Strategies of Financial Resources Attraction by Nascent Entrepreneurs in Russia compared with World-Wide Tendencies

Ekaterina Murzacheva
Moscow State University, Higher School of Economics
20, Miasnitskaya Street, Moscow, 101000, Russia
Phone: +7 916 109 07 92, fax: +7 495 917 14 49, e-mail: murkath@gmail.com

Abstract

The following research identifies factors that affect the financial decisions of nascent entrepreneurs starting a business in Russia compared to some other countries based on empirical data of Global Entrepreneurship Monitor. The main objective is to spotlight the role of the business climate, in particular the magnitude of the entrepreneur's financial preferences.

The study identifies preconditions for raising funds to set up a new business in terms of the connection between the entrepreneur's financial choice and the surrounding environment. The combination of self-financing and borrowed capital has made it possible to assess the role of unconventional investments and to outline instruments to modify the existing strategies.

Unique features of entrepreneurs' demand for funds can be embedded in political reforms. Specific expectations of investors and reliance on social networks are the factors affecting entrepreneurial activity, which are consistent across countries, and should be considered when providing incentives for small businesses.

JEL classification codes: L26
Keywords: GEM, nascent entrepreneurs, financial strategies, informal capital, socio-economic development

Acknowledgements

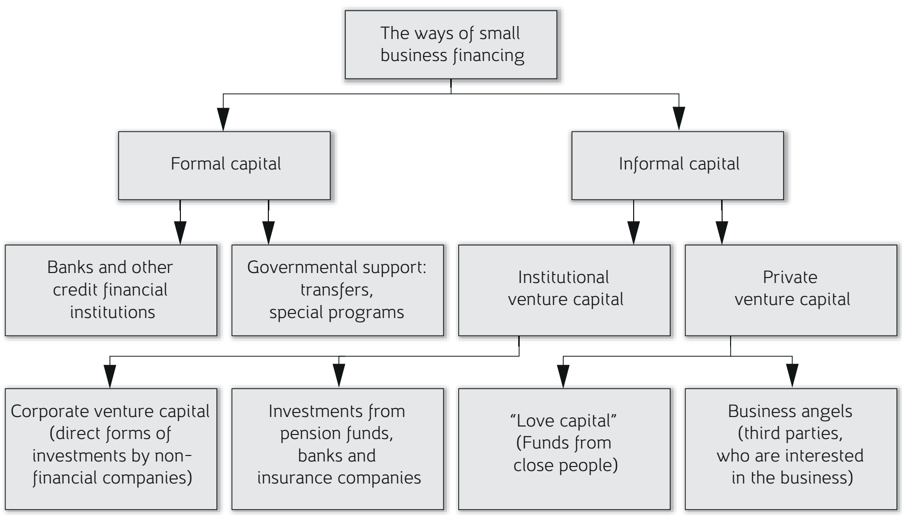
The author would like to thank Professor Olga Obraztsova and Professor Alexander Chepurenko for their invaluable support and inspiration that enabled the carrying out of the research. The author also thanks two anonymous reviewers for their constructive comments.

1. Introduction

The opportunity to attract financial funds enables an entrepreneur to put the business into action, thus drawing the line between a bright idea and the first material step towards its realization. Among various dimensions of small business support financial issues are an urgent feature of every start-up. In corporate finance theory (Myers 1984) two financial structural components are possible: self-financing and debt financing. While speaking much about corporate finance as the main subject for well-established and large companies, from the enhancement of methods analysis to the implementation of financial strategies, which leads to the company's value maximization, no theory and practical implications were concluded from the functioning of small firms.

For an entrepreneur as a single economic unit two of the above-mentioned ways of financing are also available. Moreover, there are additional opportunities to attract funds for the business implementation (see Figure 1).

