

ETHNIC MINORITIES AND ENTREPRENEURSHIP IN ESTONIA

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In this paper we present the initial insight into the ethnic minorities entrepreneurship in Estonia with a focus on the Russian-speaking minority entrepreneurial activities. Based on a survey of various theoretical concepts presented in the opening section, a generalized framework featuring 5 dimensions emerging as requiring greater attention in defining the level of ethnic minorities entrepreneurial activities is introduced. In an effort to explain the currently existing specific social, economic and regional problems related to the Russian-speaking minority, the retrospective historical review was employed. Through a content analysis of lately published empirical and qualitative researches on entrepreneurship, cross-cultural issues and integration, the cultural, ethno-psychological and motivational differences with Estonians were examined. The preliminary results suggest that cultural-motivational differences exist, and specific potential obstacles for starting up an ethnic minorities business such as shortage of financial sources, insufficient command of the Estonian language and a lack of required managerial, marketing, financial and other knowledge, qualifications and skills might have a significant impact on the level of entrepreneurial activity.

Keywords: ethnic minorities, level of entrepreneurial activities, obstacles in starting a business.

Introduction

Ethnic minorities comprise a significant part of the total population of Estonia (32%). A vast majority of them are ethnic Russians and other Russian-speaking Slavs (Ukrainians and Belarusians), who make up 90% of the total number of all ethnic minorities residing in Estonia (Eesti Statistikaamet 2005). Because of the numerical majority of the ethnic Russians in Estonia accompanied by the existing trend of dissolving of a significant part of other ethnic minorities into the Russian minority (Valdmaa 2003, 17), this paper focuses on the entrepreneurial activity of the Russian-speaking minority.

According to the results of the Survey on the level of enterprisingness among the Estonian population, the ethnic minorities demonstrate 1.5 times lower engagement level in entrepreneurship¹ than the native Estonians do. At the same time

¹ *The active entrepreneurs* are those sole proprietors and shareholders *actively* participating in a company management. Therefore, minority shareholders are excluded.

the percentage of potential entrepreneurs² among ethnic minorities is higher than the average (Eesti Konjunktuurinstituut 2004, 15). Therefore, the existence of specific obstacles to minority entrepreneurs was hypothetically assumed. In addition, there is a need for the theoretical and informational base to address the potential specific needs peculiar to the ethnic minorities in Estonia in order to boost their entrepreneurial activity and utilize the existing entrepreneurial potential to the full.

In several market economies such as the USA, the UK or the Netherlands ethnic minorities entrepreneurship has proved itself to be an efficient means of socio-economic integration contributing at the same time to the overall economic growth and development of the country. The development of entrepreneurship among ethnic minorities in Estonia can be potentially beneficial for the overall economic development of the country as well as contribute to solving several specific problems, in particular those of a higher structural unemployment and the problems of uneven regional economic development.

The unique situation with the Russian-speaking minorities after Estonia regained its independence in 1991 offers great challenges both for the Estonian society and the researchers. At the same time a closer attention should be paid to ethnic minorities entrepreneurship in Estonia in order to cover the currently existing gap in studying minorities, since the previous researches have mostly focused on more general issues of the integration processes (Integratsiooni Sihtasutus 2005) or multi-ethnic analysis under entrepreneurship-related topics has not been done at all. Still, the processing, analysis and interpretation of the previously collected information outlines an initial review of ethnic minorities entrepreneurship in Estonia.

Therefore, the main goals of this paper are:

1. To analyze the theoretical framework of ethnic minorities entrepreneurship and to present an overview of research on this topic worldwide.
2. To examine the current situation with the Russian-speaking minority's entrepreneurship in Estonia:
 - 2.1. To describe the historical formation of the Russian-speaking minority and its geographical and sectoral distribution.
 - 2.2. To compare its cultural, ethno-psychological and motivational differences and similarities with the native Estonians.
 - 2.3. To identify those potential obstacles that may influence the level of entrepreneurial activity among the minority.
 - 2.4. To set up tasks for further research on these issues.

1. Ethnic Minorities Entrepreneurship: The Economic and the Social Impact

Multi-ethnic-related issues have always been of a great interest to most former colonial empires such as the United Kingdom or the Netherlands, and also to the countries highly appealing to immigrants such as the USA, Canada or Australia: a significant attention has been paid both to researching minorities' peculiarities related

² *The potential entrepreneurs* are those who do not own their business yet (either have an ownership or operate as a sole proprietor) but consider starting up a business or those being in the process of establishing it at the moment of the survey.

to business as well as implementing minorities' customized business support solutions (e.g. Small Business Service 2005; Kloosterman 2003, 169; Surveys of Minority-Owned and Women-Owned Business Enterprises 2005; Minority Business Development Agency 2005). In the European Union in general and in Northern Europe in particular multi-ethnic-related academic researches are less numerous. Though taking into consideration the increasing labor force mobility within the territory of the European Union lately these issues became of a greater focus too (McEvoy 2001; Rath 2005; The European Union 2005 a, b, c).

There are both social and economic reasons that make exploring ethnic minorities entrepreneurship highly important. First of all, due to their status ethnic minorities are commonly considered to be a disadvantaged group of a society. It is common that for different reasons such as a lack of social networks, poor qualifications and/or insufficient host country language literacy, ethnic minorities percept a certain degree of discrimination in the traditional labor market. This usually entails higher unemployment rates among ethnic minorities together with lower standards of living, threats of poverty and social exclusion. Thus, it is common that through entrepreneurship ethnic minorities try to achieve a higher social mobility (Levy-Tadjine 2004; Robb 2002, 383). In addition, due to a particular geographic allocation of ethnic minorities together with their widespread tendency of residential concentration into certain territories (counties, towns, parts of towns etc.) ethnic minorities' peculiarities are often related to regional problems.

At the same time, according to the *economic growth theory* entrepreneurial activity intensification helps to further a level of general welfare of a society: with the growing incomes living standards and life quality also improve: the greater the participation rate in the entrepreneurial activities, the better the economic growth, which is beneficial for a society as a whole (Wennekers & Thurik 1999, 30; Garelli 2005). Due to the utilization of a peculiar co-ethnic recruitment network by ethnic minorities enterprises, the economic growth accompanied by the creation of new jobs entails first of all an increase of employment among ethnic minorities themselves.

In other words, ethnic minorities entrepreneurship has a social as well as an economic impact on a society's development both in short-term and long-term perspectives, both in interstate and international scale. An exploration and systematic monitoring, proper two-way communication, stimulation and customized support measures for ethnic minorities businesses can contribute to solving a number of social problems, assist in the creation of general entrepreneurial spirit in a society, accelerate socio-economic integration processes, increase the tolerance to social inequality and exploit an existing entrepreneurial potential to a better extent, and as a consequence lead to a greater competitiveness of the state on the international arena.

