

14. ENTREPRENEURSHIP AND SMALL BUSINESS RESEARCH IN ESTONIA: AN OVERVIEW

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Abstract

The aim of this article is to summarize the research on entrepreneurship and small business in Estonia done in the course of more than fifteen years after gaining independence and taking the first steps towards decentralization of the economy. In this period, entrepreneurship development in Estonia actually started after nearly 50 years of centrally planned economy when private entrepreneurship was prohibited and the economic activity concentrated into a small number of large-scale companies. Along with systemic changes in society, a new period began in the history of economic research and studies into entrepreneurship and small business started to be conducted.

Since then, alongside with the development of society, changes have been made in the content, methods, organization and different other aspects of the entrepreneurship and small business research. Nevertheless, the results of a number of studies described in this article help us to evaluate some developmental trends in the Estonian entrepreneurship environment and small and medium enterprises (SMEs), as well as the development of economic research in the period of analysis. On the basis of the research results, it is possible to identify changes in some more frequently studied indicators in this period, for instance, the age and education of entrepreneurs, and the factors affecting the entre-

preneurship environment which has turned much more favorable for entrepreneurs. However, some factors impeding the development of entrepreneurship have remained important throughout the period (e.g., availability of finances).

Introduction

The entrepreneurship and enterprise reform, which occurred earlier than other economic reforms, started spontaneously and as efficiency-driven in the deep stagnation period with *perestroika*, which aimed at finding new possibilities, via new forms of management, to recover the economy and eliminate the deficit of consumer goods in the country (USSR law ..., 1988). The restoration of independence in Estonia created new opportunities (e.g., new forms of entrepreneurship, the ownership reform, institutional development) for developing entrepreneurship and small businesses. As there was no adequate legislation for directing many processes in the early stages of transition, it was important to study these processes and learn from experience, and along with this, to elaborate the legislation gradually, according to changes in the external entrepreneurial environment. Alongside these changes a new period started in the history of economic research and in particular, the sphere of entrepreneurship and small business research started to develop. After that an opportunity presented itself to cooperate with researchers from other countries, to learn from their experiences in improving research methodology and to compare the development of entrepreneurship in Estonia with the entrepreneurship and its environment in other countries.

The aims of this article can be summarized as follows:

- To get a general idea of entrepreneurship and small business research in the period of analysis, whereas many studies, particularly from earlier periods, may be insufficiently publicized;

- To produce the research results about different stages of entrepreneurship and small business development and the business environment in the country;
- To draw conclusions by comparing the research results, and to describe the changes that have occurred in the period of analysis.

On the basis of the research described in the article, it is possible to identify changes in some more frequently studied indicators in this period. One of the most frequently studied aspects in almost all entrepreneurship studies is characterization of entrepreneurs and evaluation of the entrepreneurial environment, or evaluation of the significance of the problems limiting entrepreneurship. Unfortunately, the research samples, as a rule, are not comparable. However, some better-represented studies can still serve as a basis for describing changes in both entrepreneurs and in problems limiting entrepreneurship. Occasionally, entrepreneurs have been asked to divulge their motives for starting business. Besides these indicators, about a decade after entrepreneurship and small business began developing, more attention started to be paid to the impact of SME policy and the more frequently asked questions were about the availability of entrepreneurship support services and demand for them. Here arises the question about the significance of these studies for planning SME support policies and evaluating the government's role in entrepreneurship development.

Although attempts have been made herein to get a more-or-less satisfactory picture of the entrepreneurship and small business research conducted in this period, a selective approach has to be adopted depending on the availability of information.

The article describes briefly the objectives, contents and the main results of the entrepreneurship and small business studies involved. Attempts have been made to identify some changes and developments that comparison of the research results enabled, for instance, some characteristics of entrepreneurs (age, education, motivation for start-up), entrepreneurship development problems,

the availability of and the need for entrepreneurship support services as they are evaluated by entrepreneurs themselves. In order to get a better picture of these developments, for the sake of comparison the results of some later studies (e.g., from 2002 and 2005) have been introduced.

