

## **Peculiarities of Public and Entrepreneurial Attitudes in Post Soviet Georgia (an Example of Reflexive System Thinking)**

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### **Abstract**

The paper relies on the results of a survey of Georgians' knowledge and attitudes toward the EU carried out by the Swedish International Development Cooperation Agency (SIDA) and on the results of a survey about public attitudes in Georgia carried out for the National Democratic Institute for International Affairs (NDI) by the Caucasus Research Resource Centers (CRRC). The paper uses the results of research on attitudes toward entrepreneurship conducted by the author in Tbilisi (Georgia). The present paper also reviews the results of research investigating the degree to which entrepreneurial attitudes and abilities relate to an individuals' intentions towards entrepreneurial behavior. The attitudes of Georgians are unusual in that they have a much stronger orientation toward entrepreneurial activity than do people in the U.S. or other European countries. The article will consider how to explain this finding from the perspective of both equilibrium theory in economics and reflexivity theory. Georgians consider themselves to be a part of the system called "Europe". Georgians remain extremely well disposed toward the EU. They are enthusiastic Europhiles but are not naively optimistic that joining Europe would be the answer to all their problems. Different views about the operation of Georgian democracy remain among Georgians but most people acknowledge that Georgian democracy needs improvement. Georgians display an increasingly active view of citizenship, with large numbers believing it is important to criticize government, protest and volunteer. Georgians' positive attitudes toward the feasibility of becoming self-employed show self-confidence and expectations of success for market oriented economic reforms and social and political stability in Georgia.

**Keywords:** Entrepreneurship, Transition, Georgia, Public Attitudes, Reflexive Systems.

## **Peculiarities of Public and Entrepreneurial Attitudes in Post Soviet Georgia (an Example of Reflexive System Thinking)**

The attitudes of Georgians are unusual in that they have a much stronger orientation toward entrepreneurial activity than do people in the U.S. or other European countries. Research shows that Georgians increased their support for markets and democracy. Necessity Entrepreneurship vs. Opportunity Entrepreneurship prevails: individuals are forced to create small businesses because of the lack of formal employment. Over the last years on the background of successful reforms in Georgia negative attitudes towards entrepreneurship are weak. On the background of high unemployment the desire of becoming self-employed is strong. Positive attitudes towards entrepreneurship indicate their self-confidence, expectations of success of market oriented economic reforms. Georgians' positive attitudes toward the feasibility of becoming self-employed

show self-confidence and expectations of success for market oriented economic reforms and social and political stability in Georgia.

The article attempts to explain these findings from the perspective of both equilibrium theory in economics and reflexivity theory. Reflexive system is known as a systems involving knowing participants acting in systems in which they have an interest in the outcome. This definition can be applied to explain Georgians public and entrepreneurial attitudes. Georgians consider themselves to be a part of the system called "Europe". Georgians remain extremely well disposed toward the EU. 74 % of respondents approve Georgia's government stated goal to join the EU and 70% approve to join the NATO.

The paper gives explanation of Georgians public and entrepreneurial attitudes using theory of reflexive systems and economic theory (Umpleby, 2007). The present paper relies on the results of several researches investigating the degree to which entrepreneurial attitudes and abilities relate to an individual' intentions towards entrepreneurial behavior. The paper also relies on the results of research on attitudes toward entrepreneurship conducted by the author in Tbilisi (Georgia) in 2010. The paper overviews the main findings of a survey of Georgians' knowledge and attitudes toward the EU carried out by the Swedish International Development Cooperation Agency (SIDA). It also relies on the transition report 2011 by European Bank of Reconstruction and Development (EBRD) and on the results of a survey about public attitudes in Georgia carried out by the National Democratic Institute for International Affairs (NDI) and by the Caucasus Research Resource Centers (CRRC).

Entrepreneurial activity plays an important role at a microeconomic level by offering innovative products and services at different markets. It has a significant effect at macroeconomic level of the economy by supporting employment and country's economic development. The studies conducted in last three decades showed that entrepreneurship is the main driving force for the economic growth (Acs and others, 2003; Audretsch and Keilbach, 2004; Wennekers, 2006). Nowadays rich materials on features of entrepreneurial activity and peculiarities of attitude towards entrepreneurship in various countries are developed (Blanchflower and others 2001; Wennekers, 2006). It has become obvious that there are considerable differences between entrepreneurial activity and individuals' attitude towards entrepreneurship not only at a supra-national level between countries, but also differences exist across regions at a national level inside the particular country (Sternberg, 2000; Parker, 2005; Fritsch and Mueller, 2006; Tamasy, 2006).