The research on ethnic minorities entrepreneurship intensified in the last quarter of the 20th century (Exhibit 1). The globalization process, on the one hand, together with a consequent ethnic composition diversification made multi-ethnic-related socio-economic issues more of a current interest. Structural changes in economies and the growing small and medium-sized business sector (SMEs), on the other hand, assisted ethnic minorities in participating in entrepreneurial activities.

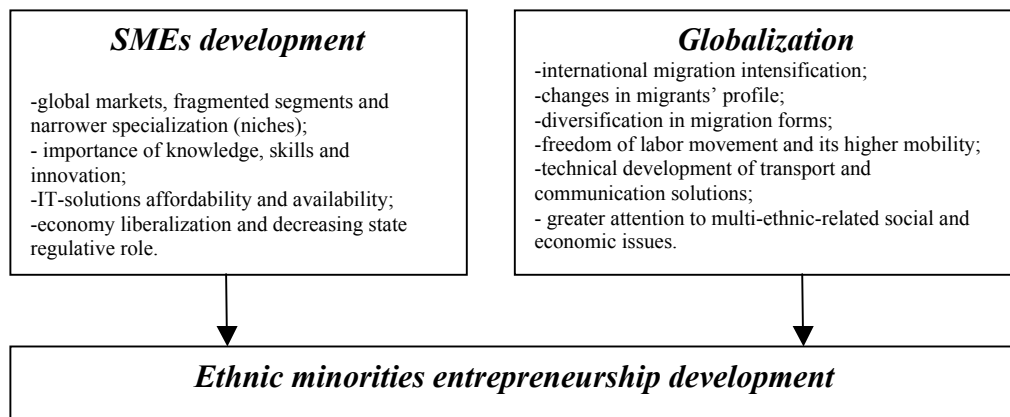


Exhibit 1. Preconditions for ethnic minorities entrepreneurship development

Sources: /authors inspired by Grilo & Thurik 2004 and Burns 2001/

2. Theoretical Framework and an Overview of Research on Ethnic Minorities Entrepreneurship

Generally speaking, the theoretical concepts on ethnic minorities entrepreneurship can be divided into two main approaches:

The structural approach, which mainly examines socio-economic environment, market opportunities and resource availability and

The relational approach, which focuses primarily on the ethnic minority entrepreneur's individuality and the extent to which a belonging to an ethnic minority can influence one's entrepreneurial activity.

One of the earliest theoretical concepts on ethnic minorities entrepreneurship is the *Ethnic Middleman Theory* in accordance to which ethnic minorities entrepreneurs mediate the elite and the rest of market actors in economic sectors with low entry barriers and high level of competition. They usually operate as agents, brokers, subcontractors, rent collectors and moneylenders, and a decision to enter self-employment is mostly made under the influence of push factors. According to this theory, the ethnic minorities entrepreneurs help the society to operate smoothly and assist in reaching the social equilibrium. The distinctive feature of an ethnic community in this case is a high level of solidarity that performs as a protective mechanism against new environment.

An evolvement of the Ethnic Middleman Theory is the *Ethnic Enclave Theory*. In addition to a high solidarity level, economic and cultural connections within an ethnic community it underlines the impact of the community concentration into distinctive residential *enclaves* (Portes & Sensenbrenner 1993). Usually these enclaves arise in certain parts of megacities, e.g. in Chinatown in New York.

The first fundamental theoretical framework on ethnic minorities entrepreneurship is the conceptual work of Aldrich and Waldinger that in addition to an ethnic minorities entrepreneur's individuality captures the structural and cultural

contexts of the entrepreneurial process (Aldrich & Waldinger 1990). According to this model market *opportunity structures* are the preconditions for ethnic minorities businesses to arise. If an ethnic minority possesses some distinctive cultural wants, then it is common that ethnic minorities businesses have a *co-ethnic orientation* to serve the sets of specific ethnic needs and preferences. In this case a “*protected market hypothesis*” takes place: the intimate knowledge of tastes and buying preferences serves as a competitive advantage for ethnic businesses since this specific information gathering and analysis takes ethnic majority businesses a long time to proceed. At the same time when expanding, co-oriented ethnic business potential of growth is circumscribed and restricted with the ethnic market itself: it is quantitatively of small size with insufficient purchasing power for growth. If an ethnic business is *non-ethnic oriented*, then usually the more flexible ethnic businesses serve 4 types of *ethnic niche markets*:

- markets underserved by large mass-marketing organizations (e.g. food retailers in the core areas of urban centers);
- markets where economies of scale are low (self-exploitation strategy used and more flexible services offered);
- markets affected by instability or uncertainty (e.g. ethnic garment firms);
- markets of exotic goods (symbols of ethnicity are turned into profit-making).

In addition to the existing opportunity structures a necessary precondition for ethnic minorities businesses to develop is an *access to resources*. Hereby the level of interethnic competition in traditional labor market, labor, migration and enterprise policies matter.

The *group characteristics* of an ethnic community such as skills and goals of its members (including previous entrepreneurial experience and host country language knowledge), financial capital, social networks, ethnic community size, its residential concentration, the levels of sojourning orientation and solidarity as well as cultural norms and traditions to a certain extent determine the social structure within which all financial, informational, labor etc. resources are and the relations with business partners (suppliers and customers) are built.

As a result of a combination of both the existing opportunity structures and the group characteristics different *ethnic strategies* emerge. In the case of a protected market the *breakout strategy* becomes essential with business development and intensification of competition. It implies the breakout from a circle of the *ethnic niche markets* into the *mainstream markets* as well as the recognition of the ethnic majorities’ customers (Deakins 1996, 132).

When it comes to a career decision whether to enter self- or wage employment, according to the Rettab conception the *ethnic donor group* (the ethnic community with all the required resources), existing market opportunities and the current labor market circumstances matter (Rettab 2001, 9, 26). In accordance with Rettab, the donor group defines the norms, values and overall attitude to the entrepreneurship and possesses five capitals: human, informational, financial, social and cultural. At the same time often the unfavorable situation in the labor market (an employment status (unemployed/underemployed/disabled) and wage-offer (over-/under-qualified)) pushes ethnic minorities to engage into entrepreneurial activities.