The article begins with the characteristics of entrepreneurship and small business research and the methods used, including also the overview of the main research methods used in the research under discussion in the article. This is followed by an overview of entrepreneurship and small business research undertaken in different periods and financed from different sources (e.g., the European Commission). After that, the conclusion has brought about some research results to characterize the development of entrepreneurship, small businesses and business environment in Estonia in the period under discussion.

Research characteristics and the methods used

The entrepreneurship and small business studies can be described on the basis of various characteristics (e.g., scope, method, etc.). Depending on their scope, the studies can be classified as follows (see also Appendix 1):

- National entrepreneurship studies;
- Regional studies (Ida-Viru, Viljandi, Harju County, etc.);
- Studies of individual sectors, particularly manufacturing (food, woodworking, textile, sewing, metal and engineering industry, etc.).

The research methods used involve mostly surveys as the main methodological approach and questionnaires for data collection, later on face-to-face interviews were supplemented by some qualitative studies. In many cases, the surveys were based on only a small sample, which did not enable extending the results on the whole of Estonia, but allowed drawing conclusions only about particular enterprises. Today we can use, to some extent, also sta-

tistical databases, which makes the samples more representative, but the small number of indicators remains a problem, and their reliability is not guaranteed.

Entrepreneurship and small business research described in the article has mostly been conducted with the support of external funding (e.g., Phare ACE Programme, FP6, etc.) (Appendix 1). This is obviously the reason, too, why the research results have been insufficiently publicized in Estonia, because all the final reports have been submitted to the financing institution. Additionally, the research was largely dependent on individual initiatives and projects, and networks established between researchers in the Western and transition countries. It is partly because of these reasons that we do not know to what extent the research results have been related to and have affected the preparation of the country's entrepreneurship policy. To be able to assess the business environment and get a clear understanding of the regular trends and phenomena, repeated research using the same methodology is needed, on the basis of which the government can work out practical and rational SME policies. In this respect, regular monitoring studies are planned which are financed from the EU structural funds. Another important aspect is connected with the statistical databases, which have been a source of a number of sectoral studies, but are still modestly used. There is a need to raise the reliability of statistical databases and expand their availability to research institutions and post-graduate students of universities.

Overview of the studies on entrepreneurship and SME, and the business environment

Studies in the period 1986–1994

The first studies on entrepreneurship and small business in Estonia started already in the Soviet period when the *perestroika* program was launched, looking for ways to stop economic stagna-

tion. In the mid-1980s, the Government of Estonia, economists and managers started to seek possibilities for introducing more diversified organizational forms of production. In 1985–1987, the fundamentals of state-owned enterprises (up to 50 employees) were worked out. Estonia was the first in the Soviet Union where in 1985, at the initiative of some researchers from the Estonian Academy of Sciences Institute of Economics a standard design of economic activity fundamentals for small enterprises was elaborated. In cooperation with practitioners, they started to experiment with setting up small enterprises in Estonia. The positive outcomes of this process served as a basis for the USSR Council of Ministers resolution to permit state-owned small enterprises to be founded in all the Union republics. The contribution of Estonian scientists was also valuable for the development and introduction of the principles of other forms of small production (production cooperatives, self-employment) where Estonia's experience served as an example for the other Union republics.

The development of the entrepreneurship and successful implementation of enterprise reform has been estimated by many authors as the key component and the motivating force in the process of transition from command to market economy in Estonia as well as in other Central and Eastern European countries (Terk, 1991; Smallbone and Venesaar, 1999). The task to transform the structure of the over centralized and over concentrated enterprises that had been developed over decades to satisfy the requirements of command economy demanded radical changes both in theoretical perceptions and in practice.

For the initial period of transition it was characteristic that the simultaneous administration and regulation of many processes, particularly of those connected with the emerging private ownership, caused conflicts between different social groups (e.g., between new entrepreneurs and old managers of state enterprises) and problems in timing the reforms (e.g., the enterprise and land reform) and/or in their implementation. In this period, scientific

research focused on the monitoring of the development of new entrepreneurship forms. Researchers took part in the improvement of entrepreneurship-related legislation and regulation as well as assessing the impacts of the changes in the entrepreneurial environment on enterprises' development in different phases of the enterprise reform which was based on institutional changes (Lugus *et al.*, 1991; Venesaar, 1991; etc.). Participants in this research were from the Estonian Academy of Sciences Institute of Economics, the Estonian Institute of Information, the association "Teadus", the universities in Tallinn and Tartu, the entrepreneurs' unions (e.g., EVEA – Estonian Association of Small Businesses), and employees of ministries and other institutions.