The Survey conducted by the European Bank of Reconstruction and Development about the Life in transition countries in 2012 shows that lasting crisis had significant impact on attitudes in the transition region in general and in particular in Georgia. Crisis hit many people in the transitional regions hard at an individual level. Crisis impact has lowered people's support for democracy and markets. But also caused the attitudes against the system that was in place in 2009 and resulted in higher support levels in many countries of Commonwealth of Independent States (CIS). Public Attitudes are different in CIS countries and in European Union (EU). Crisis impact on democracy support increased in the CIS but dropped in the new EU countries. Those who lived in more market-oriented and democratic societies and were affected by the crisis became less likely to choose democracy and markets over other systems. In contrast, people in less democratic and market-oriented countries increased their support for markets and democracy. 6% more people

support democracy in the CIS countries compared with before the crisis. 10 % fewer people support democracy in the new EU countries compared with before the crisis. Turkey, Montenegro, Mongolia, Uzbekistan, Albania and Tajikistan had the highest levels of support for democracy in the transition region after crisis and in 2010 they were joined by Georgia, Kazakhstan, Belarus as well as Armenia (1).

The Survey conducted by the European Bank of Reconstruction and Development also reveals that Entrepreneurial activity is a key contributor to economic growth, innovation and the development of a market economy in transition countries. Financial sector development and access to credit are the most important drivers of entrepreneurship in transitional region. Education is associated with a higher probability of trying to set up a business, but not with more entrepreneurial success. Entrepreneurship is linked to individual attitudes, such as a willingness to take risks. Women are less likely to attempt to set up a venture but no less likely to succeed than men once they try. Entrepreneurial activity develops in clusters. An individual is more likely to try and succeed in setting up a business in a region that is already home to many entrepreneurs.

In most transitional countries the phenomena of Necessity Entrepreneurship vs. Opportunity Entrepreneurship exists. Individuals are forced to create small businesses because of the lack of formal employment. Such businesses will be less likely to innovate and have a limited positive impact on economic growth. At the same time Opportunity Entrepreneurship is preferable when individuals act on ideas and profit opportunities. Although evidence shows that Necessity Entrepreneurship is not detrimental to economic growth. Survey indicates the entrepreneurial attempts in transitional countries: 13% of people have tried to set up a business, 65% of people have succeeded in setting it up once they tried – this is 20 % below the Western Countries. 51% of people failed to set up a business because of insufficient capital (2).

If we take particular transitional country as Georgia, we can observe a paradox of Georgians attitudes toward transition, market economy and democracy. Besides the fact that there is a high unemployment and poverty levels in Georgia most people think that Georgia is going in the right direction. As NDI survey carried out in Georgia in February 2012 shows that most important national issues in Georgia are: Jobs 63% of respondents, territorial integrity - 36%, affordable healthcare - 31%, poverty - 26%, rising prices 26% (3).

70% of respondents do not consider themselves as employed but 49% of respondents said that “Georgia is a democracy now”, 55% of respondents think that “Georgia is going mainly in the right direction” and 7% of respondents said that - “Georgia definitely is going in the right direction” (4).

Georgians consider themselves to be a part of the system called "Europe“. 74 % of respondents approve Georgia’s government stated goal to join the EU and 70% approve to join the NATO. It is worth to note that this answers were given by Georgians who are not sure if Georgia is granted NATO membership in the nearest future. 59% of respondents do not know when Georgia will be granted NATO membership (5).

The large-scaled survey of populations’ attitude towards entrepreneurship in Georgia has not been carried out yet. A research, which would have covered the whole country, would have analyzed

specific features of populations' attitude towards entrepreneurship and would have compared the results both with other countries and across separate regions in Georgia, has not been conducted. The present work represents description of results of the research on population's attitude towards entrepreneurship conducted by the author in July-September 2010, in Tbilisi (Georgia) and analysis of empiric data derived from the survey.