Figure 1. Available sources for small business financing



Source: Author's illustration

As a whole, debt financing can't always be demanded by start-ups because of the lack of transparency in their functioning (Berger 1998). The side of formal financial support is thoroughly investigated and taken into consideration by policy makers. Beginning from the credit institutions and loan possibilities Allen Berger (Berger 2004) considered this field by presenting a full conceptual framework of SME formal finance. The focus lies in the special legal, tax and information environment that enables the development of lending technologies through the supply of different types of credits. The equity finance for a small business can be calculated in terms of venture capital creation and business-angels support (Shaver and Gartner 2001). The appearance of business incubators and venture funds was the next step forward to penetrate into the needs of small business by means of appropriate selection on an individual basis and focusing close attention on intent. Furthermore, venture capital institutions entail a range of risk issues and imply the sharpening of agency problems between entrepreneurs and investors (Kaplan and Stromberg 2004). Such types of business support do not always work as successfully as it is meant to, because their performance is rather difficult to evaluate and the final result is not always evident and fast (Autio and Klofsten 1998). The most recent invention of supporting methods is informal venture investment (or business angels) as a tool for collecting spare public funds for concentration and effective use. The problem is that this way is the most expensive one with high search costs and requires enormous efforts to be evolved (Mason and Harrison 2005).

The focus of the paper lies in the still uninvestigated field of entrepreneurs' implicit incentives and their influence on the consequent process of business development. The financial strategy of an entrepreneur is no more significant unless it has some economic reasoning that generates special factors (expectations, behaviour models and informal rules) influencing the entrepreneurship environment as a whole. And conversely, the specific features of a small business in its environs (country, region, etc) can leave an imprint on business strategic views, including the choice of financial resources. In the last sense, the dominance, permanency, or regular combination of different financial sources can turn out to be the most adequate and appropriate indicator of the economy's soundness.

The ongoing study deeply considers informal investments – the field that is not fully investigated to the degree of the constructed economic reasoning. Private individuals, more often even friends and relatives play a significant role in financing small business start-ups. There is a common stated view not only among scientists but also among politicians that informal capital fills in the financial gap during the growth of a new firm (Lechner and Dowling 2003).

The research conducted focuses on identifying both internal (personal) and external (institutional) preconditions for raising funds to set up a new business. Four financial strategies of entrepreneurs are covered:

1) Self financing of one's own business;
2) The attraction of formal debt financing (commercial bank credits and government support);
3) The attraction of "love" capital – funds borrowed from relatives, friends, colleagues;
4) The involvement of business angels' capital – funds provided by third parties to the entrepreneur.

The last two options form the notion of "informal capital" used in the research and enlarges the content of the equity financing that is acknowledged in the literature above.

The identified factors will give rise to the model construction that will reveal some instruments for both politicians and researchers to stimulate small business activity according to the entrepreneurs' expectations and external environment in the economy.

2. Theoretical Background

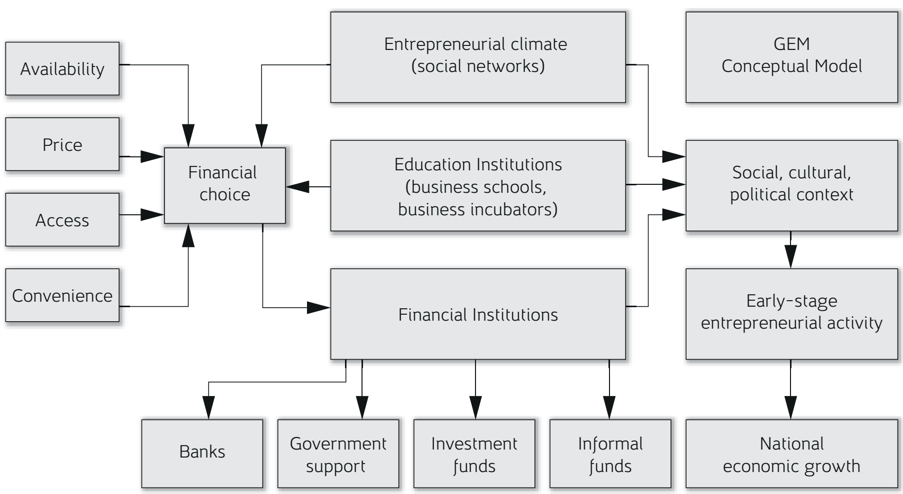
The following study represents one of the dimensions in the analysis carried out as a result of the Russian team's participation in the international project Global Entrepreneurship Monitor (GEM), which is aimed at the entrepreneurial activity investigation in the world (Obraztsova 2007, Chepurenko 2007).

The overall GEM conceptual model was taken as a basis for the research development (Reynolds and Bosma 2005) and then was extended in the area of financial frameworks and its influence on the growth of entrepreneurial activity.

One side of the model involves that the social, cultural and political environment stand for the entrepreneurship development. The latter consequently influences the economic growth of the country. The opportunity to enlarge this scheme in the light of formal and informal institutions (social networks, education, finance) was analyzed with the focus on the financial aspect (see Figure 2).