The same research topics connected to monitoring entrepreneurial development and analyzing the changes in the entrepreneurial environment were covered by subsequent studies, but after Estonia regained independence, its researchers started to collaborate more intensively with their colleagues in other countries and to participate in international projects, which involved opportunities to learn from Western countries' experience in improving research methodology, and to compare the development of entrepreneurship and the entrepreneurial environment in Estonia to those of other countries. Most of the studies described below were conducted with the support of external funding (e.g., the European Commission).

Research on entrepreneurship: the entrepreneurial environment in Estonia and major problems facing entrepreneurs (1991–1994)

The research was based on the entrepreneurial questionnaire of SARIE (Society for Associated Researchers on International Entrepreneurship). The questionnaire was supplemented by a number of questions of local significance and the survey was implemented by EVEA in the following two years (1993–1994). In 1994, the research was financed by the CIPE – Center for International Private Enterprise.

On the basis of the interviews with entrepreneurs/managers, the motivation for company start-up and the influence of the environment during the first years of operation were analyzed (Klaamann, 1992). 18 countries participated in the research (Estonia since 1991). The interviews were carried out in 86 companies of Estonia, mostly with members of the EVEA.

The results of the research indicated that changes in the society were the main reason for entrepreneurial developments in the late 1980s, rather than pursuing personal interests (Klaamann, 1992). Until the mid-1980s, it was practically impossible to develop such forms of entrepreneurship that presupposed participation of private individuals as owners. Therefore, as soon as the first legal opportunity arose, more active people seized it to set up their own enterprise (small state enterprises, cooperatives). This was the reason given by most of the more active entrepreneurs of that time as their motivation. Among personal interests were the hopes to improve the material state of their family, to use their working habits and time more flexibly, and the desire to develop themselves.

Among the factors hindering the development of entrepreneurship most of all in 1991, the legislation, suppliers (esp. from the Soviet Union) and lack of qualified staff were mentioned in the first place. These were followed by inexperience, distrust, and (political and economic) uncertainty. The conclusions drawn within the same research about North-East Estonia (as the most passive region in terms of entrepreneurship development) indicated bigger than average problems faced by enterprises there in all the listed spheres. In the initial period of transition, the uncertainty was created, to a large extent, by the anarchy caused by the conflict between the old and new legislation. Compared to the other Central and Eastern European countries, Estonia had to start almost from zero, i.e. from elaboration of constitutional law principles, because no independent statehood had existed before the transition.

Entrepreneurs assessed in terms of necessity the following aspects of important services: finding market information, operation premises, low-interest loans, legal assistance and consulting services.

Research conducted in 1993 and 1994 involved 138 and 397 entrepreneurs, respectively. According to these studies, the major obstacles to the development of enterprises were related to legislation (amendments to legislation, bureaucracy, privatization and ownership), banking (high interests on loans and access to long-term loans), taxes (income and value added tax, market (low domestic purchasing power), and security.

In these studies, the authors asked for public opinion about and the government's attitude towards entrepreneurship and entrepreneurs. The results suggested a certain improvement in the attitudes, which was a significant factor influencing the entrepreneurial environment.

Studies connected with the framework of the EU projects "Technical assistance for SMEs in Estonia" or "Phare assistance to the SME programme in Estonia" (1995–1999)

Regional profile study of Ida-Virumaa (1995)

The Regional Profile Study of Ida-Virumaa was a pilot project for the elaboration and use of regional profiles in Estonia. A regional profile had to provide background information and analysis that would serve as a basis for the formulation of industrial and business development policies and strategies for a region. The study particularly emphasized the aspects of business development. The approach of the study was mainly analytical, the profile was elaborated by means of a substantial collection and analysis of factual information, and also some information of a more qualitative nature provided, inter alia, through interviews and a workshop with persons professionally engaged in the development of business in the country.

