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ENTREPRENEURIAL CLASS IN POLAND: RECRUITMENT PATTERNS AND FORMATION PROCESSES IN THE POST-COMMUNIST SYSTEM

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By
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1997

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ABSTRACT

This primarily quantitative research analyzes recruitment patterns and formation of an entrepreneurial class in post-communist Poland, focusing on conditions of radical social change. Analysis of data from national surveys containing “work histories” related to the period 1949 to 1993 demonstrates that over time recruitment patterns of the entrepreneurial class have followed an evolutionary course, with the impact of social origin decreasing and the impact of education increasing. Thus, starting one’s own business has become less dependent on ascription and more dependent on achievement.

To identify determinants of actual and potential entrepreneurship for the present time qualitative data—biographical accounts—were used to construct a typology of entrepreneurship—push and pull factors, facilitators, and motivational predilections. This schema allows me to identify six types of entrepreneurial determinants used in analysis of national surveys: (1) family background, (2) human and cultural capital, (3) political and organizational activity, (4) economic assets, (5) institutional infrastructure, and (6) psychological predilections. Analyses indicate that the chances of being an actual entrepreneur increase for those who originate from more privileged families and
have greater economic assets. By contrast, potential entrepreneurs are deprived of economic assets. With the exception of psychological predilections, other variables have no direct effect. Political and organizational activity in the past does not influence the chance of being an actual or a potential entrepreneur.

The formation of an entrepreneurial class is described through mechanisms of capital formation and class consciousness and activity, and by location of the individual in the social stratification system. A typology of capital formation illustrates the innovativeness of entrepreneurs. Entrepreneurial class consciousness and action is investigated through the professionalization of entrepreneurship—proliferation of post-secondary educational institutions and the establishment of entrepreneurial associations. Overall, entrepreneurs rank below managers, experts, and supervisors when accounting for social stratification as a linear combination of education, occupational status, and earnings. However, in terms of education and occupational status, entrepreneurs rank ahead of supervisors; in earnings they rank higher than supervisors or experts.
Dedicated to my mother
Rose Weickgenannt Schultz
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CHAPTER 1

INTRODUCTION

Economists first developed a theory of entrepreneurship that concentrated on economic decision making: what to produce, how much to produce, and what methods of production to adopt. Political scientists deal with issues of an institutional base and a normative foundation of entrepreneurship. Sociologists are most interested in factors that lead people to undertake entrepreneurial activities. Despite the institutional divisions among the social science disciplines, economic, political science, and sociological perspectives overlap and complement one another.

Applying an interdisciplinary approach, this project focuses on sociological aspects of recruitment patterns and formation processes of an entrepreneurial class in Poland during the period of transition from a command economy to a free market economy. In mid-1989, Poland officially abandoned the communist system; on January 1, 1990, Poland declared itself to be moving toward democracy and capitalism. In this monograph I focus on entrepreneurial activity during the first phase of the transition—
that is, the period from 1990 through 1993. To understand the change it is necessary to include the historical development of entrepreneurship, especially during the communist era that spanned 1945 to 1989.

In this introductory chapter, I define the subject of my study—entrepreneurs and entrepreneurship—which has created a lot of controversy in the specialized literature. I also specify the main research questions and I provide a historical context for the development of an entrepreneurial class in Poland. At the end, I outline my theoretical framework, concentrating in the concepts of "recruitment patterns" and "class formation processes."

Two issues need to be addressed at the outset. First, why does entrepreneurship in Poland merit extensive research? Transition to a market economy can proceed only when state enterprises are transferred to the private sector (Hinds 1990; Levine 1990). In other words, privatization is a key aspect of continued economic change. Although there are various forms of privatization, it is the entrepreneur who ultimately implements the transition from a command economy to a free market economy. In practical terms, executing the transfer of the means of production from the public sector to the private sector necessitates the formation of an entrepreneurial class. In several important ways, productive capitalists and entrepreneurs investing in small and medium-sized firms are critical contributors to economic growth, since they are a vital source of innovation, serve to stimulate and maintain market competition, and diffuse new technologies and knowledge (Kondratowicz and Maciejewski 1994). Entrepreneurs are the carriers of the capitalist transformation in Eastern Europe.
The second issue to be addressed is why entrepreneurship in Poland should be studied rather than in another East European country. Poland, Hungary, and the Czech Republic share a common history of forty-five years of communist rule, and in 1989 they participated in an unprecedented phenomenon (sudden, unpredicted, non-violent revolutions), which affords them some degree of political and economic similarity (Bohm and Kreacic 1991). However, the experiences of the entrepreneurial class differ among these countries. In Poland, between 1948 and 1989 despite communist ideology and societal ambivalence toward the regime, the private sector maintained an important role. Albeit small, its scale was larger than in other countries. Since 1989, the entrepreneurial class in Poland has increased in size faster than in any other East European country. Thus, Poland provides substantial opportunities for observation of class recruitment patterns and class formation processes.

Entrepreneurship and Entrepreneurs: The Subject of the Study

Who are entrepreneurs? They are variously referred to as capitalists, business persons, employers, private owners, financiers, or bourgeoisie. The history of the term can be traced to Cantillon (1755), whose definition translates as merchant, adventurer, or employer, to Turgot (1766), who identified the psychological component of entrepreneurial spirit—willingness to take a risk—and to John Stuart Mill (1848), who advanced the economic content of the term (Kuper and Kuper 1989).
It was Schumpeter (1926) who identified the quintessential element of entrepreneurship—innovativeness. Entrepreneurs are innovators who develop and adopt new technologies and generate markets, leading to expansion and progress (Berliner 1993; Róna-Tas 1994). In his classical work, Schumpeter argues that the entrepreneur is an innovator, not a capitalist. He reasoned that in a well-established market economy entrepreneurs and capitalists have different functions: the entrepreneur as innovator and the capitalist as investor and risk taker. However, in emerging market economies these two functions are linked, since entrepreneurs usually invest in their own businesses (Lipowicz 1994). Thus, I depart from the well-established Schumpeterian distinction.

In this study, unless otherwise stated, entrepreneurs are classified as those who are owners of small and medium enterprises (SMEs) in the non-agricultural sector, employ people, and are actively involved in the operation of their businesses. SMEs are of a particular type in Poland and are the backbone of the transformation. They are well-established businesses in the private sector, distinguished from gigantic state-owned enterprises (SOEs), employ from several to several dozen workers, are flexible and adaptable to changing market conditions, and generate new employment opportunities (Kondratowicz and Maciejewski 1994).

In my study entrepreneurs are distinguished from the self-employed by the scope of their operation and the employment of non-family members. In developed capitalist systems the self-employed are ordinarily interested in providing themselves with a job, not with enhanced profits or the creation of an enterprise (Butler 1985). While motivation for self-employment may be different in an emerging market
economy, I exclude these individuals from the category of entrepreneurs because, for the most part, they do not comply with the criteria described above—innovative activity, risk taking, adopting new technologies, and generating new markets. However, for the period of 1949-1989 I use a more inclusive definition of entrepreneurs, encompassing the self-employed. The rationale for this is that during this period employment in the private sector was severely restricted.

The main reason for excluding farmers is rooted in specific agricultural traditions and policies in Poland before and during the communist era. Since 1864, individual farming in Poland had been based on family inheritance of land. It was a part of the peasantry economy regulated by rules that did not fit the modern market. After the Second World War eighty-five percent of arable land in Poland was in private hands (Yakowicz 1979; Chirot 1989). Due to historical circumstances, Polish farmers did not belong to an entrepreneurial class during the communist era, nor do they belong to it in the capitalist economy.

Some farmers may accumulate start-up money from the sale of farm land and become entrepreneurs. However, these potential entrepreneurs with farming experience are in the minority. At the beginning of the transformation, between 1989 and 1991, when conditions were most favorable for starting a business, only a small proportion of farmers made the transition to the entrepreneurial class (Wesolowski 1992).

My research is unique because I focus not only on actual entrepreneurs but also on those individuals who are potential entrepreneurs—those who manifest a willingness to start their own business and have a high propensity to invest (Kurato 1995).
Entrepreneurship has two components: an objective (behavioral) component of actual entrepreneurial activity and a subjective component of entrepreneurial spirit. Actual entrepreneurship is operationalized through ownership and operation of a private business. Potential entrepreneurship is operationalized through the subjective component of entrepreneurial spirit—the inclination to establish a business and the propensity to invest.

Weber (1922), developing his notion of the “Protestant Ethic,” characterized entrepreneurs as those engaged in the rational pursuit of economic gains using the most appropriate means to achieve their goals. Although Weber’s cultural approach has drawn much criticism, his framework provides focus for the empirical study of entrepreneurship (Berger 1991). In this study the ownership of, or the desire to own, a business is a major component of actual and potential entrepreneurship.

Elaborating on the notion of rationality, McClelland (1961) notes that individuals with an “urge to improve” or a high need for achievement (n Ach) conduct themselves as entrepreneurs. They take responsibility for decisions, they prefer decisions involving at least a moderate degree of risk, and they are involved in the consequences of their decisions. In recent literature it is argued that productive entrepreneurs, the owners of an enterprise, exhibit this specific aspect of psychological functioning—entrepreneurial spirit (Waldinger, Aldrich, and Ward 1990; Baumol 1993; Martinelli 1994; Dubravcic 1995). Entrepreneurial spirit is a psychological mechanism of entrepreneurial class formation embedded in the broader psychological functioning of the individual.
I approach the major themes of this research—patterns of recruitment and formation processes of entrepreneurial class—using both qualitative and quantitative methods. In Chapter 2, I describe the data used throughout the research and address various methodological issues relating to comparability of meanings. Qualitative data come from intensive interviews pertaining to entrepreneurship, conducted in Poland in 1996. Quantitative data consist largely of national surveys conducted from 1978 to 1993 on the adult population in Poland and include work histories in which entrepreneurial activities are identified.

Chapter 3 introduces qualitative material that confronts the main themes of this study. I collected these data through intensive interviews with actual entrepreneurs in Poland for the purpose of understanding how people perceive the problems of formation and continuity of class under conditions of radical social change. These biographical accounts also furnished me with a sense of who entrepreneurs are with regard to social characteristics and psychological functioning. I was able to sort the accounts with theoretically postulated determinants of entrepreneurship and construct three main types of determinants of entrepreneurial activity—push and pull factors, facilitators, and motivational predilections. This important step motivated the quantitative analysis and directed it to the crucial points.

The next step was to address an incisive question—Are new entrepreneurs a continuation of the old entrepreneurial class, or are they recruited in response to
conditions set up during the late socialist period and early post-communist period? In other words, are entrepreneurs who started their businesses after 1989 reacting to the revolutionary processes of transition, or is entrepreneurship following its own evolutionary pattern?

In Chapter 4, I develop a historical description and theoretical interpretation of the formation of the entrepreneurial class in Poland during various historical periods after World War II. I test temporal patterns of class recruitment, comparing those who started their businesses in the 1950s, 1960s, 1970s, 1980s, and early 1990s. Addressing this theme required investigation of longitudinal data containing work histories from 1949 through 1993. Using standard measures of social origin and education, I examine continuity and change in factors influencing the attainment of entrepreneurial position.

The principal issue related to economic transformation in post-communist countries is ownership and management of private property. In Chapter 5, I focus on a central question of entrepreneurial class formation: Who are the actual entrepreneurs? In terms of social characteristics, are new entrepreneurs more likely to come from a group who are more financially privileged, have higher levels of education, and engage in political activity? Are such people psychologically predisposed to entrepreneurial activity?

These questions require analysis of national survey data. Using biographical accounts as a guide, I identify corresponding independent variables. Through logistic regression I calculated the probability of various institutional, facilitator, and
motivational factors contributing to actual and potential entrepreneurship, allowing for the comparison of actual entrepreneurs with the rest of the population.

Continuing in this direction, in Chapter 6 I ask the same questions about potential entrepreneurs. Who are potential entrepreneurs? In terms of social characteristics, are they more likely to come from a group who are more financially privileged, have higher levels of education, and engage in political activity? Are they psychologically predisposed to entrepreneurial activity?

Characterizing potential entrepreneurs is fundamental to policy formation. If entrepreneurs are the ultimate implementers of economic change in post-communist society, how can they be encouraged to convert their potentiality into actual entrepreneurship?

In Chapter 7, I describe present mechanisms impacting the development of an entrepreneurial class in Poland. Although a market economy is significantly supported by Polish society, institutions that normally provide instruments of financial provision in a capitalist economy have not yet evolved. Returning to the biographical accounts, I construct a typology of capital formation, illustrating innovativeness of entrepreneurs during the transformation of the economic system.

Next, entrepreneurial class consciousness is explained through organizational development, or the professionalization of entrepreneurship. I demonstrate a proliferation of post-secondary institutions that provide technical skills in new technologies. Another trend is the establishment of entrepreneurial associations that provide training opportunities, financial instruments, and lobbying service.
Lastly, I illustrate the position of the entrepreneurial class among other social classes. Accounting for social stratification as a linear combination of education, occupational status, and earnings, entrepreneurs consistently rank below managers, experts, and supervisors. By 1992, however, in terms of education and occupational status entrepreneurs moved ahead of supervisors. With regard to earnings, entrepreneurs consistently rank higher than supervisors or experts. Only in 1978 did they rank lower than managers.

In Chapter 8, I conclude with a discussion of my findings and the direction of future research. The significance of this research is twofold. On one level it contributes to the theoretical understanding of class formation under conditions of radical social change. Post-communist countries are creating new economic systems, and from the beginning, those systems have been circumscribed as drifting toward capitalism. Capitalism is based on private ownership and, therefore, requires a capable entrepreneurial class. The development of such a class in Poland affords us the opportunity of comparison through various historical periods.

On another level, this research has practical implications. Identification of determinants of actual and potential entrepreneurship is important for policy makers. In the absence of established institutions supportive of entrepreneurial activity, actual entrepreneurs require protection and a voice while potential entrepreneurs need to be nurtured. Until political parties, entrepreneurial organizations, and financial institutions are crystallized, some national policy with respect to the entrepreneurial class may be
necessary (Grosfeld 1995). In the conclusion of this dissertation I specify some implications for policy makers.

**Historical Background**

Before the Second World War, Poland was relatively underdeveloped, but all classes typical of a capitalist society did exist. In addition to capitalists and workers, there was a petite bourgeoisie consisting of entrepreneurs. Accurate historical estimates for the size of the entrepreneurial class, defined in terms of ownership of the means of production and employment of others, are not available. If we examine the social composition of the population of small towns in Poland in 1900, we observe that the "lower middle class" account for forty-three percent of the total population. This group included clerks, teachers, pharmacists, and other non-manual workers. In addition it included small manufacturers, shopkeepers, craftsmen, and farmers who all owned the means of production. Entrepreneurs constituted no more than a half of the "lower middle class." They were predominantly owners who worked for themselves, hiring others only when there was a need to supplement their own labor. At the beginning of this century it was a very heterogeneous group (Misztal 1981).

Evidence shows that in the 1920s, in response to a period of relative economic prosperity, the number of new enterprises increased. Misztal (1981) demonstrates that in 1929 the number of new businesses rose 12.9 percent more than the previous year, and in 1930 it gained another 21.1 percent more than the 1929 figure. In the late 1930s
the growth of this class stabilized. Entrepreneurs accounted for ten percent of the population before the Second World War.

At that time, Poland was poor and economically underdeveloped, with only a small sector of large enterprises using up-to-date technology. It was basically an agrarian country, with peasants and landless agricultural workers forming the largest social group. The difference in the distribution of income represented conspicuous inequality (Kornai 1992): roughly one fifth of the petite bourgeoisie had comfortable incomes and consumption levels while the remainder had a standard of living consistent with the proletariat (Misztal 1981).

The communist system attempted to close the economic and cultural gap between traditional segments of the social structure—gentry, bourgeoisie, middle class, peasantry, and working class—through creation of a new structure (Wesolowski 1992). Restructuration was attempted through various national programs: the reform of agriculture, the nationalization of the means of production, and a centrally planned economy. In accordance with a national plan of collective ownership, state ministries unilaterally determined what goods were to be produced and how services were to be provided. Resources were allocated among producing units, with final outputs distributed according to physical quotas or a system of money values. Initially, an unequal distribution of income was expected, and tolerated, due to differentiation of education, work skills, complexity of work, and productivity. Inequality was partially compensated through subsidies for production within high-tech firms; within the agricultural sector, through regional differentials. Consumption inequalities were to be
modified through job guarantees, social security, and welfare, as well as through subsidies for food, health care, housing, and education.

In reality, these "experiments in destratification" (Lenski 1994), or restructuration, reduced economic inequality when measured as income differentials, but wealth and political inequality was egregious. Lenski (1994) argues that the causes and consequences of inequality can be traced to the "internal, systemic problems of Marxist societies." Under the command system, workers were underpaid and estranged from the production process and products, causing deteriorating work performance. Managers and supervisors were under soft constraints, promoting stock-piling of supplies and over-supply of employees (Burawoy and Lukacs 1992; Lenski 1994). The consequence of these pathologies was shortages of consumer goods, shoddy merchandise, alienated workers, surly service, and endless queues. In a sense, a domino effect created poor housing, inadequate health-care, second-rate schooling, and limitation of freedom for the vast majority. A small minority of politically chosen enjoyed special privileges and were not subjected to the same poor quality and short supply.

Under ideal conditions of communism an entrepreneurial class would neither be needed nor tolerated—private property defies egalitarian principles of communist ideology—and would become non-existent. However, these principles were never realized, and the socialist administration allowed an entrepreneurial class to exist on a marginal level and with an altered role in order to compensate for shortages of consumer goods and services. Although central planners allowed a certain degree of
entrepreneurial activity to adjust for shortages and imbalances between supply and demand, they controlled the "private sector" by various administrative measures—prohibitive registration procedures, taxation, and trade restrictions on supplies and exports. Since 1989 all measures imposed by communists to control the "private sector" have been removed.

Theoretical Approaches

In this study I focus on recruitment patterns and processes of class formation. In this section I intend to clarify these and related concepts and to provide some general information about how they are used in the literature and what types of hypotheses are advanced relative to my study.

Recruitment Patterns: Evolutionary Versus Revolutionary Changes

In the period from 1989 to 1993 two major recruitment patterns are argued with regard to entrepreneurial class formation in Poland—evolutionary versus revolutionary (Campbell and Pedersen 1996). The first pattern is a version of modernization thesis, motivated by both the "logic of industrialization" and a "necessity of convergence" (Stark 1992, 1996; Etzioni 1993; Toonen 1993; Offe 1995). The main argument suggests that entrepreneurial classes in new regimes after 1989 are extensions of entrepreneurial classes that existed in previous times. Considering the period of "real
socialism" we will see that although the entrepreneurial class was severely restricted it remained a viable entity. During the transition, independently of the political and economic system, entrepreneurial classes respond in a similar way to technological and economic conditions. Since evolutionary theory in general suggests a smooth transition between the socialist and capitalist systems, it predicts no extraordinary difference between new entrepreneurs and old entrepreneurs with regard to their social composition. Some unique opportunities allow entrepreneurs to use innovative ways to start businesses, but the basic composition of the entrepreneurial class is not changed. Accordingly, it is assumed that all professionalization processes of entrepreneurs originated in the period of “reformed socialism” and that they continue under the new regime. Recently these processes have intensified, but they do not signify any breakthrough. Starting with the 1970s, restrictions on the ownership and management of private business had slowly loosened, and recruitment patterns had responded. After 1989 the liberalization process intensified, but the entrepreneurial class responded essentially the same as it had prior to 1989.

The second theoretical argument, based on revolutionary theory, states that at a particular historical point during radical social change, there is a complete break with the past and classes are instantaneously formed in response to new conditions and a new social system (David 1985; Krasner 1984; Baumgartner and Jones 1993; Hall 1993; Rutherford 1994). According to this argument, prior to 1989 the entrepreneurial class stagnated under state restrictions and economic hardships. After 1989 a new economic system opened capital and labor markets, facilitating entrepreneurial
activity. In Eastern Europe, the soft revolutions of 1989 necessitated the complete reform of each country’s social, political, and economic system. The process of transformation from an administrative command economy to a free market economy was passionately debated with regard to sequencing and pacing (Ramanurhti 1991; Poznanski 1992a, 1992b, 1993). In the end, Poland rejected a centralized and gradual process and adopted a spontaneous and rapid course, known as “shock therapy” (Stark 1992; Poznanski 1993b). Those who had the necessary qualifications were able to capitalize on new and unique circumstances of mass privatization processes (Berliner 1993; Szelenyi and Szelenyi 1993; Blanchflower 1994; Hraba and McCutcheon 1994; Schatz 1994; Kuczi and Lengyel 1995). Revolutionary theory suggests that post-1989 entrepreneurial classes differ from pre-1988 entrepreneurial classes in terms of both the composition of the group and the types of professionalization processes.

