ENTREPRENEURIAL START-UP MOTIVES IN TRANSITIONAL ECONOMY – CASE OF POLAND

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Summary

The formation and growth of new firms is a complex process and many factors related to this procedure can only be recognised by comprehensive investigation at the micro-level of the firm and the firm founder. Start-up motives are considered of high importance in this process. There is a lack of literature exploring self-employment motivations in countries moving from a planned to a market economy, so-called transition economies. In order to fill this gap, the aim of this paper is to investigate the main start-up motives of Polish microentrepreneurs. According to the study results, the most important start-up motives among Polish microentrepreneurs are: desire for independence, unemployment or redundancy risk, and financial incentive. The paper concludes with implications for the public policy and further research issues.

Key words: self-employment; entrepreneurship; business start-up motives; push and pull motives; transitional economy.

1. INTRODUCTION

The interest for self-employment and small business ownership began to evolve some thirty years ago (Eden, 1975). One important reason is that in many countries entrepreneurship plays an increasing role in sustainable development. This is the case not least in countries moving from a planned to a market economy, so-called transition economies. The economic environment for self-employment and entrepreneurship under socialism and du-

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ring the transition varied differently across the countries of Eastern Europe. In spite of difficulties experienced during the period of a centrally planned economy, Poland is at the top of the international ranking for entrepreneurial spirit compared to five other countries of the region (Earle and Sakova, 2000).

Growing self-employment in many industrialised countries has activated important debate over the factors fuelling its growth. A great deal of research has been devoted to unravelling the reasons for the existence of small and medium sized enterprises and mapping entrepreneurial motivation on regional (Piecuch, 2005; Wasilczuk, 2000; Dubini 1988), national (Eriksson, Larsson and Šarucki, 2006; Carter et al., 2003; Hughes, 2003), and international levels (Lee and Osteryoung, 2001; Birley and Westhead, 1994; Shane, Kolvereid and Westhead, 1991; Blais and Toulouse, 1990; Scheinberg and MacMillan, 1988).

The main aim of this paper is to explore start-up motivations among Polish microentrepreneurs. The paper is built on the previous studies within analysis of start-up motives of the self-employed. In the next two parts of the paper, a theoretical framework is presented. The fourth section focuses on the study approach used to collect and process data. It is followed by results and analysis of a large sample of start-up motives. At the end, implications and recommendations for further research are suggested and discussed.

2. TRANSITIONAL ECONOMY AND PRIOR RESEARCH ON ENTREPRENEURSHIP

Eastern Europe faced a transformation process in the early 1990s, just after the Soviet Union weakened and then collapsed. Nevertheless, the process of transition was untested, and reformers lacked historical data, verified pathways, or well-developed economic theories to lead reform. As a result, different countries went about this challenge in very dissimilar ways. Poland’s approach involved a »shock therapy« program that was introduced in 1990. The main assumption of this way was to introduce rapidly wide-ranging reforms to benefit from the society’s perceived short-term enthusiasm to sustain the extensive costs related to economic liberalization process (Leven, 2008). The transition process can be divided into three periods: pre-reform and initial phase (1989-1993), development phase (1994-2003) and final phase, which began with Poland’s accession to the European Union on May 1, 2004 (Wasilczuk and Zieba, 2008). Definitely, changes in Poland after that period did not end, and the country has continued working hard on further transformations.

Private business was virtually absent in Poland from 1940 to 1990, as was the case of other transitional economies. During the Communist era, small enterprises, especially in trade, were perceived as »speculators«. They either were seen as illegal, or, if they were honest in terms of income declaration, they were heavily taxed. Nevertheless, they were beyond the law and operating such a business required a readiness to break the rules. This situation was unfavourable for legal enterprise formation and most of the scrupulous entrepreneurs simply ended their business activity. The belief that »small« is beautiful became popular and new enterprise creation was encouraged beginning in 1985, when leaders began recognizing the asymmetries between numbers of operating firms and numbers of demand households,
relative to industrialized nations (Dandridge and Dziedziczak, 1992). As a result, the entrepreneurial image improved, and standards for small businesses were established. By that time, the number of employees in the largest companies had sunk to 65 percent of Poland's overall workforce. This drop was to some extent a response to an increase in the number of small enterprises, although this stimulus for change occurred principally after 1989.