The industrial facilities of Ida-Virumaa and its manufacturing traditions of textiles, wood, chemistry, metal and electronics, its skilled industrial workers, combined with the availability of raw materials, cheap labor and energy were considered as the strengths and the basis of business development in the region. The main weaknesses identified were outdated equipment, shortage of external finance, and weak marketing and management skills. A coordinated effort to help enterprises with a good growth potential through the provision of business advice, loan and venture capital were suggested as mechanisms for supporting the development of enterprises. The shortage of entrepreneurship is another weakness that must be addressed through special efforts to help the existing and starting enterprises (Regional..., 1995). The conclusions also include analyses of the opportunities and threats to the region and recommendations in the form of both short- and long-term support measures for boosting business development.

Regional survey of SMEs (1996)

The participating institutions were the Ministry of Economic Affairs, Emor Ltd, EIM International (the Netherlands). The survey involved interviews in 1,500 SMEs with up to 80 employees, the aim being to get information about entrepreneurship and problems faced by SMEs, so as to help the Business Advisory Centers (BAC) to elaborate their service packages.

In general, very urgent problems were as follows: high interest rates, failure to get new technology, problems with finding suitable employees, and high sales taxes (Põder, 1996). As for the use of business support services, on average nearly seven services from 36 were used by each respondent, but the use of different services varied. The most popular services used, as well as estimated as highly necessary were: bookkeeping services, legal information about making contracts, computer courses, etc.

Small-scale business in Estonia (1997)

The survey was commissioned by the Estonian Ministry of Economic Affairs together with the Phare project "Technical Help for Estonian Enterprises". The purpose of the survey was to identify the most difficult problems in the early stages of a business as well as the main problems and needs at the time of the survey; how the companies have developed and in what fields they expect to get support from the state and local authorities. In total, 396 interviews were conducted in enterprises with less than 80 employees.

The most difficult aspects pointed out by the entrepreneurs were: financial problems, getting properly qualified staff, lack of knowledge, skills, procurement of technical equipment and premises (Tamm, 1997).

Survey of manufacturing SMEs (1998)

The main goal of the survey was to investigate the main characteristics of small and medium-sized manufacturing companies (0–250 employees) as well as their managers' opinions about some economic and environmental aspects affecting these SMEs. A total of 400 enterprises were studied. The face-to-face interviews were conducted with either the managing directors (52%), or chairmen of the board (38%), or some other managers or members of the board (10%). Also participating in the survey were the SME Phare team, the Ministry of Economic Affairs, and Emor Ltd.

Issues such as finance, market trends, business associations, labor force, infrastructure and several others were discussed. Special attention was also paid to the role of the Government and to EU-associated problems. The fields with the biggest problems for entrepreneurs were financing, marketing, labor force, legislation and taxation. Only 10% of the entrepreneurs estimated the government activities to be good or quite good. The recommendations

worked out as a result of the research ranked the sectoral policies in manufacturing by order of priority as follows: taxation policy, facilitating SMEs' access to funding, improving the availability of skilled labour, support to SMEs' export activity.

Studies conducted within the EU Phare programs

*The survival, growth and support needs of manufacturing SMEs in Poland and the Baltic States: developing policy agenda (1995–1996)*¹

The study was conducted within the EU Phare ACE Program. The research sought to contribute to a better understanding of the factors influencing the survival and growth of small and medium-sized manufacturing enterprises (SMEs) in Poland and the Baltic States and the development of policies designed to increase their contribution to economic development. Additionally, the research aimed to facilitate the exchange of concepts and research methodologies between the partners, and to establish computerized databases of SMEs in Poland and the Baltic States, which could be used for subsequent long-term studies.

In Estonia, 100 face-to-face interviews were conducted with entrepreneurs/managers of SMEs (with less than 100 employees) in May 1994 in four manufacturing sectors: food processing, clothing, metal goods/engineering and wood products/furniture.