I argue that an evolutionary process guided entrepreneurial class formation through the communist period and into the post-communist period. There was neither a complete break with the past nor the formation of a new social system. There were some unique circumstances in the period 1989-1993 appearing to be due to revolutionary change (Poznanski 1995). During the transition period from an administrative command economy to a capitalist economy, push factors impacted the role of managers (Berliner 1993; Szelenyi and Szelenyi 1993; Blanchflower 1994; Hraba and McCutcheon 1994; Schatz 1994). Under the communist system, managers and those in Nomenklatura positions were privileged to information that facilitated their mobility to owner, partner, or major shareholder (Szelenyi 1989; Nee 1991).
Privatization processes provided a vehicle for converting accumulated assets into a unique type of entrepreneurial activity (Böröcz and Róna-Tas 1995). The innovativeness of entrepreneurs shows that the new institutions were not yet in place. Additionally, these opportunities were limited and have diminished. The privatization of large enterprises has taken another course—the consolidation of the remaining "to be privatized state owned enterprises" into fourteen mutual funds (Wesolowski 1996). In the second stage of transition, 1993 to 2000, the entrepreneurial class will continue on an evolutionary course.

Class Formation Processes

Classes are entities created in institutional environments, predisposed to the maximization of gains through collective action and representative organizations. A new set of rules exists in post-communist Poland, and entrepreneurs are reacting and establishing their role in a market economy (Kennedy 1992). In this study I focus on three basic questions regarding class formation. First, how is the constitutive basis of the entrepreneurial class, that is, accumulation of capital, crystallized? Second, how has the identity of the entrepreneurial class been developed? Third, how is the entrepreneurial class located in the social structure in relation to other classes? I am investigating class structure in the context of an emerging capitalist society. Richard Scase (1992) has addressed the subject as follows:

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Social class is part of the inherent reality of capitalist society and, for sociologists, it is an essential component of their analytical framework for understanding social structures and processes. The overwhelming majority of people in capitalist society accept the personal costs of class exploitation because it offers them compensatory benefits. Eastern European state socialism failed to do this. Western capitalism is characterized by relations of exploitation but it is also distinguished by the opportunities it offers for rights of citizenship. Therein lies its paradox, the collapse of Soviet and Eastern European state socialism, and the longer-term legitimacy of social class and capitalism. It is the rise and fall of state socialism which the twentieth century has witnessed rather than the demise of capitalism. The question is no longer whether or not capitalism but of what variety or type. (Scase 1992: p.89)

Social inequality can be analyzed in the framework of both class structure and social stratification. Class structure encompasses certain social groups aggregated on the basis of various measurable social attributes of the group members; it refers to the relational aspects of social structure. In contrast, social stratification refers to the hierarchical ordering of society—the distributional aspects of social structure: individuals are aggregated according to broadly similar positions of power, privilege, and prestige (Williams 1960; Kohn and Schooler 1983).

In this study social stratification measures are used as predictors of entrepreneurship, but the underlying thesis pertains to the formation and development of an entrepreneurial class. Throughout this chapter I have been considering various theoretical issues of formation of a new class. In the transformation of the political and economic systems this class is at the core because the system has been defined from the beginning as drifting toward capitalism. For capitalism to work, a market economy, private ownership, and entrepreneurial activity are crucial factors. Therefore, I focus
on the development and position of the entrepreneurial class within the context of the post-communist social system.

The constitutive basis of class is rooted in capital formation and group identity. Obstacles to credit accretion have been striking. As I stated earlier, institutions that normally provide instruments of financial provision in a capitalist economy have not developed. Actual entrepreneurs have had limited access to institutional credit for restructuring or expansion, and potential entrepreneurs have found themselves powerless to convert their potentiality into entrepreneurial activity through traditional means. How, then, has the entrepreneurial class continued to prosper? The innovativeness of entrepreneurs is traced building an extensive typology of capital formation. Since domestic institutions have not been a reliable resource, entrepreneurs have turned to family and friends, foreign networks, and illegal activity for support.

Group identity, or class consciousness, is traditionally measured through testing self-placement within class structure, examination of attitudes, or investigation of voting patterns (Lazerfeld 1944; Berelson, et al. 1954; Lockwood 1966; Butler and Stokes 1969; Goldthorpe, Lockwood, Bechhofer and Pratt 1968; Bulmer 1975). In the context of radical social change these measures may not be reliable. I question the reliability of the first two measures because class structure and attitudes are shifting. Until they crystallize they may not clearly reflect class consciousness. Sixty-seven percent of owner respondents agreed that current regulations of law are confusing when running a business (Demoskop 1996). Voting behavior would not be reliable since
there has been a proliferation of political parties, and it is often difficult to determine which social groups a particular party platform represents.

Endorsement of educational programs and organizations supportive of entrepreneurial activity is more representative of entrepreneurial class than self-identification or class voting (Wesolowski 1996). Although entrepreneurs exhibit moderate cognizance and support of entrepreneurial organizations, when we put participation in the context of the "age" of these organizations I conclude that there is an awareness of common goals and interests among entrepreneurs. This assertion is supported by data analysis indicating a relationship between individual support for privatization and other psychological attitudes: support for economic transition, support for entrepreneurship, support for a free market economy, and support for the diminishing role of the state (Osborn 1993).

In modern terms, social class denotes large groups that differ with respect to control of economic resources, preferential political prerogative, and differentiated cultural values. Inequality resulting from economic exploitation, political oppression, or cultural domination potentially leads to social conflicts over the control of scarce resources. In other words, social classes are agents of social structuration—the particulars of the economic, political, or cultural patterns within a given historical period (Giddens 1982). These distinct groups are nominal categories, not a continuum that can be ranked as higher or lower along an underlying internal dimension. Only external dimensions of social stratification provide ordering of social classes.
In comparison to other classes, what was the position of entrepreneurs in the communist social structure? If we consider social stratification position as a linear combination of education, occupational status, and earnings, entrepreneurs rank below managers, non-manual workers, and first-line supervisors. This ranking holds for education and occupational status, but entrepreneurs rank directly behind managers with respect to earnings (Kohn and Slomczynski 1990). This pattern serves as a benchmark for studying change.

I conclude this description of my theoretical approaches by pointing to the connection between recruitment patterns and formation processes of entrepreneurial class. Recruitment patterns deal with the individual as the unit of analysis. I address the probabilities of people with certain social characteristics becoming entrepreneurs. With regard to entrepreneurial class formation processes, I am referring to the population as a whole. However, these two approaches are related to one another. For instance, organizational development is an entity of class development, but business schools provide education for the individual, and educational attainment may raise the probability for entrepreneurial activity.
For a review of economic, political science, and sociological theories as they apply to entrepreneurship, see Weber (1922, 1958); Mises (1949); Schumpeter (1934); Hayek (1948 (1978); McClelland (1961); Hagen (1962); Glade (1967); Kirzner (1973) (1989); Granovetter (1984); Waldinger, Ward, and Aldrich (1985); and Berger (1991).


Irena Grosfeld (1995: 220) notes, "one of the important arguments used by evolutionists in favor of slow changes is that the class of entrepreneurs has to slowly emerge before a market economy can really work."

The most obvious example of the revolutionary approach to social structure in Eastern Europe is expressed in the form of a thesis stating that the entrepreneurial class in a new regime is composed of the former Nomenklatura members (Rona-Tas 1994). Other examples of this type of reasoning are given in Slomczynski and Shabad (1997).

Committees within the Communist Party maintained lists of individuals who were selected on the basis of educational attainment, party loyalty, and network connections. Candidates for vacancies in state, party, or social organizations were chosen from these lists. Those who held jobs within the Nomenklatura were privileged with respect to better housing, health care, and schools; there were special stores where foreign consumer products could be purchased; vacation villas were at their disposal; sick and maternity leaves were provided; as well as numerous other benefits. Of interest with regard to entrepreneurship is the ability of Nomenklatura managers to convert their assets into private ownership at the beginning of the transition.

It is generally agreed that social stratification positions are measured by educational attainment, occupational status, and job income. Although the methods of measurement and the combination of measures into a single index of social stratification often differ from study to study, some conclusions appear consistent. Most importantly, in a study of Polish society, Kohn and Slomczynski (1990) found that while social class is highly correlated with social stratification it remains distinct. This finding was replicated for Hungary and the Czech Republic (Slomczynski 1994).
CHAPTER 2

DATA AND METHODOLOGICAL ISSUES

For this project I have used multiple sources of data. Table 2.1 organizes the data according to qualitative and quantitative sources and directs attention to location of the data in the following chapters. The detailed descriptions presented below follow the ordering of Table 2.1.

Qualitative Data

Biographical Accounts

During July and August of 1996, I conducted thirty-two focused interviews with entrepreneurs in Poland (Table 2.1, A.1). These in-depth interviews probed various aspects of individuals' business history, including entrepreneurial motivation, business knowledge and experience, and capital formation.

Participants were selected through two methods. First, interviews were arranged through contact with respondents from a national panel study SCP, "Social Changes in Poland 1988-1993," conducted by the Institute of Philosophy and Sociology, the Polish
## Table 2.1: Description of Data Sets Used in the Project and How They Are Applied.

<table>
<thead>
<tr>
<th>Data Sets (Source and Size of Sample)</th>
<th>Used In Chapters</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Qualitative Data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A.1 In-depth Interviews with Entrepreneurs, Warsaw, Poland, 1996. (Osborn. N=32)</td>
<td>3, 7</td>
<td>Typology of Entrepreneurship, Typology of Capital Formation</td>
</tr>
<tr>
<td>A.2 In-depth Interviews with Leaders of Entrepreneurial Organizations and Peripheral Associations, Warsaw, Poland, 1996. (Osborn. N=10)</td>
<td>7</td>
<td>Organizational Development</td>
</tr>
<tr>
<td><strong>B. Quantitative Data</strong></td>
<td></td>
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<tr>
<td>B.1 National Surveys on Social Structure and Mobility.</td>
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<td></td>
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<tr>
<td>B.2 National Surveys on Social Structure and Personality.</td>
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<td></td>
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<tr>
<td>B.3 Other National Surveys</td>
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At the end of each of the 1993 survey interviews, respondents were asked if they would agree to be interviewed at a later time. From the pool of willing respondents, I selected those who satisfied two criteria: selected persons identified themselves as owners of a private business, and they employed at least one non-family member.

The second method of selection was through chain referral procedure, or the snow-ball sampling technique (Bailey 1987). At the close of interviews respondents were asked to identify fellow entrepreneurs who might be willing to participate in the research project. If the referral met the selection criteria, he or she was contacted for an interview.

An interview schedule was prepared as a base for discussions and covered five areas: background of the individual; how the business was started; how the business functions; institutional arrangements; and individual attitudes (see Appendix A). The interviews were guided by the schedule but were unconstrained. In other words, the respondent was allowed to tell his or her story with minimal interference from the interviewer. Some respondents left gaps in their stories and then specific questions were posed.

On average, the interviews lasted between one and two hours. Over one half of the interviews were conducted in English: the remainder were in Polish, with translation provided by a trained interpreter retained by IFiS, PAN. Through extensive discussions and practice interviews, the interpreter and I established a clear understanding of the purpose and agenda of interviews.
The setting of the interviews varied, but all were conducted in an atmosphere of safety and confidentiality. In an effort to ensure participants’ comfort, interviews were not tape-recorded—electronic devices used for information gathering retain a particular meaning in post-communist societies, where suspicion was built into political life. Instead of recording the interviews, I took detailed notes. When the respondent did not speak English, the translator also kept notes, and we reviewed all materials after each interview, checking for consistency and accuracy of interpretation. Stories offered in Chapters 3 and 7 are taken from these notes.

During the summer of 1996 I also conducted ten interviews with leaders of entrepreneurial organizations and peripheral associations (Table 2.1, A.2). The procedure for these interviews follows the description provided above for interviews with entrepreneurs, with some necessary modifications (see Appendix B).

*Coping with Capitalism: The New Polish Entrepreneurs*

This qualitative research, sponsored by the International Finance Corporation (IFC), an affiliate of the World Bank, consists of a survey of 75 entrepreneurs conducted in late 1992 and early 1993 in thirty cities in Poland (Table 2.1, A.3). The purpose of the project was to document stories of how entrepreneurs started their businesses following the launch of the Economic Transformation Program in 1990.

Two criteria were applied in sample selection: the entrepreneur should place his or her own money at risk and should employ at least twenty persons. Twenty-one of
the respondents were selected through their involvement with financial institutions associated with IFC. The remaining fifty-four were randomly selected from registers of private business maintained by the Central Statistical Office and from databases in academic centers specializing in entrepreneurship.

Quantitative Data

Social Structure in Poland, 1988

"Social Structure in Poland, 1988" is the first phase of a panel study conducted in 1988 by IFiS, PAN (Table 2.1, B.1.1). In the conceptual schema underpinning the data collection, three areas of concentration were investigated: social stratification, class structure, and the psychological domain of values, norms, and perceptions. Several national surveys were conducted. The largest one, carried out at the turn of 1987, involved 5,859 men and women in the age range of 21 to 65. It provided a broad scope of data depicting basic hierarchies, immediately before the collapse of "real socialism" in Poland. What follows is a description of the sampling procedures.

In "Social Structure in Poland, 1988," the samples were selected from a frame developed by the Centrum Badania Opinii Spotiecznej (CBOS). The sampling frame, called ANLUD, was created in 1986 to reflect a geographical division of the country as used in the censuses. The basic units of these divisions are census tracks, which correspond to settlements of people. Thus, a census track can be a small village, a part of a big village, several houses on one street of a small town, a sector of apartment
houses, or a single large building. In general, tracks include from fewer than twenty to several hundred persons.

ANLUD was designed to be a random sample of the adult population of Poland covering 815 census tracks. Uniform for all tracks, a sampling frame of 130 thousand persons was established.

It should be stressed that CBOS tested the accuracy of the sampling frame by comparing detailed distributions of the basic socio-demographic characteristics with analogous distributions from the micro-census compiled by CBOS in 1984. The significance of differences in distributions was tested both for all persons included in the ANLUD data file and within age groups. The differences were not large enough to impair the representativeness of the sampling frame for the Polish adult population.

Since the range of problems examined in the survey "Social Structure in Poland, 1988" was extensive, it referred to the adult population of Poland limited only by the criterion of age. The years of birth were the same for men and women: that is, 1922-1966, which resulted in respondents aged 21-65. A population thus defined can be treated as generally equivalent to the adult population of Poland, the youngest (18-20) and the oldest (over 65) excluded. In the Polish population, these excluded categories amounted to six and fourteen percent, respectively.

The preliminary version of the interview schedule was subjected to an "extended pilot study" (Lutynska 1974, 1975; Danilowicz and Sztabinski 1982). It covered the working class, intelligentsia, and individual farmers, with 21 persons from each of these categories. The interviews were conducted in selected cities and villages.
Interviewers wrote extensive reports, which included remarks on the interview schedule and their experience.

In the first study the target number of cases drawn from ANLUD was 6,000. The 5,859 interviews were completed from the period November 1987 to February 1989.

Social Changes in Poland, 1988-1993

"Social Changes in Poland, 1988-1993," represents the second phase of the panel study described above (Table 2.1, B.1.2). The breakdown of the communist regime in 1989 and ongoing institutional transformations in the economy, the political system, and public life opened a debate whether paralleling these systemic upheavals, any changes in social macro structures had occurred. This question laid ground for the research project aimed at pursuing the dynamics of social structure patterns in Poland over recent years.

From June to August of 1993 this follow-up survey was carried out by the Center for Social Survey Research, IFiS, PAN. One third of randomly selected respondents from the 1988 sample were asked the same sets of questions as in the 1988 questionnaire. The questionnaire of the panel study also included some additional sets of questions, not present in the 1988 questionnaire addressing problems relevant to contemporary Poland.
"Work Situation and Its Psychological Consequences" is a 1978 Polish project conducted under the auspices of and with the financial support of IFiS, PAN (Table 2.1, B.2.1). The initial Polish survey, conducted in 1978, was designed to represent men aged 19-65 living in urban areas and employed full-time in civilian occupations. The size of this population was approximately 6.2 million in 1978, out of a total Polish population of approximately 35 million. Although the rural peasantry is not represented, farmers living in proximity to urban centers are included.

A three-stage probability sampling scheme was devised. In the first stage, all urban centers were listed and given weights proportional to the population size of these units. Twenty-six urban centers, representing thirty percent of the urban male population of Poland, were selected. In the second stage, all electoral districts of the selected urban centers were pooled, and a sample of forty-eight districts was randomly selected. In the third stage, the official register of voters was screened for sex and age to provide a final list of potential respondents. From each district, two samples of males, aged 19-65, were randomly selected—a basic sample and an auxiliary sample. The basic sample was the target sample of the approximate size intended for the final sample. It was known, however, that the basic sample would contain cases that would not satisfy the criterion of full-time employment in a civilian occupation. Replacements for such persons, as well as for those who could not be interviewed for other reasons, were obtained from the auxiliary sample.
Interviewers from the survey research staff of the Polish Academy of Sciences secured interviews with 875 of the men in the basic sample. Another 442 of the men in that sample did not satisfy the sampling criteria; 114 could not be reached; and 28 refused to be interviewed. The auxiliary sample provided an additional 682 interviews, for a total of 1,557.

Two random sub-samples were selected from among those interviewed. The first \((N = 400)\) was for purposes of psychological testing. The second \((N = 752)\) was selected for a verification study and reliability assessment of some of the measures of social stratification and psychological functioning.

*Social Structure and Psychological Functioning Under Conditions of Social Change*

“Social Structure and Psychological Functioning Under Conditions of Social Change,” a complex survey conducted in 1992, is a partial replication of the study reported in Kohn and Slomczynski (1990) (Table 2.1, B.2.2). The replication pertains to the relationship between social structure and psychological variables with mediating variables describing job conditions. Various new sections devoted to the transformation of the political and economic systems were added to the questionnaire. In this additional part, several questions probe actual entrepreneurial activities and opinions or attitudes toward entrepreneurship.

The study was carefully prepared (Kohn, Slomczynski, Janicka, Mach, and Zaborowski 1992), and two pilot studies were performed. The first pilot study included
40 cases and involved intensive interview procedures. The aim was to assess the validity of the various questions, mainly those probing psychological issues. The second pilot study included 60 cases and was aimed at checking the structure of the questionnaire and various features of interviewing procedures.

The sample was restricted to an urban population of men and women aged 21-65. It was drawn from materials of the Central Inventory of Polish Residents, maintained by the government, based on residential registration. This was a multi-stage stratified probability sample. All urban areas were divided into eight categories, and for each category the appropriate percentage of people was selected.

The interviews were conducted by 188 well-trained interviewers from the Institute of Philosophy and Sociology of the Polish Academy of Science. There were 2,291 interviews completed, representing 91.6% of the target sample of 2,500. Twenty percent of the interviews were actually checked in the field. Although some discrepancies between the original and control interviews were found, in no case were those discrepancies so large as to require elimination from the sample.

Polish Business Environment Research

This research is a two-stage project conducted by Demoskop, a private social and market research company, based in Warsaw (Table 2.1, B.3.2). The key research objectives were to identify the intensity of community among businesspersons, basic needs of companies, expectations related to business representation, willingness to
participate in various business organizations, and the political situation and its impact on companies.

The direct questionnaire-based interviews were conducted between December 22, 1995, and January 16, 1996. Participants represented companies differing in terms of size, sector, and ownership. The survey was conducted using two samples—random and purposive. The 850 interviews were conducted with decision-makers and owners involved in the managing of their company (379 owners). The survey was conducted in 750 randomly selected companies in 50 companies purposively selected from among large companies and in fifty companies purposively selected from the agricultural sector (production and processing of foodstuffs). The survey was preceded by a pilot study (ten interviews) in order to verify the questionnaire and make it fully comprehensible for respondents.

Comparability of Meanings

All surveys contained detailed information on the respondent’s work (job), including first job, previous job, last job, and present job. Precise questions enabled survey researchers to identify the appropriate Social Classification of Occupations (SKZ) code for each job. With regard to entrepreneurs, questions were posed as to the year the respondent started his or her business, previous work histories, number of employees, and number of family members who are employees.
Basic measures of the primary dimensions of social stratification—formal education, job income, and occupational status (or prestige)—have been intensively tested in Poland through rigorous research (Danilowicz and Sztabinski 1977; Slomczynski and Kacprowicz 1979; Kohn and Slomczynski 1990). I have adhered to these methods when coding components of social stratification for this research. Likewise, division of social class and the relationship between social class and social stratification have been empirically tested in Poland (Kohn and Slomczynski 1990; Slomczynski and Shabad 1997). Again, I have adhered to the classifications of social class, appropriate for each historical time period, as conceptualized and modeled in important Polish research (Kohn and Slomczynski 1991; Slomczynski and Shabad 1997).

The same care has gone into the construction of all other independent variables. Before relying on any measures, I consulted extensively with numerous researchers involved in the surveys I used in this project.

