Small- and Medium-Sized Businesses' Growth Expectations and Financial Performance in Latvia: Does Ethnicity Matter?

Abstract

By applying regulatory focus theory, this paper investigates the impact of both 'initial confidence' and of 'exactness of growth expectations' on the financial performance of small and medium-sized firms in Latvia. Drawing on a data set based on repeated survey design, we explore the complexity of this relationship empirically. Our overall findings suggest that when controlling for other relevant factors, such as actual growth, entrepreneurs having higher growth expectations and perform significantly better in terms of profitability. In addition, education has a strong modifying effect. The impact of high growth expectations on subsequent profit performance is stronger for entrepreneurs with a lower level of education. Moreover, these effects are amplified by ethnicity. They are much stronger for ethnic Russian entrepreneurs compared with ethnic Latvian entrepreneurs.

Keywords: Latvia, Minorities, Entrepreneurship, Optimism, Regulatory Focus Theory

Introduction

Recent entrepreneurship literature emphasizes the importance of the accuracy of growth anticipations, especially when it comes to planning for financial performance for business success. Accuracy in anticipating a firm's sales growth

performance can help to ensure optimal allocation of necessary resources needed to implement future strategies (Busenitz & Lau 1996; Gaglio & Katz 2001). Since small and medium-sized firms usually have more limited financial resources compared to their larger counterparts (e.g. McIntyre 2001), the allocation of these resources is especially relevant when it comes to small business management. Building on this discussion, a research theme that is gaining interest in entrepreneurship literature is the relationship between cognitive mechanisms such as 'entrepreneurial anticipation' or 'expectation' and actual entrepreneurial outcomes. In fact, the comparison of 'entrepreneurial anticipation' and 'actual entrepreneurial outcomes' is considered an 'ideal' measure of entrepreneurial cognitive bias (Wu & Knott 2006). Given the difficulty in collecting adequate data however, only a limited number of studies (e.g. Wiklund & Shepherd 2003) have attempted to empirically investigate the link between growth anticipations of entrepreneurs and actual growth outcomes. The aim of this paper is to contribute to this empirical literature by further exploring the interaction between forward looking entrepreneurial beliefs shaping the growth strategies of entrepreneurs, their business's actual growth outcomes, and financial performance.

Moreover, we explore how the ethnicity of a business owner modifies the impact of prior entrepreneurial beliefs on actual business performance. A study by Kollinger & Minniti (2006) found that confidence among ethnic minority start-ups is actually higher than among ethnic majority business owners in the US. However, they also found that actual business growth is weaker for ethnic majority business owners. The complex interaction between cultural traits and ecological and structural factors that affect both the motivation and opportunity set in the business environment vary for different ethnic groups (Shelton 2010). Very little research currently exists on this

situation in countries other than the US. In this paper, we explore the relationship between ethnic minority and majority statuses as they interact with other traits of owners-managers and their businesses affecting performance in present-day Latvia.

The situation in Latvia is unique in many ways. Though it is now a member of the EU, its turbulent history and Soviet past (Metuzāle-Kangere & Ozolins 2005) has resulted in a polarized ethnic structure. A large Russian minority (about 29% of the total population[1]) continues to live in Latvia. This Russian minority residing in Latvia is different from other minority groups living in Western countries for a number of reasons. First of all, this Russian population relocated to Latvia while Latvia was under Soviet rule. At that time, Russian was the official language of the Soviet Union, and Russians in Latvia had little or no incentive to learn Latvian. In addition, these Russians relocated to Latvia with secured employment and enjoyed the status of belonging to the Soviet Union's ethnic majority. When Latvia regained its independence in 1991, suddenly these Russians found themselves literally living in a 'foreign country' as the language, laws and national alliances changed swiftly and at times, dramatically. Latvia's labor market dynamics, as well as the political and social dynamics of ethnic relations, has been the subject of extensive research (Pridham 2009; Hazans 2007a, 2007b; Mole 2007; Pisarenko 2006; Metuzāle-Kangere & Ozolins 2005), yet little is known about how ethnicity might affect business performance in Latvia.

By utilizing a unique data set based on a repeated survey design collected specifically for this study, this paper contributes to the existing literature by providing empirical evidence as to the relationship between entrepreneurial anticipations and the financial performance for small and medium business owners in Latvia. We also address the complexity of this relationship by exploring the interacting effect of

ethnicity and individual level characteristics within the expectations and performance relationship. Regulatory focus theory (Higgins 1997) and other relevant theoretical discussions are incorporated in order to develop testable empirical hypotheses and to inform our results.

The rest of the paper is structured as follows. Section Two presents our conceptual framework. In Section Three we discuss the methodology used. The main results of our analysis are presented in Section Four, and our conclusions and implications are summarized in Section Five.

Conceptual Framework

Cognitive strategies, anticipations and performance: the regulatory focus theory perspective

Individuals face a world that contains both threats and opportunities. An exact assessment of these is difficult as full information is never available, and additional information has to be acquired at a cost. To deal with this complexity, people adopt alternative cognitive (heuristic) strategies, the efficiency of which is conditional on the environmental characteristics (DellaVigna 2007). In this context, the contribution of regulatory focus theory (Higgins 1997) is to highlight the fact that people may not attach the same weight to potential positive outcomes as to the potential negative outcomes of their actions, often referred to as ‘opportunities’ and ‘risks’ in the entrepreneurship literature (De Carolis & Saparito 2006).

Regulatory focus theory posits the identification of two stylized strategies of self-regulation aimed at achieving individual standards and goals: ‘promotion focus’ and ‘prevention focus’ (Higgins 1997). The main difference is that individuals using the ‘promotion focus’ highlight the potential gains, while those individuals using

'prevention focus' concentrate on avoiding potential losses (Brocker *et al.* 2004). It is, however, impossible to declare one of these strategies as superior *a priori*, as their efficiency is conditional on the nature of the task at hand (Baron 2004).

Moreover, empirical evidence suggests that both alertness to threats and cognitive skills related to opportunity recognition may not necessarily be substitutes; it is likely that the winning combination lies where these two foci overlap. At this intersection we find individuals who can combine 'promotion focus' with some 'prevention focus,' or those individuals who are flexible in modifying their approach depending on the circumstances. In the context of entrepreneurship, a 'promotion focus' may be of critical value in an early phase of business start up when innovation is essential. On the other hand, a 'prevention focus' may be more useful during the business planning stage, where a reality check as well as the identification of business risks is of key importance (Brocker *et al.* 2004).

In addition, it is also important to acknowledge how different cognitive strategies affect expectations. As Brocker *et al.* (p. 215) observe: 'It is an advantage for people in a promotion focus to anticipate success because this positive expectancy will maintain their motivational intensity (high eagerness). (…) There is also evidence that high promotion-pride individuals are optimists with high self-confidence.'[2] This perspective highlights the self-fulfilling features of people's beliefs.