The research results suggested that small and medium-sized production enterprises contribute to the development of the Estonian economy mainly by creating jobs, occupying foreign markets and through restructuring of the economy. Unlike many Western countries, the role of the Estonian Government's policy in supporting small and medium-sized enterprises was relatively weak and inefficient in this period. Based on the analysis of the survey results and

¹ The research project was leaded by Prof. David Smallbone from the Centre for Enterprise and Economic Development Research (CEEDR) in Middlesex University, London.

the factors that limit entrepreneurship development, the authors proposed some possible alternative SME development policies. The following aspects were mentioned as the main preferences: providing macroeconomic stability, evaluation of the regulation and tax load, improvement of the availability of financial resources for SMEs, supporting enterprises' technological modernization, development of the entrepreneurship support infrastructure and the export promotion system, and improvement of the management training system (Smallbone *et al.*, 1996).

*Internationalization, inter-firm linkages and SME development in Central and Eastern Europe (1996–1997)*²

The study was conducted within the Phare ACE Program. The research investigated the effects of the increasing internationalization of markets on small and medium-sized enterprises (SMEs) in Poland, Bulgaria, and the Baltic countries. The analyses included an evaluation of the alternative options and management strategies open to SMEs in foreign markets, together with the policy issues that need to be addressed by SMEs to respond positively to the threats and opportunities presented by internationalization. Focusing on SMEs in the food and clothing sectors, the methodology involved three key elements: desk-based analysis of the existing data sources, a survey of SME managers (120 in the Baltic countries) and interviews with key informants.

The research results indicated that SMEs in all the CEE countries were capable of responding to the opportunities presented by new foreign market openings and that, at least in the short term, they were competitive. The main problems facing firms seeking to serve foreign markets were the need to develop and organize their marketing, and the fact that the managers of SMEs had only lim-

² The research project was led by Prof. David Smallbone from the Centre for Enterprise and Economic Development Research (CEEDR) in Middlesex University, London.

ited experience in sales and marketing. At the same time, very few firms surveyed in any of the CEE countries had benefited from assistance meant to encourage and support export activity. The analysis highlighted the need for policy support to SMEs with respect to internationalization (Smallbone, 1998). There was a high level of demand among managers for assistance with export promotion, including increasing access to information about foreign market opportunities, advice about the organization of distribution and export promotion, use of grants for developing export, facilitating the provision of courses in export marketing, and supporting the development of sector-based organizations to offer export assistance to SMEs.

The authors recommended provision of sector-based joint marketing initiatives between firms, as well as measures designed to improve the provision of managers with marketing knowledge and skills. This should include the development of training programs in export marketing for working managers, as well as a review of the marketing content of courses in business schools and other institutions that can influence the future supply of SME managers. In addition, high-quality management initiatives targeted at SMEs should be developed. Given the resource constraints, policymakers should target assistance to those firms that are likely to make the greatest contribution to economic development, either through the generation of external income from foreign market sales and/or through import substitution (Internalization ..., 2000).

*EU study on the evaluation of Phare SME Programs in Central and Eastern European countries (1998–1999)*³

The study in Estonia was a part of the horizontal evaluation of the Phare SME programs undertaken (by RDH/LDK consortium and local consultants) for the Evaluation Unit of the Common Service

³ The study was co-ordinated by a team of EC evaluators: Charles Monck, Milford Bateman and Jean-Jacque Kudela.

for External Relations (SCR) of the European Commission (Kudela and Venesaar, 1999; An Evaluation ..., 2000). Overall, Phare SME programs have contributed to the development of the SME sector. However, they have run into many snags such as poor design and lack of planning, which have severely undermined the contribution they could have made to a vitally important area of economic development (An Evaluation ..., 2000). In the conclusions for Estonia, it was assessed that Phare funds arrived in Estonia too late and were not sufficient in comparison with other transition countries, and the EU assistance could have been much more significant. The government was not deeply involved in the assistance to the SME sector and the co-ordination of financial and institutional programs was unsatisfactory (Kudela and Venesaar, 1999). A number of improvements were suggested for financial as well for institutional programs as a result of the study (e.g., the loan scheme, the development of financial databases, defining SME policy priorities, assisting start-ups, etc.). The outcome of the above survey was directly related to politics (evaluating the use of EU funding for the purpose of supporting SME development and its results in the CEE countries). The survey was followed by several studies and reviews in 2002–2004 which evaluated the SME policies and the support system, among them preparation for the wide use of EU structural funds, in order to promote the development of entrepreneurship in Estonia (e.g., Assessment ..., 2002; Summary of portfolio ..., 2003; Research on Feasibility ..., 2004).