Samples for quantitative survey data were drawn to represent the adult population of Poland, as well as the geographic division of the country, as used in census collection. I have restricted my analysis to those in urban areas. I further restricted my analysis to those respondents who were at the time of data collection active in the non-agricultural labor market. As I mentioned in Chapter 1, the “peasant economy” in Poland constitutes a special case of backward economy—not fitting either the socialist or capitalist conditions.
The adult population is represented by men and women aged 21 to 65. “Social Change in Poland, 1988-1993,” is the second phase of a panel study. In 1988 randomly selected respondents were aged 21-65. When the study was repeated in 1993 the youngest had reached the age of 27 and the oldest were restricted to age 65. Therefore, some analyses were restricted to those 26 years and older.

**Statistical Methods**

In Chapters 4 and 5 I rely on logistic regression as the method of analysis. I am testing whether one becomes an entrepreneur or does not become an entrepreneur. In Chapter 6 I am concerned with how different potential entrepreneurs are from actual entrepreneurs and from the rest of the population. Here, I use multinomial regression with three categories—being an actual entrepreneur, a potential entrepreneur, or neither an actual nor a potential entrepreneur. I am concerned with characteristics shared by entrepreneurs and differences with the rest of the population.

The problem of missing data was handled by either declaring the response system missing or assigning the mean value for the population. There were some differences in estimates across cases and these were handled by standardizing the variables.
CHAPTER 3

WHY AND HOW ENTREPRENEURS START A BUSINESS:
BIOGRAPHICAL ACCOUNTS OF ENTREPRENEURIAL ACTIVITY

How do entrepreneurs acquire the skills needed to develop an idea or a business plan and then accumulate the capital to start a business? What motivates entrepreneurs to risk capital? This chapter outlines theoretically postulated determinants of entrepreneurship—starting a business—and contrasts these determinants with biographical accounts gathered from actual entrepreneurs. My aim is to facilitate the identification of variables from national samples that I statistically use throughout this research. I am most concerned with identifying determinants with clear meanings that will serve as consistent measures across various data sources.

In addition, this chapter begins to develop the theoretical explication regarding the formation of an entrepreneurial class, introduced in Chapter 1. Here, the biographical accounts support the notion that as business opportunities were introduced at the very beginning of the economic transition, unusual circumstances fostered innovative processes that contributed to a rapid expansion of the entrepreneurial class.
However, as the political realm has caught up with the economic transition, the profile of "new" entrepreneurs appears closer to those who started their businesses prior to 1989.

Chapter 3 is based on qualitative data that come from focused discussions with actual entrepreneurs and leaders of entrepreneurial organizations. During the summer of 1996, I conducted forty-two intensive interviews in Warsaw, Poland. A detailed description of the method of data collection is described in Chapter 2.

**Typologies of Entrepreneurial Determinants**

In this chapter I interpret the environment that may contribute to self-recruitment of entrepreneurs by developing three types of determinants: A.) push and pull factors; B.) facilitators; and C.) motivational predilections. The foundation of these types rests on theoretically postulated determinants of entrepreneurship, gleaned from economic, political science, and sociological perspectives. All types are summarized in Figure 3.1. For each type I provide quotes from interviews, identifying my respondents by ID number, sex, age, and type of business. A more complete description of respondents is given in Appendix C. I point out that my respondents are successful (surviving) entrepreneurs—only three of them have been in business less than three years. Thus, I am cautious in generalizing my findings to the process of becoming an entrepreneur. I restrict my use of the data to construction of a typology that will enable me to identify variables for further analysis.
A. Push and Pull Factors

A.1 Contextual Push Factors
A.1.1 Privatization
A.1.2 Downsizing
A.1.3 Instability of State Enterprises
A.1.4 Hostile Work Environment

A.2 Institutional Push Factors
A.2.1 Actual Unemployment and Fear of Unemployment
A.2.2 Low Wages and Not Enough Money for the Family
A.2.3 Difficulty in the Work Place/Job Dissatisfaction

A.3 Institutional/Contextual Pull Factors
A.3.1 Legal and Organizational Incentives
   a. Ease of Establishing a Business/Low Bureaucracy
   b. Credit Opportunities
   c. Tax Holidays
A.3.2 Need for Services or Products

A.4 Individual Pull Factors
A.4.1 Encouragement by Family and a Family Business
A.4.2 Encouragement by Friends
A.4.3 “Easy Capital”

B. Facilitators

B.1 Education
B.1.1 Formal Education
B.1.2 Continuing Education

B.2 Job-Related Experience
B.2.1 Special Skills
B.2.2 Qualifications
B.2.3 Building Trust

B.3 Life Experience
B.3.1 Foreign: Travel, Language, Business Connections
B.3.2 Networking/Formal
B.3.3 Networking/Informal

C. Motivational Predilections

C.1 Willing to Take a Risk
C.2 Desire to Be Own Boss
C.3 Need for an Interesting Activity/Job Satisfaction
C.4 Need to Rely on Self
C.5 Desire to Maximize Profits
C.6 Optimism

Figure 3.1: Typology of the Determinants of Entrepreneurship in Poland During the Transition Period, 1989-1993.
A. Push and Pull Factors

A push factor can be described as the undesirability of an old position on the labor market—a circumstance that may force a person in the direction of establishing his or her own business. Pull factors are opportunities for change—circumstances that may make the opening of one’s own business an attractive proposition. These two types of factors are divided into contextual (institutional) and individual (personal). At the contextual level, push and pull factors are constraints or opportunities of a structural nature—beyond the control of the individual, e.g., risks of unemployment, instability of state enterprises, and availability of financial instruments. Push and pull factors at the individual level are best described as constraints or opportunities that characterize either a person’s situation, e.g., losing one’s job and not being able to find another, or his or her feelings and attitudes, e.g., fear of unemployment.

A.1 Contextual Push Factors

A.1.1 Privatization:

In an effort to explain entrepreneurial class formation during the transition period from a command economy to a market economy, economists and sociologists have concentrated on push factors that impacted the role of managers (Berliner 1993; Szelenyi and Szelenyi 1993; Blanchflower 1994; Hraba and McCutcheon 1994; Schatz
1994). Under the communist system, managers and those in Nomenklatura positions were privileged to information facilitating their mobility to owner, partner, or major shareholder (Szelenyi 1989; Nee 1991). Privatization processes provided a vehicle for converting accumulated assets into a unique type of entrepreneurial activity (Böröcz and Róna-Tas 1994).

By the end of 1992, of the 1,720 state-owned enterprises targeted for privatization, 1,250 had been shut down and sold at bargain prices (Sereghyova 1993). A major proportion of bankrupt state-owned enterprises were acquired by former employees—managers who had access to inside information and the ability to devalue their enterprises.

Three examples from biographical accounts illustrate the experiences of several entrepreneurs who were able to convert their positions in state enterprises into private ownership:

The business started in 1956 but of course in the beginning it belonged to the state. I started out as a technician in the business. I did everything—sometimes I even drove a truck. During all the time I have been everything from a technician to manager under the communist system. But I was never the director because I was not in the communist party. I was a member of Solidarity. In 1990 it was privatized[...] When the business was about to be privatized we got together and bought it as a co-operative. There are thirteen co-owners. I have sixteen percent—the most. Others have between two and five percent, but not more than ten percent. Since 1990 we have changed technologies four times and since 1990 the final production rate has risen ten times what it was before privatization.

(004, Female, 45, Mushroom Farm)

Previously I was a pharmacist in the Institute of Pharmacy for Industry. My partner was the vice director of this pharmacy when it was a state
pharmacy. When it was privatized we were able to become co-owners. […] The first privatization rule was in June 1989, so we are pioneers in privatization. These types of small businesses were easy to privatize.

(007, Female, 56, Pharmacy)

It was the “Wind of History”[…] The “Wind of History” was the Solidarity movement and then privatization. I didn’t know what to do but everyone around was privatizing. All the directors of bookstores were involved. Then my partner appeared and made it possible. When it comes to courage former directors of bookstores were able to do more. We had more freedom.

(013, Female, 44, Bookstore)

A.1.2 Downsizing:

As the economic system shifted from a command economy to a market economy, two features of the socialist system generated pressure for enterprises to downsize. First, since the communist ideology guaranteed a job for all workers, state enterprises were severely over-staffed. Second, proscribed soft constraints allowed for inefficiency in production and utilization of labor (Burawoy and Lukacs 1992). Expanding markets, increasing competition, and new mechanisms of production called for cost-effectiveness that, in many cases, translated into downsizing, pushing some employees in the direction of starting their own business:

It all happened by accident. Five years ago I was working at an institute and that was the time they were cutting down in size. They said I could stay but do projects on a contract basis. Pride made me say no. I couldn’t do that. It was an insult. So I started my own business.

(018, Male, 48, Research Agency)
A.1.3 Instability of State Enterprises:

Not all enterprises were able to deal with the transition effectively. Both large and small producers depended on the flow of raw materials and finished products between trading partners within the communist block. Since the path and speed of extrication from socialism differed among countries, networks were destined to become fragile, if not eliminated altogether (Stark 1992). In particular, the break-up of the Soviet Union interrupted many trade agreements (Burawoy and Lukacs 1992). With cut-backs in production and the uneven flow of raw materials, many workers found themselves doubting the stability of their futures and were pushed to start their own businesses:

The firm I was working for went wrong. Everything was going wrong there. My friends and I decided to quit and start our own business before the firm might collapse, or we would lose our jobs.

(002, Male, 50, Publishing)

In 1990 the business failed because then it was only auto parts. We exported our parts to USSR and in 1989 our partners' contacts there became invisible because of the collapse of the USSR. The state firms there had to reorganize and they weren't importing from Poland. These connections have been canceled for life.

(008, Male, 46, Auto Parts—Manufacture Housewares)
A.1.4 Hostile Work Environment:

Transformation of the economy brought with it restructuring and reorganization of firms. Frequently, in an attempt to improve efficiency and productivity, a western model was followed. In their reorganization efforts, certain firms even recruited foreign “experts.” New hierarchies and policies often caused conflict with workers:

I worked at an international ad agency. It used to be exciting and interesting but after eight months I decided not to work there anymore. I had learned the international business. We had a foreign (U.S.) manager and it was obvious that he was not going to allow bright employees to grow. (020, Male, 32, Mobile Phones)

A.2 Institutional Push Factors:

A.2.1 Actual Unemployment and Fear of Unemployment:

During the initial transition period unemployment rose quickly, and many feared it would continue to be a grave problem. Unemployment peaked in 1993, and although it is still high, there is a downward trend. When the job market is dismal, potential entrepreneurs are inclined to assume the risk of creating their own situations:
I was sacked from my job in 1981 and for two years I was unemployed. I decided then to try my own business.... In 1983 I had no money. I started the business on practically nothing. There were no other jobs and I had a family. (014, Male, 47, Import/Export)

My husband was a surveyor and in 1990/1991 he became unemployed. I was working but the salary was very small. My husband was out of work and I had two babies. I had no choice. I had to look for income. (011, Female, 42, Marketing)

For ten years I was a journalist. In 1989, when all structures in Poland were in the process of collapsing, my newspaper was hit too. I had to find a new life. (026, Male, 40, Public Relations)

A.2.2 Low Wages and Not Enough Money for the Family:

In the late 1980s and early 1990s, many workers, especially those in the state sector, found themselves working for wages below the minimum needed to raise a family. In state-owned enterprises even the highest salaries were under a flat salary structure and at the black market exchange rate were less than USD 100 per month (Wyznikiewicz, Pinto, and Grabowski 1993). In comparison to what they could make in the private sector, state workers were deprived. As inflation rose, the situation became more acute—in 1990 the inflation rate of consumer prices had reached a peak of 585.8 percent (Holmes 1997). An attractive alternative to struggling to make ends meet was to start a private business:
I started my own practice because working for the state was more like voluntary work. The salary was very low. I couldn’t afford it. I couldn’t work there and make no money because my family expanded.

(015, Male, 44, Dental Clinic)

I made a chart of my salary in comparison to the average Polish worker. I looked at the chart and I was ashamed. [My salary was lower there than the average and too low to live on.]

(022, Male, 50, Desktop Publishing, Computer Programs)

A.2.3 Difficulty in the Work-Place/Job Dissatisfaction:

Fear of unemployment, instability of enterprises, and low wages, or any combination of these and other circumstances can exacerbate job dissatisfaction. Tensions mount at all levels of the hierarchy and the work-place becomes intolerable. As new constraints were placed on management, they were passed on to workers. Those with other options were pushed in the direction of private enterprise:

I am doing the same stuff as before but I am getting more relaxed and balanced. It was terrible because I didn’t know what would happen. The pressure was bad.

(013, Female, 44, Bookstore)
A.3 Institutional/Contextual Pull Factors

A.3.1 Legal and Organizational Incentives

A.3.1a Ease of Establishing a Business/Low Bureaucracy

Starting in the 1970s, restrictions on private ownership were eased, but the bureaucracy involved with such undertakings remained an obstacle. In the 1980s, there was some relief on trade restrictions, allowing for a great proportion of entrepreneurial activity to be conducted outside the state market. After 1989, legislation favored entrepreneurial activity, and the influx of private business persons rapidly increased the size of the entrepreneurial class. Those who had entrepreneurial inclinations and available credit quickly seized the opportunity to start their own business:

In 1988-1989 it was easy. If you wanted to start a business you could just go and do it. There were not so many formal constraints.

(001, Male, 55, Construction)

The situation has changed in Poland. There used to be so many barriers. You had to belong to the Chamber of Commerce of Jewelry Makers. You had to belong somewhere in order to sell. They controlled what you could do. Now the barriers are gone.

(023, Male, 35, Jewelry—Export, Wholesale)

A.3.1b Credit Opportunities

Most frequently, entrepreneurs reported that credit was arranged through savings, family, friends, foreign connections, or illegal activity, or that they
started with nothing and slowly accumulated profits (refer to Chapter 7). Some entrepreneurs were able to secure institutional credit, and some were able to arrange extended credit payments:

The Polska Foundation for Entrepreneurs extended me credit. No trouble getting it but the interest rates were between 30 and 40 percent.

(015, Male, 44, Dental Clinic)

... partly from loans and we had some of our own resources. We did not have a lot. We had a loan from a bank but the interest rates on loans from the bank are too high. We paid the loan off as soon as we could.

(018, Male, 48, Research Agency)

A.3.1c Tax Holidays

In 1990, the Sejm passed legislation declaring a tax holiday—exemption from paying taxes for one year for new businesses. This incentive had a profound pull effect on potential entrepreneurs. Some businesspersons who were not experienced, or did not have a sound business plan, were hurt when the year ended:

In 1990 it was an easy process for people to start a business. For one year new enterprises were released from taxes but after then there were strong controls. The tax inspectors were very harsh. People had to show invoices for everything they owned.

(001, Male, 55, Construction)

In 1990 I heard on TV that everyone who established a business would be free from taxes for one year. This was an opportunity I had to take.

(024, Male, 29, Cleaning Service)
A.3.2 Need for Services or Products

Under the command economy system, production was controlled at all levels. Competition was all but non-existent, and diversification of consumer goods and services was rarely factored into "the plan." As communication with the West increased through travel, media, and the black market, the demand for consumer products heightened and new markets emerged. The opportunities for supplying these goods and services were extensive and provided a strong pull opportunity for starting a private business:

We saw the need for communication services and so drew up a detailed business plan. The country is still in need of everything. The market is huge and the potential is enormous. We see this especially in the telecommunications-communications business.

(009, Male, 36, Telecommunications, Paging)

I produce pot holders, oven mitts, aprons, school bags for children to carry shoes. There is no competition in this domain. The idea was from my wife. She said all the things in shops were ugly.

(008, Male, 46, Auto Parts—Manufacture Housewares)

I saw that in the new schools of music there was a problem. There was a shortage of and in some cases a lack of instruments and there were no flutes. I decided to go inside of the gap in the market and to force the obstacle. I found a niche in the market. The problem was the instrument had to be cheap but of good quality and it had to be produced in big numbers.

(025, Male, 47, Manufactures Flutes)
A.4 Individual Pull Factors

A.4.1 Encouragement by Family and a Family Business History

By 1989 the non-agricultural private sector was about four percent of the civilian workforce. Socialization processes played an important role in entrepreneurial recruitment—many entrepreneurs recall a family history of business. The notion, or perhaps the illusion, that these people were better off motivated some to follow the path of entrepreneurship. For others, the image of family members working for low wages and getting nowhere was the stimulus for starting their own business:

My brother encouraged me to start my own business. In the 1970s he started his own business. He helped me to start mine and I helped my sister-in-law to start her own business.

(001, Male, 55, Construction)

I have an Armenian background and they are all traders. My father was from Ukraine and had a cow breeding business. There is a family tradition of trade.

(003, Male, 52, Retail Food Stores)

There is a family tradition of business. My father had his own firm. He made locks and keys.

(008, Male, 46, Auto Parts—Manufacture Housewares)

A.4.2 Encouragement by Friends

Many entrepreneurs can trace their business motivation to early relationships with friends. Some report their entrepreneurial spirit—ability to take risk and trust
partners—to adventures shared during their formative years. Additionally, these same friends often provided a pool of employees during the early stages of the business.

Friends started to have their own offices and I decided to try that.

(016, Male, 45, Telecommunications)

There are strong ties with friends. Not just social but working contacts.

(018, Male, 48, Research Agency)

This particular business started with a friendship during the communist time. It sort of gives flavor to the story... We grew up together in a certain society. A few of us—friends—got together and started a business. It was my first private business. When I started I had very low capital needs and friends gave me the money.

(027, Male, 50, Manufactures Ribbons)

A.4.3 “Easy Capital”

Friends and family were often in a position to provide “easy capital”—that is, capital not tied to the bureaucratic system of institutions. This created a strong pull effect for the potential entrepreneur:

My aunt in Germany [got] the money from a loan in the German bank.

(005, Female, 22, Packaging)

My father and my brother gave me money to start the business.

(006, Male, 48, Meat Store)

I made a deal with my father. I told him I had this opportunity to go into business for myself—to be an owner. My father lent me the money.

(028, Male, 23, Computers/Networks)
B. Facilitators

B.1 Education

B.1.1 Formal Education

From the very beginning of the reform period of the 1970s, through the transition of 1989-1993, formal education became an increasingly important factor for conducting an independent business (see Chapter 4). Of the thirty-two interviews conducted, only one entrepreneur reported that he had not finished secondary school. However, he was planning to return to school because he felt disadvantaged. One entrepreneur had only a secondary education, but he had been in the private sector since the early 1980s. All respondents stressed that an appropriate education facilitates their business activity:

First, I went to a secondary technical school. I knew if I wanted to get ahead I needed more education. I took two years of bookkeeping and then went to the University for a degree in economics.

(013, Female, 44, Bookstore)

In 1989 the business was started. It was based on knowledge—not so much on capital.

(012, Male, 45, Computer Networks)

I went to [back to school]... it cost a fortune but I went to class at night and the next morning I could use the knowledge I had just acquired. Horizons opened.

(020, Male, 32, Mobile Phones)

I thought about going to the old school but decided to go to the new business school instead. In the government school you learn a lot of things but they are not always connected with business and they do not
Part of entrepreneurial spirit is recognizing obstacles and being able to devise ways around them. Sometimes the answer is in further education. At other times, cause and effect are reversed: increasing one's knowledge presents new opportunities:

Now everyone can have an education, if you have money, but before it was hard. You had to pass exams to get anywhere. I had different titles. In the beginning I was just a worker and I went through the titles to director. The director said I needed more education so I went to the University. Experience was not enough. At that time education and credentials were very important. In order to go up the ladder you needed education. In those times you needed education to get ahead.

(013, Female, 44, Bookstore)

I graduated in International Relations - foreign policy of the UK. Ten years after I went to post graduate college in business administration.

(017, Male, 45, Exhibitions/Advertising)

Some from the Academy—some on my own. I moved around in medicine. I have a general medicine education. I feel better about myself because I have that—I can handle anything. I started in dentistry and then went to general medicine and then went back to dentistry.

(015, Male, 44, Dental Clinic)
B.2 Job-Related Experience

More than any other factor, entrepreneurs attribute their business success or failure to experience, or the lack thereof. Many entrepreneurs experienced the collapse of networks during the initial stages of transformation; they relate that it was their business experience that enabled them to regroup:

I came up with the idea to make the dish out of fiberglass. I had the expertise because I had been working with fiberglass in the boating manufacture for years. It was big business. (027, Male, 50, Manufactures Ribbons)

Experience is most important.... I was never the director because I was not in the communist party. Now political party membership does not matter. Now experience is the most important matter. (004, Female, 45, Mushroom Farm)

All previous communists were destroyed in 1989. I had to do my work on my own. The only thing that helped me from the co-op was my experience. (006, Male, 48, Meat Store)

B.2.1 Special Skills

Sometimes potential entrepreneurs find that they have developed special skills that are compatible with the operation of a business. Others find that they have a talent that meets a need within the market:

My father gave me a computer when I was very young—to play games on. I discovered I could do other things besides play games. I found I was good at computer graphics. My father saw what I was doing and was surprised. He had a presentation to do and he said I could do the graphics for his presentation to the firm. Afterwards everyone was so
impressed—they had never seen such a professional presentation. I had some free-lance jobs from that experience.