The initial point of the study concerns the demand side for the financial capital as an indicator of economic development of the country, or more precisely the position of the particular country in the world scale. The trade-off between formal and informal funding depends on the state of the SME supporting policy that defines four crucial criteria of the financial capital: availability, price, access and convenience. Both options can be manipulated by means of adequate action from government input, the challenge is in the revelation of the preferable way of business financing.

Figure 2. Conceptual Model: the Relationship between Financial Decisions and External Factors



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At the first stage of the financial strategy implementation before launching the business a nascent entrepreneur encounters the choice between self-financing and the attraction of borrowed funds. According to the economic approach, the option in favour of the former one means that, on the one hand, an entrepreneur should possess enough self-financing (received from the hired job or previous business), and, on the other hand, should be able to ensure the safety of those funds (keep from inflation, financial crises, and so on). In this way three things are possible in the economy where self-financing is dominating: highly developed savings institutions, high income earnings, and the tradition of running a continual business (Johnsson 2005).

At the second stage, if the choice of borrowed capital was made, the question stands for what kind of borrowed funds will be involved. The choice in favour of formal capital demonstrates the existence of highly developed banking institutions, a sound financial system or reliable government (from the viewpoint of the population's expectations). And vice versa, the unavailability of formal credit stands for the high rates of bank concentration and overwhelming obstacles for small businesses to get enough financing through this channel (Beck and Demirguc-Kunt 2003).

The category of "love capital" being prevalent among other sources identifies the degree of business competitiveness and difficult access to formal resources. Nevertheless the informal capital that is obtained in the form of business-angels' investments represents the signs of a favourable investment environment and inclination to business venture support.

At the same time, there is a strong controversy about whether informal capital needs to be supported in order to derive benefits or if it will only harm small business and its soundness. In this way those disagreements gave rise to Positive Role Models and Negative Role Models (Rastrigina 2007). The former one is concentrated on the availability and timeliness of funds, family support and a personal interest in entrepreneurship. The latter model was fundamentally developed by Saemundsson (Saemundsson and Sigurdartottir 2003) who pointed at the question of how the informal investment itself was funded.

3. Data and Methodology

The Russian team's participation in the project enabled the carrying out of several researches concerning small business development in the Russian Federation and to analyse world-wide tendencies for the year 2006.

GEM is a longitudinal research project, based on the two-stage proportional stratified inquiry of the adult population (Reynolds and Bosma, 2005). The respondents of GEM surveys have been asked specific questions regarding their personal views on their own entrepreneurial skills, motivation, and some opportunities to start a business in their region. GEM collects representative data from more than 40 countries, with a total sample of more than 170,600 people. Due to the single unique methodology all the datasets of the countries participating in the project are available for international comparisons.

The opportunities of GEM data compared with the scope of official statistics allows the capture of a deeper field of entrepreneurs' and their sponsors' internal incentives. The example of Russia, as well as other countries where the statistics is based on the United Nations Organization concept, enables the investigation of small and medium sized enterprises only after 2 years since their official registration.

Moreover, the observation field of official regularities is quite limited in terms of a comprehensive approach in the entrepreneurship research. For instance, in Estonia[1] where business demography is emphasised into a separate unit, only 3 dimensions are considered in greater detail: birth, death and survival.

In Norway[2] (as well as similarly in Russia) 3 directions are also outlined in the official statistics database: indicators for the turnover, organizational structure and employment.

1 Available at: http://www.stat.ee/?lang=en\
2 Available at: http://www.ssb.no/english/

Compared with the data set provided by the World Bank Group Entrepreneurship Survey Data, GEM data catches "the informality of entrepreneurship" as well as the additional group of potential entrepreneurs (Acs, Desai and Klapper 2007).

The strength of GEM lies in the opportunity to categorise the group of potential entrepreneurs (the stage before the official registration) and nascent entrepreneurs (the stage just after registration and for the following three months of functioning).

The object of the study is the group of nascent entrepreneurs marked out in accordance with the accepted classification of GEM methodology. These are people aged between 18 and 64, actively involved in managing a business that they already own solely or jointly, but who have not had any income from the business at all, or have only been receiving it for no more than 3 consecutive months. That is why the object of the study is nascent entrepreneurs, in attempting to track how incentives influenced by the external environment can provoke capital attraction and give rise to a new nascent firm.