There are also economic based arguments showing how higher performance expectancy may be beneficial for entrepreneurship. In particular, we can posit that in an environment where most individuals are risk-averse, the willingness to take risks is rewarded (Parker 2004). Even if entrepreneurs do not differ in their tolerance for risk from the general population (Wu and Knott 2006), their actual risk-taking may be higher, being driven by entrepreneurial confidence (here understood as optimistic

perceptions of opportunities). Thus, confidence can lead to better performance via its implications for risk taking and realization of opportunities that are not picked up by others.

We believe this line of argument could be applied to ethnic minorities if they happen to be characterized by lower levels of confidence and lower levels of entrepreneurship. Recent research conducted by Manolova *et al.* (2008) indicates that Latvia is characterized by relatively strong entrepreneurial attitudes, which counterbalance some of the negative impact of its weak formal environment still influenced by the Soviet legacy (Estrin & Mickiewicz 2011). We suspect that there may be a significant difference in the occurrence of positive entrepreneurial attitudes between the ethnic majority (Latvians) and the country's largest minority group (Russian nationals). In terms of labor market participation, the Russian minority participation rates in Latvia are lower (Hazans 2007a). Similarly, entrepreneurial attitudes and confidence are likely to be lower for the Russian minority as well. This difference could be influenced both by cultural traits as well as certain social and structural obstacles that exist such as proficiency in the national language. Knowledge of Latvian by Russian speakers residing in Latvia improved dramatically in recent years. In 2003 only 12% of Russian speakers did not know any Latvian (Metuzāle-Kangere & Ozolins 2005). However, a gap in Latvian language proficiency persists. Based on this, we expect that returns to confidence among the ethnic Russian minority may be higher than among the ethnic Latvian majority.

More generally, in the entrepreneurial context, opportunity recognition as related to promotion focus may clearly be viewed as particularly beneficial (Baum *et al.* 2001; Baron 2004). In addition, asymmetry may exist between failure and success. In particular, taking the resource perspective view, planning for success (associated

with higher sales growth expectancy) may be more beneficial than an alternative strategy of planning to limit the impact of potential negative shocks (associated with lower sales growth expectancy), as the adjustment costs may differ in both cases. For example, while preparing for high sales growth, an entrepreneur may secure an open line of credit, which could be more difficult to obtain instantaneously later on, in case he/she would be experience unanticipated increase in growth. In contrast, the costs are much lower for an entrepreneur who secured initial finance in the case that high growth did not materialize. Entrepreneurial opportunities are by definition of a transient nature and therefore response speed is a critical factor. Accordingly, the reward for an entrepreneur with higher growth expectations for having mobilized resources to meet a surge in demand (such as to secure an adequate level of finance or increasing the number of skilled employees) may be more than proportional when compared to the reward for a entrepreneur with lower growth expectations, that may result from potential savings from a decrease in the venture resource base in anticipation of the decrease in demand. Thus, the asymmetry between the gains from being prepared for business success versus the savings from being prepared for a downturn may explain why higher growth expectations may on average result in better performance than lower growth expectations.

It is for these reasons that the cognitive bias resulting in high growth expectations may be beneficial for entrepreneurial success as measured by financial performance. This leads us to our first hypothesis:

H1: Entrepreneurial success[3] *is associated with higher growth expectations (higher confidence). In addition, the impact of higher growth expectations is stronger for ethnic minority (Russian) entrepreneurs.*

Anticipations and Performance: Addressing the complex relationship

An entrepreneur's estimates of future business performance may be incorrect for various reasons. Entrepreneurs may underestimate the possible uncertainties of the environment where the decision is being made; they may be unable to process new data and to acquire the necessary knowledge; they may act on the basis of inappropriate information, and they may fail to understand the limits of their personal knowledge (e.g. Baron 2004; Sarasvathy 1999). Linking expectations with a firm's performance, the entrepreneurship literature often refers to high expectations as 'confidence' or 'overconfidence'[4] (e.g. Baron & Markman 2003; Simon *et al.* 2000). Thus, in the context of anticipation, overconfidence or simply confidence is defined as the case of cognitive bias where entrepreneurs systematically exhibit excessively high expectations (e.g. Pohl 2004).

In this light, existing empirical evidence highlights both the positive and negative effects of high expectations (confidence). In line with regulatory focus theory, for example, previous findings suggest that higher expectations are positively related to actual performance (see for example Wiklund & Shepherd 2003) but are in fact one of the reasons why many entrepreneurs launch and expand their businesses in the first place. In other words, it is common for an entrepreneur to identify a good idea and work at it, with limited information and/or knowledge. It is confidence that propels the entrepreneur to start this process without thinking too much of whether such an opportunity should be taken or not (see for example Shane & Venkatamaran 2000; Bird 1989). As argued by Ma & Tan (2006, p. 712) 'True entrepreneurs are hopelessly optimistic, amazingly resilient, and unwaveringly resolute, particularly

when they are relatively unfamiliar with the problem and/or substantial uncertainty exists.'

On the other hand, however, considerable empirical evidence exists showing that cognitive biases, such as overconfidence, can also have a negative effect on a firm's performance, even to the extent that it increases the risk of business failure (e.g. Cooper, Woo & Dunkelberg 1988; Busenitz & Barney 1997). Human capital-related characteristics seem to play an important role in the confidence and performance relationship. More specifically, firm performance is subject to the liabilities of newness, referring both to the age and previous business experience of the entrepreneur. Previous studies show that, while young entrepreneurs and new owners-managers are more enthusiastic, confident and willing to experiment than older entrepreneurs and more experienced business owners-managers, they are also much more likely to give up such intentions (see, for example, Forbes 2005). In other words, younger entrepreneurs and/or new businesses are more likely to exit business than older entrepreneurs and/or experienced owners-mangers, often as a result of earlier overconfidence (Blanchflower & Meyer 1994; Taylor 1999; Van Praag 2003).[5]

In addition to age and previous business experience, the education level of the entrepreneur has also been found to affect business performance. In general, existing studies have shown that education level is not only an important characteristic of entrepreneurial capacity (Sexton & Upton 1985), but that it has a positive influence on firm survival, growth (Cooper *et al.* 1994; Aidis & Mickiewicz 2006), and financial performance (Cooper & Gimeno-Gascon 1992; Chandler & Hanks 1998; Watkins *et al.* 2003). Furthermore, education seems to provide the knowledge base for analytical and problem-solving skills that foster more effective strategies for dealing with the demands of entrepreneurship. In the light of these arguments, we believe that higher

education can have a positive influence on financial performance, our measure for entrepreneurial success.

Moreover, we believe ethnicity may have a further effect for both these hypotheses presented above. Specifically, we expect less pronounced differences in business performance between Latvians and Russian nationals with higher levels of human capital (i.e., more educated and greater business experience).

This leads us to formulate our second and third hypotheses as follows:

H2. Business experience has an overall positive impact on financial performance. The positive effect of experience is stronger for minority entrepreneurs.