The further development of the theoretical concepts on the ethnic minorities entrepreneurship is Kloostermann’s *mixed embeddedness* concept. This concept underlines that the distinctive feature of the ethnic minorities’ level of entrepreneurial activities is shaped by the *complex influence* of the following: a particular sector of

economy where a business operates, a residential location of an ethnic community, an existing situation in the labor market and an institutional context. This concept for the first time emphasizes the role of the institutional context and explains ethnic businesses concentration in particular regions and sectors (Ram & Smallbone 2003, 99).

Based on the above-discussed theoretical concepts, the following exhibit featuring key components of ethnic minorities entrepreneurship was constructed (Exhibit 2).

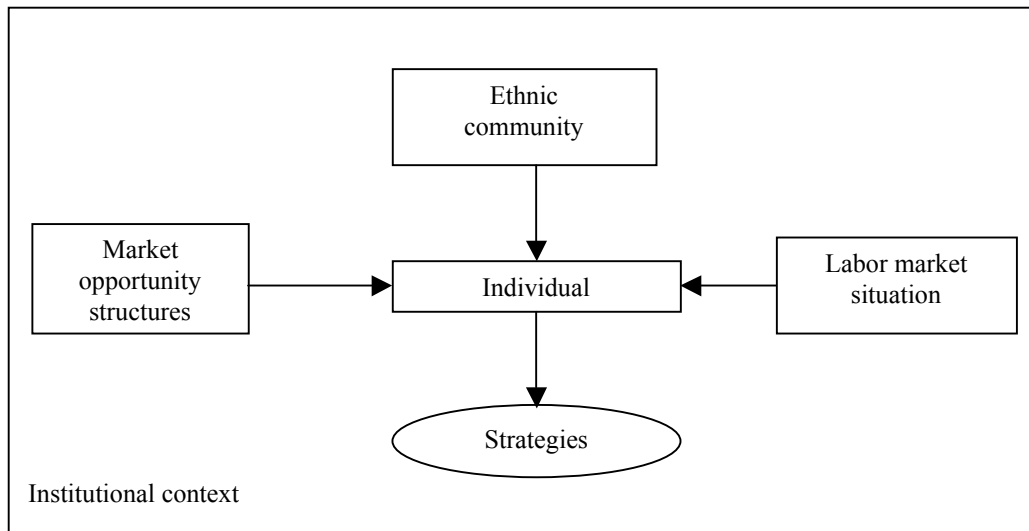


Exhibit 2. Key components of ethnic minorities entrepreneurship: decision-making process on starting a business

As presented in Exhibit 2, the actor of the decision-making process is an ethnic minorities' *individual*. An individual is a person who can be described with demographic characteristics and *human capital* components such as age, sex, marital status, place of residence, level of education, work experience, ethnic majority language literacy etc. At the same time this individual belongs to an *ethnic minority* community, which by means of *cultural capital* out-shapes such values as risk taking and the overall attitude to entrepreneurship and work. When starting a business, ethnic minorities' community usually serves as the main supplier of an individual with financial and labor resources. In this sense it is essential to take into consideration that an ethnic minorities' individual's *social and financial capital* can depend on the entire community's social and financial capitals and can be limited by their size. Moreover, the level of an individual's *informational capital* can be highly correlated to the information sources and information availability for the entire community. The entire community's information sources and availability, in their turn, depend on the existing contacts and relations with other society groups (that is the entire community's social capital).

An individual makes a decision on engaging in self-employment during a process. In addition to the individual's and ethnic community's characteristics the final decision is influenced by the current traditional labor market situation defined by the levels of competition together with the existing market opportunity structures. All the components of this system do not exist in isolation but in a political and economic institutional environment that either stimulates or tends to limit the ethnic minorities'

entrepreneurial activities. Under the influence of all the individual characteristics and the environment and using the existing market opportunity structures a certain *ethnic strategy* is developed by the individual. The strategy can be either *co-ethnic* or *non-ethnic* oriented. In the first case the so-called “*protected market hypothesis*” takes place where the familiarity with the ethnic differences might serve as a competitive advantage of an ethnic business. It is also widespread that ethnic minorities’ businesses, which usually are more flexible with their partners and customers (e.g. billing terms or working hours), serve *ethnic niche markets*.

3. Ethnic Minorities Entrepreneurial Activities in Estonia

According to the results of the survey on the level of enterprisingness among the Estonian population the overall average level of engagement into entrepreneurial activities for the Estonian population aged 16-64 comprised 12% (Eesti Konjunktuurinstituut 2004, 15). The participation rate for the Russian-speaking minority made up only three thirds of the country average rate and was 1.5 times lower than the corresponding rate for the Estonian entrepreneurs (Exhibit 3).

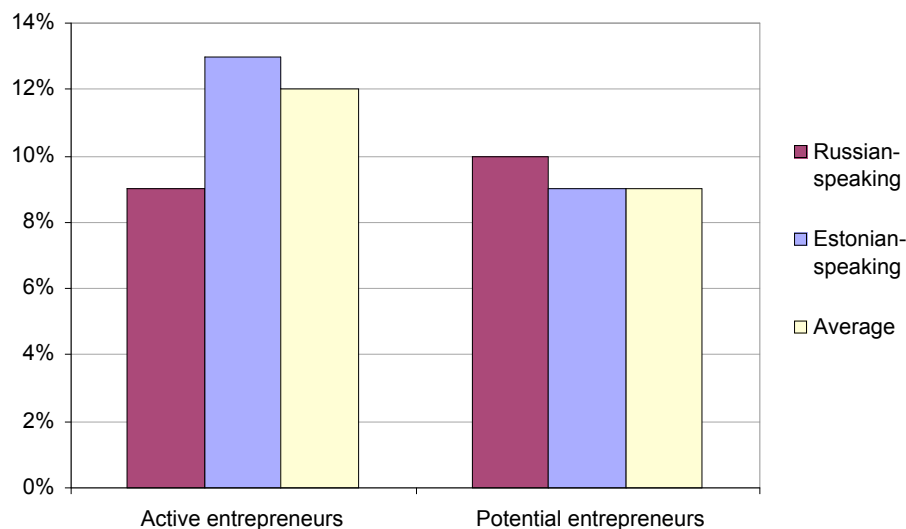


Exhibit 3. The participation rates in entrepreneurial activities for the Estonian population aged 16–64, % of the total population, 2004

Source: /Eesti Konjunktuurinstituut 2004, 15/

At the same time, as shown in Exhibit 3, the number of potential entrepreneurs among the Russian-speaking minority exceeds the corresponding number among the natives. The number of absolutely not interested in entrepreneurship among the Russian-speaking minority is close to the country average and reflects the overall existing tendency when a well-paid job is preferred to entrepreneurship. All the above-mentioned suggests that it is highly probable that some differences among Estonian- and Russian-speaking entrepreneurs do exist. It is interesting to note that according to the data of the Estonian report of the European Social Survey 2004 in the households where the Estonian language is spoken at home 16.4% of the men are entrepreneurs while in the other households only 7.3% are. However, among women these proportions are not in favor of Estonians: respectively 5.2% and 6.1% (Eesti

Tervise- ja Käitumisteaduste Tippkeskus 2005, 50). This difference has not been highlighted earlier, and its reasons require special research.