(028, Male, 23, Computers/Networks)

I was educated as a sociologist with methodology my major field. Market research from the point of social sciences is very limited here. I had to learn how to conduct this myself. The mainstream of knowledge came from clients. But that is how it happens in underdeveloped—or maybe you would like to call them emerging—markets.

(011, Female, 42, Marketing)

B.2.2 Qualifications

Various qualifications allowed some potential entrepreneurs to move in a lateral direction, enabling them to start a business in a related field:

I started by writing. For years I have been writing about computers for the press. [Now], I have a company with a partner—a computer placement company—consulting, advertising agencies, magazines.

(022, Male, 50, Desktop Publishing, Computer Programs)

B.2.3 Building Trust

In a market economy the issue of trust is a vital component of entrepreneurial activity. Socialist ideology stressed that profit motivation was a negative attribute and private ownership was suspect. Entrepreneurs had to overcome this reputation and built trust among their suppliers, clients, and authorities. For those who were able to establish trust, the process of starting a business was clarified:
I know people from the past and that helps. Now the most important thing is my reputation. The work that I have done is all that I need now to make good contacts.

(021, Male, 52, Lighting Design)

All previous connections were destroyed in 1989. I had to do my work on my own. The only thing that helped me was my experience. And it gave me a reputation of honesty with the authorities.

(006, Male, 48, Meat Store)

Our strongest point is our service. It is not because we have connections—political—but because we are good. We have a good reputation.

(012, Male, 45, Computer Networks)

B.3 Life Experience

B.3.1 Foreign: Travel, Language, Business Connections

Foreign travel experience and the ability to communicate in foreign languages increases one's exposure to business opportunities and accelerates the process of learning about market economy. The importance of foreign experience is invaluable for entrepreneurs—they were virtually isolated from Western business methods and technology under the socialist economic system. When the private sector was liberated, those with experience were able to convert their assets:

Actually I started in private business in Poland in 1988. I was interested in all the changes that were going on. I had my Swedish connections and so I started a consulting business. One of my clients was in the telecommunications business and so we started to form plans for a separate company here in Poland.

(010, Male, 35, Distributor Computers/Programs)
I was with a trading company that did business between Canada, United States, and Poland. We mostly dealt in communication equipment—radios, telephones. It was a private company and I was a partner. I lived for eight years in Canada.

(017, Male, 45, Exhibitions, Advertising)

B.3.2 Networking/Formal

In Poland, the notion of networking through formal organizations, other than the communist party, is at an embryonic stage. Formal organizations for the support of entrepreneurship, although numerous and diverse, have not yet crystallized. Consolidation of efforts would focus services and organize a more powerful lobbying force (refer to Chapter 7). The most visible entrepreneurial organization, Business Centre Club, is seen as existing only for “the big fish with the deep pockets.” Less established organizations have not proven their commitment to representing “the little fish.” At this point reactions are mixed—those who have benefited from organizations are generally enthusiastic, but those who have had no experience are skeptical:

[Networks] are extremely important... As a company we belong to the British Polish Chamber of Commerce and the Polish American Chamber of Commerce. There are also professional associations—Polish Association of Exhibitors. And there is a Polish Managers Association that is very elite.

(017, Male, 45, Exhibitions, Advertising)

Before the transformation I belonged to the Craftsman Organization. It was obligatory. Now I belong to a group which cooperates to gain profit for businessmen. 

(025, Male, 47, Manufactures Flutes)
We belong to the Polish Federation of Independent Business. It is an American idea and it has an American sponsor. Are they doing a good job? It is really too early to say.

(029, Male, 37, Computers/Networks)

B.3.3 Networking/Informal

Informal networks play a vital role in the entrepreneurial process, providing specific information concerning both particular and general business information:

I do not belong to any formal organizations but keep in touch with others in the same business. We have informal networks. Mostly we keep up with the dead beats. We let each other know who skips without paying.

(002, Male, 50, Publishing)

I am just a little company and I must fight alone, or with my close friends in the business.

(021, Male, 52, Lighting Design)

Now everyone is playing in their own playground. I have a group of bookstore friends and we have our own unofficial dinners. These are friends from previous times.

(013, Female, 44, Bookstore)

When I got to NY... I saved my money. I met some American with Polish roots—third generation. He gave me advice... the reality is that you have to be fluent in English. So I went to NYU—that was a brilliant career move. I rented an apartment with some friends and we only spoke English at home. We learned English to the level where we could communicate.

(017, Male, 45, Exhibitions/Advertising)

I belong to a self-admiration circle.

(015, Male, 44, Dentist)
C. Motivational Predilections

C.1 Willing to Take a Risk

McClelland (1961) identified risk taking as a rudimentary determinant of entrepreneurial spirit, and this notion has informed both sociological and economic theory of entrepreneurship. In addition to two components of entrepreneurial risk—capital and personal risk—engaging in entrepreneurial activity during radical social change exposes the entrepreneur to an additional risk—speculating on the success or failure of the economic transformation. Polish entrepreneurs face rather weighty issues—privatization, legitimization of a market economy, institutionalization of transformed economic and political systems—any one of which could mean the ruin of all he or she has invested in, on a personal and a financial level:

Actually the private business sector grew so fast here. People were not afraid to take chances. But people needed to learn the mentality for business. They have such entrepreneurial spirit here.

(022, Male, 50, Desktop Publishing, Computer Programs)

I guess I have been taking risks all my life. I am a mountain climber and a sailor. Risks, I guess that has something to do with private business. I don't like to sit still. I need to be doing things.

(027, Male, 50, Manufactures Ribbons)

I thought I would stay [away] forever. The thought of going back to Poland was so far in the back of my mind it was not even a possibility... but Poland was changing... the feeling that I will never go back to Poland decreased. I thought about the risk and then woke up in bed one morning and said 'I want to go back to Poland.' I had come back to a different country. It was easy for me to adjust. I felt like I had never left and I was happy to be back.

(020, Male, 32, Mobile Phones)
C.2 Desire to Be Own Boss

The typical entrepreneur guards his or her independence. To be autonomous—“the boss”—is a common motivation for starting a business; it becomes the battle cry. Facing financial uncertainty, longer working days, and perhaps even failure does not detract from the desire for freedom to make decisions and the possibility of controlling one’s destiny. Most entrepreneurs neither want to go back to the old system of cooperatives nor want to feel stifled and degraded under corporate hierarchies:

It is because of the mentality of the Polish people. They want to be free. They don’t want to be part of a co-op.

(003, Male, 52, Retail Stores)

I could not work for someone else.

(012, Male, 45, Computer Networks)

Then with a partner we decided to be free. We didn’t want to be responsible for people who are not responsible. In 1992 we left and started our own company.

(022, Male, 50, Desktop Publishing, Computer Programs)

I think I always wanted to be my own boss.

(029, Male, 37, Computers, Networks)

C.3 Need for an Interesting Activity/Job Satisfaction

Job satisfaction is often related to being able to express one’s own ideas without the constraints of organizational hierarchy. For some it means the freedom to express themselves creatively. For those with entrepreneurial spirit the constraints of doing
repetitive tasks, or even doing creative tasks under direction, leads to dissatisfaction and boredom:

There is an artistic need to express myself but also an entrepreneurial spirit. With me there is an eagerness to test my abilities, especially at this time. But still I am an artist and that’s why I am concerned that the bigger I get the more I become further from the art. To save my artistic soul I have to say no to some wholesalers.

(023, Male, 35, Jewelry—Export, Wholesale)

I was bored with what I had been doing.... For me at the present point I wouldn’t change jobs for anything else.

(019, Male, 48, Importer—Seafood)

I graduated from the Polytechnic University and have a background in engineering. But having your own business is more satisfying work than working in a state industry for which I was trained.

(032, Male, 55, Importer—Pumps, Vacuum Systems)

C.4 Need to Rely on Self

Self-reliance is a distinct dimension of entrepreneurship and a necessary psychological component of entrepreneurial spirit. Entrepreneurs rely on themselves, independently of the actions of other individuals or institutional factors. In other words, they take responsibility for their own successes and failures without blaming others. Of course, they are not blind to the probability of opportunities and constraints imposed by individual and contextual factors, but their life philosophy is that economic, political, and/or social rewards and consequences are achieved on their own merit:
I found that work does not always give you what you want to achieve. I did not want to work in a state enterprise.

(030, Male, 46, Distributor—H₂O Heaters/Environmental Products)

Responsibility gives you money. For the first time in life I am free. It feels good.

(031, Male, 36, Network Integrator)

I like to think for myself. When the opportunity came along to go on my own I did not hesitate at all. It just felt like the right thing to do.

(029, Male, 37, Computers, Networks)

C.5 Desire to Maximize Profits

Economic theory has emphasized the notion that entrepreneurs act primarily out of profit motivation (Schumpeter 1926; Kirzner 1973, 1989). Volumes have been written on the subject of entrepreneurial activity being the rational maximization of profits using market information for personal gain, as well as for market equilibrium.² While this may be the context in which decisions are made by CEOs of major corporations, it does not necessarily translate to the context in which decisions are made by small business entrepreneurs. What is lacking in economic theory is the social embeddedness described by Granovetter (1985). Entrepreneurs are economic actors reacting to a set of complex relations—not all actions are rational, and not all entrepreneurial activity is profit motivated:

I calculated—according to my knowledge—that the profit from the state was not as good as it could be from a private company.

(030, Male, 46, Distributor—H₂O Heaters/Environmental Products)
Everything must be connected to what you can do. If you have a small business you can't be thinking about a big house and five cars. After four or five years you can grow but it has to be day to day. You have to wait. (028, Male, 23, Computers/Networks)

Making money is just what you do to provide for your family. I don't want to make a great deal of money but if you treat your business seriously you have to expand or you disappear. (030, Male, 46, Distributor—H₂O Heaters/Environmental Products)

I am concerned that the bigger I get the more I become farther from the art. I have a pager now. What next—a cellular phone—and then I am a businessman and not an artist. I don't wear a suit yet but I am searching for new possibilities to use new technologies. But I want to keep in contact with the workers. If I have 10 workers then I am a factory. Then I need to hire more and more

(023, Male, 35, Jewelry—Export, Wholesale)

C.6 Optimism

In general, entrepreneurs retain an optimistic viewpoint. This optimism is not unconditional, and certainly in times of radical social change it is frequently guarded. Nonetheless, they are confident that their investments of time, energy, and financial risk will translate into personal gratification as well as financial success. They have a realistic approach to the institutional problems associated with the transformation but see that they are not insurmountable:

Five years is too short to change the mentality and to change the whole system and think it is going to work like in the West. I am not a pessimist—I am a realist. I think we have to keep moving ahead. (003, Male, 52, Retail Food Stores)

I am optimistic. I am always optimistic. I hope in the future there are no "reds" but there are so many laws. (015, Male, 44, Dental Clinic)
If you count the turn-over I would say I am very optimistic. In 1995 we were seven times bigger than in 1994. Now we are heading to the end of the first half of 1996 and we are two times bigger than last year. Looking from this perspective the future is good.

(026, Male, 40, Journalism)

I hope everything will be OK. I am optimistic. Without hope for the future you can't succeed. Now in Poland the small entrepreneurs have a good environment and everything depends on you—your concepts and inventions.

(008, Male, 46, Manufacture—Auto Parts/Housewares)

**Discussion**

Biographical accounts detail motivations propelling entrepreneurial activity in Poland during this period of systemic change. I use the plural term, motivations, guardedly. Reviewing the histories of actual entrepreneurs, it is clear that each respondent was affected by multiple determinants. It would be foolhardy to rank determinants in order of importance since a primary determinant for one respondent may be secondary or absent for another. However, I used all types of determinants for two purposes. First, I have utilized them to identify variables that I statistically analyze with regard to entrepreneurial activity. Second, my typology facilitates a discussion of the nature of entrepreneurial class development.
Identification of Variables

The typology verified the importance of some predetermined factors of entrepreneurial activity, including respondents' education and first job as well as fathers' education, occupational status, and certain motivational inclinations—in particular, willingness to take a risk. Most remarkably, however, my typology directs attention toward certain determinants that appear to be uniquely integral to the Polish situation and, therefore, deserving of further investigation. These include a business history of respondents' family and friends, experience with foreign travel, and knowledge of foreign languages as well as a certain psychological predilection—the need to rely on self. Biographical accounts indicate the significance of each of these factors.

In Chapter 4, I will concentrate on entrepreneurial recruitment patterns during various historical periods from 1949 to 1993. Biographical accounts indicate that entrepreneurs who started their businesses during the transition period credit much of their success to educational attainment and to a lesser degree to family background. I am interested in whether entrepreneurial class formation in earlier periods followed patterns of ascription or achievement and how those patterns have evolved.

In Chapter 5, I take a quantitative approach to recruitment patterns of the entrepreneurial class during the transition period. Guided by the biographical accounts, I identify corresponding variables within two sets of survey data. I then group these variables into six categories—family background, human and cultural capital, political
and organizational activity, economic assets, infrastructure, and psychological functioning.

Nature of Entrepreneurial Class Formation

What do the biographical accounts reveal about the nature of entrepreneurial class formation? Respondents were implicitly or explicitly talking about class formation—capital, identity, and location in the social structure.

Privatization processes were identified as having a profound effect on the opportunity of becoming an entrepreneur. Of course, privatization as a process is not unique, but the privatization of an entire public sector is without precedent (Brittan 1984; Steel and Heald 1992). For capitalist and mixed economy countries that have attempted privatization of selected enterprises, the total public sector typically ranges from ten to twenty percent of the gross domestic product (GDP). In the former socialist countries, public holdings were between sixty and eighty-five percent of the GDP (Nellis 1991) Transformation of this magnitude (percent of GDP) is prodigious, presenting unique opportunities as well as constraints. Opportunities—pull factors—come in the form of decreasing bureaucracy and an increasing need for services and products, while constraints—push factors—are manifested as downsizing, instability of state enterprises, hostile work environments, unemployment, low wages, and job dissatisfaction.

Biographical accounts also demonstrate that many conventional determinants of entrepreneurship—typical mechanisms of entrepreneurial activity in capitalist systems—
are equally important for "new" Polish entrepreneurs. Many respondents indicated that experience and reputation were factors contributing to their success. In addition, respondents were cognizant of risk taking, autonomy, and the need for an interesting activity as relevant factors in their decision to start a private business.

From the accounts I extracted descriptions of unique circumstances that affect how and why entrepreneurs started their businesses. Entrepreneurs related how economic and political institutions that usually support entrepreneurial activity have not yet crystallized and described the various alternative methods they used for capital formation. For instance, while foreign contacts and networks may facilitate starting a business in established capitalist systems during the transition, in Poland it is a critical facilitator (refer to Chapter 7 for a typology of capital formation).

Likewise, some government incentives designed to stimulate entrepreneurial activity are indicative of unique circumstances. For instance, entrepreneurs noted how tax holidays played the role of a strong pull factor in their decision to start their own business.

From the point of view of class formation it is essential that entrepreneurs develop organizations that represent their own interests. In Chapter 7, I discuss the proliferation of entrepreneurial organizations and business schools. Respondents, however, expressed the opinion that the organizations representing them are weak. Nevertheless, they understand the potential power of lobbying and the importance of membership.
Respondents were also aware that they form a separate group and they contrast their present position with their position prior to entering into private business. They talked about the money they are making and they are aware that they are privileged. Is it true? In Chapter 7 I will examine the location of this class among other classes.

In summary, it is important to examine how the entrepreneurial class is different from other classes. Biographical accounts inform us that during the initial phase of economic and political transition determinants of entrepreneurship are of two types—those typical of capitalist systems and some unique circumstances associated with the transition. As the political and economic systems stabilize, the unique opportunities and constraints are diminishing and the conventional determinants continue to matter.
Endnotes - Chapter 3


2 For a review of entrepreneurship and management, see Martinelli, 1994.

3 "...privatization, as a development process, absolutely and utterly burst upon the scene about four years ago. Four years ago, most countries couldn't talk about privatization. It was a sensitive issue; it was a political issue, in many cases, and it was better left discussed between small groups, behind closed doors. Certainly in Eastern Europe and the Soviet Union you didn't dare refer to privatization. It was taboo. It was an ideological offense....Now it's an international phenomenon" (Faoro 1990). Although there is no accurate information as to the number of privatizations that have occurred worldwide (considering: Great Britain, the United States, France, Canada, Portugal, Turkey, Greece, Italy, Mexico, Chile, Bangladesh, the Philippines, Ivory Coast, Togo, Jamaica, Panama, Guinea, Niger, Tunisia, Nigeria, Malaysia, and Malawi), it is conservatively estimated that about three thousand took place between 1980 and 1990. That number is increasing exponentially because of the thousands of transactions since the liberation of Eastern and Central Europe and the former Soviet Union (Nellis 1991).
This chapter develops a historical description and theoretical interpretation of the formation of an entrepreneurial class in Poland. Specifically, I investigate who became an entrepreneur during various historical periods after World War II and what common characteristics “new entrepreneurs” share with “old entrepreneurs.” Are those people who started their businesses after 1989—that is, in the post-communist period—a “new breed” of entrepreneurs? Or, are they similar to those who started their businesses in the 1950s, 1960s, 1970s, and 1980s? Is there any visible temporal trend with regard to who was an entrepreneur in past historical periods and those who have been recruited to the entrepreneurial class more recently? The answer to these questions has important implications for understanding class formation in post-communist societies. It allows us to elucidate theoretical arguments about continuity and change in social structure.
Using standard measures of social origin and education, I examine continuity and change in factors influencing the attainment of entrepreneurial position. I ask this question: Within specific time periods, how do contrasted variables determine whether one does or does not become an entrepreneur? Through logistic regression the chances of becoming an entrepreneur are estimated on the basis of survey data containing work histories covering the period from 1949 to 1993. The retrospective data were gathered from national samples in Poland from 1978 through 1993. My analysis is restricted to a non-rural population.

As indicated in Chapter 1, it has been argued that the entrepreneurial class became an obsolete entity under the socialist system and that an entrepreneurial class is a critical entity for the development and existence of capitalist systems (Kondratowicz and Maciejewski 1994). In this chapter I provide evidence that this juxtaposition of the role of the entrepreneurial class must be considered, within each system, in a historical context. In actuality, the entrepreneurial class did exist in Poland and Hungary under the socialist system. Prior to 1989, however, state authorities kept the size of the entrepreneurial class very small, around two to three percent of the non-agricultural labor force (Misztal 1981; Sereghyova 1993; Lipowicz 1994). Still, some people were able to overcome state restrictions for private property in order to establish their own business. When the socialist system eroded, opportunities for potential entrepreneurs widened (Szelenyi 1989; Nee 1991). In Poland and Hungary after 1989 all restrictions for private business were removed and potential entrepreneurs were able to convert their accumulated assets into business opportunity (Böröcz and Róna-Tas 1995;
Lubinski 1996). In Poland and Hungary during the four years of post-communist transition, the entrepreneurial class has grown to more than ten percent of the non-agricultural labor force. How have these new entrepreneurs been recruited?

In chapter 1, I developed two theoretical arguments pertaining to entrepreneurial class recruitment patterns in post-communist societies, focusing on evolutionary versus revolutionary processes (Campbell and Pedersen 1996). Evolutionary theory reasons that the present entrepreneurial class has its roots in pre-communist times, that it survived the period of "real existing socialism" and is now in a stage of transition from a command economy to a market economy (Stark 1992, 1996; Etzioni 1993; Toonen 1993; Offe 1995).

In contrast, revolutionary theory argues that radical social change dramatically alters class structure (Krasner 1984; David 1985; Baumgartner and Jones 1993; Hall 1993; Rutherford 1994). Under "real existing socialism" the entrepreneurial class withered away. In response to the new economic system, potential entrepreneurs responded to unique opportunities to convert their resources to actual entrepreneurship (Berliner 1993; Szelenyi and Szelenyi 1993; Blanchflower 1994; Hraba and McCutcheon 1994; Schatz 1994). In this scenario the post-1989 entrepreneurial class differs from the pre-1989 entrepreneurial class in terms of composition, recruitment patterns, and professionalization processes. Why are there differences?

In Chapter 3, I describe innovative methods used by entrepreneurs to start businesses during the early period of transition, but I also argue that these mechanisms were in response to specific conditions of the transition, and these unique
circumstances are diminishing. I have also demonstrated that although the entrepreneurial class was constrained during the communist era it served the vital function of providing absent consumer goods and services. In the following analyses I demonstrate that the evolutionary theory of entrepreneurial class processes is more consistent with recruitment patterns over historical periods from 1949 through 1993.

Data and Methods

In this chapter I use four surveys conducted in Poland on national samples of the adult population. These surveys include (1) SSP, “Social Structure: II,” 1988 (Slomczynski et al. 1989); (2) SCP, “Social Changes in Poland,” 1987-1993 (Domanski and Slomczynski 1994); (3) WSP, “Work Situation and Its Psychological Consequences,” 1978 (Slomczynski and Kohn, 1989; Kohn and Slomczynski, 1990); and (4) PFC, “Psychological Functioning under Conditions of Social Change,” 1992 (Kohn et al. 1994; Slomczynski et al. 1996). For a complete description of these data refer to Chapter 2.