Over the last two decades the transformational processes ongoing in the economy of Georgia and in its social system have obviously had a huge influence on formation of attitude of the population towards entrepreneurial activity. Are the difficulties and problems arisen during the current reformation processes in Georgia the cause of negative attitudes toward entrepreneurship? Do the transformation processes in Georgia cause absence of desire of becoming entrepreneur or on contrary? How deeply has the population realized the risks and dangers associated with entrepreneurship? What are the desires and expectations of the population concerning of becoming the entrepreneur? What are the expectations and self-employment perspectives over nearest future? In order to give the comprehensive answers on these questions it is necessary to conduct long-term and wide-scaled researches. Express survey of respondents in Tbilisi can be considered as one of the first steps of such research. Survey results enable to assess respondents' attitudes towards entrepreneurship and to discuss main tendencies in Georgia on the basis of data analysis.

The research question of the study conducted by the author in July-September, 2010 was attitudes of Georgians toward entrepreneurship, its specific features, various aspects of entrepreneurial attitudes, future expectations of respondents, identification of attractive sectors for self-employment and entrepreneurial activity. The object of the express-survey was individuals and families (households) residing in various districts of Tbilisi. Of course, this object is not representative for whole Georgia, but one should consider that Tbilisi is the largest city in Georgia, where one third of the country's population resides. Due to this reason moods and attitudes of Tbilisi residents should reflect main tendencies of Georgian population with adequate accuracy. Research hypothesis was the following: due to successful reforms of last years negative attitudes toward entrepreneurship should have been less anticipated considering the high unemployment level in Georgia and difficulties arising from current economic transformation processes. Strong desire of self-employment and huge expectations of engagement in entrepreneurship in the future should have been anticipated.

The method of the research was questionnaire by means of various types of non-random selection. Particularly, so-called spontaneous selection and "street selection" types were used. Spontaneous selection is used in order to question people in the streets. In contrast to other methods it is simplest, cheapest and less representative. It is impossible to generalize the results of such survey for the whole population. Despite these imperfections, spontaneous selection is often used in social sciences that can be explained by its simplicity and convenience (6). In case of applying "Street Selection" type; interviewers are questioning respondents in predefined locations (7).

Initial information has been gathered by the students of Economics and Business School of Tbilisi State University, Tbilisi, Georgia. Students residing in Tbilisi surveyed their family members and the members of neighbouring households in addition to families and individuals living in various districts of Tbilisi. The subset of observations developed from such sampling strategy covers properties that are characteristic for whole population in Tbilisi. Respondents were Tbilisi residents

of various age, education, gender, social status and incomes. In total 1116 respondents were surveyed. The derived data has been processed by means of SPSS software.

The research results are impressive and emphasize peculiarities of attitudes toward entrepreneurship in Georgia on example of Tbilisi. Analysis of empiric data proves that 91.5% of respondents express willingness to be self-employed. 91.5% of the respondents answer positively to the question “Would you like to be self-employed if you could??” Negatively responded only 6% of respondents. There is no data from 2.5% of respondents. In contrast, Europeans remain far less keen on becoming an entrepreneur (8).

Only 45% of respondents in the European Union express willingness to be self-employed. In the USA 65% of respondents would like to be an entrepreneur. In China 71% of population wants to become an entrepreneur.

Over the last years on the background of successful reforms in Georgia negative moods towards entrepreneurship are weak. On the background of high unemployment the desire of becoming self-employed is strong. Positive attitudes of the respondents in Tbilisi towards entrepreneurship indicate their self-confidence, feeling of social and political stability, expectations of success of market oriented economic reforms.

Subject of special interest is data about current entrepreneurial activity of surveyed people. The answers of the respondents to the question - “Are you currently an entrepreneur/self employed?”- show that 81.8% of respondents do not run their own businesses. 10.0% were self-employed. 6.1% were running small or medium size enterprise and 1.4% was running large business. There is no data derived from 0.6% of respondents. It is noteworthy to say that in European Union only 12% of respondents are engaged in entrepreneurial activity. In Japan the same indices are 15%, in the USA - 21% and 27% in China (9).