Besides encouraging both the overall economic growth inside the country (Wennekers & Thurik 1999, 29) and the competitiveness growth on the international arena (Garelli 2005, 9) the ethnic minorities higher engagement into entrepreneurial activities can assist and speed up the social integration processes smoothing some of the existing social problems and tension. Moreover, due to the demonstrated utilization of co-ethnic networks when finding partners and employees for business (at least at the initial phase), it is highly possible that the increase in the rates of ethnic minorities entrepreneurship will lead to a decrease in unemployment among them.

The examination of the possible reasons for the above-mentioned differences as well as exploration of peculiarities of the Russian-speaking minorities entrepreneurship in Estonia and establishment of cause–effect relationships are of a great interest. The following three issues emerge as having a potential impact on the lower entrepreneurship engagement rate among the Russian-speaking minorities of Estonia:

- the historical background of the formation of the Russian-speaking community on the territory of Estonia causing their residential and sectoral distribution;
- the motivational and cultural differences as compared to the natives, as well as
- the existence of specific obstacles to starting a business.

4. Possible Reasons for Ethnic Minorities Lower Engagement Rates in Entrepreneurial Activities

4.1. Historical Background

The specific features of ethnic minorities in Estonia are to a large extent determined by the historical context of their appearance on Estonian territory, but also by the unique situation in which they found themselves after the change of the political situation in connection with the disintegration of the Soviet Union and replacement of the planned economy by a market economy.

According to the 2000 population census, the ethnic minorities make up 32% of the total population of Estonia and include representatives of more than 120 nationalities. Ethnic Russians constitute the largest minority (26%), see Exhibit 4. At the same time Russian is the mother tongue of the majority of minorities (for 90%). Considering the large number of Russian minority and the Russification tendency of other minorities, the present study focuses on the Russian minority.

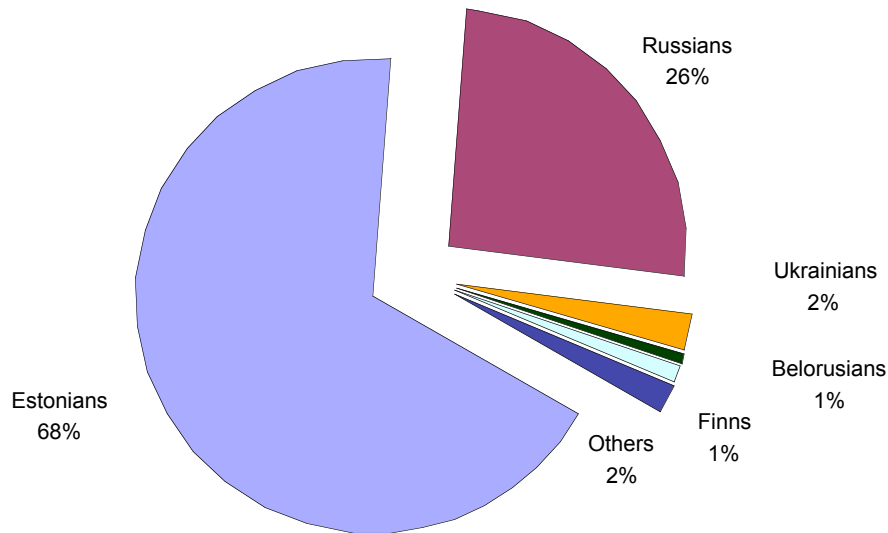


Exhibit 4. Ethnic structure of the population of Estonia, % of the total number, 2000
Source: /Eesti Statistikaamet 2005/

The appearance of ethnic Russians on the territory of Estonia has a long and quite interesting history. For the present study the so-called Soviet period (1940–1991) is of greatest interest, as it was during that period that the basis of the present ethnic structure of the Estonian population was formed with numerous components still existing today.

Until Estonia was annexed by the Soviet Union in 1940 its population was rather homogeneous with Estonians making up the overwhelming majority (88.1%) (Exhibit 5).

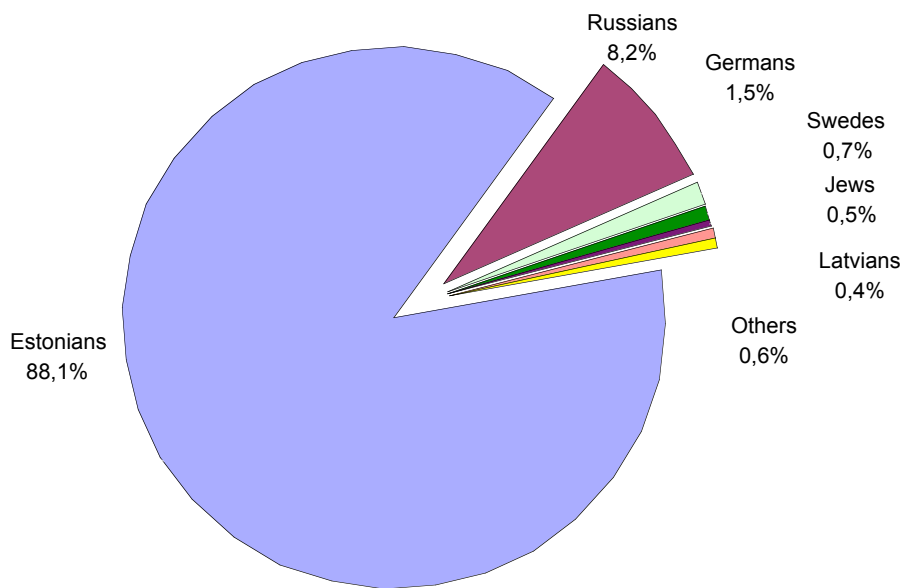


Exhibit 5. Ethnic structure of the population of Estonia, 1934
Source: /Eesti rahvaste raamat 1999, 312/

According to the last pre-war population census held in 1934, among the 11.9% ethnic minorities five groups were the most numerous: Russians, Germans, Swedes, Jews and Latvians. Among them there were many representatives of the intelligentsia, who helped develop the cultural and social life in the country (Eesti rahvaste raamat 1999, 312).