In each survey the interview schedule contained questions related to respondents’ job history. Respondents were asked to report not only about their first job but also about at least some consecutive jobs from their work biography. This detailed information was used to create sub-samples of people who were economically active—that is, they held specific jobs—in one or more time periods: 1949-1958, 1959-1968, 1969-1978, 1979-1988, and 1989-1993.¹
Figure 4.1 specifies sub-samples from each study and demonstrates how they are combined to represent the labor force within each distinguished period. For example, those people who were in the labor force during the 1979-1988 period are drawn from two surveys: PFC (1992) and SSP (1988). Note that some proportion of people working in the 1979-1988 period could be included in an earlier or a later period, since work histories can cover more than one period.

For each time period, I identified those who started their business within that particular time period. Consistently, throughout this research I use a broad definition of entrepreneurs, including those who own their business and employ people as well as those who are self-employed. In practical terms, owners are those who identify private ownership of a business as either their primary activity or in conjunction with other employment. In either case, owners are actively involved in the operation of their businesses, not merely investors. Being an entrepreneur constitutes a value equal to one on the main dependent variable; otherwise the value of this variable is zero.

In this chapter I focus on social origin and education among the independent variables. Social origin is measured in terms of large groups defined by their relationship to ownership, either through control over the means of production or through supervising the labor power of others. Owners, non-manual workers, farmers, and manual workers correspond to social classes (Slomczynski and Shabad 1997). I also include father’s status, measured on the SES scale (Slomczynski 1989). Respondents’ education is expressed in terms of levels and types of the Polish
<table>
<thead>
<tr>
<th>Survey Year</th>
<th>Historical Period ID*</th>
<th>Total = Urban, Economically Active Respondents</th>
<th>Historical Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>A1</td>
<td>Total = 937 Owners = 147</td>
<td>1989-1993</td>
</tr>
<tr>
<td>1992</td>
<td>B3</td>
<td>Total = 1569 Owners = 47</td>
<td>1969-1978</td>
</tr>
<tr>
<td>1988</td>
<td>C3</td>
<td>Total = 2901 Owners = 34</td>
<td>1969-1978</td>
</tr>
<tr>
<td>1988</td>
<td>C4</td>
<td>Total = 1899 Owners = 11</td>
<td>1959-1968</td>
</tr>
<tr>
<td>1988</td>
<td>C5</td>
<td>Total = 1065 Owners = 7</td>
<td>1949-1958</td>
</tr>
<tr>
<td>1978</td>
<td>D3</td>
<td>Total =1551 Owners = 47</td>
<td>1969-1978</td>
</tr>
<tr>
<td>1978</td>
<td>D4</td>
<td>Total = 1233 Owners = 31</td>
<td>1959-1968</td>
</tr>
<tr>
<td>1978</td>
<td>D5</td>
<td>Total = 797 Owners = 23</td>
<td>1949-1958</td>
</tr>
</tbody>
</table>


Figure 4.1: Schema for Creating Polish Historical Periods from Four National Surveys.
education system. College (corresponding to 16 or more years of schooling),
vocational high school (12), general high school (12), basic vocational school (10), and
elementary school (8 or less) are the main categories. For control purposes, I include
two basic demographic variables: respondents’ age (measured in chronological years)
and sex (female = 0, male = 1).

The core of the analysis consists of estimating logistic regressions of the
following form:

\[
\log \left( \frac{p}{1-p} \right) = A + B_1 X_1 + B_2 X_2 + \ldots + B_n X_n,
\]

where \( p \) is a probability of being an entrepreneur, \( X_1, \ldots, X_n \) refers to independent
variables, \( B_1, \ldots, B_n \) are regression coefficients, and \( A \) is a constant. From the logistic
regression it follows that the exponent of \( B \) refers to the odds of the dependent
variable—that is, the odds of becoming an entrepreneur.

**Numerical Growth of the Entrepreneurial Class in Historical Context**

In Poland, after World War II, the course of small business was driven by state
policy toward private ownership and vacillated between the communist ideal of
nationalized property and the not-so-communist practice of running and directing the
economy (Yakowicz 1979). The state was forced to compromise ideology with respect
to small-scale businesses: under the command economy, administrative authorities were
unable to control economic inefficiency, resulting in far greater consumer demand than
the state could accommodate (Brezinski and Fritsch 1996).
After the communists seized power, between 1945 and 1946, large enterprises and the banking sector were nationalized. Initially, small private enterprises were not confiscated. However, in 1949 the Ministry of Finance instituted regulations aimed at containing financial benefits for entrepreneurs and for controlling products sold in private shops (Misztal 1981). Restrictive administrative policies included high taxes and a prohibition on importing various raw materials (Yakowicz 1979).

In this chapter the comparison of entrepreneurs starts at the beginning of the communist era. Actually, the first historical time period, 1949-1958, spans two “eras,” the Stalinist period (1949-1955) and a period of economic relaxation (1956-1958). During the Stalinist period, specifically in 1953, currency reform was introduced and prices and wages were regulated. In 1953, the state responded with growing concern to the increasing wealth of the private sector, instituting measures whereby the exchange rate of new Zloty for savings was three times lower than for the current wages of employees in state enterprises. This measure forced the closing of about sixty percent of small businesses. By the mid-1950s, the private sector had been drastically diminished (Misztal 1981; Aslund 1994). It is estimated that in Poland in 1955 the size of the entrepreneurial class was not larger than 150 thousand persons.

For the next two years there followed a period of relaxation. Specifically, in 1956 the Minister of Trade reversed many of the harsh restrictions on private business and introduced new tax reductions and social benefits for people engaged in the private sector. At the same time, restrictions were lifted on the holding of foreign currency and on the importing of raw materials from abroad. However, by the end of the 1950s the
entrepreneurial class had not responded to the relaxation measures and there was no appreciable growth.

During the 1960s and 1970s the state displayed some tolerance for those private businesses that provided consumer services and the marketing of agricultural products (Aslund 1994; Rona-Tas 1994). In the 1970s, the Polish government was heavily in debt to foreign lenders (Frydman, Rapaczynski, and Earle 1993). In response to this debt, the state adopted a laissez-faire policy toward small business. In 1975 the state reversed its most restrictive policies and instituted measures encouraging the opening of private restaurants and consumer-oriented businesses—food shops, bakeries, and meat shops. While these enterprises were to be run as private businesses, they continued to be state controlled, not only through direct regulations but also through indirect restrictions pertaining to regulations on the supply of raw materials.

In 1976 emigrants returning to Poland were allowed to start small private businesses. A year later, the state legitimated the private ownership of state shops, and employees were allowed to take over these businesses and run them privately. Additionally, new shops and restaurants could be opened (Misztal 1981). However, in the mid-1970s the number of those who were employers or self-employed remained below two hundred thousand (cf. Table 4.1).

By the beginning of the 1980s, economic stability was severely threatened; the power of the state had weakened and social pressure was mounting. The state responded by further loosening restrictions on private enterprise and began to subcontract to the private sector. Many state workers found moon-lighting jobs, fulfilling
<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Employees and Self-Employed (in thousands)</th>
<th>Percent of Entrepreneurs Among Economically Active Population (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>152.6</td>
<td>1.9</td>
</tr>
<tr>
<td>1975</td>
<td>190.7</td>
<td>1.6</td>
</tr>
<tr>
<td>1986</td>
<td>574.5</td>
<td>4.7</td>
</tr>
<tr>
<td>1993</td>
<td>1888.5</td>
<td>17.7</td>
</tr>
</tbody>
</table>


Table 4.1: Size of the Entrepreneurial Class in Poland, 1965-1993.
these contracts. Although restrictions on production for markets were not rescinded, they were relaxed, especially on consumer products. By 1985 the number of employers and self-employed had risen to over five hundred thousand (cf. Table 4.1).

In 1989 state socialism collapsed and the transition from an administrative command economy to a market based economy began. Within a very short period, newly elected governments deregulated prices, instituted individual property rights, removed restrictions on labor and began privatization processes. Although the institutions supportive of entrepreneurial activity were not yet developed, the private sector grew rapidly, and in 1993 the number of employers and self-employed had reached almost two million—17% of the economically active non-agricultural population (Frydman, Rapaczynski, and Earle 1993).

**Recruitment Patterns: from Ascription to Achievement**

Before presenting logistic regression, I analyze the distribution of social origin and education of entrepreneurs, over time. I am presenting results for two social-origin categories—owners plus farmers and owners—motivated by the fact that I am concentrating on the transmission of ownership and wealth. For education, I have chosen the upper levels of schooling since they mostly differentiate entrepreneurs through time. In support of my research decisions I offer Appendix D, where I present a full distribution of social origin and education for both entrepreneurs and other groups.
The first panel of Table 4.2 includes the compositional characteristics of entrepreneurs at different periods, without reference to the distribution of considered variables among other groups. The second panel contains the relative characteristics: variable values for entrepreneurs (E) are contrasted with those for non-entrepreneurs (non-E) by means of subtracting the latter from the former.

Both panels of Table 4.2 are complementary. For example, compositional characteristics allow us to assess the extent to which the proportion of entrepreneurs originating in owners' and farmers' families decreases through consecutive time periods, while relative characteristics allow us to compare the occurrence of greater or smaller decreases in comparison to the non-entrepreneurial population. As we can see, in 1949-1958 and 1959-1968 more than one half of all entrepreneurs were recruited from owners' and farmers' families, while in 1989-1993 only one fifth of all new entrepreneurs were recruited from this same category. In the first three periods considered in this paper, this classification of social background was more frequent among entrepreneurs than among all others. In the last period, 1989-1993, entrepreneurs do not differ, with respect to their social origin, from the rest of the population.

A notable proportion of entrepreneurs originating from owners' and farmers' families during the 1950s and the 1960s can be accounted for through an inheritance practice. At that time, it was customary for the relatively well-to-do families in small cities, towns, and rural areas to advance capital to young males and females who were
|-------------------|-------|-------|-------|-------|-------|------|

I. Compositional Characteristics

A. Social Origin
Father's Occupation
- Owner + Farmer (% for E)<sup>a</sup>: 56.7, 55.9, 37.7, 28.2, 20.5
- Owners Only (% for E)<sup>a</sup>: 26.7, 24.2, 13.3, 15.2, 6.3
Father's Status (SES) (mean for E)<sup>b</sup>
- 173.6, 174.0, 227.5, 248.0, 263.4

B. Respondent's Education
Type of Education
- College + Vocational H.S. (% for E)<sup>a</sup>: 16.7, 21.4, 29.7, 46.7, 59.1
- College (% for E)<sup>a</sup>: 10.0, 11.9, 10.9, 17.8, 19.6
Years of Schooling (Mean for E)<sup>a</sup>
- 9.1, 10.1, 10.9, 12.1, 12.5

II. Relative Characteristics

A. Social Origin
Father's Occupation
- Owner + Farmer (% for E - % for non-E)<sup>b</sup>: 20.9, 30.8, 22.3, 4.0, -0.1
- Owners Only (% for E - % for non-E)<sup>b</sup>: 20.4, 18.3, 8.3, 6.7, 1.5
Father's Status (SES) (mean value for E - mean value for non-E)<sup>b</sup>
- -5.0, -20.1, 16.0, 35.6, 42.4

B. Respondent's Education
Type of Education
- College + Vocational H.S. (% for E - % for non-E)<sup>b</sup>: -5.4, -5.8, -3.8, 7.8, 11.6
- College (% for E - % for non-E)<sup>b</sup>: 2.2, 3.8, 4.8, 5.6, 3.6
Years of Schooling (mean for E - mean for non-E)<sup>b</sup>
- -1.4, -0.7, -0.7, 1.0, 0.8

<sup>c</sup> Since there was a discrepancy in estimates for sub-samples drawn from different surveys, I provide an average value instead of the value for the total sample for the 1959-1968 period.

about to enter the labor market. This kind of intergenerational transmission of capital, allowing one to start his or her business, is reflected in respondents' first job.

Some additional analysis, presented in Table 4.3, shows that among those who started their business between 1949 and 1958, 46.7 percent declared that their first job had been of an entrepreneurial type. For those who started their business between 1959 and 1968, 33.3 percent reported entrepreneurial activity as their first job. In later periods this percentage drops to 13.3, 9.1, and 6.6, respectively. Generally, becoming an entrepreneur is positively related to respondents' first job being related to entrepreneurial activity.

Returning to Table 4.2, we see that educational attainment, measured by the average number of years of schooling, steadily rose among entrepreneurs from 9 years in 1949-1958 to 12.5 years in 1989-1993. We observe a shift from owners having a basic vocational education to owners having a vocational high school or college education. Actually, in 1989-1993, twenty percent of entrepreneurs had a college education. Generally, in 1978-1988 and 1989-1993 entrepreneurs are better educated than non-entrepreneurs by about one school year. Education of entrepreneurs is similar to that of middle-managers and semi-professionals.
<table>
<thead>
<tr>
<th>First Job</th>
<th>All Entrepreneurs</th>
<th>Male Entrepreneurs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1949 - 1958</td>
<td></td>
</tr>
<tr>
<td>Owner</td>
<td>46.7</td>
<td>42.9</td>
</tr>
<tr>
<td>Manager</td>
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<td>0.0</td>
</tr>
<tr>
<td>Expert</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Clerical</td>
<td>6.7</td>
<td>7.1</td>
</tr>
<tr>
<td>Manual</td>
<td>23.3</td>
<td>25.0</td>
</tr>
<tr>
<td>Farmer</td>
<td>23.3</td>
<td>25.0</td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total N=100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>1959 - 1968</td>
<td></td>
</tr>
<tr>
<td>Owner</td>
<td>33.3</td>
<td>29.7</td>
</tr>
<tr>
<td>Manager</td>
<td>2.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Expert</td>
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<td>0.0</td>
</tr>
<tr>
<td>Clerical</td>
<td>9.5</td>
<td>5.4</td>
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<tr>
<td>Manual</td>
<td>54.8</td>
<td>62.2</td>
</tr>
<tr>
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</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total N=100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>1969 - 1978</td>
<td></td>
</tr>
<tr>
<td>Owner</td>
<td>13.3</td>
<td>9.1</td>
</tr>
<tr>
<td>Manager</td>
<td>0.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Expert</td>
<td>5.5</td>
<td>4.0</td>
</tr>
<tr>
<td>Clerical</td>
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<td>Farmer</td>
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<td>7.1</td>
</tr>
<tr>
<td>Other</td>
<td>2.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Total N=100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>1979 - 1988</td>
<td></td>
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<tr>
<td>Owner</td>
<td>9.1</td>
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<td>Manager</td>
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<td>0.0</td>
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<tr>
<td>Expert</td>
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<td>11.5</td>
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<td>56.9</td>
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<tr>
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<td>5.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Other</td>
<td>1.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Total N=100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>1989 - 1993</td>
<td></td>
</tr>
<tr>
<td>Owner</td>
<td>6.6</td>
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<tr>
<td>Manager</td>
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<td>0.4</td>
</tr>
<tr>
<td>Expert</td>
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<td>13.2</td>
</tr>
<tr>
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<td>19.2</td>
</tr>
<tr>
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</tr>
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<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Other</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Total N=100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 4.3: Recruitment Patterns According to First Job for Entrepreneurs Who Started Their Business in Specific Historical Periods.
Logistic Regression of Becoming an Entrepreneur on Education

Table 4.4 provides logistic regression coefficients for becoming an entrepreneur on education categories, for specific time periods. In the earliest years, 1949-1958, education does not have an effect on the chances of becoming an entrepreneur. By 1959-1968, vocational high school, general high school, and college are important for entrepreneurship. In the 1969-1978 period all educational categories are significant, but the odds of these accomplishments having an effect declines. In the 1979-1988 period the coefficients reflect a trend towards the increasing importance of education. By 1989-1993, education attainment is significant for all categories of education, with vocational high school and college affording the greatest chances of becoming an entrepreneur.

Logistic Regression of Being an Entrepreneur on Social Origin and Education

Table 4.5 introduces logistic regression of being an entrepreneur on social origin and education, with gender and age controlled. In the early periods, 1949-1958 and 1959-1968, father’s occupation had a great impact on the chances of becoming an entrepreneur. At that time, one’s father’s position as owner or farmer enhanced one’s chances of becoming an entrepreneur more than two times. In consecutive time periods, the impact of fathers’ status, defined in terms of owner and farmer,
### Table 4.4: Logistic Regression of Becoming an Entrepreneur on Education Categories, for Specific Historical Periods, 1949-1993.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vocational</td>
<td>1.3509</td>
<td>2.8530*</td>
<td>1.5662*</td>
<td>1.4898*</td>
<td>2.0379*</td>
</tr>
<tr>
<td>General H.S.</td>
<td>1.5620</td>
<td>3.4990*</td>
<td>1.9185*</td>
<td>2.0954*</td>
<td>2.4863*</td>
</tr>
<tr>
<td>Vocational H.S.</td>
<td>.5233</td>
<td>1.0936</td>
<td>1.6559</td>
<td>1.6294*</td>
<td>3.2556*</td>
</tr>
<tr>
<td>College</td>
<td>1.4520</td>
<td>2.9041*</td>
<td>1.8723*</td>
<td>2.1998*</td>
<td>2.8142*</td>
</tr>
</tbody>
</table>

Note: *p < 0.10

* odds of becoming an entrepreneur with a reference category of primary education.
<table>
<thead>
<tr>
<th>Historical Periods*</th>
<th>1949-</th>
<th>1959-</th>
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<td>1958</td>
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<td>1993</td>
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**Social Origin**

**Father’s Occupation**

Owner + Farmer

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<tr>
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<th>1959-</th>
<th>1969-</th>
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<tbody>
<tr>
<td>B</td>
<td>.768</td>
<td>.819</td>
<td>.545</td>
<td>.459</td>
<td>.116</td>
</tr>
<tr>
<td>S. E.</td>
<td>.375</td>
<td>.316</td>
<td>.190</td>
<td>.165</td>
<td>.226</td>
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<tr>
<td>Exp (B)</td>
<td>1.156</td>
<td>2.269</td>
<td>1.724</td>
<td>1.582</td>
<td>1.123</td>
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**Education**

College + Vocational H.S.

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<tr>
<td>B</td>
<td>-.216</td>
<td>-.006</td>
<td>.228</td>
<td>.276</td>
<td>.534</td>
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<tr>
<td>S. E.</td>
<td>.497</td>
<td>.382</td>
<td>.188</td>
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<tr>
<td>Exp (B)</td>
<td>.805</td>
<td>.994</td>
<td>1.256</td>
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**Gender**

Male

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<td>.867</td>
<td>.855</td>
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<td>S. E.</td>
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<td>.479</td>
<td>.214</td>
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<tr>
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<td>5.294</td>
<td>3.361</td>
<td>2.380</td>
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**Age**

Years

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<tr>
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<td>-.046</td>
<td>.034</td>
<td>.038</td>
<td>.004</td>
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<tr>
<td>S. E.</td>
<td>.030</td>
<td>.018</td>
<td>.009</td>
<td>.007</td>
<td>.010</td>
</tr>
<tr>
<td>Exp (B)</td>
<td>-3.074</td>
<td>-4.019</td>
<td>-6.182</td>
<td>-5.984</td>
<td>-2.733</td>
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Constant

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<td>-3.074</td>
<td>-4.019</td>
<td>-6.182</td>
<td>-5.984</td>
<td>-2.733</td>
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-2 Log Likelihood

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<tbody>
<tr>
<td></td>
<td>281.315</td>
<td>445.541</td>
<td>1201.777</td>
<td>1624.324</td>
<td>782.335</td>
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Model Chi-Square

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<tr>
<td></td>
<td>25.827</td>
<td>25.087</td>
<td>36.989</td>
<td>70.245</td>
<td>27.464</td>
</tr>
<tr>
<td>d. f.</td>
<td>1855</td>
<td>3124</td>
<td>6008</td>
<td>5440</td>
<td>929</td>
</tr>
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diminished. In the 1989-1993 period the impact of fathers’ status on becoming an entrepreneur is 1.123 and statistically insignificant.

Better educated people, that is, those having a college or vocational high school diploma, have higher chances of becoming entrepreneurs in later periods, after 1969. Until then, having a higher education was less likely to lead toward establishing one’s own business—at least in comparison with people who had a relatively lower education. In 1989-1993 having either a college or vocational high school diploma increased the chances of becoming an entrepreneur by 1.7 times in comparison with the rest of the population. Additional analyses show that in this period vocational high school is even more important than college. What counts here is practical training that can be used in establishing marketable production or services.