Project “SME internationalization”(1997)

The study was conducted within the EU Phare Ecos-Overture Program. The main objective of the research was to encourage international cooperation between small entrepreneurs from different countries through cooperation between municipalities who were to organize and partly finance the project implementation. Two counties of Estonia took part in the project, namely, Ida-Virumaa and Viljandi. 198 top managers from Kohtla-Järve and 172 from

Viljandi were questioned on all sectors of economy (primary, secondary and tertiary). There are big differences between these regions in terms of entrepreneurship development and scope of internationalization. The researchers studied the government's side and local possibilities to reduce the impact of factors that limit internationalization, suggested measures to activate cooperation between local municipalities and enterprises, and extend international communication (Mõistus *et al.*, 1997; Riisalu and Dusman, 1997).

Project "WOMEN XXI". Development of female entrepreneurship in Harju County, Estonia (2001)

The research within the "WOMEN XXI" project conducted within the EU Phare Ecos-Overture Program sought to provide a survey of the role of women among the population of Harju County and in the labor market, and of the socio-economic development in the county, to characterize the situation of female entrepreneurs and their developmental problems. The research contained an analysis of opinions of female entrepreneurs about their activity and external environment, as well as the problems of start-up entrepreneurs and female managers of non-profit organizations. The results of the analysis were used for the evaluation of the needs of female entrepreneurs in Harju County to identify their needs for support. Nearly 200 interviews were performed with active women in entrepreneurship as well as with potential entrepreneurs preparing to enter the market.

On the basis of the opinions of experienced and start-up female managers/entrepreneurs, sole proprietors and specialists of various institutions, the first three major problems in the development of female entrepreneurship can be summarized as follows: availability of finances (starting capital, growth finance), discrimination against women by providers of finances, lack of management, marketing and selling experience. The research used the opinions of female managers/entrepreneurs and specialists to identify the needs of female entrepreneurs and measures for sup-

porting them. A number of measures were suggested in the female-targeted policy field (raise awareness of potential female entrepreneurs, treat female entrepreneurs as a special group and subject of special programs, introduce the policy of equal opportunities).

Studies financed from other sources

Changes in the economic environment and entrepreneurship development in Tallinn after accession to the European Union: problems and measures (2001)

This is an example of a study financed from local sources (City Government) among a number of locally significant studies that were mostly commissioned by ministries or municipalities. The aim of the study was to find out how prepared entrepreneurs are for participation in the EU single market and how the accession has impacted on their activity. For this purpose, an empirical study was carried out in manufacturing enterprises (100 respondents) in Tallinn in 2001. The study indicated insufficient provision of enterprises with information about EU legislation. Only close to one-fifth of the respondents were of the opinion that their enterprise fully satisfied the EU requirements at the time of survey (Kallam *et al.*, 2002). The conformity was estimated to be the highest in the sphere of environment protection (49% fully or partly complying) and the lowest in the competition regulations (38%). The results of the study were certainly influenced by the size of the responding enterprises (mostly micro- and small enterprises) and their market orientation (most were operating in the home market). The analysis of the implementation process of EU requirements in different spheres (environment protection; industrial safety; certification of products, technical standards and terms; trade marks; consumer protection; competition rules) showed the enormous and complicated work to be done by entrepreneurs in the convergence process.

It has to be admitted that the activity of conducting local research has risen year by year. Among them, a significant part of the studies address the labor market, marketing or other issues, including the analysis of the development of entrepreneurship and SMEs, changes in the business environment or SME policy problems. During the early period of transition, a few local studies have been conducted, especially on entrepreneurship and SME issues, but the opportunities for them have grown now thanks to the structural funds. Although the local studies may be inferior to international studies in their scope and level of finances, they are relevant from the point of view of finding solutions to several urgent local problems and drafting regional or sectoral economic plans.

*Entrepreneurial strategies and trust. Structure and evolution of entrepreneurial behavioral patterns in East- and West-European environments" (2002–2003)*⁴

The study was funded by the Volkswagen Foundation within the program "Unity amidst variety? Intellectual foundations and requirements for an enlarged Europe" (2002–2003), where countries from the West (Germany, UK, Italy) and East (Estonia, Russia) were included.