H3. A higher level of education has an overall positive effect on performance. The positive effect of education is stronger for minority entrepreneurs.

Control variables and additional influences

While we focus on confidence (high growth expectations) as having a positive influence on financial performance in our hypotheses, we also recognize that correctness of perceptions can play an important role for entrepreneurial financial success. Recent entrepreneurship literature emphasizes the importance of the accuracy of growth anticipations for optimal business growth and performance, since it can help to ensure optimal allocation of necessary resources which are needed to implement future strategies (Busenitz & Lau 1996; Gaglio & Katz 2001). Therefore, though high growth expectations may be beneficial for business success (as formulated in Hypothesis 1), the impact of this factor may be mitigated by the negative influence of a high discrepancy between anticipations and actual outcomes.

Therefore, the exactness of anticipation is also important to control for in our estimation Models.

In addition, our empirical analysis includes a number of control variables, which are well documented in the existing literature. To make sure that the estimated effects of owner-managers' education and business experience (both of the owner-manager and of the firm, as captured by age of business) on performance are not due to an omitted variable bias, we also include a control for age of the entrepreneur.

Gender has also been found to affect business growth. In particular, female-run businesses tend to be smaller and are less likely to grow than male-owned businesses (Cooper *et al.* 1994). Furthermore, a study by Cliff (1998) indicates that female business owners tend to have lower growth thresholds than men, which not only can explain the tendency for women to have smaller businesses with lower turnovers, but may also indicate possible differences in cognitive processes, such as formation of expectations, among men and women. We therefore expect that, 'other things being equal,' male entrepreneurs will achieve higher growth performance, but not necessarily higher financial performance than female entrepreneurs.

Finally, we also control for the initial size of the business, its sectoral affiliation and exporting. Figure 1 below summarizes our framework for analysis.

Insert Figure 1 about here

Methodology

Summary statistics

The data used in this paper are based on 133 strictly confidential face-to-face structured interviews with the owner-managers of small- and medium-sized enterprises (SMEs) in the summer of 2005 and a follow-up survey of the same owners-managers conducted a year later (in the summer of 2006). All interviews took place in Riga, Latvia. The initial interviews were randomly sampled using official statistics from the Company Register of Latvia, collected in the Lursoft database (see http://www.lursoft.lv). The sampling frame was limited toSMEs, that is firms with up to 250, employees registered in Riga, the capital city of Latvia, and operational at the time of the survey. Key descriptive statistics from this data are presented in Table 1.

Insert Table 1 about here

Measurement of entrepreneurial success

There are many ways of interpreting 'entrepreneurial success.' Even though no consensus regarding the definition of small business performance exists, increase in sales, profitability and increase in market share are four ways in which business performance is typically measured (Chandler & Hanks 1993; Robinson 1999; Vesper 1996; Delmar *et al.* 2003; Watkins *et al.* 2003). Ultimately, however, it is financial performance that decides the future of any business venture.[6] In this paper, we use profit dynamics as our key measure for business performance. We operationalize 'profit dynamics' as a short-term (12 months) change in profitability (where profitability is defined as the ratio of profits to sales). Following Baum, *et al.* (2001), we focus on change in profitability rather than on the level of profitability in order to eliminate a possibility that the level of profitability taken as independent variable substitutes for some time-invariant effects (sources of rents) that we cannot control for in our estimation Models.

It is important to note, however, that there are some limitations to this approach. Firstly, SMEs often rely on simplified accounting where the measures of profit are not clear-cut. Secondly, it is typical for many new firms to follow a period of low profitability in the initial phase of their existence, for which reason current profitability may not be a good indicator of the net present value of the venture. Thirdly, underreporting may be common.

Luckily, our focus on change in profits alleviates both the second and the third difficulty. With respect to the second issue, even if some ventures are reporting low profits initially, the successful ones should experience a positive trend in profits that is indicated by the direction of change, which is what we rely on. With respect to the third issue, a focus on dynamics may again be better, as long as the proportion of

unreported profits remain stable. Moreover, the problem is not specific for profits as hiding some part of the entrepreneurial activity implies underreporting of all relevant information, including sales and employment. Interestingly, reliance on 'subjective' survey data (as in this paper) may have an advantage over the use of 'objective' financial data collected from the third party, as long as the respondents have little incentive to report incorrectly to the interviewers, conditional on their trust in the anonymity of the survey.

Dependent variables and estimators

We adopt the following estimation strategy. We use two alternative measures for change in business profitability. This enables us to verify if the results are sensitive to variation in measurement. For the first measure, the respondents were asked to assess the change in their business profits using a five-point Likert scale response: ranging from profits 'decreased significantly' to profits 'increased significantly.' For the second measure, the respondents were given an ordered range of numerical intervals, ranging from high negative to high positive values. A detailed distribution of answers is given in Table 2. We compared the answers to both questions given by each respondent and find that the responses given on both scales correspond exactly. This increases our confidence in the reliability of our results.[7] Our estimations rely on percentage value intervals, and these are reported in Tables 3 and 4 below.

Insert Table 2 about here

For our empirical analysis, we regress the financial performance measure (percentage change in profits) on our set of explanatory variables using ordered probit estimators with robust standard errors.

Key explanatory variables

We operationalize the nature of the cognitive bias in expectations by introducing the following two explanatory variables:

1. a binary indicator distinguishing between strictly positive sales growth anticipations (as declared in the 2005 survey, see Table 1 above) and

2. a binary indicator that captures exactness of anticipations, i.e. takes the value of one in the case either both expectations and actual growth of sales were positive or both were negative, and the value of zero in case of a discrepancy between the expected and actual sign of the change in sales (see Table 1).[8]

Our primary interest is in the first of these two, which corresponds to Hypothesis 1: related to positive sales growth anticipations, which we take as a proxy of confidence. However, we face one additional problem that can introduce a bias in our results. Our survey sample was taken in 2005 and 2006, when the Latvian economy was rapidly growing and that implies that growing firms are over-represented in our sample. Because of this tendency, there is a significant overlap between growth expectations and actual growth. In particular, when we tabulated sales growth categories against our 'exactness of expectations' variable (see definition above), we found that as a percentage of the whole sample, 55% of the respondents who experienced both growth in sales and expectations of growth were correct. In other words, the sample was taken during good economic times and correspondingly, the successful ventures owned by entrepreneurs expecting growth, whose expectations

were confirmed, are overrepresented. That may induce bias to our results. To correct for this, we applied weights, which left the impact of companies with no change in profits unchanged, but scaled down the impact of successful ventures and increased the impact of those with decreasing profits, so that the joint weights for each of those two groups became equal. This is the preferred set of estimations we report in Table 3 below. However, to verify how sensitive our results are to this weighting scheme, we also present results without weighting, in Table 4.

In addition, to test Hypothesis 2, we introduce an explanatory variable measuring entrepreneurial experience. Here the owner-manager respondent indicates the length of her/his experience using an ordered scale (distribution parameters of this variable are reported in Table 1). An alternative way to test the same hypothesis is by using the age of the business venture.