Annexation of Estonia by the Soviet Union changed the proportions of natives and ethnic minorities as well as the qualitative structure of non-Estonians. Being part of the Soviet Union Estonia had no possibility of pursuing its own migration policy and became a target of Soviet migrants. These factors coupled with noteworthy human losses of Estonians due to World War II, annexation and repressions, which according to some specialists amounted to about 17.5% of the pre-war population, were the reasons why the percentage of the native population had a decreasing tendency during the whole Soviet period (Eesti rahvaste raamat 1999, 69, 126, 131, 312, 318, 320).

Unskilled workers and engineers of middle level settled in large towns where they accounted for nearly 45% of the total population. They mostly had a secondary or secondary specialized education and they concentrated in the secondary sector of the economy, mostly in regions where large industrial enterprises were located (Valdmaa 2003, 11).

The mass immigration of the Soviet period altered the ethnic and language environment in Estonia. During that time two general tendencies developed in the regional distribution of Russian-speaking population, which can still be observed:

- uneven regional distribution and concentration in North-East Estonia;
- elevated urbanization level.

The greatest concentration of Russian-speakers in Estonia is found in Ida-Viru and Harju counties. In these two counties lives 84.3% of the total number of the Russian-speaking population of the country.

An absolute majority of Russian-speakers live in towns – 92.6% of their total number. The proportion of Russian-speakers is the largest in the towns of Sillamäe (93.7%), Narva (92.7%), Kohtla-Järve (80.4%), Maardu (74.5%) and Loksa (64.7%) (Eesti Statistikaamet 2005). During Soviet time all these towns had large industrial enterprises of all-Union importance, and Russian-speaking immigrants were the main labor reserve of these enterprises.

It is most likely that the distribution of the labor force that evolved during the Soviet period had a direct impact on the development trends of entrepreneurship among ethnic minorities in Estonia. Concentration of Russian-speakers in the industrial sector determined two important things:

- As a result of the structural-economic changes at the end of the 20th century and the accompanying growth of the tertiary sector but also the replacement of the planned economy by a market economy it was the Russian-speaking minority that was most strongly affected by structural unemployment. Although during the last 3 years the unemployment rate has shown a decreasing tendency in North-East Estonia (Ida-Viru county), the percentage of the unemployed there is still one of the highest in Estonia.
- During the Soviet period the overwhelming majority of Russian-speakers in Estonia worked at large industrial enterprises of all-Union importance with narrow specialization. Native Estonians, on the contrary, worked more often for small organizations of primary and tertiary sectors. This difference has not vanished. In 2004, 3% of the native Estonian men and 2.4% of Estonian women worked at enterprises with over 500 employees, for ethnic minorities the respective figures were

8.2% and 8.6% (% of total number of employed persons). Also enterprises with 100–499 employees had relatively more non-Estonians although the difference was not as great as in the case of larger enterprises (Eesti Tervise- ja Käitumisteaduste Tippkeskus 2005, 50) It can be assumed that the experience of working in small organizations and of performing various tasks had a positive effect on the level of entrepreneurial activity among native Estonians.

The proportions of Russian-speaking and Estonian-speaking persons are unequal also in different sectors of the economy. For native Estonian entrepreneurs the primary sector is the traditional one. This can probably be explained by the lack of land resources among Russian entrepreneurs. In the 1990s certain changes occurred in the relationship between the Russian-speakers' businesses operating in the secondary and tertiary sectors. While at the beginning of the 1990s up to 50% of all enterprises established by Russian entrepreneurs were in the industrial sector, then at the end of the 1990s already 77% were set up in the services sector (The Challenge of Russian Minority: Emerging Multicultural Democracy in Estonia 2002, 104).

One of the important characteristics of Russian-speaking minority's entrepreneurship is, according to researchers, the so-called "language isolation": suppliers, customers and personnel of Russian-speakers' businesses are often also Russian speaking, that is Russian-speaking minority's entrepreneurship in Estonia has a co-ethnic tendency. Besides, Russian business in Estonia, especially the part co-operating with Russia, is often instable and depends on the economic situation in Russia (The Challenge of Russian Minority: Emerging Multicultural Democracy in Estonia 2002, 104). At the same time the common language and cultural background simplifies creation of contacts in Russia, which may be a competitive advantage. So command of the Russian language and knowledge of customs and traditions help surpass the mistrust towards Estonia that can be met in Russia. An entrepreneur interviewed by the students answered the question, "Has your ethnic background promoted the development of the international relationships of your business?" as follows: "*Yes, of course, because we have the same jokes.*" At the same time these entrepreneurs are familiar with Estonian economic situation and peculiarities of business.

The educational level of Estonian entrepreneurs is high. However, important differences can be observed between the educational profiles of native Estonians and minorities. For example, according to a study of entrepreneurship among women, Russian-speaking businesswomen have three times as often a technical higher education as Estonian businesswomen do. Among native Estonian female entrepreneurs a higher education in the humanities is 1.5 times more frequent than among the Russian-speaking women (Exhibit 6).

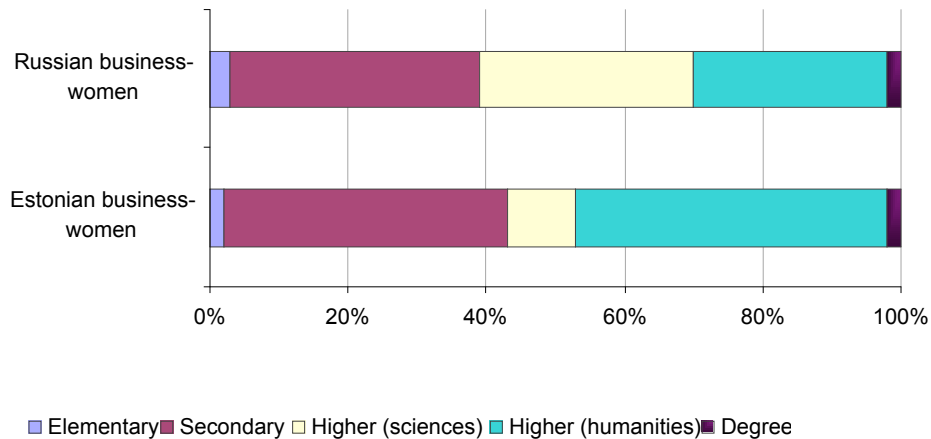


Exhibit 6. Educational level of businesswomen of Estonia

Source: /Pettai 2003, 9/

While in the rather traditional labor market the Russian-speaking minority tends to feel discrimination then no such feeling occurs in entrepreneurial activity. According to the results of the study in 2005 the opinion that opportunities to *start* a business were equal was expressed by 63% of the questioned Russian-speakers (Exhibit 7). The chances to *succeed* in business were regarded as equal with native Estonian counterparts by 57% of the Russian-speaking respondents (Saar Poll 2005, 39).