The study results confirmed that Estonia has experienced major changes in entrepreneurship, in people's attitudes and business relations in connection with the development of market relations since the beginning of the transition period. With the stabilization of the business environment, trust relations have developed and changed in all their forms, while the improvement in formal institutions has started to promote more stable and predictable business relations. The survey results indicated that business relations are based on all three types of trust (i.e. personal, collective and

⁴ The study was leaded by Prof. Hans-Hermann Höhmman (Research Centre for East European Studies, Bremen University) and Dr. Friederike Welter (Rhine-Westphalia Institute for Economic Research, Essen)

institutional), which may play different roles at different stages of enterprise development, and that alongside changes in specific environmental conditions trust changes dynamically in business relations between suppliers and customers (Venesaar, 2004). In the early transition period, personal trust prevailed in business relationships. As a result of changes in the business environment and the overall institutional development in the country, the role of institutional trust has increased.

In intra-firms relationships, organizational culture has become more democratic. However, institutional regulations (e.g., tax policy) have encouraged small entrepreneurs to use some non-formal strategies (e.g., unreported wages, evasion of taxes). The relatively low satisfaction of personal goals among small entrepreneurs may be explained by continuous difficulties in solving the problems caused by certain constraints in the business environment (e.g., unavailability of finances, changing legislation). The emergence of and changes in trust relations depend on the characteristics of enterprises, such as size, age, sector, involvement of partners, membership and co-operation.

The analysis of survey results and case studies have helped us to understand the conditions of the business environment and processes that support the development of trust in both inter- and intra-firm relations, and in relations with authorities. Estonia's integration into the EU market, along with continuous development of the institutional structure of the society and the growth of institutional trust will bring about new shifts in business relations and regulations, which in turn will improve the entrepreneurial environment and promote conditions for the growth of entrepreneurship.

Some research results to characterize the development of SME and the business environment

Some results and trends can be identified in the development of entrepreneurship, small business and business environment on the basis of the more representative studies of the enterprise sector. For example, a change has occurred among entrepreneurs towards younger age (average age 40 in 1993, 35 in 2002). While in 1991 almost all entrepreneurs had a higher education, then in 2002, 51% had a higher education and most of the rest had a secondary education (incl. vocational education).

If we compare the motives of entrepreneurs for starting a business, some changes can be noticed. The main motives early in the transition period were to take the market opportunities, achieve independence and use one's skills for providing income to one's family. At the same time, neither their own career nor the goals regarding the relations between enterprise and society were important for entrepreneurs. Independence has remained an important motive for starting business also today, as well as earning a higher income, but contemporary entrepreneurs are also interested in gaining a better position in society (Eesti elanike ..., 2004).

The company start-up and development during the first years of its operation have been directly influenced by the readiness of the whole society (both politically and economically) to accept new forms of entrepreneurship. Based on the studies, public opinions were negative early in the transition period and turned positive in 1993 when 70% of the entrepreneurs held this opinion. A year later (1994), already 88% of the entrepreneurs confirmed a positive opinion about entrepreneurship in society. Also the obstacles directly caused by differences between the two systems (command and market economy) started to settle and abate gradually, although, as some later studies indicated, changing the way of

thinking took much more time than expected (Entrepreneurial Strategies ..., 2004).

The questionnaires also asked the government's attitude towards entrepreneurs. Until 1993, entrepreneurs estimated the government's attitude to be repelling rather than supporting (in 1993 supporting only 8%), but by 1994 the number of entrepreneurs who considered the government's attitude at least neutral had risen to 56%, whereas those who thought the government supported entrepreneurs accounted for 7% only. It is interesting to notice that in 2000, on the basis of the annual public opinion poll, 57% of the respondents were of the opinion that the government had in general succeeded in the development of entrepreneurship over the last 10 years (1990–2000) (Riik ja rahvas, 2000).

Almost all entrepreneurship environment studies have investigated entrepreneurs' opinions about the factors limiting entrepreneurship. Though some problems have persisted over time (e.g., financing, taxes), several changes may be perceived in these opinions. If in earlier periods the major obstacles were direct needs (facilities, equipment, accounting, legislation), then in recent years, in connection with the stabilization of the economic environment and growing competition, the need to improve knowledge has become a priority (e.g. administrative skills, finding a business idea, business plan) (Eesti elanike ..., 2005).