To test Hypothesis 3, we include a variable measuring higher education specifically investigating the difference between owner-managers who attained a university education as compared with those that did not.

We add a dummy variable for the ethnicity of the entrepreneur (Latvian versus Russian), and next interact it with the variables used to test Hypotheses 1 to 3 as discussed above.

Our model also includes a control for the age of the entrepreneur. Further, we utilize dummy variables for gender of the entrepreneur. In terms of business activity, we control for exporting. We also control for the size of the company (captured by natural logarithm of turnover, as reported in the initial period, that is in 2005) and for sectoral affiliation (see Table 1 above for the sectoral distribution of the sample). And last but not least, we include a control for actual growth in sales, to eliminate the

possibility that our variable capturing high growth anticipations (confidence) simply substitutes for actual growth, creating an omitted variable bias.

Results

The results testing our three hypotheses are presented in Tables 3 and 4. The first set of six equation models shown in Table 3 applies a weighting system to correct for the over-representation of successful businesses. The second set shown in Table 4 replicates the same specifications, but without weighting. All of the models contain the same set of independent variables and after presenting a simple model without interactions (Models 1 and 7), add a specific interactive variable. Model 2 builds on Model 1 by adding an interactive variable for ethnicity (Latvian) and positive growth expectations (confidence). It provides insights for Hypothesis 1. The following three models test our second hypothesis by introducing interactive effects between ethnicity and three alternative measures of experience (business age, entrepreneurial experience 1–7 years and entrepreneurial experience 16 years or more). The last equation specification tests our third hypothesis by exploring the interaction of higher education (university education) with ethnicity (Latvian).

Insert Table 3 about here

Insert Table 4 abut here

While all the models contain a variable measuring confidence (defined as positive turnover growth expectations measured *ex ante*) and ethnicity (a dummy variable where one equals Latvian ethnicity), Models 2 and 8 test additionally for the moderating impact of ethnicity on confidence by introducing an interactive term. We also control for exactness of anticipations (defined as the consistency between *ex ante* expectations and *ex post* results). While confidence has a positive impact on financial performance (significant at 5% level), the exactness of anticipations is insignificant. We also find that confidence has a significant and negative association for Latvian nationals in the weighted model (2). In the unweighted model, the results are similar except that the association with Latvian nationals is no longer significant. Thus, we find that confidence has a greater effect on the performance of ethnic minority (non-Latvian) business owners (significant at the 5% level), yet this interactive variable becomes insignificant without weighting.

To summarize, our results indicate that entrepreneurial success measured as financial performance is positively affected by entrepreneurial confidence and not by entrepreneurial exactness of anticipations, and that confidence matters even more for ethnic minority entrepreneurs. Thus, these outcomes provide support for our first hypothesis and for the notion that cognitive bias resulting from overconfidence and promotion focus has a positive impact on financial performance. We conclude that confidence seems to be more important than exactness of anticipations for entrepreneurial success as measured by financial performance.

To test Hypothesis 2, we explore the interactive effects between ethnicity, business experience (measured as firm-specific experience, i.e. the age of the business and the business experience of the owner-manager). In Models 3 and 9 we focus on the age of the business and its interactive effect with ethnicity. The negative result for

'log of business age' indicates that new businesses experience stronger profits dynamics than older businesses. This effect, however, fades away over time. Interestingly, this effect is more pronounced for ethnic Latvian businesses as indicated by the negative and significant result for the interactive variable (significant at 10% for the weighted specification and at 5% for the unweighted model). New businesses started by Russian nationals in Latvia experience an advantage in terms of profit dynamics *vis-à-vis* older businesses owned by Russian nationals.

The results are similar, when we substitute individual owner-manager business experience for business age (Models 4, 5, 10 and 11). Though the results are not significant in the model, less business experience seems to be associated with weaker dynamics of profits. The interactive term for business experience and ethnicity (Latvian) is significant in Models 4, 5 and 10 and marginally insignificant in Model 11. The positive and significant interactive term in Specification 4 (and in Model 10, both significant at 5%) indicates, that the negative premium for lack of business experience is particularly pronounced for Russian national entrepreneurs.

We find further confirmation of this in Specification 5. Greater business experience is significantly more important for ethnic Russian entrepreneurs as a factor for entrepreneurial success than it is for ethnic Latvians.

In Models 6 and 12, we find evidence to support our third hypothesis that human capital in the form of university education is beneficial for entrepreneurial success. In both the weighted and unweighted model, we obtain consistently strong results, with significance levels at either below 1% or 0.1% level, which is very high given our small sample size. In addition, the interactive effect between university education and Latvian is highly significant (at 5% for the weighted Model 6 and 1% for the non-weighted Model 12). These results imply that higher levels of human

capital are positively associated, for all business owners tested, and that this is especially true for ethnic Russian business owners.

In terms of our control variables, an owner-manager's age was not found to be significantly associated with financial performance in any of the models apart from Model 12 (with positive sign). We performed other robustness checks[9] and found that the results for age were are also insignificant for other functional forms (quadratic, linear or log quadratic).

Our results also show a rather puzzling result: though insignificant, exporting is associated with weaker dynamics of profitability. This result seems to show the ambiguous role of exporting for financial performance and may have been influenced by the overall macroeconomic climate in Latvia at the time of the survey. Also, no significant differences were found between male or female business owners. Given the significant differences for ethnicity obtained in our models, we decided to test if other additional factors may also play a role in these results. Since a sizeable portion of Russian nationals living in Latvia do not have Latvian citizenship, we tested if the lack of Latvian citizenship had any effect on our estimation results. To explore this factor, we replaced the ethnicity variable with a variable for citizenship, and also estimated a model where ethnicity and citizenship were introduced jointly. However, the citizenship turned out to be highly insignificant regardless of the model.[10]

Conclusions and Implications

Our paper explores the relationship between growth expectations, performance and ethnicity for the owners of small- and medium-sized businesses in Latvia. The unique dataset based on a survey of business owner-managers in Latvia collected specifically for this paper included repeat sampling which allowed for empirical

testing using regression estimation models. The differentiation between business owners who identified themselves as Latvians or Russian nationals living in Latvia provided additional insights as to the impact of ethnicity in a post-Soviet context on business performance.

Our results indicate a significant relationship between entrepreneurial confidence and entrepreneurial success in terms of actual firm growth and financial performance. In contrast, entrepreneurial exactness of anticipations, which we define as a consistency between growth expectations and actual growth, do not affect financial performance in a significant way. The impact of confidence dominates over the impact of exactness of anticipations.

