreneurial progress (Bloodgood, Sapienza, and Carsrud (1995). Aldrich and Wiedenmayer (1993) suggest that the socio-political environment may be so powerful that it creates or destroys entrepreneurship in a country as seen by the comparison of Russian failure and Poland's progress.

Undoubtedly, entrepreneurs fill niches that help to improve societal existence and as a result overall progress. This is particularly relevant in the context of transitional economies and especially Poland where entrepreneurs successfully facilitated this contribution (McMillan and Woodruff, 2002).

DISCUSSION

It may be suggested that many people in various cultures possess sufficient entrepreneurial characteristics to undertake the process of business creation. In the contexts of Poland, a successful transitional period indicates that the Polish entrepreneurs possess these unique predispositions. This may be further supported by the fact that the actual rate of business formation involves several factors, including the historical path, strength of the existing culture and business climate (Blanchflower and Oswald, 1999; Gartner, 1989; Piasecki and Rogut, 1993; Wyznikiewicz, Pinto, and Grabowski, 1993).

The spontaneous and forward-looking approach of the Polish society in the nineties has remained under the influence of the new market reality in comparison to the previous social and political system. With changing circumstances in the politico-economic environment, both the existing and the new entrepreneurs adjusted quickly without the need to be taught thus suggesting that the entrepreneurship as such was a long-standing phenomenon within Polish society.

The post-socialist systemic transformation is a historic process of gradual transition from a centrally-planned socialist economy based on the domination of state ownership and bureaucratic regulation, to a capitalist Free Market Economy based on the domination of private ownership of the means of production and on liberal deregulation. This exceedingly complex process depends on economic, social and political factors. One may raise the question how strongly did politics and history influence and possibly harden

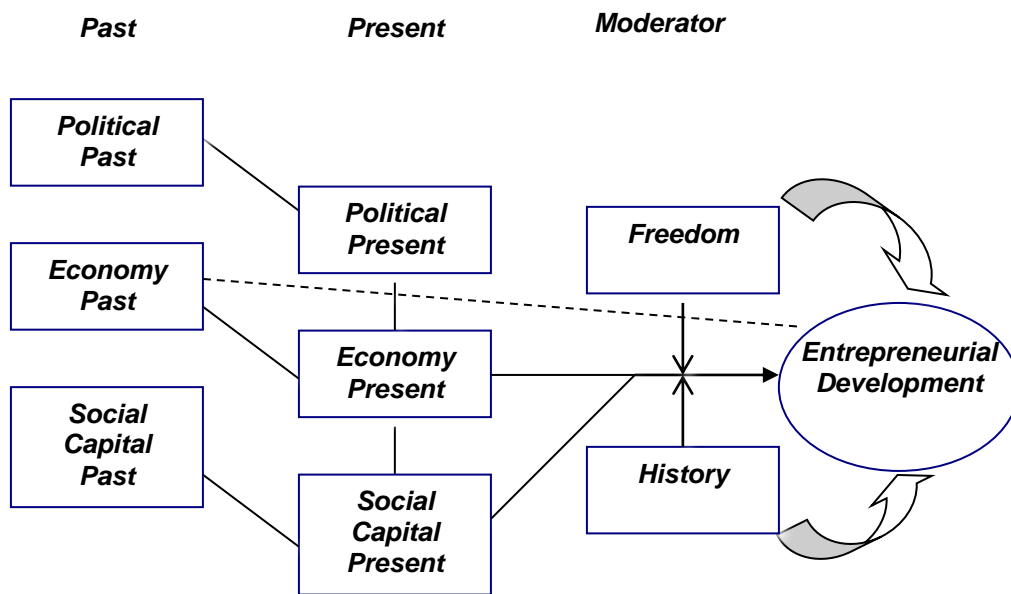
Polish entrepreneurs? And if the answer to the question is true, how then, was entrepreneurship perceived prior to these changes? Transformation is a simultaneous process of social, political and economic changes, and entrepreneurship is more than just economic undertakings. It may be argued that entrepreneurship serves as a foundation in the creation and stabilisation of democracy (Kołodko, 2000).

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The entrepreneurial undertakings played a critical and significant role in the transformation. Furthermore, entrepreneurs delivered new habits and behaviour consequently serving as new models for action in a changing economical environment. Moreover, with the progress of transition entrepreneurs are more willing to adapt their businesses and products to fit the existing and changing circumstances. Consequently, they create fast pace competitions to both large and small organizations serving as a stimulant for change (Gatian and Gilbert 1996; Karwowska and Mrozinska, 1993)

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Figure 1 – Conceptual Model



Source: © J.K Tanas 2009

Figure 1. The model shows interrelationships between the political, economic social variables as examined in this study. The model emerged from the investigation of aspects related to the past market economy of Poland with the political economic and social constraints of Communism and its influence on Entrepreneurship that existed as a survival and a need based mode.

This was followed by an investigation into a Free Market Economy setting of Poland when need based entrepreneurship appeared, especially at its early stages of transformation, leading to a more established market economy when innovation based entrepreneurship could prevail.

CONCLUDING REMARKS

The aim of this study was to explore the relationships among socio-political culture and the economic environment of Transitional Economy of Poland. Our findings seem to suggest that the entrepreneurs serve as catalysts for economic advancements as they promote new ideas and new market structure (Minniti, 1999). It appears that the fundamental aspect of any economy is how to promote entrepreneurial activity. As argued by Schumpeter (1934, 1942), the key to the success of market lies in the spirit of entrepreneurs who persist with their idea and vision. It may therefore be stated that entrepreneurial operation and ultimate success plays a fundamental role (Kirzner, 1997) in the creation of healthy and well functioning change to market economy (Kirzner, 1997; Minniti, 1999; Schumpeter, 1934, 1942).

The investigation of the Free Market Economy parameters was supported by the perception of the respondents of the political economic and social aspects of the Polish society to produce the model that informs the understanding of entrepreneurship at a more comprehensive level. What makes this model unique is the discovery of the new moderators: Freedom and History impacting upon entrepreneurial development.

Freedom represents the political settings of a Free Market Economy with the consequential freedom of individuals to operate and expand without the political doctrines that inhibit business operation under Communism. In addition, the free flow of information legislation and institutions contribute to one's progress.

The Historical events of constant wars the geographical position, partition, and the influence of foreign occupiers of Poland, as well as the disappearance of Poland as an entity, formed societal strength and unity in times of need.

The model makes explicit that both Freedom and History serve as the moderators for entrepreneurial development in the Transitional Economy of Poland. This construct tends to suggest that the strength of an individual is created by the societal construct, and when aided by historical knowledge, the progress of entrepreneurs are enhanced when there is political and economic freedom to operate in.

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