Respondent’s age has no substantive impact on the chances of becoming an entrepreneur. In 1949-1958 being male increased the chances of becoming an entrepreneur by five times, but by 1989-1993 being male increased the chances of becoming an entrepreneur by only two times. Between 1949 and 1978, there was steady progress toward equality of opportunity for women in the private sector, but in the 1980s and the 1990s that trend has stagnated. A major concern during the transformation of post-communist countries is increasing inequality experienced by women in a gender-based labor market (Einhorn 1993; Moghadam 1993; Heyns 1996).
Conclusion and Discussion

The possible importance of father’s membership in the former communist party was carefully considered and analyzed but found to have no statistically significant effect. Therefore, I concentrate on the transmission of ownership and wealth. Results show that starting in the 1980s, the impact of social origin on becoming an entrepreneur has decreased while the impact of education has increased.

Specifically, two points are in order. First, more than one half of all those who started their business between 1949 and 1958 originated in families of owners and farmers. By contrast, between 1989 and 1993 an analogous proportion is one fifth. In recent years, father’s socio-economic status is higher among new entrepreneurs than it is among all others. Generally, the impact of father’s occupation diminishes.

Second, over time the mean number of years of schooling among entrepreneurs has increased by 3.5 years, and the type of schooling has shifted from basic vocational to vocational high school and college. In 1949-1958, the chances of becoming an entrepreneur were less for graduates of vocational high schools or colleges than for persons with lower education levels. Forty years later, graduates of vocational high schools or colleges have 1.7 better chances of becoming entrepreneurs than persons who have not achieved this level of education.

With regard to recruitment patterns, the main conclusion of this chapter is that the entrepreneurial class becomes less dependent on ascription and more dependent on achievement. After the Second World War, the class of entrepreneurs was a remnant of
the pre-war petite bourgeoisie. For more than two decades this class was sustained in the social structure partly due to the intergenerational transmission of economic assets. At that time entrepreneurs were engaged mainly in traditional activities: small bakeries, meat shops, carpentry, and traditional crafts. They supplied goods and services that the state economy was not capable of providing.

In the 1970s and the 1980s, the official state market was supplemented by a semi-legal secondary market, resulting in a radically changed economic situation. Initially this secondary market dealt with fashion, later it expanded to modern home equipment, and finally it progressed to video/computer technology. The sophistication of the market altered the economic context in which potential entrepreneurs could operate, and those who wanted to start their own business were forced to modernize.

In August 1990 the Sejm passed the “Law on the Privatization of State-Enterprises” (Law No. 51, VIII. 1990), forming the Ministry of Privatization. The initial privatization program targeted 650 big and medium state-owned enterprises, accounting for twelve percent of industrial employment—to be in the private sector by 1995, one hundred by July 1991. In November 1990 an initial offering of five of the most attractive Polish state-owned industrial enterprises for public tender was concluded. This increased the share of private ownership of Polish industry to 13.4 percent (Sereghyova 1993).

Although the “velvet revolution” of 1989 was critical for establishing a new political and economic regime, it did not affect the social structure in any dramatic way. As far as the entrepreneurial class is concerned, I see more merit in an
evolutionary thesis than in a revolutionary thesis. If we consider three periods—1949-1968, 1979-1988, and 1989-1993—the coefficients support evolutionary theory in the sense of a continuing trend. While the ascribed factor (father's occupation) systematically decreases in significance, the achieved factor (respondent's education) systematically increases in significance. The trend has deepened in the recent period. Is this a sign of the revolutionary change of the post-1989 period?

Discussing these results, we should note that the reformed socialism of the 1980s prepared the ground for rapid development of the entrepreneurial class. In his evaluation of economic reforms, Leszek Balcerowicz (1989) points out that in the first stage, 1982-1987, the non-agricultural private sector, traditionally relegated to a marginal role, gained in terms of employment and output. In the second stage, 1987-1989, a new approach to the ownership of the means of production was instituted. The state-owned, the co-operative, and the private sectors of the economy started to be treated equally under law. Thus, the basis for development of an entrepreneurial class started before the first non-communist government was instituted in Poland.
Endnotes - Chapter 4

1 Within each of the four sets of Polish national survey data, five historical periods are identified: 1949-1958, 1959-1968, 1969-1978, 1979-1988, and 1989-1993. Two effects are controlled for within each time period: those respondents who reside in urban areas and those who are in the labor force during the specified years. Respondents are coded (1) if they reside in an urban setting and participate within the labor force in specific years. If they reside in rural areas and/or are not participating in the labor force they are coded (0). The four data sets identifying the five periods were then merged for purposes of cell analysis. (Refer to Figure 4.1.) For the specific time periods 1989-1993, 1979-1988, 1969-1978, 1959-1968, and 1949-1958 the N for periods equals 3126, 5447, 6021, 3132, and 1862, respectively.

2 Within each set of survey data, owners were identified according to those who started their business—began their entrepreneurial activity—within a specific historical time period. For instance, an individual who started a business in 1950 would belong to the 1949-1958 time period.

Details for the construction of the dependent variable—owner—within each of the four data sets is as follows: (1) In the 1993 data (covering the historical time period 1988-1993) owners were aggregated from those who are new owners, started their business since 1988, and were an owner in last job in 1988. (2) Within the 1992 data, owners are identified in three time periods: 1989-1992, 1979-1988, and 1969-1978. Owners are aggregated from present owners, previous owners from the pool of those employed, and previous owners from the pool of those not employed, according to specific years. (3) Four time periods of owners are identified within the 1988 study: 1979-1988, 1969-1978, 1959-1968, and 1949-1958. Owners are aggregated from those who started their business as their present job, last job, previous job, or first job, in specific years. (4) Three owner time periods are identified within the 1978 study: 1969-1978, 1959-1968, and 1949-1958. Owners in the 1969-1978 time period are aggregated from those whose present or previous job was that of owner for specific years. Owners in the 1959-1968 period are aggregated from those whose present job, previous job, or job in 1968 was that of owner for specific years. Owners in the 1949-1958 period are aggregated from those whose present job, previous job, or first job was that of owner for specific years. For the 1989-1993, 1979-1988, 1969-1978, 1959-1968, and 1949-1958 periods the N for owners equals 347, 197, 128, 42, and 30, respectively.
In this chapter I focus on determinants of entrepreneurial activity and address central research questions: Who are—in terms of social characteristics—the new entrepreneurs in post-communist Poland? Are those individuals who are more privileged, with respect to financial assets, more likely to become entrepreneurs than those who are less financially privileged? Do organizational assets—communist party membership versus oppositional activity in the past—determine whether people engage in entrepreneurial activity? Do psychological traits—self-direction and self-reliance—contribute to entrepreneurial spirit? In order to answer these questions, I identify factors that determine, in a statistical sense, who becomes an actual entrepreneur during the first phase of transformation, 1989 to 1993.
In Chapter 3, I outlined theoretically postulated determinants of entrepreneurship—starting a business—and contrasted these determinants with biographical accounts collected from actual entrepreneurs. Three categories of determinants were discussed: push and pull factors, facilitators, and motivational predilection. Within each category, I proposed specific types of variables.

Elaborating on these types facilitated the conceptualization of blocks of variables to be included in statistical analyses. For example, as evidenced in Chapter 3, involvement in entrepreneurship encompasses both objective and subjective elements. Objectively, entrepreneurship can be affected not only by individual factors but also by contextual factors—opportunities or constraints of a structural nature. In addition, entrepreneurship can be influenced by perceived opportunities or constraints and motivational predilections—psychological predisposition. A comprehensive study of actual entrepreneurship must include a variety of objective and subjective determinants that are linked by causal relationships. In this section, I describe the role of various variables as determinants of entrepreneurial activity.

**Role of Family Background:** Fathers' socioeconomic status (SES) and fathers' education are consequential in status allocation (Connor 1979; Blau and Ruan 1990; Haller, Kolosi, and Robert 1990; Kohn and Slomczynski 1990; Treiman and Ganzeboom 1990). Ascriptive characteristics associated with family background are
particularly important for the intergenerational process of managerial reproduction and entrepreneurial activity (Bőrőcz and Róna-Tas 1996).

Since families are primary agents in the socialization process, father's socioeconomic status and father's education directly influence the entrepreneurial spirit of sons and daughters. Family background may also contribute to both the accumulation of capital and the development of networks of friends. In particular, a family tradition of running a business may be a significant factor for achieving status as an independent entrepreneur.

*Role of Human and Cultural Capital:* In recent years, status attainment literature has included various factors related to human and cultural capital; for discussion of this topic, see Bourdieu 1973, 1986; De Graaf 1989; and Gabal 1989. In Chapter 3, biographical accounts suggested that post-elementary education is an important first step in the development of human capital needed for entrepreneurial activity. Entrepreneurs seemed to be motivated to further invest in themselves through continuing education and the development of “cultural capital”—acquiring knowledge of foreign languages and experience abroad.

In the case of potential entrepreneurs, travel abroad exposes them to new ideas and technology, and in conjunction with knowledge of a foreign language it provides the opportunity to network with potential investors and business associates. As was mentioned in Chapter 3, in Poland the scarcity of financial institutions and financial instruments forces entrepreneurs to seek financial capital through innovative means. Much of this capital is acquired through channels outside of the country.
**Role of Political/Organizational Activity:** Membership in the former communist party and youth organizations, as well as participation in strikes and protests, provides opportunities to develop leadership skills and to form networks—both of which are essential aspects of business activity (Borocz and Rona-Tas 1995; Szelenyi and Szelenyi 1995; Szelenyi, Szelenyi, and Kovach 1995). Similarly, in the context of communist societies the avoidance of involvement in trade unions may signal the willingness to support independent actions and the desire to be one’s own boss. In addition, non-political activities, such as dealing with administrative issues in non-work situations on local and national levels, are means of developing practical abilities that promote conducting business.

**Role of Economic Assets:** It is usually assumed that those individuals who are more privileged with respect to financial assets are more likely to become potential entrepreneurs than those who are less financially privileged. The question is: To what extent do income and wealth increase the chances of engaging in entrepreneurial activity?

During the exploratory phase of analysis I discovered that the amount of accessible financial resources is as reliable an indicator of financial situations as household income per capita. Accessible financial resources is a measure of how much money an individual may have at his or her disposal and how much of that money he or she would be willing to risk for something important. The distribution of household income is under joint control of the family, whereas available money refers to personal
capital. Both variables—measured for the period prior to the economic transition—are included in my analysis.

Also included in the domain of economic assets are indicators of material wealth: ownership of a car, computer, and/or telephone. These possessions not only serve as indicators of material wealth but also play a part in running a business. Economic assets of this type are also measured prior to the economic transition that started in 1989.

*Role of Institutional Infrastructure:* Chavance (1994, p. 39) notes that institutional inertia is due “not to the irrationality of economic actors, but to the fact that the social learning process is inherently gradual, and that process was further complicated by the heterogeneous setup of the transitional institutions.” Biographical accounts confirm that a lack of coordination among economic, political, and social institutions created tremendous barriers for entrepreneurial activity. Contextual institutional determinants, at the ecological level, refer to infrastructural arrangements that provide incentives or barriers to entrepreneurial activity. These arrangements vary across regions, cities, or other ecological units.

In my analysis the forty-nine regions of Poland, called *voievodships*, were considered with respect to number of banking facilities and amounts of government investment for infrastructure—transport and telecommunication. Ecological units with greater numbers of banking facilities and larger amounts of governmental infrastructure should be conducive to entrepreneurial activity.
Role of Motivational Determinants: The command organization of the communist economy attempted to systematically thwart entrepreneurial traits in the worker (Burawoy and Lukacs 1992; Wesolowski 1992). It is my contention, however, that these values are deeply rooted in society, and the need to express them is intense. Change can, therefore, be accomplished dramatically.

Two basic concepts of psychological functioning—self-direction of orientations and self-reliance—are measured with respect to individual propensity for risk and need for autonomy. I follow the theoretical argument that psychological functioning can make a significant contribution to support for entrepreneurship. I assume that both self-reliance and self-direction define, at least partially, entrepreneurial spirit.

Not only do entrepreneurs take responsibility for their actions, but they also do so independently of the actions of others: the State, organizations, family, colleagues, or other authoritarian figures. They claim responsibility for the outcomes of their actions: economic, political, and legal rewards and consequences. They have confidence that they can achieve on their own merits, and they are willing to take a chance on themselves.

Causal Model: In Figure 5.1, I depict the relationships among all types of determinants of becoming an entrepreneur. I assume that human and cultural capital is essentially determined only by family background. Human and cultural capital includes not only levels of education but also the fact of taking additional courses, knowing foreign languages, and having some experience of being abroad.
Figure 5.1: Model of the Relationships Among Determinants of Entrepreneurship in Poland, 1989-1993.
In abstract terms, acquiring foreign language or traveling abroad—two indicators of human and cultural capital—may depend on economic assets: those who are richer would tend to spend income investing in themselves. However, in communist societies, various forms of education—even evening courses of foreign language—were very cheap; similarly, traveling abroad was not highly influenced by economic assets. Thus, I assume that human and cultural capital affects economic assets without any kind of reciprocal effects.

I assume that human and cultural capital determines political and organizational activity. Note that in my model, economic assets are influenced by political variables. This assumption is in agreement with the literature on command economies (Wesolowski 1996).

As Figure 5.1 shows, entrepreneurial spirit is influenced by family background, human and cultural capital, political and organizational activity, and economic assets. Those who are more privileged with regard to these factors have had a broader life experience. They are more likely to be self-directed and to be more self-reliant. In this causal chain entrepreneurial spirit—composed of self-direction and self-reliance—is a subjective determinant of entrepreneurship.

Institutional infrastructure refers to the contextual analyses, on the level of voievodships. In causal terms, neither the density of banks nor governmental investment in transport and telecommunication directly depend on family background, human and cultural capital, political and organizational activity, economic assets, or entrepreneurial spirit of inhabitants of various regions of Poland. I do not think that
even indirect effects of individual variables on contextual variables are likely in the communist and post-communist societies. In these societies government decisions were—and to a great extent still are—made without consideration of local population characteristics. Thus, in Figure 5.1, the effect of institutional infrastructure on entrepreneurship is separate from the analogous effects of family background, human and cultural capital, political and organizational activity, and economic assets.

**Expectations and Hypotheses:**

Considering determinants of entrepreneurial activity presented in Figure 5.1, I propose to test and elucidate the following hypotheses and expectations:

1. Individuals engaging in entrepreneurial activity come from advantaged family backgrounds that are consistent with the accumulation of assets necessary for starting a business: human capital of the respondents' parents, social stratification position of the family, and participation in business activity by family members.

2. The traditional stratification variable related to achievement, that is formal education—is an important determinant of entrepreneurship together with such human capital factors as knowledge of foreign languages or experience with foreign cultures.
3. "Old ties"—that is connections with the former communist Party—should facilitate entrepreneurs in establishing enterprises. Participation in strikes and protests, and experience in dealing with issues in non-work administrations, contribute to actual entrepreneurship.

4. Those individuals who are more privileged with respect to having accumulated greater financial assets will be more inclined to engage in entrepreneurship than those individuals who are not privileged with respect to the accumulation of financial assets.

5. Those who live in regions with a relatively developed infrastructure for conducting business are more likely to be engaged in entrepreneurial activity than those who live in areas lacking such infrastructure.

6. Self-direction and self-reliance are important components of entrepreneurial spirit. Entrepreneurial spirit modifies the effects of social structure position and institutional factors in determining the chances of engaging in entrepreneurial activities.

Data

Review of accessible data proved that not all variables could be identified within one study. Although the focus of the 1988-1993 data was norms and values and perceptions, my attempts to construct a clear and valid variable measuring psychological functioning were unsuccessful. There were no adequate measures. Self-
reliance, although part of entrepreneurial spirit, is not the core of psychological functioning. Accordingly, I examine determinants of actual entrepreneurship in two stages. Therefore, I use two sets of data to analyze actual entrepreneurship. They each have strengths not found in one set. The first stage involves analysis of actual entrepreneurs in a broad social context using variables that identify family background, human and cultural capital, political and organizational activity, and economic assets—the objective stage. Here, I use data from a panel study, SCP, "Social Changes in Poland 1988-1993."

The second stage probes entrepreneurship through institutional pull factors, facilitators, and motivational determinants—the subjective stage. Data for this phase of analysis come from the complex survey SFC, "Psychological Functioning Under Conditions of Social Change, 1993." For a complete description of the data refer to Chapter 2.

Indexing and Measurement of Variables

Dependent Variable

All analyses presented in this chapter are executed using actual entrepreneurship as the dependent variable. I restrict the definition of actual entrepreneurs to productive entrepreneurs (Dubravcic 1995)—those who are owners and employ people. Actual entrepreneurs are those who identify private ownership of a non-agricultural business
either as their primary activity or in conjunction with their employment. These are current entrepreneurs—at the time of the respective study, 1992 or 1993, the respondents were actively involved in the operation of their businesses, not merely investors.

*Family Background*

*Father’s Education:* Education was recoded, according to the Polish education system, reflecting the type of school attended—some elementary, basic vocational, general high school, vocational high school, some college, and college or university. These categories were converted to the number of school years: 6, 8, 10, 12, 13, 14, and 16 and above, respectively.

*Father’s SES:* Fathers’ socioeconomic status (SES) is measured for more than 300 occupations (Pohoski and Slomczynski 1978) according to their general social standing, predicted on the basis of average education and income (Slomczynski and Kacprowicz 1979).

*Father’s Communist Party Membership:* I also noted whether the respondent’s father had been a member of the communist party. Respondent’s declarations about his or her father were coded zero for no and one for yes.

*Business History:* Respondents were asked two questions with regard to the business history of their family and friends: “Between 1938 and 1988 did anyone in your immediate family, or in your wife’s immediate family—grandparents, parents,
siblings or children—run their own business, factory or enterprise, except a farm, for at least a year?” and “Among your closest friends, is there someone who is the owner or partner of a company, or who has a money making enterprise other than a farm?” A dummy variable was created, coded one to reflect the respondent’s having a history of business and zero to reflect no business history.

**Human and Cultural Capital Assets**

*Education*: Respondent’s education was recoded in the same way as father’s education.

*Continuing Education*: This question was asked: “In addition to your education have you taken any courses or training which lasted for more than 10 hours, ending either with a diploma or not?” Responses were coded one for having taken courses or training and zero for no continuing education.

*Knowledge of a Foreign Language/Foreign Travel*: In 1988 respondents were asked, “Do you know any foreign languages well enough to communicate?” Answers were coded zero if they did not know a foreign language and one if they did know a foreign language. Respondents were also asked, “Have you been abroad—for work, on a private invitation or with a tourist group—in the past five years?” Answers were coded zero for no experience and one for having experience with foreign travel.
Political and Organizational Assets

Membership in the Communist Party: Responses were coded zero if the respondent had never been a member of the communist party and one if he or she had ever been a member of the communist party.

Youth Organization Membership: Respondents were asked if they had been members of a youth organization. Responses were coded zero for no and one for yes.

Trade Union Membership: Respondents were asked if they were members of a trade union. Responses were coded one for no and zero for yes.

Administrative Issues: Respondents were asked, “In the past two years did you deal with an important issue in an administrative institution, on a national or local level, for your own sake or for someone else’s? We are interested in dealings not connected with your workplace.” Responses were coded zero if respondents had no experience and one if they had any experience with administrative issues.

Participation in Strikes and Protests: Respondents were asked, “Did you ever participate in a strike? Did you ever participate in any other form of protest, like street demonstrations, manifestations, or marches?” Responses were coded zero if they had no experience and one if they had any experience with strikes and protests, respectively.
Economic Assets

*Household Income Per Capita:* This variable is measured as earnings of all family members living together, coded in Polish Zloty, divided by the number of members in the immediate household.

*Accessible Financial Resources:* Respondents were asked a series of questions, varying the amount of Zloty, “Please imagine that you must pay 2 million Zloty (4 million, 16 million, 64 million, and .5 million) for something really important to you. Would you be able to come up with this amount in the space of a week?” Respondents were assigned values from 0 to 64, indicating the highest amount (in millions of Zloty) they would be able to raise.

*Owner of a Car, Telephone, and/or Computer:* Respondents were asked, “Does any member of your household, including yourself, own a car? In your household is there a telephone? In your household is there a personal computer?” For each item responses were coded zero for no and one for yes.

Institutional Infrastructure

*Density of Banks and Government Investment for Infrastructure:* In the 1992 sample 49 ecological units, *voievodships*, were identified with respect to number of banking facilities and government investment for infrastructure. These variables were measured for each *voievodship* (*Rocznik Statystyczny* 1996), for 1992.
Motivational Determinants

**Self-Direction of Orientations:** Self-direction of orientation measures individual capacity for taking responsibility for actions. There is an assumption that society is constructed in such a way as to make self-direction possible. The opposite of this concept would be conformity to external authority (Kohn and Slomczynski 1990). Self-direction of orientations is a factored variable constructed through four dimensions:

1. **Authoritarian-conservatism**—society defines what is socially acceptable—at one extreme there is rigid conformance to the dictates of authority and intolerance of nonconformity while at the other extreme there is open-mindedness;

2. **Personally responsible standards of morality**—continuum of moral positions—from believing that morality consists of strict adherence to the letter of the law and keeping out of trouble to defining and maintaining ones own moral standards;

3. **Trustfulness**—degree to which people believe that their ideas mirror those of the social entities to which they belong;

4. **Stance toward change**—receptiveness or resistance to innovation and change.