Thus, even when we control for a standard set of performance determinants, and the actual growth, the initial high expectations of the owner-manager have a positive impact on the subsequent performance. In this sense it is legitimate to argue that the concept of entrepreneurial anticipations is closely related to the concept of 'aspirations' since these results are in line with studies focusing on 'entrepreneurial aspirations' (such as Wiklund & Shepherd 2003). Moreover, we believe that these results can also be seen as consistent with regulatory focus theory. In the context of entrepreneurship, the winning cognitive strategy may be the one that focuses predominantly on 'promotion' (defined as 'confidence' in our analysis).

In addition, we found that the positive effect of confidence is most important for the entrepreneurs with lower level of education, and matters little for those with university education. At the same time, the direct effect of education on performance is positive and significant.

Our second set of results relates to the role of ethnicity. Consistently, we identified a pattern of differences between Latvian and Russian national business

owners indicating that confidence comes at a higher premium for Russian entrepreneurs in Latvia. Similarly, higher education and greater business experience reduces these inter-ethnic differences between Latvians and Russians in terms of business performance.

Further comparative research in other post Soviet countries could shed light on the possible country-specific nature of our results. In addition, it would be interesting to track the younger generation of Russian nationals in their pursuit of entrepreneurship in Latvia in order to see if the ethnic effect diminishes.

Our results are subject to several limitations. Firstly, our findings may be context specific. At time of the surveys (2005–2006), Latvia was a fast-growing economy, where entrepreneurs who failed to identify the emerging opportunities correctly were paying a high price in terms of performance. Yet in a more stable, economic environment, the optimum balance between 'promotion' and 'prevention' cognitive strategies may be different. Further empirical research would be useful to explore the possible context specific characteristics on this relationship. We aimed to correct for the effect of strong positive macro trend in performance by using equal weighting for firms, which are growing and shrinking, but further work may be useful, especially since the business situation in Latvia changed so dramatically after the economic crisis in 2008.

Secondly, our analysis incorporated a 12-month period in which to measure expectation versus reality in terms of business growth. Additional research that captures various time periods (such as an annual test up to a ten year period) may help distinguish other important effects.

Figure 1.

Framework for analysis.

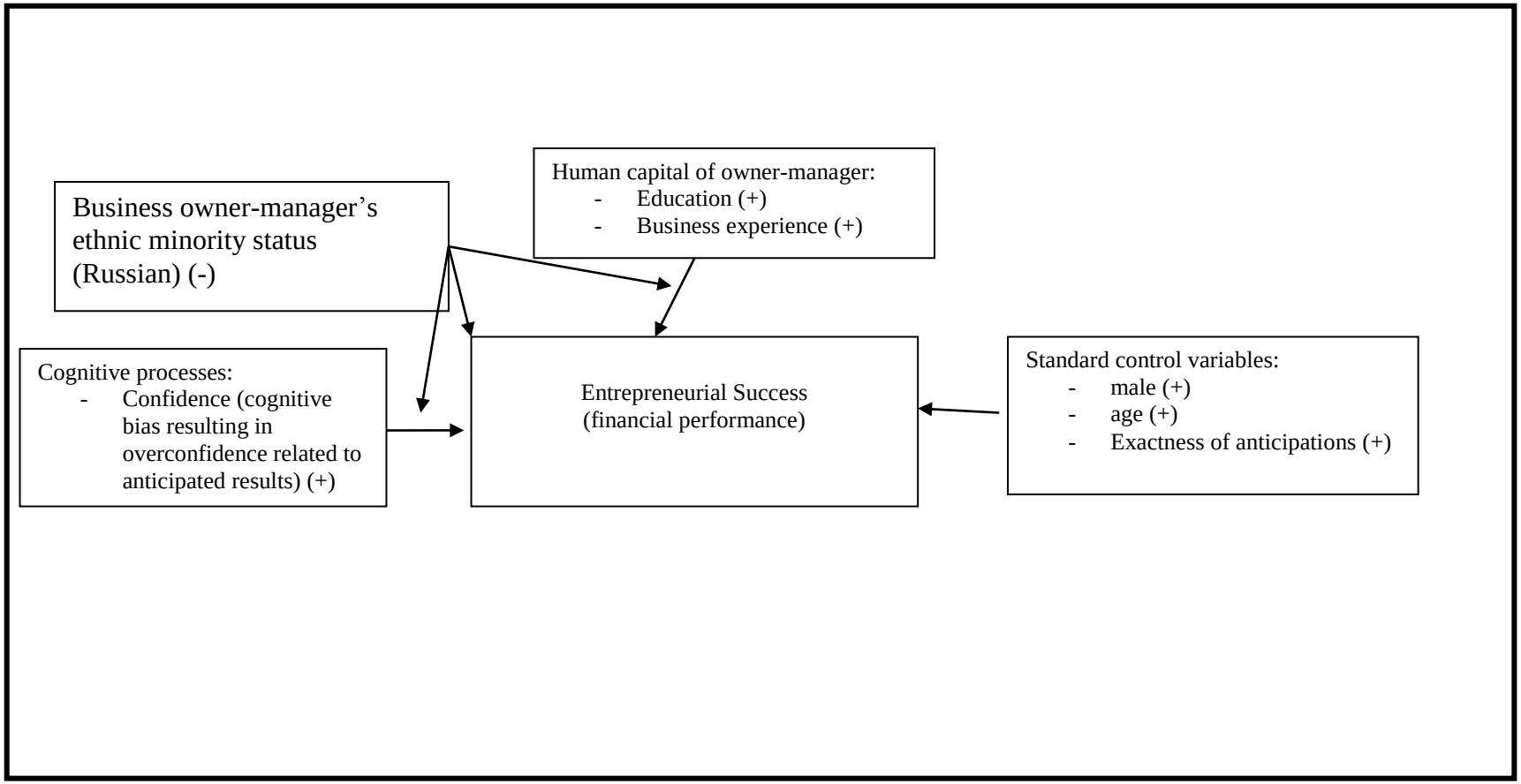

Table 1.

Descriptive statistics: independent variables.

Variable	Description	No of obs.	Mean	SD
Sales [a]	Annual sales as reported by the owner-manager in 2005.	123	345	565
Employment	Total employment as reported by the owner-manager in 2005.	126	20	31
Business's age	Business's age.	133	9	4
Respondent's age	The owner-manager's age.	133	45	11
University educ.	Dummy variable. One if the respondent has a university education, zero otherwise.	133	.60	.49
Experience				
Business exper. 1	Dummy variable. One if the business experience of the owner-manager was less than one year in 2005, zero otherwise.	133	.20	.40
Business exper. 1-7	Dummy variable. One if the business experience of the owner-manager was between one year and 7 years, zero otherwise.	133	.30	.46
Business exper. 8 – 15	Dummy variable. One if the business experience of the owner-manager was between 8 and 15 years, zero otherwise.	133	.19	.39
Business exper. 16	Dummy variable. One if the business experience of the owner-manager was over 16 years, zero otherwise.	133	.31	.46
Expectations	*Dummy variables*			
Confidence	One if the owner-manager expected their	129	.71	.46

	business's sales to 'increase a lot' or 'increase' (in 2005), zero otherwise.			
Exactness of anticipations	One if the sign of actual growth in sales as reported in 2006 was consistent with the expected sign of sales growth reported in 2005.	117	.70	.46
Other variables	Dummy variable. One if the business is in	133	.14	.35
Manufacturing	the manufacturing sector, zero otherwise.			
Trade	Dummy variable. One if the business is in the trade sector, zero otherwise.	133	.37	.48
Services	Dummy variable. One if the business is in the service sector, zero otherwise.	133	.49	.50
Export	Dummy variable. One if the company was exporting in 2005, zero otherwise.	133	.18	.39
Male	Dummy variable. One if the owner-manager is male, zero if female.	133	.66	.47
Latvian	Dummy variable. One if the owner-manager identifies themselves as Latvian, zero if the owner-manager identifies themselves as a Russian national.	133	.55	.50

Note: Sales is reported in thousands of Lats. Applying appropriate exchange rate reported by Bank of Latvia results in the mean sales expressed in Euro of 243 thousand.