The time period of the survey concerns the dataset for 2006 with indicators harmonized and standardized for comparisons in 42 countries – the total GEM project participants that year. The methodology used to check the stated hypotheses includes first a full descriptive analysis in order to reveal definite tendencies and to form expectations from the research and its possibilities. Regression analysis was applied for the model construction. Factor and variation analyses were used to identify the factors influencing the financial behaviour of an entrepreneur.

To reveal the main tendencies and to come to concrete conclusions the number of countries was narrowed for this research. As the preliminary and fundamental point of interest was the implications for the Russian Federation, the boundaries of the study were expanded to 17 more countries, grouped according to various criteria. First of all, the outcomes in Russia should be compared with the results of those countries that measure in similar performance (Brazil, Russia, India, China – demonstrated roughly an equal percentage of entrepreneurial activity in 2006) or similar world position (in particular as an oil exporter). Secondly, the comparisons enable the involvement of the evolution of economic development and institutional changes over time (concerning countries of Central and Eastern Europe). Thirdly, there is a crucial interest behind the comparisons between Russia and developed European countries with quite similar natural conditions (Northern Europe).

- Crude oil exporting countries, or "Oil Countries" (Norway, Canada, Mexico, Indonesia)[3];
- Countries similar to Russia in terms of general socio-economic characteristics (BRIC: Brazil, India and China);
- Countries similar to Russia in terms of political and historical background (Central and Eastern Europe, including former Soviet republics, such as Hungary, Latvia, Croatia, Czech Republic, Slovenia);
- Countries with similar geographical and climatic conditions (Northern Europe – Finland, Sweden, Iceland, Denmark).

4. Results

4.1. SME Financial Structure: World Tendencies Overview

Since the first step of the study concerns the investigation of various financial strategies in

[3] Countries listed as the top world oil net exporters in 2006. Available at:http://www.eia.doe.gov/

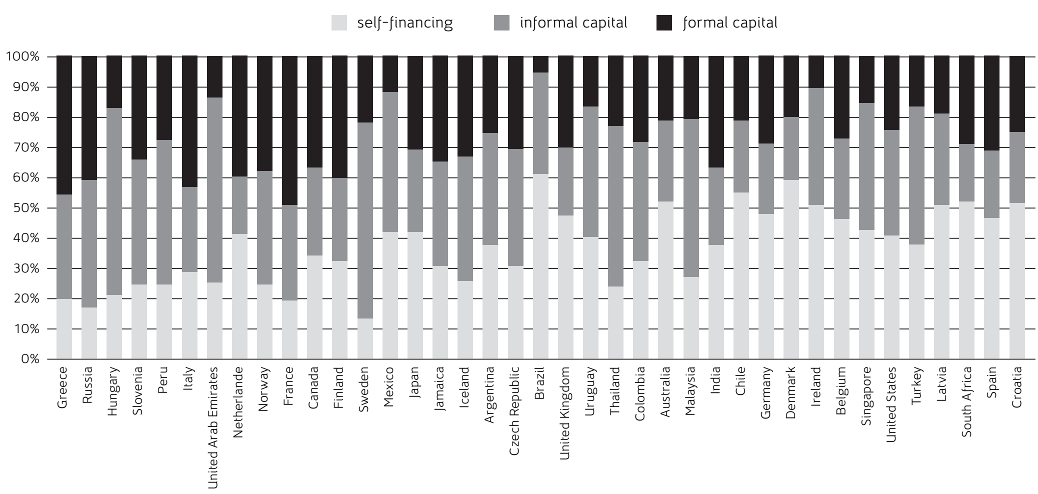
Russia compared with the groups of countries picked out for the research it is necessary to identify the existing alternatives and evaluate their contribution into the overall financial structure of a nascent firm. To cover this task a descriptive analysis was undertaken.

Figure 3 shows that the balance of internal and borrowed funds varies greatly across different countries. Totally different nations in terms of social and economic development are lumped together with the predominance of borrowed funds: countries in Central, Northern, Southern Europe and Russia.

If one places high emphasis on the structure of borrowed capital, one can see that, for example, Sweden and Russia have a predominance of informal funds; in Greece and France, entrepreneurs prefer to use formal sources. Nevertheless, a closer study of the structure reveals that in France banking establishments and other financial institutions are the most sought after official sources; whereas in Greece the most popular sources are government programmes for the support of business. In Sweden and Russia there is predominance of love capital and in Denmark and Finland informal sources are mostly formed by the funds of business angels.