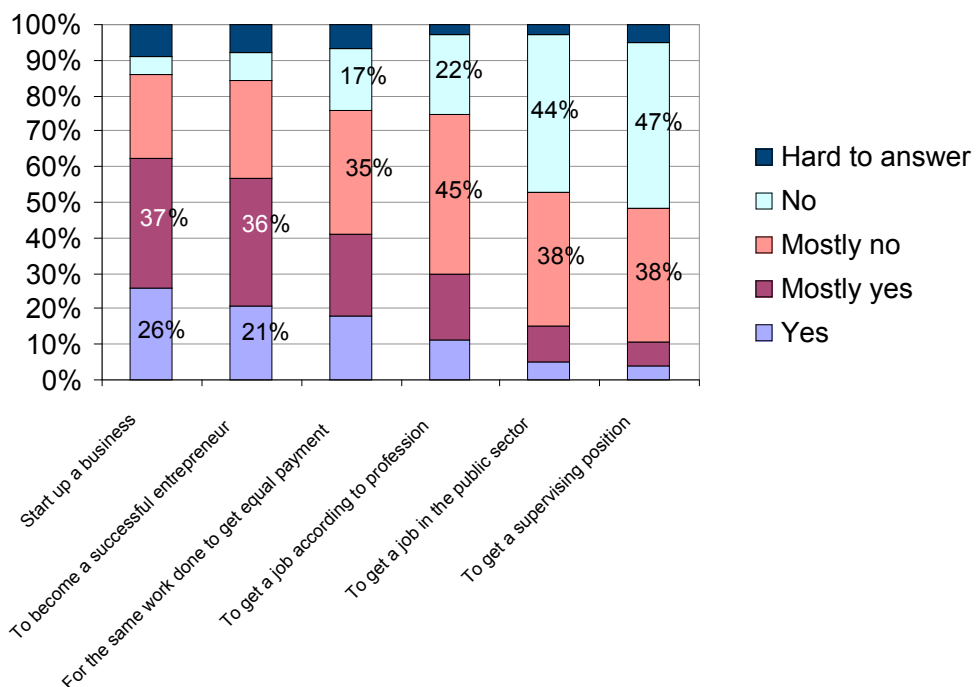


Exhibit 7. Are there equal opportunities for non-Estonians and Estonians to achieve the above-mentioned goals (answers of a Russian-speaking part of the population of Estonia)? Source: /Saar Poll 2005b, 39/

4.2. Cultural and Motivational Differences

Sociologists are of the opinion that for the prognostication of the demographic and social behavior of immigrants the region of their origin is of special importance. It is their origin that determines the environment of their initial socialization, and the models of demographic and social behavior are followed and reproduced by the next generation (Eesti rahvaste raamat 1999, 321). In the context of entrepreneurship this may be of great significance; for example, in attaching importance to making a career, attitudes towards work and well-being, taking of risks etc.

According to the 2000 population census, for 13.9% of the total population of Estonia the ethnic homeland is Russia and for 0.4% a part of the territory of Russia that before World War II belonged to Estonia (Eesti Statistikaamet 2005). The characteristic cultural traditions developed over a thousand years of Russian history may have quite a significant impact also on the entrepreneurship of persons who have come from Russia (Soviet Union) and who today belong to the group of ethnic Russian in Estonia.

According to investigations carried out in Russia, the key factor in the development history of Russian entrepreneurship is the structure of the Russian economy. From the beginning of the 17th century to the 1990s the Russian economy was a huge military-industrial complex in which a businessman played only a secondary role. In the light of historical changes from the beginning of the 17th century until today some basic conclusions can be drawn concerning the factors that have decisive influence on the formation of the characteristic features of a Russian businessman (Hirsrich & Grachev 1993, 493):

- Entrepreneurial activity among the Russian population *has always existed*, both in official and unofficial form.
- Any entrepreneurial initiative was to some extent *subordinated to the nationwide goal* of building up a powerful military-industrial complex.
- *Absence of entrepreneurial culture and entrepreneurial traditions* was partly determined by the official policy of the state: high taxes and customs in the 16th and 17th centuries, bureaucratic burdens in the 18th and 19th centuries and practical prohibition of entrepreneurship (with some reservations) in the 20th century. So, an entrepreneur always belonged to the lower class of society.
- *Conservatism and extreme cautiousness in taking risks and selecting partners* also developed over decades of high financial risks during tsarist times and absence of security in the 20th century.
- The political order of the 20th century in Russia *did not encourage* the traits that usually serve as motives in taking the decision to start a business: individualism, independence, creative attitudes, active disposition and making use of market opportunities, wish to earn profits.

Thus, the characteristic features of a Russian entrepreneur are conservatism in taking risks, importance of relationships/friends in selecting business partners, absence of business culture and experience, also absence of individualistic traditions, which are formed by the political order as well as religious traditions.

In developing business support programs for ethnic Russians of Estonia it is indispensable to take into consideration that finding out and estimating changes in cultural values in the first and next generations of immigrants is rather complicated. On the one hand, the generally accepted point of view is that cultural values change

very slowly. On the other hand, the second generation of immigrants of the Soviet period socialized still under Soviet system though not in Russia but in Estonia. In Estonia individualistic traditions are much stronger due to upbringing in the context of Protestant religion. The following generations did not live under Soviet regime with its collectivist values.

It is interesting to note that in qualitative estimates of ethno-psychological differences between Estonians and Russians it is also observed that in Estonian families a child has an equal status with parents and upbringing is in general more liberal and calmer. In Russian families the upbringing is more emotional and authoritarian: the child has the status of a subordinate, it has no equal rights with its parents (Valdmaa 2003, 24). Therefore, in Estonian families children develop already in the childhood skills of independent thinking and decision-making and having their own opinions, not following blindly somebody's example.

One more fact that illustrates the tendency towards collectivist values among Russians is that among potential Russian-speaking businesspersons the number of those who are ready to work on their own is 2.6 times smaller than among their Estonian counterparts.