Table 2.

Survey instruments measuring short-term growth in profits and in turnover

(2006 compared with 2005).

(a) Likert scale **Change in profits (Likert)**	Freq.	Percent	Cum.	(b) Intervals **change in profits (% value intervals)**	Freq.	Percent	Cum.
increased a lot	6	4.62	4.62	-40 to -1	14	10.77	10.77
increased	76	58.46	63.08	0	34	26.15	36.92
remained stable	34	26.15	89.23	1 to 20	63	48.46	85.38
decreased	14	10.77	100.00	more than 20	19	14.62	100.00
Total	130	10.00		Total	130	100.00	

change in turnover (value intervals)	Freq.	Percent	Cum.
-21% to less than -1%	3	2.31	2.31
-1% to less than 0%	12	9.23	11.54
remained stable	31	23.85	35.38
More than 0% to 20%	70	53.8	89.23
more than 20% to 40%	8	6.15	95.38
more than 40% to 60%	1	0.77	96.15

more than 60% to 80%	3	2.31	98.46
more than 80% to 100%	2	1.54	100.00
Total	130	100.00	

Note: Original survey instrument was based on intervals and Likert scale as reported above, in order to improve response rate. The categories we report here and utilize in our regressions correspond to those. Similarly, for other categorical variables, we employ the categories that result from the survey instruments.

Table 3. Ordered probit regressions: determinants of profits growth (weighted)[11]

Independent variables:	(1)	(2)	(3)	(4)	(5)	(6)
Change in sales (intervals)	3.207***	3.262***	3.277***	3.339***	3.302***	3.450***
	(0.489)	(0.484)	(0.478)	(0.522)	(0.456)	(0.517)
Log of sales	-0.00760	-0.0714	-0.0137	0.0227	-0.0308	-0.0155
	(0.0738)	(0.0764)	(0.0758)	(0.0794)	(0.0773)	(0.0752)
Log of respondent's age	1.088	0.764	0.944	1.051	1.001	1.068
	(0.722)	(0.743)	(0.776)	(0.741)	(0.729)	(0.721)
Log of business' age	-1.229**	-0.958*	-0.516	-1.237**	-1.155**	-1.343***
	(0.402)	(0.401)	(0.610)	(0.392)	(0.395)	(0.405)
University education	0.700**	0.673**	0.665**	0.625**	0.741**	1.326***
	(0.243)	(0.236)	(0.253)	(0.240)	(0.246)	(0.332)
Business experience 1–7 years	0.342	0.333	0.294	-0.507	0.354	0.453
	(0.360)	(0.341)	(0.359)	(0.466)	(0.357)	(0.370)
Business experience 8–15 years	-0.342	0.0565	-0.347	-0.334	-0.315	-0.364
	(0.460)	(0.482)	(0.460)	(0.456)	(0.479)	(0.469)
Business experience 16 y. & more	0.0463	0.183	0.0482	0.00935	0.648	0.169
	(0.469)	(0.470)	(0.481)	(0.481)	(0.465)	(0.487)
Services excl. trade	-0.239	-0.296	-0.214	-0.308	-0.300	-0.223
	(0.524)	(0.502)	(0.533)	(0.504)	(0.524)	(0.505)
Trade	0.116	-0.0704	0.171	-0.0455	-0.125	0.0970
	(0.456)	(0.440)	(0.461)	(0.410)	(0.469)	(0.435)
Exporting	-0.391	-0.317	-0.382	-0.362	-0.464	-0.566
	(0.389)	(0.391)	(0.389)	(0.403)	(0.405)	(0.386)

Male	-0.355	-0.347	-0.361	-0.391	-0.389	-0.423
	(0.263)	(0.266)	(0.259)	(0.259)	(0.275)	(0.272)
Latvian	0.661+	1.653*	2.918*	0.202	0.964*	1.341**
	(0.366)	(0.703)	(1.227)	(0.381)	(0.407)	(0.465)
Exactness of anticipations	-0.479	-0.347	-0.548+	-0.531	-0.441	-0.506
	(0.314)	(0.314)	(0.333)	(0.324)	(0.317)	(0.319)
Confidence	0.342	1.243*	0.513	0.359	0.337	0.272
	(0.377)	(0.592)	(0.360)	(0.376)	(0.374)	(0.363)
Confidence x Latvian		-1.550*				
		(0.704)				
Business age x Latvian			-1.091+			
			(0.627)			
Experience 1–7 years x Latvian				1.354*		
				(0.579)		
Experience 16y & more x Latvian					-1.136+	
					(0.592)	
University education x Latvian						-1.100*
						(0.492)
Observations	117	117	117	117	117	117
Wald Chi2	100.82	105.14	109.50	106.25	111.73	113.49
Pseudo R2	0.74	0.75	0.75	0.75	0.75	0.75

Table 4. Ordered probit regressions: determinants of profits growth (not weighted)

Independent variables:	(7)	(8)	(9)	(10)	(11)	(12)
Change in sales (intervals)	2.938***	2.929***	3.015***	3.027***	2.979***	3.143***
	(0.462)	(0.453)	(0.458)	(0.486)	(0.437)	(0.478)
Log of sales	-0.0644	-0.0834	-0.0688	-0.0414	-0.0744	-0.0707
	(0.0695)	(0.0775)	(0.0704)	(0.0738)	(0.0727)	(0.0734)
Log of respondent's age	1.060	0.938	0.842	1.069	1.002	1.101+
	(0.660)	(0.653)	(0.726)	(0.673)	(0.665)	(0.656)
Log of business' age	-0.742*	-0.617+	0.0976	-0.762*	-0.708*	-0.838*
	(0.352)	(0.355)	(0.568)	(0.344)	(0.353)	(0.362)
University education	0.360+	0.349	0.303	0.314	0.383+	1.075***
	(0.215)	(0.214)	(0.234)	(0.216)	(0.214)	(0.276)
Business experience 1–7 years	0.284	0.331	0.265	-0.384	0.286	0.364
	(0.315)	(0.307)	(0.327)	(0.379)	(0.316)	(0.327)