Researchers focusing on small businesses have confirmed the increasing role of entrepreneurship in most countries (Blanchflower, Oswald and Stutzer, 2001; Blanchflower, 2000). Due to that, some scholars have provided aggregated data investigating small businesses on both specific issues involved in setting up and running a small firm as well as the ways of creating and maintaining sustainable competitive advantage (Bannock, 2005; Hatten, 2003; Piasecki, 2002; Stokes, 2002). A number of schools view the concept of entrepreneurship from fundamentally different perspectives. With such a variation in viewpoints, it is difficult to reach consensus about what entrepreneurship is (Cunningham and Lischeron, 1991). In this paper, the terms entrepreneurs, microentrepreneurs, small business owners, or self-employed, are used interchangeably as synonyms, although some distinctions exist among them.

The literature concerning international comparisons of entrepreneurship practice is limited, especially for countries in transition. According to Bruton et al. (2008) entrepreneurship plays a key role in economic development of the emerging economies. Nevertheless, the vast majority of studies are country oriented and comparisons are made for highly developed countries, mostly the USA. In order to fill this gap, the study investigates start-up motives among microentrepreneurs in Poland.

3. MOTIVES FOR GETTING INTO BUSINESS

What are the reasons that individuals are so positively oriented towards the opportunity of starting a business? Previous research indicates, that the dominant attraction of self-employment seems to be the high degree of independence explained as allowing the freedom from constraints related to employment in formal, bureaucratic organisations (Yusuf, 1995; Chay, 1993; Eden, 1975). Other often highlighted features that attract individuals to self-employment include personal achievement, significant economic rewards, high job security, and the potential for experiencing challenging opportunities (Carter et al., 2003; Jamal, 1997; Birley and Westhead, 1994; Shane, Kolvereid and Westhead, 1991).

It is not easy to classify the various reasons for starting a business (Stokes, 2002). Shane (2003) makes one of the most comprehensive reviews of the field, including individual, psychological, and environmental aspects. According to Deakins and Whittam (2000), motivations driving entrepreneurs are associated with either positive or negative factors. One positive factor is the desire for entrepreneurial aspiration on the part of the nascent entrepreneur – for example, a desire to be independent, to be one's own boss and to be successful in business. Negative factors are associated with discomfort or discrimination in alternative employment. In this case, it is not a first choice but rather triggered by a lack of alternative job opportunities or by insufficient income from other employment. Theoretically, it is expected that such nega-
tive motives are more of a key factor for entrepreneurs from certain groups in society that may face discrimination, such as ethnic minority groups, younger age groups and women.

Principally, the motivations to start a business can be grouped into pull and push influences, although according to Deakins (1999, p. 209) simplifying motives into »artificial dichotomy of 'pull' and 'push' factors can be misleading«. Nevertheless, this claim is more relevant with regard to the tendency for a firm to grow, and it will be elaborated on this issue on the basis of the presented classification. Some people are attracted into small business ownership by positive drivers, such as a specific idea that they are convinced will work. On the other hand, there are people who are pushed or pressured by different reasons into founding their own firm. Incentives for pull and push motives are summarised in Table 1.

**Table 1:** Push and pull motives for starting own business

<table>
<thead>
<tr>
<th>Pull motives</th>
<th>Push motives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial incentive</td>
<td>Unemployment (or threat of redundancy)</td>
</tr>
<tr>
<td>Desire for independence</td>
<td>Dissatisfaction with previous job or disagreement with previous employer</td>
</tr>
<tr>
<td>Self-development motive</td>
<td>Alternative to relocation</td>
</tr>
<tr>
<td>Family business background</td>
<td></td>
</tr>
<tr>
<td>Desire to exploit an opportunity</td>
<td></td>
</tr>
<tr>
<td>Combining job with other life</td>
<td></td>
</tr>
<tr>
<td>Turning a hobby into a business</td>
<td></td>
</tr>
</tbody>
</table>

Source: own interpretation based on the bibliography included in this part of the paper.