All these scales come from Kohn et al. 1997 (for a description of their construction see Kohn and Slomczynski 1990). These scales were subject to factor analysis providing a second-order construct "self-direction." This is in accordance with Kohn et al. (1997).

**Self-reliance:** This variable, while related to self-directedness, is a distinct
psychological dimension. Self-reliance was constructed using the following questions:

"Do you think that most people can be trusted? Do you feel that most of the things that happen to you are things over which you have no control? If I have problems I blame myself, not others or circumstances. When things go wrong for you, how often would you say it is your own fault? How often do you feel that new events and situations are appealing to you?" Factor loadings were highest for fault (.41) and responsibility (.37), while lowest for trust (.17) and own decisions (.21). All were statistically significant.

**Control Variables**

*Age and Sex:* Age is measured chronologically; sex is coded zero for female and one for male.

**Data Analysis**

**Mean Values, Correlation Coefficients, and Exp (B)s**

The data in Tables 5.1 and 5.2 show mean values for all indicators of family background, human and cultural capital, political and organizational activity, economic assets, infrastructure, and motivational predilection. Besides mean value for the total populations, I provide the same statistics for entrepreneurs. I note whether mean values
for this distinct group differ from those for the rest of the population—non-entrepreneurs. In addition, I provide two measures of association between being or not being an entrepreneur and all other variables included in the analyses. The first measure, the correlation coefficient, indicates the strength of the relationship in terms of variance. The second measure, Exp (B), informs about the increase in chances for an individual being an entrepreneur, as opposed to not being an entrepreneur, depending on the unit increase in the independent variable.

How do entrepreneurs differ from the rest of the population? Taking into consideration Tables 5.1 and 5.2 we see that entrepreneurs are indeed different from the rest of the population in many ways. Looking at family background, we see that having a family history of business has a significant impact on being an entrepreneur. For this variable, the mean difference between entrepreneurs and the rest of the population is significant, while the Exp (B) indicates that a business history provides a five times greater chance of being an entrepreneur than not being one. If we look at entrepreneur's social origin, measured through father's education, SES, and communist party membership, we can see that entrepreneurs originated in a privileged group—those who are better educated, those of higher status, and those with political rank. Each factor provides some considerable increase in the chance of being an entrepreneur, although father's communist party membership is not statistically significant.

In the category of human and cultural capital there are several interesting findings. Entrepreneurs are a more privileged group with regard to education—a
## Mean Values and Associations

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Total Population</th>
<th>Entrepreneurs Only</th>
<th>Correlation Coefficient</th>
<th>Exp (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Family Background</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Father's Education (Scale: 6 to 16)</td>
<td>8.6</td>
<td>9.9</td>
<td>.130***</td>
<td>1.15</td>
</tr>
<tr>
<td>Father's SES (Scale: 1 to 9)</td>
<td>4.4</td>
<td>5.0</td>
<td>.102**</td>
<td>1.01</td>
</tr>
<tr>
<td>Father Communist Member (Yes=1)</td>
<td>1.34</td>
<td>.160</td>
<td>.023</td>
<td>1.25</td>
</tr>
<tr>
<td>Business History (Yes=1)</td>
<td>.538</td>
<td>.845</td>
<td>.201***</td>
<td>5.33</td>
</tr>
<tr>
<td><strong>Human and Cultural Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education (Scale: 6 to 16)</td>
<td>10.8</td>
<td>12.0</td>
<td>.126***</td>
<td>1.16</td>
</tr>
<tr>
<td>Continuing Education (Yes=1)</td>
<td>.196</td>
<td>.274</td>
<td>.045**</td>
<td>1.45</td>
</tr>
<tr>
<td>Foreign Language (Yes=1)</td>
<td>.412*</td>
<td>.551</td>
<td>.087***</td>
<td>1.86</td>
</tr>
<tr>
<td>Foreign Travel 1988 (Yes=1)</td>
<td>.012</td>
<td>.026</td>
<td>.103***</td>
<td>2.13</td>
</tr>
<tr>
<td><strong>Political/Organizational Activity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member Communist Party (Yes=1)</td>
<td>.195</td>
<td>.237</td>
<td>.032*</td>
<td>1.13</td>
</tr>
<tr>
<td>Member Youth Organization (Yes=1)</td>
<td>.173</td>
<td>.216</td>
<td>.034</td>
<td>1.35</td>
</tr>
<tr>
<td>Member Trade Union (No=1)</td>
<td>.714</td>
<td>.815</td>
<td>.069**</td>
<td>1.46</td>
</tr>
<tr>
<td>Administrative Issues (Yes=1)</td>
<td>.331</td>
<td>.444</td>
<td>.071*</td>
<td>1.68</td>
</tr>
<tr>
<td>Participate in Strike (Yes=1)</td>
<td>.231</td>
<td>.242</td>
<td>.008</td>
<td>1.07</td>
</tr>
<tr>
<td>Participate in Protest (Yes=1)</td>
<td>.061</td>
<td>.087</td>
<td>.034*</td>
<td>1.54</td>
</tr>
<tr>
<td><strong>Economic Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household Income Per Capita (in Millions)</td>
<td>4.344</td>
<td>8.748</td>
<td>.048**</td>
<td>1.00</td>
</tr>
<tr>
<td>Accessible Resources (From 2 to 64)</td>
<td>4.178</td>
<td>10.895</td>
<td>.189***</td>
<td>1.03</td>
</tr>
<tr>
<td>Owner Car 1988 (Yes=1)</td>
<td>.393</td>
<td>.742</td>
<td>.219***</td>
<td>5.11</td>
</tr>
<tr>
<td>Owner Telephone 1988 (Yes=1)</td>
<td>.238</td>
<td>.345</td>
<td>.076***</td>
<td>1.78</td>
</tr>
<tr>
<td>Owner Computer 1988 (Yes=1)</td>
<td>.012</td>
<td>.025</td>
<td>.037*</td>
<td>2.36</td>
</tr>
</tbody>
</table>

*Note:* Entrepreneurs differ significantly (at .05 level) from the rest of the population (non-entrepreneurs).

Table 5.1: Indicators of Family Background, Human and Cultural Capital, Political and Organizational Activity, and Economic Assets: Mean Values and Associations with Being an Actual Entrepreneur, Polish Panel Study, 1988-1993.
finding I explored in Chapter 4. Mean values for formal and continuing education, as well as knowledge of a foreign language, are significantly higher for entrepreneurs. It is important to note that foreign travel in 1988 increases the chances for being an entrepreneur in 1993 by more than two times. This result confirms what entrepreneurs reported in their biographical accounts about the importance of foreign travel for networking and formation of capital (see Chapter 3).

Entrepreneurs stand apart from the rest of the population with regard to political and organizational activity, membership in the communist party, non-membership in a trade union, membership in youth organizations, and participation in protest. All these variables increase the chance of becoming an entrepreneur. Among organizational assets, the only variable that has no significant effect on entrepreneurship is participation in strikes.

All indicators of economic assets are significantly different for entrepreneurs compared with the rest of the population. The impact of accessible resources on entrepreneurship is much higher than the impact of household income. Ownership of a car in 1988 increased the chance of being an entrepreneur by five times. Ownership of a telephone or a computer increased the chances of being an entrepreneur by 1.8 and 2.4 times, respectively.

Table 5.2 pertains to variables that have not been included in the panel survey, 1988-1993; the table is based on data from the cross-sectional survey, 1992. At the contextual level, institutional variables are measured in voievodships according to the concentration of banking facilities and government investment on infrastructure.
### Table 5.2: Indicators of Infrastructure and Motivational Determinants: Mean Values and Associations with Being an Actual Entrepreneur, Polish Cross-Sectional Survey, 1992.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Total Population</th>
<th>Entrepreneurs Only</th>
<th>Correlation Coefficient</th>
<th>Exp (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Density of Banks (Scale: 1 to 4)</td>
<td>1.8</td>
<td>1.9</td>
<td>.044**</td>
<td>1.14</td>
</tr>
<tr>
<td>Government Expenditure (Scale: 1 to 97)</td>
<td>23.1</td>
<td>23.2</td>
<td>.022</td>
<td>1.01</td>
</tr>
<tr>
<td><strong>Motivational Determinants</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-Reliance (Scale: N [0,1])</td>
<td>.000</td>
<td>.106</td>
<td>.066***</td>
<td>1.42</td>
</tr>
<tr>
<td>Self-Direction (Scale: N [0,1])*</td>
<td>.000</td>
<td>.132</td>
<td>.058**</td>
<td>1.28</td>
</tr>
</tbody>
</table>

Note: * Entrepreneurs differ significantly (at .05 level) from the rest of the population (non-entrepreneurs).

** p < .05
*** p < .01
* Mean value on the basis of Kohn et al. 1997.
Although both variables have a positive effect on entrepreneurship, only the density of banks is statistically significant.

With regard to psychological functioning, both self-reliance and self-direction significantly distinguishes entrepreneurs from the rest of the population. The impact of self-reliance and self-direction is positive and statistically significant.

**Logistic Regression—First Stage**

Table 5.3 provides logistic regression of being an actual entrepreneur on all indicators of family background, human and cultural capital, political and organizational activity, economic assets, and control variables. In this model the variables having the greatest influence on the chances of becoming an entrepreneur are a history of private business in the family, non-membership in a trade union, accessible resources, and ownership of a car in 1988. Each of these two variables increases the odds of being an entrepreneur. Younger people and males also have greater chances of becoming an entrepreneur. The impact of all other variables is statistically insignificant.

Within each category of potential determinant variables, such as family background or economic assets, specific variables may cancel their effects since they usually are related to each other. For this reason Table 5.4 introduces a set of those variables from Table 5.3 which proved to be significant in the full model—business history, foreign travel, non-membership in a trade union, accessible resources,
### Table 5.3: Logistic Regression of Being an Actual Entrepreneur on Family Background, Human and Cultural Capital, Political and Organizational Activity, Economic Assets, and Control Variables, Poland, 1993.

<table>
<thead>
<tr>
<th>Indicators*</th>
<th>B</th>
<th>S.E.</th>
<th>Exp (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Family Background</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Father's Education</td>
<td>.116</td>
<td>.099</td>
<td>1.123</td>
</tr>
<tr>
<td>Father's SES</td>
<td>-.043</td>
<td>.092</td>
<td>.958</td>
</tr>
<tr>
<td>Father Communist</td>
<td>-.031</td>
<td>.078</td>
<td>.958</td>
</tr>
<tr>
<td>Business History</td>
<td>.480**</td>
<td>.099</td>
<td>1.616</td>
</tr>
<tr>
<td><strong>Human and Cultural Capital</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>-.037</td>
<td>.120</td>
<td>.964</td>
</tr>
<tr>
<td>Continuing Education</td>
<td>-.103</td>
<td>.099</td>
<td>.964</td>
</tr>
<tr>
<td>Foreign Language</td>
<td>.029***</td>
<td>.093</td>
<td>1.021</td>
</tr>
<tr>
<td>Foreign Travel</td>
<td>.262**</td>
<td>.087</td>
<td>1.300</td>
</tr>
<tr>
<td><strong>Political/Organizational Activity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member Communist Party</td>
<td>.028</td>
<td>.087</td>
<td>1.028</td>
</tr>
<tr>
<td>Member Youth Organization</td>
<td>-.024</td>
<td>.081</td>
<td>.964</td>
</tr>
<tr>
<td>Member Trade Union</td>
<td>.277***</td>
<td>.080</td>
<td>1.319</td>
</tr>
<tr>
<td>Issues</td>
<td>.110</td>
<td>.080</td>
<td>1.117</td>
</tr>
<tr>
<td>Participate in Strike</td>
<td>-.108</td>
<td>.085</td>
<td>.900</td>
</tr>
<tr>
<td>Participate in Protest</td>
<td>.014</td>
<td>.073</td>
<td>1.014</td>
</tr>
<tr>
<td><strong>Economic Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accessible Resources</td>
<td>.117***</td>
<td>.056</td>
<td>1.124</td>
</tr>
<tr>
<td>Household Income Per Capita</td>
<td>.096</td>
<td>.060</td>
<td>1.101</td>
</tr>
<tr>
<td>Owner Car</td>
<td>.658***</td>
<td>.092</td>
<td>1.931</td>
</tr>
<tr>
<td>Owner Telephone</td>
<td>.090</td>
<td>.084</td>
<td>1.095</td>
</tr>
<tr>
<td>Owner Computer</td>
<td>.028</td>
<td>.063</td>
<td>1.029</td>
</tr>
<tr>
<td><strong>Control Variables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>-.036***</td>
<td>.009</td>
<td>.964</td>
</tr>
<tr>
<td>Sex</td>
<td>1.040***</td>
<td>.184</td>
<td>2.829</td>
</tr>
<tr>
<td>Constant</td>
<td>-1.7402</td>
<td>.3978</td>
<td></td>
</tr>
<tr>
<td>-2 Log Likelihood</td>
<td>1058.212</td>
<td></td>
<td>with 2244 degrees of freedom</td>
</tr>
<tr>
<td>Model Chi-Square</td>
<td>266.711</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: * p < .10, ** p < .05, *** p < .01
*All indicators are in a standardized form N(0,1).
ownership of a car, and control variables that allow me to test the hypotheses about the impact of the profile of characteristics important in the context of the present Polish economic system. When not controlled by other factors we see that those respondents who have a family background in business are more likely to become an entrepreneur than those whose backgrounds do not include such a history. Those who do not support trade unions through active membership are also more likely to become entrepreneurs. Privileged with respect to accumulated economic assets—accessible resources and ownership of a car—and being a younger male significantly increase the relative chances of establishing a private business.

While some variables pertaining to family background, human and cultural capital, and participation in political and organizational activity increase the chances of becoming an entrepreneur, their net effects are sometimes in a direction opposite from their total effects; some of them are not statistically significant. Although only two economic variables—accessible resources and ownership of a car—are significant, all of them contribute positively to underlying business activity.

To interpret these results we should look at the distribution of economic assets. Within the privileged groups those who demonstrate the highest factor scores are truly more advantaged than others. The average amount of accessible financial resources for those one standard deviation above the mean of the factor score distribution is 3,163 Zloty. In the top group 98 percent own cars, 84 percent own telephones, and 42 percent own computers. In comparison, among those in the middle of the distribution the amount of accessible resources is .402 Zloty: 74 percent own cars, 20 percent own telephones, and 6 percent own
### Table 5.4: Logistic Regression of Being an Actual Entrepreneur on Business History, Non-Member Trade Union, Accessible Resources, Ownership of a Car, and Control Variables, Poland, 1993.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>B</th>
<th>S.E.</th>
<th>Exp (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business History</td>
<td>.496</td>
<td>.097</td>
<td>1.642</td>
</tr>
<tr>
<td>Foreign Travel</td>
<td>.279</td>
<td>.081</td>
<td>1.642</td>
</tr>
<tr>
<td>Non-Member Trade Union</td>
<td>.307</td>
<td>.077</td>
<td>1.360</td>
</tr>
<tr>
<td>Accessible Resources</td>
<td>.133</td>
<td>.054</td>
<td>1.143</td>
</tr>
<tr>
<td>Owner Car</td>
<td>.622</td>
<td>.089</td>
<td>1.938</td>
</tr>
<tr>
<td>Age</td>
<td>-.033</td>
<td>.008</td>
<td>.968</td>
</tr>
<tr>
<td>Sex</td>
<td>.979</td>
<td>.175</td>
<td>2.661</td>
</tr>
<tr>
<td>Constant</td>
<td>-1.995</td>
<td>.359</td>
<td></td>
</tr>
</tbody>
</table>

-2 Log Likelihood: 1068.171
Model Chi-Square: 256.753

Note: * p < .10, ** p < .05, *** p < .01
* All indicators are in a standardized form N(0,1).

---

Table 5.4: Logistic Regression of Being an Actual Entrepreneur on Business History, Non-Member Trade Union, Accessible Resources, Ownership of a Car, and Control Variables, Poland, 1993.
computers. A transition from the mid-point of the distribution to the top group would increase the odds of becoming an entrepreneur by more than 100 percent. This is a huge effect.

The conclusion that the most important variables determining entrepreneurship are reflecting economic assets accumulated before the transition is an important contribution since it has various theoretical implications. As such it must be examined with some care. Two comments are in order.

First, is this result an artifact stemming from the measurement procedure? To check this possibility, I performed an analysis using various combinations of variables. Economic assets were the most important—usually together with a history of family business, independently of the particular combination. In all combinations car ownership remains significant.

Second, the model in which the dominant role in determining entrepreneurship is played by economic assets does not imply that other variables are less important in the entire causal process. The question is to what extent economic assets are determined by such factors as family background, human capital, and political activities. To answer this question I analyzed a model in which the determinants of economic assets are included. Table 5.5 shows that car ownership plays an important intervening role—it is the mediating mechanism through which education affects entrepreneurship, independently of other variables.
<table>
<thead>
<tr>
<th>Indicators</th>
<th>B</th>
<th>S.E.</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Father's Education</td>
<td>-.003</td>
<td>.059</td>
<td>.998</td>
</tr>
<tr>
<td>Father's SES</td>
<td>.013</td>
<td>.056</td>
<td>1.013</td>
</tr>
<tr>
<td>Father Communist Member</td>
<td>.051</td>
<td>.046</td>
<td>1.053</td>
</tr>
<tr>
<td>Business History</td>
<td>.026***</td>
<td>.048</td>
<td>1.279</td>
</tr>
<tr>
<td>Education</td>
<td>.476***</td>
<td>.063</td>
<td>1.610</td>
</tr>
<tr>
<td>Continuing Education</td>
<td>.026</td>
<td>.048</td>
<td>1.027</td>
</tr>
<tr>
<td>Foreign Language</td>
<td>-.056</td>
<td>.052</td>
<td>.946</td>
</tr>
<tr>
<td>Foreign Travel</td>
<td>.261***</td>
<td>.049</td>
<td>1.298</td>
</tr>
<tr>
<td>Communist Party Member</td>
<td>.026</td>
<td>.050</td>
<td>1.026</td>
</tr>
<tr>
<td>Youth Organization Member</td>
<td>-.002</td>
<td>.047</td>
<td>.999</td>
</tr>
<tr>
<td>Non-Member Trade Union</td>
<td>.088*</td>
<td>.047</td>
<td>1.092</td>
</tr>
<tr>
<td>Strike</td>
<td>.026</td>
<td>.048</td>
<td>1.027</td>
</tr>
<tr>
<td>Protest</td>
<td>-.022</td>
<td>.046</td>
<td>.979</td>
</tr>
<tr>
<td>Issues</td>
<td>-.067</td>
<td>.046</td>
<td>.945</td>
</tr>
<tr>
<td>Household Income Per Capita</td>
<td>.024</td>
<td>.044</td>
<td>1.024</td>
</tr>
<tr>
<td>Age</td>
<td>.007*</td>
<td>.004</td>
<td>1.007</td>
</tr>
<tr>
<td>Sex</td>
<td>-.117</td>
<td>.096</td>
<td>.889</td>
</tr>
<tr>
<td>Constant</td>
<td>-.765</td>
<td>.207</td>
<td></td>
</tr>
<tr>
<td>-2 Log Likelihood</td>
<td>2795.077</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model Chi-Square</td>
<td>244.953</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: * p < .10, ** p < .05, *** p < .01
* All indicators are in a standardized form N(0,1).

Table 5.5: Logistic Regression of Car Ownership on Family Background, Human and Cultural Capital, and Political and Organizational Assets, and Control Variables, Polish Panel Study, 1988-1993.
Third, the effects of economic assets may be washed out after including intervening variables—of infrastructural or psychological motive. This issue requires an extensive analysis; it is addressed in the next section.

*Logistic Regression—Second Stage*

In Table 5.6, I am testing hypotheses about the importance of two blocks of indicators, infrastructure and psychological functioning. In Table 5.6, Model A, the block of institutional variables is limited to contextual factors: density of banks and government expenditure on infrastructure. Both variables are significant.

In Table 5.6, Model B, the block of psychological variables includes self-direction and self-reliance. In Table 5.6, Model C shows logistic regression of entrepreneurs on infrastructural and motivational variables, controlling for age and sex. In this model all variables are significant. Analysis shows that entrepreneurs are those who come from ecological units with a greater density of banks and where governments are spending greater amounts on transport and telecommunication. Additionally, those who are psychologically motivated through self-reliance and self-direction have greater chances of becoming an entrepreneur. Again, being younger and male positively affects the chances of establishing a private business.