Business experience 8–15 years	-0.121	0.0653	-0.134	-0.0946	-0.125	-0.159
	(0.474)	(0.468)	(0.470)	(0.470)	(0.487)	(0.475)
Business experience 16 y. & more	-0.147	-0.0711	-0.0814	-0.171	0.218	-0.0712
	(0.452)	(0.449)	(0.472)	(0.463)	(0.390)	(0.466)
Services excl. trade	-0.268	-0.275	-0.244	-0.289	-0.295	-0.215
	(0.431)	(0.425)	(0.436)	(0.423)	(0.436)	(0.421)
Trade	0.0272	-0.0328	0.0737	-0.0692	-0.0940	0.0655
	(0.356)	(0.355)	(0.367)	(0.331)	(0.372)	(0.344)
Exporting	-0.505	-0.490	-0.528	-0.490	-0.539	-0.661+
	(0.349)	(0.345)	(0.369)	(0.355)	(0.355)	(0.342)
Male	-0.355	-0.347	-0.352	-0.394	-0.369	-0.411
	(0.248)	(0.248)	(0.249)	(0.242)	(0.255)	(0.256)
Latvian	0.437	0.979	3.003**	0.103	0.624+	1.190**
	(0.299)	(0.687)	(1.154)	(0.341)	(0.339)	(0.391)

Exactness of anticipations	-0.279	-0.192	-0.329	-0.301	-0.273	-0.308
	(0.272)	(0.282)	(0.284)	(0.274)	(0.272)	(0.280)
Confidence	0.115	0.544	0.235	0.125	0.116	0.0970
	(0.345)	(0.590)	(0.343)	(0.337)	(0.343)	(0.342)
Confidence x Latvian	2.938***	-0.746				
	(0.462)	(0.696)				
Business age x Latvian			-1.229*			
			(0.596)			
Experience 1–7 years x Latvian				1.068*		
				(0.505)		
Experience 16y & more x Latvian					-0.634	
					(0.547)	
University education x Latvian						-1.203**
						(0.438)

Observations	117	117	117	117	117	117
Wald Chi2	112.94	111.90	131.32	110.72	114.36	120.00
Pseudo R2	0.64	0.65	0.65	0.65	0.65	0.66

References

Aidis, R. & Mickiewicz, T. (2006) 'Why Entrepreneurs Do Not Expect to Expand Their Businesses: Lessons From Lithuania,' *Europe Asia Studies*, 58, pp. 855- 880.

Baron, R. (2004) 'The Cognitive Perspective: A Valuable Tool for Answering Entrepreneurship's Basic "Why" Questions,' *Journal of Business Venturing*, 19, pp. 221–293.

Baron, R. & Markman, G. (2003) 'Beyond Social Capital: The Role of Entrepreneurs' Social Competence in Their Financial Success,' *Journal of Business Venturing,* 18, pp. 41–60.

Baum, R., Locke, E. & Smith, K. (2001) 'A Multidimensional Model of Venture Growth,' *Academy of Management Journal*, 44, 2, pp. 292–303.

Bird, J. (1989) *Entrepreneurial Behavior* (IL, Scott, Foresman, Glenview).

Blanchflower, D. & Meyer, B. (1994) 'A Longitudinal Analysis of the Young Self-Employed in Australia and the United States,' *Small Business Economics*, 6, 1, pp. 1–19.

Brocker, J., Higgins, E. & Low, M. (2004) 'Regulatory Focus Theory and the Entrepreneurial Process,' *Journal of Business Venturing*, 19, pp. 203–20.

Busenitz, L. & Barney, J. (1997) 'Differences Between Entrepreneurs and Managers in Large Organizations: Biases and Heuristics in Strategic Decision-Making,' *Journal of Business Venturing*, 12, pp. 9–30.

Busenitz, L., & Lau, C (1996) 'A Cross-cultural Cognitive Model of New Venture Creation,' *Entrepreneurship Theory and Practice*, 20, 4, pp. 25–39.

Chandler, G., & Hanks, S. (1993) 'Measuring the Performance of Emerging Businesses: A Validation Study,' *Journal of Business Venturing*, 8, pp. 391–408.

Cliff, J. (1998) 'Does One Size Fit All? : Exploring the Relationship Between Attitudes Towards Growth, Gender, and Business Size,' *Journal of Business Venturing*, 13, 6, p. 523–42.

Cooper, A., Woo, C. & Dunkelberg, W. (1988) 'Entrepreneurs' Perceived Chances for Success,' *Journal of Business Venturing*, 3, 2, pp. 97–108.

Cooper, A. & Gimeno-Gascon, F. (1992) 'Entrepreneurs, processes of founding and new firm performance,' in Sexton, D. & Kasarda, J. (eds) (1992) *The state of the art of Entrepreneurship* (Boston, MA, PWS-Kent), pp. 301–40.

Cooper, A., Gimeno-Gascon, F. & Woo, C. (1994) 'Initial Human and Financial Capital as Predictors of New Venture Performance,' *Journal of Business Venturing*, 9, 5, pp. 371–95.

De Carolis, D. & P. Saparito (2006) 'Social Capital, Cognition, and Entrepreneurial Opportunities: A Theoretical Framework,' *Entrepreneurship Theory and Practice*, 30, pp. 41–56.

DellaVigna, S. (2007) *Psychology and Economics: Evidence from the Field*, Working Paper 13420 (National Bureau of Economic Research).

Delmar, F., Davidsson, P. & Gartner, W. (2003) 'Arriving at the High-growth Firm,' *Journal of Business Venturing*, 18, pp. 189–216.

Estrin, S. & Mickiewicz, T. (2011) 'Entrepreneurship in Transition Economies: The Role of Institutions and Generational Change,' in Minniti, M. (ed) (2011) *The Dynamics of Entrepreneurial Activity* (Oxford, Oxford University Press), chapter 10.

Forbes, D. (2005) 'Are Some Entrepreneurs More Overconfident Than Others,' *Journal of Business Venturing*, 20, 5, pp. 623–40.

Gaglio, C. & Katz, J. (2001) 'The Psychological Basis of Opportunity Identification: Entrepreneurial Alertness,' *Small Business Economics*, 16, 2, pp. 95–111.

Hazans, M (2007a) 'Looking for the Workforce: the Elderly, Discouraged Workers, Minorities, and Students in the Baltic Labour Markets,' *Empirica*, 34, pp. 319–49.

Hazans, M. (2007b) *Coping with Growth and Emigration: Latvian Labour Market Before and After EU Accession*, available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=971198, accessed on 20 March 2008.

Higgins, E. (1997) 'Beyond Pleasure and Pain,' *American Psychologist*, 52, pp. 1280–300.

Kollinger, P. & Minniti, M. (2006) 'Not for a Luck of Trying: American Entrepreneurship in Black and White,' *Small Business Economics*, 27, pp. 59–79.