The research results also indicate that Estonian entrepreneurs do not want to take big risks (fear of failure and debts; small role of bank loans in financing). Therefore, entrepreneurs are interested in training of both managers and employees (Jürgenson, 2003; Eesti elanike ..., 2005). The main obstacles here are connected with the high cost of training, replacement for employees taking courses and difficulties in finding properly qualified lecturers (Estonia ..., 2002).

In conclusion, the research on entrepreneurship and small business has been conducted with the support of external financing

and largely dependent on the activeness of the applicants during the period under study. Although the direct impact of this research on the entrepreneurship and SME policy has not been assessed, it seems that to some extent it is possible to find some links between the research and policy implementation. Regular research has been planned in connection with the opening of the European Union structural funds for Estonia (e.g., by the Ministry of Economic Affairs and Communications) with the direct objective to assist the development of entrepreneurship policy. Comparison of the research results along with evaluation of the processes of change in the business environment can provide a better understanding of the problems faced by entrepreneurs and help to improve the development of entrepreneurship and small businesses in Estonia.

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Appendix 1. Studies on entrepreneurship and small business, project partners and financing

Title of study, year	Project partners (international co-ordination and local partners)	Financing
Research on Entrepreneurship: Entrepreneurship Environment in Estonia and Entrepreneurs' Major Problems (1991–1994)	SARIE; CIPE; Estonian Association of Small and Medium-sized Enterprises (EVEA)	SARIE, CIPE
Regional Profile Study of Ida-Virumaa (1995)	Ministry of economic Affairs, Estonia; Ida-Viru County Government; COWIconsult, Denmark.	EU Phare
Regional Survey of SMEs (1996)	Ministry of Economic Affairs, Estonia; Emor Ltd, EIM International, Netherlands	EU Phare
Small-Scale Business in Estonia (1997)	Ministry of Economic Affairs, Estonia; Emor Ltd	EU Phare
Survey of Manufacturing SMEs (1998)	SME Phare team in Estonia, Ministry of Economic Affairs, Emor Ltd	EU Phare
The Survival, Growth and Support Needs of Manufacturing SMEs in Poland and the Baltic States: Developing Policy Agenda (1995–1996)	Middlesex University, CEEDR; Institute of Economics, Estonian Academy of Sciences	EU Phare ACE Program
Internationalisation, Inter-firm Linkages and SME Development in Central and Eastern Europe (1996–1997)	Middlesex University, CEEDR; Institute of Economics, Estonian Academy of Sciences	EU Phare ACE Program
EU Study on the Evaluation of Phare SME Programmes in Central and Eastern European Countries (1998–1999)	EU (RDH/LDK consortium)/ Institute of Economics, Estonian Academy of sciences	European Commission

Appendix 1 continued

Title of study, year	Project partners (international co-ordination and local partners)	Financing
Project "SME Internationalization" (1997)	Viljandi and Kohtla-Järve County Governments; Counties from Finland, Sweden, Ireland	EU Phare Ecos-Overture Program
Project "WOMEN XXI". Development of Female Entrepreneurship in Harju County, Estonia (2001)	Harju County Government, Estonia; Spain, Sweden, Finland, Italy	EU Phare Ecos-Overture Program
Changes in the Economic Environment and Entrepreneurship Development in Tallinn after Accession to the European Union: Problems and Measures (2001)	Tallinn City Government, Estonian Institute of Economics at Tallinn Technical University	Tallinn City Government
Development Problems and State Support Measures of SMEs in Estonia (2002)	Middlesex University, CEEDR, Ministry of Economic Affairs and Communications, Emor Ltd	Ministry of Economic Affairs and Communications
Entrepreneurial Strategies and Trust. Structure and Evolution of Entrepreneurial Behavioral Patterns in East- and West-European Environments (2001)	Research centre for East European Studies, Bremen; Rhine-Westphalia Institute for Economic Research, Essen, Germany; Tallinn University of Technology; UK, Italy, Russia.	Wolkswagen Foundation