The above makes it clear that even in countries that are similar in terms of the level of economic development, nascent entrepreneurs can differ in the structure of funding sources so that the coefficient of variation in the percentage of nascent entrepreneurs who are going to finance business on their own is above 100% among all the considered countries. Naturally enough, major considerations are social, cultural and political differences, business environment, variations in the maturity of social networks and financial institutions. In view of the above, close attention should be paid to factors that affect the choice in question.

Figure 3. Financial Structure of Nascent Entrepreneurs among GEM Countries



Source: GEM data basis, own calculations

Of special importance in this context is not only the entrepreneur's financial choice, but also financial opportunities relevant to his or her country: whether his or her intention to use this or that source of funding is feasible given the available options for sourcing financial resources.

4.2. Start-up Capital: Distribution and Factors

After the main tendencies are outlined a more detailed analysis will be presented. In order to identify internal incentives guiding the entrepreneur's financial choices, some initial characteristics of a start-up firm were considered. Subsequently, possible factors influencing these issues were examined to mark out the most crucial ones for a concrete economy and for further comparisons.

The average size of capital raised, as well as aggregate variation, varies considerably between Russia and the other groups of countries in terms of the Student criterion (significance level of 5%). In all of the groups under comparison the concentration of nascent entrepreneurs who need funds takes place in the range of capital values below average, which is quite natural for micro and small business: a large number of relatively small contributions.

Taking into consideration perceptions, expectations and the socio-economic environment of an entrepreneur, several factors can be estimated due to the single GEM questionnaire. Specific questions were asked to identify one or another position in the outlook of a nascent businessman and to define the magnitude of different factors. All variables were measured in the ordinal scale and this enables the ability to use association analysis tools in the research.

In European countries the amount of start-up capital is affected by factors such as gender, product innovation, and only in Central and Eastern Europe (CEE) by the reasons for starting up. In CEE countries entrepreneurs who intend to raise large amounts of money often choose business as the best way to realise their potential and earn. In other countries (these include, in particular, countries where the market economy is not highly developed) a major consideration is the anticipated level of competition. This being the case, in Russia, for example, nascent entrepreneurs who intend to manufacture competitive products need start-up capital below the sample average; in other BRIC countries and in the oil countries, above the average.

It is only in Russia that a significant relationship has been discovered based on the chi-square contingency test (significance level of 89.4%) between the number of co-owners and the amount of start-up capital, as well as between experience and required funds (the greater the former the greater the latter).

Therefore, the differences in the absolute values of start-up capital are, generally speaking, due to different factors within the business environment. For countries with a lower level of per-capita income, including Russia, these are the level of competition, confidence of success and voluntary choice of business (business as the best opportunity for career advancement); for highly developed and stable Europe, there are more objective criteria: knowledge, qualification and experience of the nascent entrepreneur.

Table 1. Descriptive Characteristics of Self-Financing to be Invested by Nascent Entrepreneurs

	Skewness ratio (Pearson)	The share of nascent entrepreneurs, willing to attract own funds		Variation ratio
		Low bound	Upper bound	
Russia	-1.08	7.29%	22.22%	106.70%
BRIC	-1.93	34.00%	40.08%	32.29%
Oil countries	-0.33	12.85%	15.09%	193.21%
Northern Europe	-1.43	52.99%	60.31%	142.72%
CEE	-1.64	44.30%	52.10%	163.21%

Source: GEM data basis, own calculations

The share of nascent entrepreneurs who intend to finance their start-ups using their own resources (see Table 1) at the 5% level of significance as per the Student criterion is the same for Russia and for the oil countries; furthermore, it fluctuates at a sufficiently low level. This circumstance is well in line with the proposed theory: the availability of readily accessible cash resources does not mean a capability to ensure that their chosen financial strategy would be the safest one.

Though demonstrating a moderate share of independent funding, the BRICs, however, are already going beyond the limits of comparison with Russia and crude oil exporting countries. The distribution of the level of start-up self-financing in the European countries is similar; there is a high propensity to support the launch of businesses using self-financing. This share is the highest among the countries of Northern Europe.

