

Entrepreneurship and Local Development in Post-Communist Central and Eastern Europe – New Challenges are Ahead: Editorial

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The papers contained in this Special Issue are a selection of contributions presented originally at a two-day workshop that took place in November 2019 at the University of Information Technology and Management in Rzeszow, Poland. The workshop focused on entrepreneurship, innovation, and local-level policy initiatives aimed at stimulating economic development in post-communist countries of Central and Eastern Europe. All papers selected for this Special Issue were subject of rigorous reviewing and often several rounds of revisions.

There can be little doubt that private sector initiative and particularly entrepreneurship played a key role in the transformation and development of the Central and Eastern European transition countries. However, after long decades of communist central planning and suppression of the private sector such switch to private sector firms turned out to be arduous and cumbersome. Besides the ‘usual’ bottlenecks for setting up and running a private business, such as qualification and availability of finance, other factors such as fragile and quickly changing institutional framework conditions, persistently inefficient institutional environments in which formal and informal institutions are not aligned, lack of social acceptance of private firms, as

well as economic distress (e.g., high levels of unemployment and depressed demand) and macroeconomic uncertainties often worked as impediments. However, the former command and control system, which imploded around 1989-1991, also left a multitude of institutional voids and market gaps that created opportunities for alert entrepreneurs. These transition-specific opportunities diminished over time, as is empirically confirmed by some of the papers in this collection.

After the demise of the socialist regimes the countries of Central and Eastern Europe followed quite different policy approaches. Some governments were able to adopt the policy objectives of applying the available resources to generate sustainable growth relatively early. Others were engaged in short term response to prolonged crises they could not overcome. Some even entered into war early on (e.g. former Yugoslav countries in the 1990's, Armenia and Azerbaijan, Russia in Chechnya), which in addition to transition related challenges, created number of conflict and post-conflict related problems. This pronounced heterogeneity of both conditions and approaches provides an excellent opportunity to compare and learn what might work and what might not.

Although our selection of papers for publication was made quite recently (in 2019), meanwhile, there were two structural events that certainly affected entrepreneurship, innovation and policies in the region that we observe. First it is the global outbreak of the Covid-19 pandemic in 2020 and second, the Russian aggression on Ukraine in 2022. While initially the Covid-19 pandemic had negative effects on the economy at the global scale (particular at the early stage in 2020), it also triggered heterogeneous governments support, but even more entrepreneurs' resilience, agility and creativity (Stephan et al. 2021; 2022).

This response to the pandemic brought some positive developments already by the end of 2021, with some promising signs for the future. Unfortunately, the Russian aggression on Ukraine followed in February 2022, which caused not only destruction in the Ukraine but generated new and unseen regional uncertainties with negative outcomes for all many countries including Russia through trade and price effects. A rise in inflation became a global

challenge, combining the Covid-related inflationary pressure from 2020 and 2021 with the costs-push associated inflation caused by the Russian attack on Ukraine in 2022. These sources of inflation now interact, producing numerous dilemmas for governments, businesses and families. The papers that we present in this Special Issue could not include these new developments, but they set up a fertile background for extension of new research in this diverse and evolving region. Moreover, the current developments suggest new directions for research.

The paper by Fritsch, Greve, and Wyrwich tackles an important question: to which extent did the initial conditions at the time the communist system imploded, affect the subsequent paths of regional entrepreneurship? The authors answer this question relying on a cross-regional analysis of East Germany over the course of more than two decades of transition. The key take-away from the paper is that the regional self-employment experience during the communist period (combined with a solid regional knowledge base) matters. Despite the fact that the communist system was inherently alien to entrepreneurship, there was scope for self-employment and that experience proved valuable when conditions for entrepreneurial development re-emerged, including especially entrepreneurship in knowledge-intensive sectors.

Another fairly optimistic part of the story is that the communist past impact is fading away over time, and that by now East Germany seems to be more entrepreneurial than West Germany, when evaluated by self-employment rates. The authors also identify the initial period of the post-communist transition, where the wave of newly emerging businesses was very intensive, filling the gaps inherited from the old command and control system. It was in this initial period, when the pool of self-employment experience from the communist period had particularly strong effect on entrepreneurship. Over time, the entrepreneurial skills base was created, potentially, equalizing conditions between the regions. Yet, other long-term factors had the opposite effect sustaining the regional differences.

The paper by Fritsch et al. also contains a brief comparison of two East German regions: one of them has been industrialized already before communism and had a long tradition of successful industrial activity with a strong industry-specific knowledge base; the other region was relatively low developed where older structures of serfdom and dependence in agriculture were smoothly replaced by collective farms during the communist period (see also Fritsch et al. 2023). The authors show that the first situation—a history of industrial activity with a pronounced regional knowledge base—proved to be conducive to subsequent revival of entrepreneurship as compared to a region where these factors were poorly developed.

Zemtsov et al. analyze the state of small businesses in Russia. Their general claim is that small and young firms suffered from the incomplete transition of Russia to a market economic system. According to the econometric analyses, income of regional households, access to interregional markets, and capital availability were the most significant development bottlenecks. Public support in the form of tax breaks and tax holidays might have a positive effect, but it has been rather limited. The paper demonstrates a rather important role of factors on the local level. Despite the uniformity of political regime, there was scope for regional variation in policies and institutional setup, and these had an impact on entrepreneurship. Of course, the paper's conclusion may not extend to the period after the Covid-19 outbreak, but in particular to the period after the 24th of February 2022, when Russia embarked on the path that leads it to nationalistic mobilization and related strong centralization of power and institutions. These developments open a question of how much entrepreneurial talent will remain in Russia in the future, after evidence of significant outflow of the youngest, the most qualified, and the most independent thinking individuals, triggered by the invasion against Ukraine. Moreover, what are the economic consequences of the breakdown of European Union-Russia economic relationships for small businesses is a new avenue that should be explored in the future. Still, what now became a historical analysis that this paper offers may prove to be a good reference point for future comparisons.