Ma, H. & Tan, J. (2006) 'Key Components and Implications of Entrepreneurship: A 4-P Framework,' *Journal of Business Venturing*, 21, pp. 704–25.

Manolova, T., Eunni, R. & Gyoshev, B. (2008) 'Institutional Environment for Entrepreneurship: Evidence from Emerging Economies in Eastern Europe,' *Entrepreneurship Theory and Practice*, 32, 1, pp. 203–18.

Metuzāle-Kangere, B. & Ozolins, U. (2005) 'The Language Situation in Latvia 1850–2005,' *Journal of Baltic Studies*, 36, 3, pp. 317–44.

McIntyre, R. (2001). *The Role of Small and Medium Enterprises in Transition: Growth and Entrepreneurship*, Research for Action 49 (UNU world Institute for Development Economic Research).

Mole, R. (2007) 'The Impact of Political Discourse on Group Beliefs and Outgroup Antipathy among Latvian Youth,' *Journal of Baltic Studies*, 38, 3, pp. 273–89.

Parker, D. (2004) *Economics of Self-Employment and Entrepreneurship* (Cambridge, Cambridge University Press).

Paalzow, A., Kilis, R., Dombrovsky, V., Pauna, D. and Sauka, A. (2007) *Riga: From a Hanseatic City to a Modern Metropolis. Pathways to Creative and Knowledge-Based Regions* (Amsterdam, University of Amsterdam).

Pisarenko, O. (2006) 'The Acculturation Modes of Russian Speaking Adolescents in Latvia: Perceived Discrimination and Knowledge of the Latvian Language,' *Europe-Asia Studies*, 58, 5, pp. 751–73.

Pohl, R. (2004) *Cognitive Illusions: A Handbook of Fallacies and Biases in Thinking, Judgment, and Memory* (Hove, Psychology Press).

Pridham, G. (2009) 'Post-Soviet Latvia – A Consolidated or Defective Democracy? The Interaction Between Domestic and European Trajectories, *Journal of Baltic Studies*, 40, 4, pp. 465–94.

Robinson, K. (1999) 'An Examination of the Influence of Industry Structure on Eight Alternative Measures of New Venture Performance for High Potential Independent New Ventures,' *Journal of Business Venturing*, 14, pp. 165–87.

Sarasvathy, S. (1999) 'Seminar on Research Perspectives in Entrepreneurship,' *Journal of Business Venturing,* 15, pp. 1–57.

Sexton, D. & Upton, N. (1985) 'The Entrepreneur: A Capable Executive and More,' *Journal of Business Venturing,* 1, 129–40.

Shane, S. & Venkataraman, S. (2000) 'The Promise of Entrepreneurship as a Field of Research,' *Academy of Management Review,* 25, 1, pp. 217–26.

Shelton, L. (2010) 'Fighting an Uphill Battle: Expansion Barriers, Intra-Industry Social Stratification, and Minority Firm Growth,' *Entrepreneurship Theory and Practice*, 34, 2, pp. 379–98.

Simon, M., Houghton, S., & Aquino, K. (2000) 'Cognitive Biases, Risk Perception, and Venture Formation: How Individuals Decide to Start Companies,' *Journal of Business Venturing*, 15, 2, pp. 113–34.

Stam, E., Thurik, R. & Van der Zwaan, P. (2007) *Entrepreneurial Exit in Real and Imagined Markets*, Discussion Paper TI 2008-031/1 (Tinbergen Institute).

Taylor, M. (1999) 'Survival of the Fittest? An Analysis of Self-Employed Duration in Britain,' *Economic Journal*, 109, 454, pp. C140–C155.

Van Praag, M. (2003) 'Business Survival and Success of Young Small Business Owners,' *Small Business Economics*, 21, 1, pp. 1–17.

Vesper, K. (1996) *New Venture Experience* (Seattle WA, Vector Books).

Watkins, P., Woodward, C., Stone, K. & Koths, R. (2003) 'Gratitude and Happiness: Development of a Measure of Gratitude, and Relationships with Subjective Well-being,' *Social Behavior and Personality,* 31, pp. 431–52.

Wiklund, J. & Shepherd, D. (2003) 'Aspiring For and Achieving Growth: The Moderating Role of Resources and Opportunities,' *Journal of Management Studies*, 40, pp. 1919–41.

Wu, B. & Knott, A. (2006) 'Entrepreneurial Risk and Market Entry,' *Management Science*, 52, pp. 1315–30.

Notes

[1] After Kazakhstan, the Russians living in Latvia constitute the largest percentage of ethnic Russians living outside of the Russian Federation (Pisarenko 2006).

[2] An important point to note is that here we talk about a cognitive bias (i.e. the difference in perceptions of risk), not about a different level of risk tolerance, as in the

traditional theory (see discussion in: Baron 2004; De Carolis and Saparito 2006; Wu and Knott 2006).

[3] Though 'entrepreneurial success' can be conceptualized in a variety of ways including subjective as well as objective measures, this paper analyses 'entrepreneurial success' in terms of financial performance. See Section 3 below.

[4] Although in such a way we do not capture the richness of the term 'overconfidence'; 'overconfidence' involves broader range of processes than 'high expectations.'

[5] It is of importance to note that young entrepreneurs with less business management experience, may also exit their business endeavour due to better access to alternative job opportunities in the market (Stam *et al.* 2007).

[6] For further discussion of performance measures, see Chandler & Hanks (1993); Robinson (1999); Vesper (1996); Watkins *et al.* (2003).

[7] In the questionnaire design, the key motivation behind using ordered categorical responses instead of asking for exact figures is that the former method leads to higher response rate.

[8] As a robustness check, we explored the possible determinants of expectations of change in sales. We found the estimated probit equations to have poor exploratory power regardless of specification (results available on request). That confirms the argument we made in Section 2.2: psychological variables affecting the entrepreneurial outcomes cannot be easily reduced to observable objective characteristics of the entrepreneurs. The only variable that had a significant impact was the indicator of 'opportunity entrepreneurship,,' a dummy variable that indicates that 'to respond to market opportunities' is chosen as one of the three most important reasons why the business was started. Clearly, 'entrepreneurial confidence' and 'opportunity entrepreneurship' are closely related phenomena. The simple correlation

coefficient between the two variables is 0.22, which is significant (at 5% level). However, we leave this theme for future research.

[9] Available from the authors upon request.

[10] Close to 30% of the population are ethnic Russians. About two thirds of these have no citizenship status (Paalzow *et al.* 2007). See also Hazans (2007b).

[11] Note for Tables 3 and 4 dependent variable: annual change in profits (value intervals).

*** significant at 0.001; ** significant at 0.01; * significant at 0.05; + significant at 0.10

Robust standard errors in parantheses.

Models (1)-(6) presented in Table 3 are estimated with the same joint weight attached to growing businesses and to shrinking businesses. In Models (7)-(12) in Table 4 no weighting is applied.