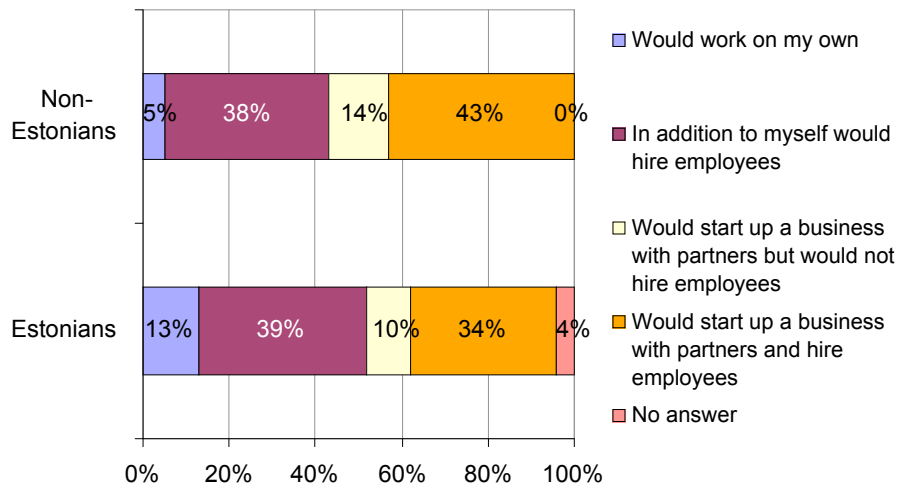


Exhibit 8. Readiness of potential businessmen for cooperation with partners and employees, % of potential businessmen.

Source: /Eesti Konjunktuurinstituut 2004a, 112/

Making a decision to start business is strongly affected by motivational factors. In this field some difference occurs between Estonians and non-Estonians.

While for Estonian businesspersons the main motive is the wish to be their own masters and have greater freedom of activity (*push factors*), then for Russian-speaking entrepreneurs the wish to earn more than earlier (*pull factors*) plays a relatively greater role (Eesti Konjunktuurinstituut 2004, 87-102). In addition, it is interesting that Russian and Estonian businesspersons understand somewhat differently *how to become richer* (Exhibit 9). According to a study of female entrepreneurship (Pettai 2003, 10), for both groups (Estonians and non-Estonians) the most popular answers to the question “What in your opinion helps a person to get rich in Estonia?” was that entrepreneurial spirit and good analytical thinking do. As to other possible answers, compared to Estonians non-Estonians chose more often

activity in shadow economy, unethical business activity and cooperation with criminal organizations.



Exhibit 9. The factors assisting in the growth of financial well-being, % of the questioned businesswomen of Estonia
Source: /Pettai 2003, 10/

4.3 Obstacles to starting a business

Lack or insufficient supply of financial resources may be an important obstacle at the beginning of business activity. According to the study “*Development trends of SMEs in Estonia*” in 2002 availability of financial capital was the third most important obstacle to the growth of entrepreneurship (Emor 2003, 60). Although in 2005 the situation improved somewhat (6th among 13 possible answers), the importance of availability of financial capital was high in 2002 as well as in 2005 for both small enterprises and new businesses (Saar Poll 2005, 94). In addition, the two cited studies revealed a common tendency that the basic source of funding SMEs was the owners’ own resources.

As it is possible to draw conclusions about the material well-being of the Russian-speaking minority only using indirect sources, the existing information is somewhat controversial. According to the results of the study, conducted by Saar Poll in 2005, the material resources of the majority of Russians in Estonia are rather limited (Saar Poll, 2005). Partly this can be explained by the fact that the Russian-speakers are of immigrant origin, and therefore their participation in the processes of privatization and restitution of property nationalized by Soviet power was low (The Challenge of the Russian Minority: Emerging Multicultural Democracy in Estonia” 2002, 104).

We can admit that lack or insufficient amount of collateral is often the reason why banks refuse to give credit. Moreover, as shown above, in the regions with the

highest concentration of Russian-speakers the rate of unemployment is high and incomes are low, and thus current incomes are low.

For a number of years students of Tallinn University of Technology have conducted semi-structured interviews with entrepreneurs. Although the main aims of these interviews were different, they also touched upon problems of minority businesspersons. The standpoints presented below are based on these interviews.

Another, although less important obstacle, is the language barrier, which in Estonia is of specific significance for ethnic minority entrepreneurs. In this question the opinions of entrepreneurs from among ethnic minorities are controversial. Some think that it is mainly their poor command of the Estonian language that hinders their business activity. Others, on the contrary, find that a language barrier as such does not exist: “If people want to do business, they will always come to an understanding.” The problem is cultural peculiarities rather than language: “Estonian and Russian way of thinking – these are two different worlds”, “They have different traditions and customs, they understand the same things differently”, “Their convictions and management styles are different.” At the same time there is no consensus among native Estonians either: some think that Slavs have a different temperament, but others are of the opinion that if you understand their style, there will be no problems and it is necessary to be more open yourselves. Yet overcoming cultural difference is sometimes not easy; for example, an Estonian businessperson owning an advertising firm complained that it was difficult to make commercials that Russian client would like; however, he admitted that the target group did not like the particular commercial either.

In addition to relationships with business partners belonging to an ethnic minority and language barrier may complicate also matters when dealing with various public offices, for example the local self-government.

As Exhibit 10 shows, unawareness of the measures of the state business support system is especially characteristic of Russian-speaking entrepreneurs, although such unawareness is general in Estonia. During the interviews entrepreneurs said that legal acts, including commented texts, should be published more often also in the Russian language. Respondents complained that they would like to participate in various training courses but the working language is usually Estonian. There was also interest in Business Estonian courses.

Co

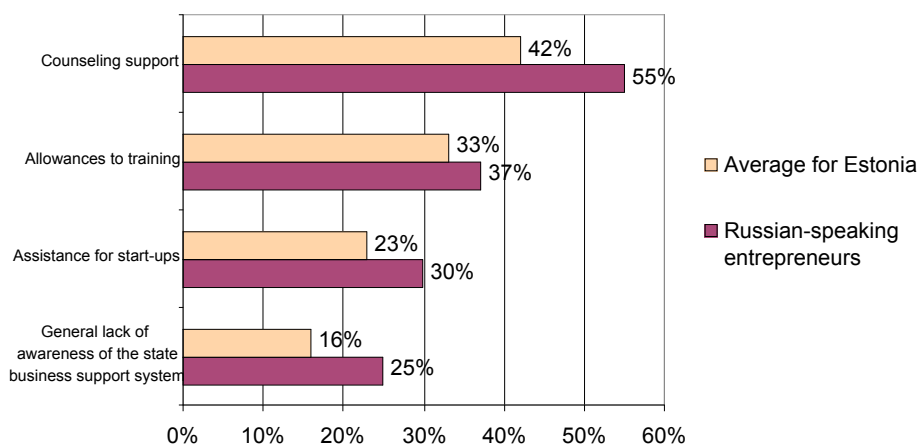


Exhibit 10. Lack of awareness of the state business support system, % of active and potential businessmen. Source: /Eesti Konjunkturiinstituut 2004, 124-131/

The insufficient knowledge of the Estonian language and lack of information caused by it may explain why Russian-speaking active and potential entrepreneurs feel a higher need for the existence of some kind of business club than Estonian businesspersons do (the relevant rate was 1.5 higher among Russians); moreover, half of all Russian-speaking respondents felt a pressing need for such a club (Eesti Konjukturiinstituut 2004, 121).