The scale of self-financing is determined to a greater degree by economic reasons, such as the amount of start-up capital and the number of start-up owners. At the same time, the oil countries, Russia and other BRICs at the level of statistically significant chi-squared weak dependence also have contributing social factors: product innovation, gender, age, level of competition. But all the determinants that are factored in the analysis are of secondary importance. This circumstance gives reason to believe that in examining the entrepreneur's financial choice in regards to the scale of self-financing the focus should be on external factors such as the economic situation, availability of necessary institutions and conditions.

Despite the wide spread of self-financing, not less than one half of the funds across all the countries *in toto*, judging by the estimates listed, are borrowed capital, so the remaining part of the paper will focus on the characteristics of outside financing.

By financing his or her start-up from external sources (loans), the entrepreneur faces the need to pay his or her creditor, which imposes certain obligations on the business: cost effectiveness, competitiveness and profitability. Indebtedness to the investor can be an incentive for business, calling for better management and sustainability and performance of the business.

Therefore, external financing is better than self-financing in expediting the self-selection of best performing businesses, requiring less effort on the part of public control authorities, which means that it provides a broader range of options for entrepreneurial activities.

At the 5% significance level, the zero hypotheses about the matching of the values of the share of entrepreneurs intending to use borrowed funds has not been disproved for Russia and other BRICs, or the countries of Northern, Central and Eastern Europe, based on paired comparisons between Russia and these groups of countries in terms of the Student criterion. Nevertheless, in the relevant group of countries, BRICs and CEE demonstrate the highest values of the share of nascent entrepreneurs who intend to finance their start-ups using borrowed capital (see Table 2).

Table 2. Descriptive Characteristics of Borrowed Capital of Nascent Entrepreneurs

	Skewness ratio (Pearson)	The share of nascent entrepreneurs, willing to attract borrowed capital		Variation ratio
		Low bound	Upper bound	
Russia	0.46	18.43%	37.31%	203.54%
BRIC	0.31	23.59%	43.47%	322.37%
Oil countries	0.37	1.17%	11.40%	266.99%
Northern Europe	0.32	18.75%	37.70%	307.86%
CEE	0.27	18.08%	36.88%	370.15%

Source: GEM data basis, own calculations

The average amounts of borrowed capital are extremely uneven across all the groups; in terms of the Student criterion, however, the closest to Russia at the 5% significance level are the countries of the CEE. Also based on the Student criterion at the 5% significance level has confirmed the proximity of the variation ratio of Russia and BRICs, oil countries and Northern Europe.

Across all the countries the amounts of borrowed capital are concentrated at the level above average, with a large number of entrepreneurs who borrow amounts around the average value. The data in Table 3 makes it possible to draw cross-country comparisons of the structure of borrowed funds by financing source. Informal capital predominates in the countries of BRIC and Europe, but it is of low significance in the oil countries. In Northern Europe, however, the use of funds provided by business angels is far ahead. The use of banking sources is typical of all categories of countries, except for oil producers, where a mere 3.76% of nascent entrepreneurs are willing to take advantage of a formal loan.

Table 3. Distribution of Funds from Different Sources

Percentage of nascent entrepreneurs, willing to attract borrowed capital from different sources					
	Russia	Oil countries	BRIC	Northern Europe	CEE
Informal capital	37.70%	10.87%	61.93%	60.08%	45.95%
Love capital	32.79%	10.09%	60.76%	45.56%	40.32%
Business-angels	4.92%	0.78%	1.17%	14.52%	5.63%
Banks	27.87%	3.76%	21.82%	35.69%	25.00%
Government programmes	8.20%	1.40%	4.39%	11.29%	9.91%

Source: GEM data basis, own calculations

Descriptive analysis shows that in all categories of borrowed capital the contribution of informal funding sources is commensurate with the contribution of formal resources, even outweighing them for some groups of countries.

Based on the chi-square criterion, at the 5% significance level, it is possible to argue that in terms of uniformity of the borrowed capital structure the CEE countries and the oil countries are the closest to Russia.

Therefore, the most effective distribution in terms of the optimal choice (the end use of source is price) of borrowed resources is observed in the countries of Northern Europe. Among the sources of informal investment in Northern Europe financing provided by business angels is of a major significance – the only group of investors in the category of informal funding that by definition requires a return on financial investment, unlike those who provide love capital. Note that it is the countries of Northern Europe that have the maximum share of nascent entrepreneurs willing to take advantage of the government's support – nearly one out of eight entrepreneurs.