Significant part of Georgian respondents (48.4%) considers irregular incomes as a greatest fear associated with entrepreneurial activities. Bankruptcy is considered as a greatest fear by 39.6% of Georgian respondents. These indices in Georgia differ from that of Europe and other countries. Bankruptcy is considered as the primary fear of entrepreneurship in China - 56%. Bankruptcy is the greatest fear of entrepreneurship for Europeans too – 49%. In the USA and in Japan, just like in Georgia, irregular incomes are on the first place among greatest fears connected with entrepreneurship. This opinion is shared by 46% of respondents in USA and 37% of respondents in Japan (10).

More than half of the Georgian respondents (51, 4%) hope to start business activity within nearest 5 years. The answers to the question - “Do you see the feasibility of becoming an entrepreneur in next 5 years?” were the following: yes, I will be self-employed – 25.6%; yes, I will become an entrepreneur in small or medium size business – 20.8%; yes will start doing large business – 5%; no, not feasible – 46.1%; there is no data from 2.5% of respondents.

The answers to the question - “Do you think that you will become an entrepreneur/ self-employed in next five years?” reveals Georgians’ preferences towards self-employment and strong positive attitudes towards entrepreneurship. It is worthy to note that in total 82.6% respondents prefer to be

self-employed rather than to be employee. Only 13.9% of respondents prefer to be employed by other organizations/persons. There is no data from 3.5% of respondents.

It might seem paradoxical that despite big desire to be self-employed, the significant part of the respondents prefers to be employed in the public sector rather than in private sector. Respondents were asked to answer the question “Where would you prefer to work if you were able to choose: 1. in public sector; 2. in private sector. 55.7% of respondents prefer to be employed in the public sector and 41.2% of the respondents prefer to be employed in private sector. The data is missing from 3.1% of respondents. Such paradoxical situation might be explained by fact that irregular incomes are considered as the biggest fears of entrepreneurship and correspondingly that of private business. From this point of view, one can assume that employment in public sector is considered by the Georgian respondents as a guaranty of stable incomes.

The subject of special interest is the respondents’ answers to the question – “If you were able to choose which industry you would prefer for starting your own business?” Respondents’ answers to the this question are the following: agriculture - 5.4%; industry - 5.2%; trade/commerce - 11.6%; construction - 3.0%; transportation- 2.1%; communication - 2.7%; fuel and energy sector- 0.7%; tourism and resort/recreation services – 14.7%; finance, banking and insurance services - 15.3%; real estate operations (mortgage business) - 2.2%; healthcare - 9.5%; education, culture and leisure - 19.5%; hotels and restaurants, food services - 3.8%; other services - 3.6%; missing data – 0.8%. It might seem surprising but the majority of the respondents (19.5%) consider that education, culture and leisure are the most desirable sector for entrepreneurship. In top five most desired sectors of entrepreneurship were finance, banking and insurance services (15.3%); tourism and resort/recreation services (14.7%); trade/commerce (11.6%); healthcare 9.5%.

## **Conclusion**

Reflexivity occurs in social systems when an actor observes and thinks about his or her actions and their consequences and then modifies his or her behavior (11).

According to reflexivity theory social science should be conducted in such a way that practitioners are researchers and researchers are practitioners. If influenced by reflexivity theory, research would not stop with the generation of a new idea. It would seek to implement the new ideas and then examine the changes that occur as a result. This is an expanded view of science that means studying a system, formulating ideas, seeking support for the ideas from others, implementing the ideas, analyzing the results of the ideas, and formulating new ideas (12).

Reflexivity Theory helps to explain Georgians paradoxical attitudes. Reflexive systems refer to the systems involving knowing participants acting in systems in which they have an interest in the outcome. Georgians consider themselves to be a part of the system called "Europe" and they are very much interested in outcome of acting this system. Georgians are well disposed toward the EU. They are enthusiastic Europhiles but do not think that joining Europe would be the answer to all their problems. Different views about the operation of Georgian democracy remain among Georgians but most people acknowledge that Georgian democracy needs improvement. Georgians' positive attitudes toward the feasibility of becoming self-employed show self-confidence and expectations of success for market oriented economic reforms and social and political stability in Georgia.

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