Besides difficulties of obtaining the necessary financial capital, fear of falling into debts and bankruptcy, the most important possible obstacle to starting a business for Russian-speaking minority in Estonia is lack of necessary knowledge and skills (Eesti Konjukturiinstituut 2004, 114). Yet paradoxically most Russian-speaking respondents did not think it useful to have such skills as business planning (52%), marketing (50%), accounting (50%) or education in the field of business (65%) and experience of managing an enterprise (57%) at starting entrepreneurial activity (Eesti Konjukturiinstituut 2004, 104–111). Hence we can conclude that the need of obtaining such knowledge and skills is not realized.

Table 1 presents a comparison of Estonian-speaking and Russian-speaking communities in Estonia based on the above-given information. General characteristics, cultural-motivational differences and obstacles to starting business are included to give a preliminary picture about Russian-speaking minority's entrepreneurship.

Table 1

Comparative analysis of Estonian- and Russian-speaking population

| | <i>Characteristic</i> | <i>Estonian-speaking population</i> | <i>Russian-speaking population</i> |
|----------------------------------|--|---|---|
| <i>General characteristics</i> | Residential distribution | – similar to the population overall residential distribution between different counties, under-represented in Ida-Virumaa and Harjumaa – fairly homogeneous distribution between towns and counties | – 84.3% of the Russian-speaking population is concentrated in Ida-Virumaa and Harjumaa – high urbanization level (92.6%) |
| | Historically shaped sectoral distribution of enterprises and labor and size of companies | – primary and tertiary sectors – smaller companies | – secondary and tertiary sectors – larger companies |
| | Level of entrepreneurial activities | – the percentage of active entrepreneurs higher than the Estonian average or for the Russian-speaking population – the percentage of potential entrepreneurs lower than for the Russian-speaking population and equal to the Estonian average – the percentage on not interested in entrepreneurial activities lower than both the Estonian average and for the Russian-speaking population | – the percentage of active entrepreneurs lower than both the Estonian average and for the Estonian-speaking population – the percentage of potential entrepreneurs higher than both the Estonian average and for the Estonian-speaking population – the percentage of not interested in entrepreneurial activities higher than the Estonian average or for the Estonian-speaking population |
| | Education | –humanities | –sciences |
| | Source of income from entrepreneurial activities | – only source for 18% of the Estonian-speaking population, for 13% one of the 3 most important sources of income | – only source for 10% of the Russian-speaking population, for only 4% one of the 3 most important sources of income |
| <i>Cultural and motivational</i> | Culture: Main religion and values | Western culture – Protestant – individualistic values | Slavic culture – Orthodoxy – collectivistic values |
| | Entrepreneurial culture and experience | – previous generation (till 1940) | – two generations ago (till 1917) historical peculiarities: –subordination and dedication to the creation of the military-industrial complex – existing both registered and unregistered entrepreneurship |
| | Family values | – parents and children are equal – more liberal values and calm communication | – children's subordination to parents – more authoritative values and more emotional communication |

| | | | |
|------------------|---|---|---|
| | Cooperation with partners and risk taking | <ul style="list-style-type: none"> – preference to start up business without partners – moderate risk-taking | <ul style="list-style-type: none"> – preference to start up business with partners – conservatism when taking risks or choosing partners |
| | Main motivational factors when starting up a business | <ul style="list-style-type: none"> – pull factors prevail – least important motivational factor is following someone's example | <ul style="list-style-type: none"> – push factors prevail - least important motivational factor is following family traditions |
| | Factors assisting in the growth of financial well-being | <ul style="list-style-type: none"> – entrepreneurial spirit and ability of analytical thinking – relatively more important is well-paid job and saving money | <ul style="list-style-type: none"> - entrepreneurial spirit and ability of analytical thinking - relatively more important is diligence, participation in illegal business activities and cooperation with criminal organizations |
| Obstacles | Availability of financial resources | <ul style="list-style-type: none"> – the most important financial source is self-financing | <ul style="list-style-type: none"> - the most important financial source is self-financing Peculiarities: <ul style="list-style-type: none"> – can be limited with the community financial sources – insufficient collateral |
| | Insufficient knowledge of the Estonian language | <ul style="list-style-type: none"> No unanimity: <ul style="list-style-type: none"> – is a barrier: a) can limit the information accessibility or reduce its efficiency <li style="padding-left: 40px;">b) does not encourage social networks to expand – is NOT a barrier: a) differences are cultural <li style="padding-left: 40px;">b) there is no problem when being more open-minded yourself <p>The Russian-speaking minority's peculiarity:</p> <ul style="list-style-type: none"> – the awareness of the existing support measures lower than the average – perceived need for a business club | |
| | Lack of required knowledge, qualifications and skills | <ul style="list-style-type: none"> - exists | <ul style="list-style-type: none"> - exists Pecularity: <ul style="list-style-type: none"> – the need of getting knowledge and experience in business planning, marketing, accounting and management is not realized |

Conclusions

The level of the Russian-speaking ethnic minorities entrepreneurship in Estonia comprises only $\frac{1}{3}$ of the corresponding level for the native Estonians. At the same time the number of potential entrepreneurs among the minorities is above both the country average and the rate of potential entrepreneurs among the Estonians. Our aim was to assess possible existence of specific obstacles for them to participation in the entrepreneurial activities through analyzing the background information such as the historical formation of Russian-speaking minorities on the territory of Estonia and their distinctive cultural and ethno-psychological differences. This paper suggests that certain differences can be a cause of the unfavorable position of the Russian-speaking minorities. Lack of financial funds, poor knowledge of the Estonian language and lack of the necessary managerial, marketing, financial and other knowledge and qualifications emerged as requiring greater attention. However, due to the insufficiency of the available secondary data this needs to be further explored.

The authors believe that the preliminary results of this paper will stimulate further research on the ethnic minorities entrepreneurship in Estonia.

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