RĪGAS EKONOMIKAS AUGSTSKOLA
STOCKHOLM SCHOOL OF ECONOMICS IN RIGA

LATVIAN PSED, 2006-2009

Vyacheslav Dombrovsky
Jurgita Baltrušaitytė-Axelson
Olga Rastrigina
Arnis Sauka
Friederike Welter

Overview

- Our approach is similar to GEM but has its differences
  - Screening questions harmonized with PSED but implemented via F2F omnibuses (9,000 individuals screened) over 9 months
  - Wave 1 interviews were F2F with 400 (300?) nascents
  - Questionnaire adapted from PSED2 (partially) and with add-ons
- Initially ambitious plans ran into cost constraints
  - Wave 1 completed in August 2007 (40 mins F2F)
  - Wave 2 completed in August 2008 (15 mins CATI)
  - Wave 3 is under question
- Data collection was outsourced to *Latvian Facts*, a survey vendor
- Financed by Telia Sonera
- Part of a broader research program
  - Global Entrepreneurship Monitor (2005 – present)
  - Survey of Innovative Businesses in Latvia (2008-2009)

Questionnaires

WAVE 1

- **Type of new business (9)**
- **Start-up activities (11)**
- **Market and competition (7)**
- **Owners and start-up finances (14)**
- **Future expectations and motivation (6)**
- **Attitudes toward competition and community resources (12)**
- **Taxes (5)**
- **Owner's demographics (11)**
- **Owner's education and professional experience (13)**
- **Household information (9)**
- **Respondent's attitudes (6)**

294 variables in the dataset

WAVE 2

- **Type of new business (3)**
- **Business status (15)**
- **Legal form of business (4)**
- **Start-up activities (11)**
- **Termination (4)**
- **Active start-ups (1)**
- **Startup finances (9)**
- **Financing (7)**

94 variables in the dataset

Challenges

- Due to a misunderstanding with a vendor, only 300 (of 400) interviews resulted from proper screening
- Funding constraints narrowed the options for further work
- Sharp reduction in completed interviews in Wave 2
  - 251 completed interviews (42 quitted business creation)
  - 54 refusals
  - 95 could not be contacted (wrong number, or no reply)
- Non-response rates to questions related to financing the startup are in the range of 60-70%
  - Asking about the share of total financing reduced non-response rate by about 10%, but non-response rates still very high
  - How meaningful are the findings?
- Too many nascent reported having registered firms?
  - 90% reported officially registering their business, with 64% having LLC
- Most entrepreneurs are “not interesting”?
  - major sectors are retail trade, private services, and construction

Some basic stats

- Median age is 35 years
- 39% are females
- Most startups are in construction (19%), private service (13%), and retail (13%)
- 24% of startups think their product will be new to all customers or will use technologies that were available for less than 5 yrs; but 48% consider their business to be “hi-tech”
- 49% of entrepreneurs reported that 100% of required startup capital came from their personal savings
- Median expected number of employees in the 1st year is 5; in the 5th year – 10.
- 17% (in Wave 2) reported termination of their business creation effort, 27% established an operational new firm
- However, 96 could not be contacted (discontinued?)

Novel add-ons

- A section (6 questions)tested basic knowledge of the tax system
  - taxes transform real costs of entrepreneurs' decisions
  - questions test understanding of the effects of (i) hiring an employee and (ii) purchasing a fixed assets on tax liabilities
  - on average, entrepreneur could answer 2 questions correctly
- A section on financing was borrowed from the Fed's Survey of Small Business Finance
  - 26% (in Wave 2) reported having applied for a bank loan
  - but only 16% of loan applications were declined

A quick application: survival, education, and taxes

PROBIT, MARGINAL EFFECTS			
Dependent variable: Termination or missing in Wave 2			
Education, years	-0.01 [0.393]	-0.01 [0.399]	-0.012 [0.328]
Questions correctly answered on tax test		-0.033 [0.063]	-0.036 [0.041]
Age			-0.003 [0.309]
Female (dummy)			0.105 [0.047]
Ethnic minority (dummy)			-0.021 [0.692]
N	398	398	398
Note: p-values in parentheses			

Main impressions

- Given (low) survival and response rates, a proper longitudinal study requires a very large initial sample => substantial funding required
- Interest in innovative entrepreneurs => work on SIBiL (a survey of 1,280 firms)
- Work with a portfolio of surveys, each focusing on different aspects of entrepreneurship/small business
  - GEM
  - PSED
  - SIBiL