*Financial incentive* exemplifies profits gained from an entrepreneurial activity and seems to be one of the most important start-up motives. However Douglas and Shepherd (2002) argue that it is one of the least important motives for getting involved in a new business. *Desire for independence and self-development* are considered to be key motivators. Independence could be described as an individual’s desire for freedom, control and flexibility in the use of one’s time, while self-development as a reason involved with pursuing self-directed goals (Carter et al., 2003). Further, Carter and her colleagues provide evidence of the importance of aforementioned factors in starting a business. This motive is relevant for both male and female entrepreneurs (Buttnor, 1993). *Family business background* is frequently perceived as an important motivating reason to become an entrepreneur, to continue the family’s business as a tradition. This is probably one of the easiest ways to become an entrepreneur, since knowledge gained from older relatives is very useful. Brunäker (1999) stresses the socialisation process of introducing the business to second-generation family members, thus teaching them the business processes and urging them to continue the family tradition. *Desire to exploit an opportunity* is a typical cause and is explained as an individuals’ attempt to fill a market gap by offering the demanded product (Schumpeter, 1992). Baron (2004) argues that identification of a potential economic opportunity could be an important preliminary
step in the entrepreneurial development. Further, he explains that the choice to start a new firm often is rooted in the conviction that one has discovered an opportunity no one else has yet identified and as a result can gain from being first to enter that particular market niche. *Combining job with other life* is also a crucial pull reason for starting a business. It can be convenient for students or families with small children to have professional interests outside the school and home environment. This is considered a particularly important factor behind women's business ventures (Lönnbring, 2003; Sundin and Holmqvist, 1989). *Turning a hobby into a business* is described as an individual's desire to spend more time involved in a favoured leisure activity. Frequently people go into business in their hobby field, which is considered a very good beginning for self-employment. Here they are already well acquainted with what they like and want to accomplish, and they do it with passion and energy. Pullen and Walters (1999) elaborate more on how to change a hobby into a business based on personal life experiences. Torres (2003) on the other hand, provides some negative insights into establishing a business founded on a hobby or passion and warns about the dangers of a hobbyist-turned-entrepreneurs becoming burned-out.

Hence, pull factors are positive determinants that drive the entrepreneurial motivation. The power of pull motives to influence an individual depends on many different factors in the external environment such as economic, political, legal, etc., as well as on personal characteristics of an entrepreneur such as gender, age, education, ethnicity or social background. As regards push determinants, Dollinger (1999) found that people who have been displaced in some negative way might try self-employment. As negative displacement characteristics he mentions being fired, angered or bored, middle-aged, divorced or having immigrant status.

A threat of *redundancy* seems to be a good motive for starting a business, especially when other opportunities to find a job are limited. Today, the probability of being laid-off are even higher than earlier due to the technological development, which improves production and service delivery processes while reducing the number of employees. *Unemployment* is another negative but as strong as the previous driving force for self-employment. An individual who is unemployed or has insufficient income becomes dependent on some alternative source of earnings, for example from the social security system. An alternative to unemployment and to receiving financial aid via the income security system is to become self-employed (Hammarstedt, 2001). Starting a self-owned business seems to be a good alternative to relocation, instead of moving to other city or even country in order to find a job.

It is worth mentioning that dividing line between those pulled and those pushed into entrepreneurship is often vague, as the driving factors could be intertwined; for instance, people who are pushed by unemployment are often led by a positive motive to earn money. Likewise, many people considering an opportunity or having a desire for independence still need some form of pressure to help them make their decision (Stokes, 2002). In his study, Storey (1994) tried to resolve what factors are most important in arriving at the decision to become an entrepreneur. He made some reserved conclusions about the importance of push and pull factors to become self-employed, stating that both reasons are «at work and their relative impact varies sectorally, spatially and temporally» (Storey, 1994, p. 77).
4. STUDY APPROACH AND SAMPLE

The overall aim of the project was to study working conditions among self-employed, and this article concentrates on start-up motives of the self-employed. The study was conducted in November 2004 in Poland using a randomly selected sample of microenterprises provided by Central Statistical Office of Poland and some other commercial databases containing data on microenterprises. Because of the objectives of the study, some limitations were made. The test group covered microenterprises (employing 0-9 persons). All of the owners had to be Polish residents conducting business in Poland. The sample did not include small house renting enterprises and small forest owners since their business activity was considered too low. From the experience of other researchers sending questionnaires via mail service very often does not bring desired results due to low response rate in Poland. Therefore, instead of sending the questionnaires, the telephone interviews were conducted with randomly selected microentrepreneurs from all 16 administrative regions (województwa) of the country, yielding a total of 1066 interviews. Data analysis has been carried out with the statistical software SPSS (Statistical Package for the Social Sciences, version 14). The main socio-demographic characteristics of the self-employed and their business descriptions are summarised in Table 2.