Four other papers deal with more specific yet important dimensions of entrepreneurship. Pilkova et al. investigate the drivers of start-ups by senior people as compared to young

founders in Central and Eastern European Countries. The empirical analysis shows a relatively high level of similarities in key driving factors between youth and senior entrepreneurs but there are also differences. According to the analysis senior entrepreneurs rely more on the general socioeconomic context and tend to evaluate government policies, priorities and support more negatively than young entrepreneurs. This probably suggests that policy makers do not yet appreciate that the process of demographic transition may require the rethinking of entrepreneurial policies and the calibration oriented on activation and on the best utilization of the potential of the older generation.

Wosiek et al. in their paper entitled "The relationship between unemployment and entrepreneurship at the local level: the case of Poland", investigate the impact of unemployment and employment rate on new firm registrations in service sector in Poland. The results of their analysis indicate a pronounced relationship between rising unemployment and increasing numbers of new service businesses between 2003 and 2018. The authors conclude that there is a relatively pronounced role of necessity entrepreneurship in the service sector. At the same time, the authors do not identify a single mechanism for the impact of unemployment on new business entry across different parts of the service sector. Nevertheless, they show that those parts of the service sector that are highly concentrated (financial services) or provide public goods (education, healthcare) are less affected by rising unemployment as compared to other service businesses. This sectoral calibration of the unemployment – entrepreneurship link has useful policy implications at the local level.

In their qualitative study, Brzozowski et al. investigate constraints to immigrant entrepreneurship in Croatia. During the regional wars in the 1990's, Croatia recorded a most significant inflow of migrants. Over the last decade, Croatia was also a transit route for immigrants heading to the EU (with some immigrants remaining in the country), and again, from February 2022 on, Croatia has hosted some of the conflict-related migrants escaping the consequences of the Russian aggression in Ukraine. All these migration dynamics underline the importance of research on migration and entrepreneurship in Croatia. Brzozowski et al. identify a growing potential of immigrant entrepreneurship in Croatia, but also persistent

barriers connected to both the formal and informal institutional environment. They provide evidence that informal institutions often present a larger obstacle for immigrant entrepreneurs compared to the formal institutions, in particular for immigrants originating from less developed and non-European countries. Thus, the paper offers social anthropology-related insights into the linkages between entrepreneurship and culture.

Over the last decades, Special Economic Zones (SEZ) were a popular instrument of government intervention in numerous countries, including Poland. Dugiel et al. in their contribution to this Special Issue focus on specific mechanism of granting tax reliefs and analyze additionality effects of tax credits on investments and employment in Polish SEZ. Based on a difference-in-difference approach the authors find that regional tax credits have a positive effect on investment in firm's fixed assets while they do not find any effect on employment performance. This is a useful example of a policy impact study, where the purpose of policy is to stimulate entry of firms, either old or new, in a particular place. What the authors demonstrate is that while the economic impact is tangible, the social impact (via employment growth) is not.

There are several conclusions that one can draw from these papers. First, nearly all of these analyses find an important role of the institutional framework conditions, particularly including informal institutions. The contribution of Fritsch, Greve and Wyrwich demonstrates the role of historical roots of re-emergent entrepreneurship. Second, none of the analyses arrives at a strong and important effect of financial subsidies, which is particularly clear with respect to special economic zones. This may mean that direct financial transfers to the private sector are at least far less important than the context of formal and informal institutions. What matters nevertheless is access to private finance, especially from the banking sector. Third, there are no fundamental differences in the determinants of behavior between the transforming countries of Central and Eastern Europe and other regions. The differences found basically pertain to the weight that some of these factors have (e.g., dynamics of the formal institutional framework conditions). Fourth, there are differences between the Central and East European transition countries with regard to time paths, and generally these transition paths remain an interesting

research question on its own. It is most clearly seen in the first paper, which assesses and defines different transition stages as related to entrepreneurship.

We can generalize the issue further. While post-communist economic transition was a unique historical experience, it may have some affinity with other episodes of economic liberalization. In fact, the economic reforms in Central and Eastern Europe implemented between 1989 and 1992 were followed by a wave of liberalization in India, Latin America, and Africa, with important implications for entrepreneurship. Evaluating time paths of entrepreneurship during these and other episodes of liberalization may be an interesting research question.

The papers collected in this Special Issue suggest important avenues for further research. One of these research directions is the role of formal and informal institutions in regional development, in particular if informal institutions and practices not aligned with the formal ones, as is specifically stressed in this issue. Another promising path of research is to further explore the role of historical roots in shaping the external context for private sector behavior. Next, while we present papers that are engaging in the regional level of analysis, the combination of regions and countries could prove very promising, and help to isolate the effects of formal and informal institutions on entrepreneurship. Also, while the authors consider entrepreneurship as an outcome variable, the increasing availability of longer panel data may help to, consider richer models which consider reverse causality. In particular, from the high prevalence rate of entrepreneurs may have implications for both institutional changes and policies, and entrepreneurs may act both as voters, and as interest group. Finally, the uncertain new developments related to ongoing Covid-19 pandemic and, in particular, the Russian aggression on Ukraine, underlines the need for more research on health-associated crisis and conflict-related studies at all levels of economic analysis, including business and entrepreneurial performance.

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