The oil countries and BRICs have a strong dominance of love capital, whereas Russia and CEE are in-between.

These phenomena can be explained by the fact that in more developed countries, with their good infrastructure, bank financing of nascent entrepreneurship is to a great extent replaced by organizations of business angels and government funds for the support of small businesses.

For the same reasons, the CEE countries and Russia also have widespread alternative schemes for funding businesses, but here we have the predominance of love capital in the form of funds of relatives and acquaintances. This circumstance may inhibit entrepreneurial activity and economic growth as a result, because cheap and accessible love capital does not impose obligations of timely interest and debt payment. As a result, an entrepreneur has significantly weaker market incentives.

Determinants such as funds payback time or payback amount are of low significance only for Northern Europe and CEE (for Russia, it is only the payback amount), which supports the conclusion above: the dominant position of informal, in particular, love funding, undermines entrepreneurial incentives.

It is only in Russia that the amount of borrowings is significantly affected by the choice of the financing source made by the nascent entrepreneur. Thus, the nascent entrepreneur in Russia expects to borrow a larger amount from co-workers, business angels or friends and neighbours than from other sources. For other categories of countries, this dependence is minor, though it is interesting to note that if the European entrepreneur goes to his or her friends or neighbours for a loan, he or she will take a lesser amount than he or she would do if he or she went to business angels. It is typical of BRICs that significantly larger amounts are borrowed from banks and close relatives. In the oil countries, entrepreneurs would also borrow a smaller amount from friends and neighbours.

The chi-square contingency test (at a moderate significance level of 35%) revealed that for Northern Europe the scale of the borrowed amount is the highest when financial aid is sought under government programmes; for BRICs, when sourcing a loan from other relatives; for CEE, from banks and other financial institutions.

Therefore, when examining the demand of nascent entrepreneurs for start-up funds, one can make the following conclusions in respect to the international comparison of the small business financial structure:

- Among the categories under discussion, it is typical of nascent entrepreneurs in the oil countries to provide self-financing to fund their start-ups;
- They prefer to make greater use of informal investments in BRICs;
- Formal sources are popular mostly in Northern Europe
- Borrowed capital is dominant in Russia, with formal and official funds distributed evenly.

5. Implications and Discussion

To resume the key findings of the research, a multiple regression model was constructed. Among the five groups of the countries various factors were distinguished that affect the financial needs of a nascent entrepreneur. It turned out that a similar capital structure does not necessarily result from the same environmental conditions. Coming back to the overall objective of the study, this section contemplates the following implication: being informed of what factors determine the financial strategy of nascent entrepreneurs one can take some measures to manage those strategies. Besides, comprehension of what factors drive financial behaviour of small businesses in the countries demonstrating high entrepreneurial activity compared with the nations where small businesses are poorly developed gives rise to the policy transformation.

Four financial strategies were defined in the study: self-financing, the attraction of formal capital, the financial support of business angels, and the attraction of "love capital".

The set of independent variables includes the following factors affecting the performance of a nascent business:

1) Gender of a nascent entrepreneur
2) Age of a nascent entrepreneur
3) Country of origin (Northern Europe, CEE, Russia, oil countries, BRIC)
4) Entrepreneurial networks (whether a nascent entrepreneur is acquainted with some other entrepreneurs or not)
5) Knowledge and skills (the opinion of an entrepreneur whether he/she has enough knowledge and skills or not)
6) Number of owners in the business
7) The degree of product innovation for the customers (low, medium, high)
8) The expected level of competition (low, medium, high)
9) The amount of start-up capital needed to launch a business (small, medium, upper medium, high).

All the variables are measured in the ordinal scale. The results of the constructed model are presented in Table 4. The estimations were received from the joint sample of nascent entrepreneurs in all the countries investigated above, which contains 1,120 observations.

Table 4. Results of the Multiple Regression Model

Factors	Unstandardised Coefficients	Std. Error	Standardised Coefficients	t	Sig.	Collinearity Statistics	
	B		Beta			Tolerance	VIF
(Constant)	1.53	0.23		6.55	0.00		
Group of countries	-0.06	0.03	-0.05	-1.72	0.08	0.99	1.01
Entrepreneurial networks	0.23	0.09	0.08	2.49	0.01	0.99	1.01
The amount of start-up sum	0.13	0.04	0.11	3.43	0.00	1.00	1.00
Amount of owners	0.01	0.00	0.06	2.04	0.04	0.99	1.01
Dependent Variable: Financial strategy							

Source: GEM data basis, own calculations

Remarkably, neither knowledge nor skills of an entrepreneur, his age (and correspondingly experience), expected level of competition, the innovation of the product are the factors influencing the decision about the source for small business financing.