In terms of their socio-demographic profile, roughly one-quarter of participants were under 40 years of age, half were aged 40-54 and the remainder 55 year and older. Two-thirds of the sample were males, and majority of the microentrepreneurs were born in Poland with only one percent born in Eastern Europe. Most of the participants were well educated, with just over one-third having a university degree. In terms of their businesses, Table 2 provides relevant details. On average, one-third of microentrepreneurs have a business partner, and almost two-thirds have employees. Slightly more than one-third had been self-employed for less than 10 years, 42% for 10-20 years and the rest 21 years or more in business. Almost half were involved in retail (such as sale and communication), 20% were in financial, real estate and business services, 13% were in manufacturing and mining and the remaining fields of business constituted less than 10%.

Based on the literature review, there exist many different motives for starting a business, and the reasons are also often intertwined. However, in the study the main focus is on the most important reason for each person to start their business. For pull motives: »I wanted to earn more money«, »I wanted to be more independent«, »I wanted to develop myself«, »I have a business family background«, »There was a demand/market for my offer«. »It was a good opportunity to combine a job with other life«, and »I wanted to turn my hobby/leisure activity into a business«. For push motives: »I risked becoming/was unemployed«, »I was not satisfied with my previous job«, and »It was an alternative to moving to another part of the country«. The respondents were asked to mark the most important reason, which had to be listed in an appropriate order from the most to the least important.
Table 2: Microentrepreneurs divided according to background variables (n=1066)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Value</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>33</td>
</tr>
<tr>
<td>Age</td>
<td>– 39 years</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>40 – 54 years</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>55 – years</td>
<td>21</td>
</tr>
<tr>
<td>Level of education</td>
<td>Elementary school</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Vocational school</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>High school</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>College/University</td>
<td>37</td>
</tr>
<tr>
<td>Place of origin</td>
<td>Poland</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>Eastern Europe</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Western Europe</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Outside Europe</td>
<td>-</td>
</tr>
<tr>
<td>Has a business partner</td>
<td>Yes</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>71</td>
</tr>
<tr>
<td>Has employees</td>
<td>Yes</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>35</td>
</tr>
<tr>
<td>How long in business</td>
<td>10 years or less</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>11-20 years</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td>21 years or more</td>
<td>12</td>
</tr>
<tr>
<td>Field of business</td>
<td>Agriculture etc.</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Manufacturing and mining</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Construction</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Sale and communication</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>Cultural and personal services</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Financing, real estate and business services</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Education services, research and development</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Health care and social services</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: own research.

5. PRESENTATION OF RESEARCH RESULTS

The main motives for starting a business are presented in Figure 1. As can be seen in Figure 1, while push motives seem to be less important for new firm establishment, pull determinants appear to influence entrepreneurial enthusiasm more. There also presented the differences in percentage levels among both push (dark bars) and pull (white bars) determinant groups, as well as among every single motive. The overall ratings of the scale ranged from 0.6% (combining job with other life) to 20.2% (desire for independence). Also, respondents in the sample displayed interesting patterns emphasizing greater importance of the pull factors than of the push factors. In that respect, the most important push factor (unemployment or redundancy risk) scored 17.2% and was slightly lower compared to the strongest pull motive (desire for independence) with 20.2%. Great importance of the unemployment motive among Polish microentrepreneurs could be explained by relatively high unemployment rate
(for example 18% in 2004) in Poland, which according to Central Statistical Office of Poland (http 1) has considerably grown since 1989 when the rapid economy transformation process started. Such factor as financial incentive (16.8%) was placed in the third place and family business background (12.4%) in the fourth place. Hobby as a business was declared by 8.5% of the microentrepreneurs. Such motives as self-development (7.7%), to explore an opportunity (7.6%) and dissatisfaction with previous job (7.5%) scored at the comparable level.

In general, the pull motives score higher than the push motives. Thus, it could be argued that people who end up self-employed are more influenced by positive factors that lead to entrepreneurship. On the other hand, the results seem also to point out that the comparatively highly rated financial incentive (placed in the third place) contradicted the results of Douglas and Shepherd (2002) who considered income as an insufficient determinant for entrepreneurial intention. Thus, financial incentive seems to be a more powerful pulling force in a country in transition, which Poland remained to be in the study period.

Birley (1999) indicated the significance of family considerations in new business creation processes, as did Aldrich and Cliff (2003). This study supports the previous findings, although family business background (12.4%) scored slightly worse than two other pull motives exemplifying the diminished weight of this motive. Among push factors, alternative to move (1.4%) is of least importance for self-employment. In general, people tend to stay where they have spent most of their lives and are rather reluctant to move, even when motivated by entrepreneurship, although, according to Polish press and Central Statistical Office more and more young and average age people are going abroad in order to find a job.

**Figure 1**: Pull and push motives and their importance for self-employment (n=1066)

![Figure 1: Pull and push motives and their importance for self-employment (n=1066)](image-url)
An interesting result, not shown in the figure, has to do with men's and women's different motives, supporting the general belief that they do differ (Hughes, 2003). This reasoning is built on the fact that men are breadwinners while women regard their business venture as an opportunity to combine breadwinning with family life – usually named breadwinning versus adaptation modification strategies (Lönnbringen, 2003; Delmar and Davidsson, 1997; Sundin and Holmquist, 1989). It is true, the material shows that it is more common for men to start a business in order to earn money while women – relatively speaking – more often find that entrepreneurship is a good way to combine work with life in general. However, the most important motives for both groups are that they want to be independent (21.5% for men and 17.7% for women), unemployment or redundancy risk (16.1% for men and 19.5% for women) and seeking to earn more money (18.3% for men and 13.8% for women).

6. CONCLUSION

The results reveal that positive motives prevail in starting self-owned businesses in Poland. Nevertheless, push motives have also an important stake in establishing such companies. It could be argued that the government should support both groups of microentrepreneurs – those positively and negatively driven into self-employment, since in any case, entrepreneurship contributes to economic development of the country (Bruton et al., 2008). Taking into account a fact that, according to Williams (2008), some two-thirds who start as necessity-driven turn into opportunity-driven entrepreneurs, the real entrepreneurial motivations change over time and the pull/push dualism is too simplistic to explain microentrepreneurs’ motives.

It is important to note that the character of self-employment is a relevant issue for a wide variety of economies, whether industrialised or developing, it is particularly striking in the case of transition economies, where the small business ownership rate in 1989 was generally quite low, even negligible in some countries, but grew rapidly thereafter (Earle and Sakova, 2000). In order to fill this gap, Poland was chosen as a study object. Moreover, the study was conducted in a period of relative economic stability in Poland, despite a high unemployment rate, and the time of its accession to the European Community.

The results must be interpreted with certain caution for at least two reasons. First, the Polish welfare system is set up so that one receives economic compensation for being unemployed during a minimum period of time. This means that some of those who are not suitable for self-employment do not have to take the step into this type of work. Second, it should be mentioned that those who had terminated a former business venture were not included in the selected population.

One final interesting question can be raised: whether there are any lessons for entrepreneurship policy in other transition economies or if the results are unique for Poland. This could be answered by carrying out a corresponding study in countries with similar welfare systems in order to confirm or contradict generalisations about the effects of pull and push motives for self-employment in other countries in transition. Another important task is to develop a more sophisticated typology of ‘pull’ and ‘push’ factors, especially with regard to other negative influences. These issues are worthy of further research.
Acknowledgements

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REFERENCES:


Sažetak

Formiranje i rast novih poduzeća je složen proces i mnogi činitelji vezani za taj postupak, mogu biti prepoznati cjelovitim istraživanjem na mikro razini poduzeća i na razini osnivača poduzeća. Pokretački motivi su iznimno važni za taj proces. Nedostaje literatura koja istražuje motivaciju samozapošljavanja u zemljama koje se kreću od planske ka tržišnoj ekonomiji, takozvanim tranzicijskim ekonomijama. Cilj ovog rada je istražiti glavne motive početaka poljskih mikro poduzetnika kako bi popunili taj nedostatak. Prema rezultatima istraživanja, najvažniji motivi za početak kod poljskih poduzetnika su: želja za neovisnošću, rizik nezaposlenosti ili viška radne snage te financijski poticaj. Zaključak rada nudi implikacije za javnu politiku i naznake problema za buduće istraživanje.

Ključne riječi: samozapošljavanje, poduzetništvo, motivi pokretanja poduzeća, gurajući i vukući motivi, tranzicijsko gospodarstvo

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