Only four factors presented in the table turn out to be significant in the choice of financial strategies. Russia and CEE are more inclined to attract "love" capital because of their specific environment.

The rest of the factors are more applicable for other groups of countries and contribute to the demand for business angels' funds, credit institutions and government support.

The implication from the model is as follows: for the countries with low levels of socio-economic development (Russia, BRIC) where a small business model implies the significant role of entrepreneurial networks, a small amount of start-up capital, and a single owner of the business – the most probable strategy is the attraction of "love capital". For the highly developed countries (Northern Europe) where considerable start-up capital is needed to launch a business with several owners – the option of business angels is in use.

Other things being equal, the greater the amount of a start-up is, the larger the number of co-owners is, the more networks are developed, then the probability of formal financing is considerably higher. Vice versa, for a single nascent entrepreneur with minor start-up funding without any relationship with other entrepreneurs self-financing is more likely.

Lastly, there are some restrictions and perspectives for the study. First of all, it is a sampled analysis only for one time period (2006). The revealed interconnections might have changed over time – so an additional analysis for other time periods is anticipated to check the stability of the tendencies. In this study the internal motives of nascent entrepreneurs were investigated for the range of countries grouped together for comparisons with Russia to ensure the essential sample size. To use multiple regression methods for a concrete economy a wider sample is needed to achieve the most appropriate results. The solution will be incarnated when the bases for 2007 and 2008 are available for combining and expanding the number of observations. The study lacks a detailed environmental analysis of the chosen countries – their legal, political, economic and socio-cultural context. The assessment of the macroeconomic indicators' influence on small business financing is anticipated. Such materials could enlarge the range of possible hypotheses; nevertheless the mentioned data should be harmonised with the GEM data-set in order to receive correct and comparable results – that is the question of future research. And of course, there are inevitable obstacles connected with the nature of data collection: longitudinal research implies the invariability of the questionnaire over the years even if the necessity in more correct and precise information is needed. To compare results among different countries the standardised methods are applied, although each nation is unique in its development and requires different research approaches.

6. Conclusions

The findings of the analysis confirm that the entrepreneurs' financial decision is shaped by both external (level of competition, product innovation) and internal factors (e.g., the number of co-owners, the amount of start-up capital).

It has turned out to be typical of nascent entrepreneurs in all countries, regardless of the level of social and economic development, to use borrowed funds, which is quite in line with the nature and purposes of entrepreneurship (cost effectiveness and profitability). Nevertheless, the structure of borrowed capital varies significantly over varying categories of countries. In more developed countries, it is dominated by banking loans, government support and funds of business angels; in medium-developed countries, by cheap informal capital and bank loans with no alternative.

According to the descriptive analysis small businesses in Russia, as a country with a low level of socio-economic development, are characterised by a small amount of start-up capital, by a widespread occurrence of entrepreneurial networks and by a single-owned business. The research showed that the prevalence of informal funds in small business financing is the only available and cheap source against a background of expensive credit. The constructed model confirms the revealed result and indicates that in order to turn the nascent entrepreneurs' financial strategy in a more formal direction the business should imply a more considerable and sophisticated system: more co-owners and larger start-up sums.

The prevalence of "love" capital in BRIC countries differs by its nature from the one observed in Russia. The level of entrepreneurial collaboration and the amount of owners (as an indicator of the attitude to risk) is the same as in Russia, although the sum of start-up capital exceeds the Russian value significantly. The explanation of this discrepancy in the nature of such funding should be found in further investigations of the external environment: the culture of countries, their macroeconomic stability, the development of financial systems, and the position of social and political institutions.

Finally, basic patterns were identified in the financial choice of nascent entrepreneurs across various groups of countries. A rationale has been provided for the choice by the entrepreneur of a specific financing source, the choice being motivated primarily by the ambient conditions of the business environment: the level of competition, the availability of dedicated financial institutions and the degree of development of social networks. The entrepreneur's financial decision is more or less an early-warning indicator not only of his or her financial situation, but also of the general state of the economy in the context of overall socio-economic market performance and non-market distribution of financial resources.

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