Self-direction or self-reliance is significant only if the model does not include structural variables. Additional analyses show that when family background is controlled, both main psychological variables become insignificant. Why?
### Table 5.6: Logistic Regression of Being an Actual Entrepreneur on Indicators of Infrastructure, Psychological Variables, and Control Variables, Poland, 1992.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>B</th>
<th>S.E.</th>
<th>Exp (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Infrastructure and Control Variables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Density of Banks</td>
<td>0.1779**</td>
<td>0.0662</td>
<td>1.1947</td>
</tr>
<tr>
<td>Government Expenditure</td>
<td>0.0149*</td>
<td>0.0086</td>
<td>1.0150</td>
</tr>
<tr>
<td>Control Variables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>-0.0304**</td>
<td>0.0060</td>
<td>0.9701</td>
</tr>
<tr>
<td>Sex</td>
<td>1.2739**</td>
<td>0.1507</td>
<td>3.5748</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.3192</td>
<td>0.3688</td>
<td></td>
</tr>
<tr>
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<tr>
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<tr>
<td><strong>B. Psychological Variables and Control Variables</strong></td>
<td></td>
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<td>1.2275</td>
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<td>1.1770</td>
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<td>Model Chi-Square</td>
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<td><strong>C. Infrastructure, Psychological Variables, and Control Variables</strong></td>
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<td>Infrastructure</td>
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<td>Self-Reliance</td>
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</tr>
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</tr>
</tbody>
</table>

*Note:* * p < .10  ** p < .05  *** p < .01
One explanation takes into account the relationship between social structure and personality. Kohn and Slomczynski (1990) demonstrated that various psychological variables correlate very highly with class. In particular they found that those in more privileged classes have higher scores of self-direction and higher scores on scales similar to self-reliance. Due to this relationship, psychological variables lose their significance when family background is controlled. Moreover, psychological variables do not decrease the importance of economic assets.

**Conclusion**

In this analysis I focused on six types of variables potentially affecting entrepreneurship: (1) family background, (2) human and cultural capital, (3) political and cultural capital, (4) economic assets, (5) institutional infrastructure, and (6) psychological predilections. The expectation that these types of variables would independently influence establishing a private business is not confirmed. Effects that were found are indirect or dependent on each other. My expectations were motivated by theoretical consideration, and the effects are summarized in Figure 5.1 (see page 98).

Individuals engaging in entrepreneurial activity come from advantaged family backgrounds that are consistent with the accumulation of assets necessary for starting a business: human capital of the respondents' parents, social stratification position of the family, and participation in business activity by family members. The importance of
opportunities open to individuals who come from families with business traditions or privileged classes is retained in terms of direct effects when other variables are controlled.

Formal education is an intervening determinant of entrepreneurship together with such human capital factors as knowledge of foreign languages or experience with foreign cultures. Knowledge of foreign language and experience with foreign cultures are new variables used in studying entrepreneurship.

“Old ties”—that is, connections with the former communist party—should facilitate entrepreneurs in establishing their firms. Actually, the effects are insignificant when other variables are controlled. The same applies to participation in strikes and protests. In some equations non-membership in trade unions is the most important political/organizational variable.

Those individuals who are more privileged with respect to having accumulated greater financial assets are more inclined to engage in entrepreneurship than those individuals who are not privileged with respect to the accumulation of financial assets. In the Polish context, among economic assets ownership of a car is a very strong predictor of becoming an entrepreneur. The effect of this variable is not washed out by institutional infrastructure or psychological motives.
My historical description in Chapters 1 and 4 shows that in Poland, at the beginning of the transition from an administrative command economy to a free market economy, the size of the entrepreneurial class was relatively small. Estimates for this group range from three to five percent of the non-agricultural labor force. At the end of the first phase of economic transition (1989-1993), this group had expanded to eight or ten percent. According to some forecasts within the next seven years, by the end of the second phase of economic transition (1993-2000), this group will have expanded to twenty percent of the non-agricultural labor force (Lipowicz 1994).

If this prediction for expansion of the entrepreneurial class is even remotely factual, several questions arise: In terms of social characteristics, who are these potential entrepreneurs? What common characteristics do they share with actual entrepreneurs? Do potential entrepreneurs reveal greater entrepreneurial spirit than the rest of the population, or is entrepreneurial spirit "dead"? Considering these questions,
I identify factors that determine who belongs to the category of potential entrepreneurs—that is, who is likely to become an entrepreneur in the second phase of the economic transformation.

**Data and Measurement**

In Chapter 5, I described how I referenced my typology of probable determinants of entrepreneurial activity (refer to Chapter 3) to identify variables within national surveys used in an analysis of actual entrepreneurship. In this chapter I use a corresponding theoretical framework to describe determinants of potential entrepreneurship. As in Chapter 5, I use data from a panel study, SCP, “Social Changes in Poland 1988-1993,” and from a complex survey, PFC, “Psychological Functioning Under Conditions of Social Change, 1992.” For a complete description of the data refer to Chapter 2.

**Indexing and Measurement of Variables**

In this analysis, potential entrepreneurship is measured through two basic elements of entrepreneurial spirit: an inclination to establish a business and a propensity to invest. From the standpoint of class formation the willingness to open a business is crucial since it is a basis of class self-recruitment or self-selection. However, for businesses to materialize, the willingness to open a business must be
coupled with a high propensity to invest. Potential entrepreneurs are restricted to those who are in the labor force as employees and fulfill two requirements—they are inclined to open a business and have a high propensity to invest.

**Inclination to Establish a Business:** Respondents were asked the following: “People often talk about undertaking private money-making activities, that is, about starting their own business or establishing a company with someone else. Are you determined to undertake such an activity, not determined to undertake such an activity, or undecided?” A dummy variable was created to reflect a strong inclination to establish a business.

**Propensity to Invest:** I wanted to isolate a strong propensity to invest—those who would be willing to risk sacrificing as much of their financial resources as possible in order to start their own business. Respondents were asked the following: “If someone handed you 100 million Zloty, would you risk sacrificing a significant part of this sum for starting your own business? How much would you risk sacrificing for starting your own business?” Respondents were asked the same questions with regard to 500 million Zloty. I analyzed cross tabulations of those who were willing to sacrifice, identifying those who had the strongest propensity to invest—willing to risk the most money. Those respondents with the strongest inclination to establish a business and the strongest propensity to invest were aggregated to form the dependent dummy variable: being a potential entrepreneur. Therefore, those who measured one on an inclination to establish a business and a one on propensity to invest received a
one for being a potential entrepreneur. Those who received a zero on either measure were coded zero for being a potential entrepreneur.

Data Analysis

Potential Entrepreneurs vs. Actual Entrepreneurs

The first question I want to answer is whether potential entrepreneurs share common characteristics with actual entrepreneurs. Table 6.1 provides data for such a comparison.

Potential entrepreneurs come from families in which the respondent's father has a lower education, on average, than in the case of actual entrepreneurs. Families of potential entrepreneurs are also less frequently involved in private business in the past than families of actual entrepreneurs. Both of these differences are statistically significant.

Except for foreign travel there are no statistically significant differences between potential and actual entrepreneurs with regard to human and cultural capital.

With regard to political and organizational activity, potential entrepreneurs are less frequently involved in trade unions than are actual entrepreneurs.

#### Mean Values

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Actual Entrepreneurs</th>
<th>Potential Entrepreneurs</th>
</tr>
</thead>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Family Background</strong></td>
<td></td>
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</tr>
<tr>
<td>Father's Education (Scale: 6 to 16)</td>
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<td>9.2</td>
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<tr>
<td>Father's SES (Scale: 1 to 9)</td>
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<tr>
<td>Father Communist Member (Yes=1)</td>
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<td>.130</td>
</tr>
<tr>
<td>Business History (Yes=1)</td>
<td>.845</td>
<td>.641</td>
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<tr>
<td><strong>Human and Cultural Capital</strong></td>
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<td></td>
</tr>
<tr>
<td>Education (Scale: 6 to 16)</td>
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</tr>
<tr>
<td>Continuing Education (Yes=1)</td>
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<td>.308</td>
</tr>
<tr>
<td>Foreign Language (Yes=1)</td>
<td>.551</td>
<td>.541</td>
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<tr>
<td>Foreign Travel 1988 (Yes=1)</td>
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<td>.017</td>
</tr>
<tr>
<td><strong>Political/Organizational Activity</strong></td>
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<td></td>
</tr>
<tr>
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<td>.237</td>
<td>.200</td>
</tr>
<tr>
<td>Member Youth Organization (Yes=1)</td>
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<td>.238</td>
</tr>
<tr>
<td>Member Trade Union (No=1)</td>
<td>.815</td>
<td>.595</td>
</tr>
<tr>
<td>Administrative Issues (Yes=1)</td>
<td>.444</td>
<td>.420</td>
</tr>
<tr>
<td>Participate in Strike (Yes=1)</td>
<td>.242</td>
<td>.281</td>
</tr>
<tr>
<td>Participate in Protest (Yes=1)</td>
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<td>.059</td>
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<tr>
<td><strong>Economic Assets</strong></td>
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<td></td>
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<tr>
<td>Household Income Per Capita (In Millions)</td>
<td>8.748</td>
<td>1.670</td>
</tr>
<tr>
<td>Accessible Resources (From 2 to 64)</td>
<td>10.895</td>
<td>4.912</td>
</tr>
<tr>
<td>Owner Car 1988 (Yes=1)</td>
<td>.742</td>
<td>.351</td>
</tr>
<tr>
<td>Owner Telephone 1988 (Yes=1)</td>
<td>.345</td>
<td>.194</td>
</tr>
<tr>
<td>Owner Computer 1988 (Yes=1)</td>
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<td>.032</td>
</tr>
<tr>
<td><strong>B. 1992</strong></td>
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<td></td>
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<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Density of Banks (From 1 to 3)</td>
<td>1.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Government Expenditure (From 1 to 97)</td>
<td>23.2</td>
<td>22.1</td>
</tr>
<tr>
<td><strong>Motivational Determinants</strong></td>
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<td>.037</td>
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<tr>
<td>Self-Direction (Scale: N [0,1])</td>
<td>.132</td>
<td>.100</td>
</tr>
</tbody>
</table>

Note: Potential entrepreneurs differ significantly from actual entrepreneurs.
The biggest difference between potential and actual entrepreneurs is with regard to economic assets. As I indicated in Chapter 5, actual entrepreneurs are much better off in the total population. In comparison with them, potential entrepreneurs have lower household income per capita, and they have less expendable resources. They are less likely to own a car and/or a telephone. The differences for all mentioned economic assets are statistically significant.

**Determinants of Potential Entrepreneurship**

The main questions are to what extent a location higher in the social stratification system affects the propensity to be a potential entrepreneur and what the role of entrepreneurial spirit is—self-reliance and self-direction. Is entrepreneurial spirit an intervening variable between location in the social stratification system and potential entrepreneurship?

Taking into consideration standard measures of social stratification—education, occupational rank, and income—Table 6.2 demonstrates that among social stratification variables only occupational rank is correlated with being a potential entrepreneur. Although other variables increase the chances of being a potential entrepreneur, their impact is negligible. Among the psychological variables self-reliance is statistically significant for being a potential entrepreneur.
<table>
<thead>
<tr>
<th>Indicators</th>
<th>Correlation Coefficient</th>
<th>Exp (B)</th>
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<tr>
<td>Occupation</td>
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<td>Income</td>
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<td><strong>Psychological Variables</strong></td>
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</table>

Note: *p < .05

Table 6.3 presents multinomial logistic regression of being a potential entrepreneur or an actual entrepreneur on psychological variables and social stratification. In the first two columns, the contrast is non-entrepreneurs, that is, those who are neither potential nor actual entrepreneurs. In the last column potential entrepreneurs are contrasted with actual entrepreneurs.

The first column of Panel A presents regression of entrepreneurial activity on self-reliance and self-direction. Both psychological variables and control variables—age and sex—are statistically significant for being a potential entrepreneur. Self-reliance and self-direction increase the chances of being a potential entrepreneur when compared to non-entrepreneurs. However, neither self-reliance nor self-direction is statistically significant for being a potential entrepreneur when compared to being an actual entrepreneur. Being a woman is negatively significant for being a potential entrepreneur when compared to being an actual entrepreneur.

Panel B includes social stratification and psychological variables. In column one we see that the impact of self-reliance and self-direction is positive and significant for being a potential entrepreneur when contrasted to the non-entrepreneurial population. When actual entrepreneurs are contrasted to the non-entrepreneurial population, self-reliance and self-direction are not significant, but occupational status and income are significant. When potential entrepreneurs are contrasted with actual entrepreneurs in the full model (Panel B, column 3), potential entrepreneurs are distinguished as having lower occupational status and lower income. This is in agreement with my findings in Chapter 5.
### Table 6.3: Multinomial Logistic Regression of Being a Potential Entrepreneur and an Actual Entrepreneur on Social Stratification, Psychological, and Control Variables, Poland, 1992.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Potential Entrepreneurs versus Non-Entrepreneurs</th>
<th>Actual Entrepreneurs versus Non-Entrepreneurs</th>
<th>Potential Entrepreneurs versus Actual Entrepreneurs</th>
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<td></td>
<td>B</td>
<td>B</td>
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<td>.1145</td>
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### B. Social Stratification and Psychological Variables

<table>
<thead>
<tr>
<th></th>
<th>Potential Entrepreneurs versus Non-Entrepreneurs</th>
<th>Actual Entrepreneurs versus Non-Entrepreneurs</th>
<th>Actual Entrepreneurs versus Non-Entrepreneurs</th>
</tr>
</thead>
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<td>B</td>
<td>B</td>
</tr>
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<td>.0009</td>
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<td>.0000</td>
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<td>.0109</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>D. F.</td>
<td>14</td>
<td>14</td>
<td></td>
</tr>
</tbody>
</table>

Note: * p < .10, ** p < .05, *** p < .01
In multinomial regression the contrast is of primary importance. Note that regression coefficients for both psychological variables change their sign when potential entrepreneurs are compared with actual entrepreneurs. Persons with more self-reliance have greater chances of becoming actual entrepreneurs than potential entrepreneurs.

Table 6.4 shows that self-reliance plays a significant role as an intervening variable. Social stratification affects self-reliance in a meaningful way: the higher the education, occupational rank, and income, the more self-reliant are the people. In turn, self-reliant people declare their intent to establish a private business coupled with a high propensity to invest. Thus, self-reliance is the mediating mechanism through which social stratification affects entrepreneurship.
<table>
<thead>
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<th>Indicators</th>
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<th>S.E.</th>
<th>Beta</th>
</tr>
</thead>
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<tr>
<td>Occupation</td>
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<tr>
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</tr>
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<tr>
<td>Adjusted R Square</td>
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</table>

Note: * p < .10, ** p < .05, *** p < .01

Table 6.4: Regression of Self-Reliance on Social Stratification Variables, Polish Cross-Sectional Survey, 1992.
In previous chapters I analyzed factors affecting probability for individuals being either an actual or a potential entrepreneur. Determinants of entrepreneurship were investigated through qualitative and quantitative perspectives. Identification of determinants is the core of micro-structural factors of entrepreneurial activity but does not instruct about patterns of entrepreneurial class formation—the core of economic transformation. In this chapter I investigate macro-structural conditions leading to the development of this social class.

I am most concerned with three issues of entrepreneurial class formation. The first deals with capital formation. Where and how do entrepreneurs acquire the capital necessary for entrepreneurial activity? This is a crucial matter for both actual and potential entrepreneurs: without capital, potentiality is wasted and expansion is impossible.
The second issue concerns class consciousness and class action. Is there cohesiveness among entrepreneurs, and are they banded together by common concerns? In this chapter class consciousness and class action are indicated by development of specific organizations that can serve the interest of entrepreneurial class. How are organizations supportive of entrepreneurial activity started and why are they important?

Third, I examine entrepreneurial class in the context of other classes within the stratification system. Classes are distinguished in the context of the transformed Polish system in 1992. I consider standard measures of social stratification—a linear combination of education, occupational status, and earnings. How do entrepreneurs compare with classes generally considered the most privileged—managers and supervisors in particular?

Data

Data for this chapter come from multiple sources. The issue of capital formation refers to biographical accounts gathered from actual Polish entrepreneurs during extensive interviews. The issue of class consciousness and class action draws on data from interviews with leaders of entrepreneurial organizations and the 1996 survey PBE, “Polish Business Environment Research.” Finally, the issue of social stratification is analyzed using national survey data: SCP, “Social Changes in Poland,” 1988-1993 (Domanski and Slomczynski 1994); PFC, “Psychological Functioning under Conditions of Social Change,” 1992 (Slomczynski et al. 1996; Kohn et al. 1994); SSP,

**Capital Formation Typology**

Although a market economy is significantly supported by Polish society, institutions that normally provide instruments of financial provision in a capitalist economy have not been established. A major obstacle to the conversion of potential entrepreneurship into actual entrepreneurial activity is lack of capital. The following typology of capital formation is based on biographical accounts from actual entrepreneurs willing to share stories of how they obtained the capital to start their businesses and the obstacles to credit accretion. Data collection is described in detail in Chapter 2. All types are summarized in Figure 7.1. For each type I provide quotes from interviews, identifying my respondents by ID number, sex, age, and type of business. A more complete description of respondents is given in Appendix C.
A. Personal Credit
A.1 Legally Accumulated
A.1.1 Savings
A.1.2 Sale of Stocks or Previous Business
A.1.3 One Banana, Crate of Bananas
A.1.4 Jump Start
A.2 Illegally Accumulated
A.2.1 Secondary Market Activity
A.2.2 Illegal Business Converted to Legal
A.2.3 Gray Market Activity

B. Institutional Loans
B.1 Domestic
B.1.1 Domestic Bank Loans
B.1.2 Entrepreneurial Organizations
B.2 Foreign
B.2.1 Foreign Banks

C. Non-Institutional Loans
C.1 Family Loans
C.2 Friends Loans

D. Foreign Connections

E. Partnerships/Shareholders/Joint Ventures

Figure 7.1: Typology of Determinants of Capital Formation in Poland During the Transition Period, 1989-1993.
A. Personal Credit

Personal credit is money the individual entrepreneur is able to raise through his or her own efforts, without institutional financing or borrowing from friends or family. Biographical accounts indicate that personal credit is accumulated through both legal and illegal activity.

A.1 Legally Accumulated

A.1.1 Savings

Individuals who reported they had started their business with their own money were hesitant to elaborate on the source of their capital. Keeping within the guidelines of confidentiality and respondent's comfort, they were not pressured to give details as to the nature of their financial activities. However, some of them volunteered that capital was explicitly through savings:

It was through our own means. There was no external capital.
(010, Male, 35, Distributor Computers/Programs)

We had our own money.
(007, Female, 56, Pharmacist)

We started out with two computers and some software. The software was very expensive but we did not need credit.
(002, Male, 50, Publisher)

It is impossible to get credit for a small business. I had to use all the money I had.
(008, Male, 46, Auto Parts/Manufacture Housewares)
A.1.2 Sale of Stocks or Previous Business

Although during the communist era it was illegal for individuals to own stocks in foreign companies, some respondents had work experience abroad where they had been part of stock option programs. These convertible assets provided capital to start their own business. Others inherited some assets or had money from their previous businesses:

I sold my shares in Apple Computers. We didn't need much - a computer and our heads.
(022, Male, 50, Desktop Publishing, Computer Programs)

My partner had his own money from a previous business.
(020, Male, 32, Mobile Phones)

A.1.3 One Banana, Crate of Bananas

What I classify as the “one banana, crate of bananas” method of capital formation is a fairly common formula for converting potential into existent entrepreneurial activity. Business activity is started on a very small scale, with limited available capital, and the profits are reinvested. It allows the business to grow at an increasing rate without having to borrow from friends or family or having to go through a financial institution. For those who had their beginning in the secondary market this is an especially important option, since banks and other financial lenders require background information before extending credit:
I started with nothing. I just bought one heater and sold it and kept buying and selling. There is no chance for credit in Poland.

(030, Male 46, Distributor, H₂O Heaters/Environmental Goods)

In 1983 I had no money. I started the business on practically nothing. You can’t imagine what was the craftsmen’s life. I built the business one at a time. I would buy one thing and sell it and buy two things and sell them. I didn’t even make one thousand dollars a month. It was built from practically nothing. It is like the guy who found a potato and he made some chips and he sells them and buys 2 potatoes and makes chips and sells them. That is how my business has grown. At the beginning I had a little money from friends and generally the business was built over years. I didn’t need any bank loans.

(023, Male, 35, Jewelry—Export, Wholesale)

It was like how you sell bananas. You buy one bunch of bananas and you sell them and then you buy a crate and you sell it and then you buy a cart of bananas.

(014, Male, 47, Import/Export)

A.1.4 Jump Start

When there was extreme need for particular products or services, potential entrepreneurs and those just starting a business found themselves winners of huge contracts that gave them enough capital to build their business without having to seek further financing. In various instances, new owners were able to acquire the equipment, machinery, inventory, etc., relating to the business for very little investment. Some found that bills were slow in coming in and they had a substantial lead time in developing a cash flow:

The capital came with the first clients. I was able to gain big clients at the beginning. The money from that helped to build the firm.

(026, Male, 40, Public Relations)
In 1993 I started with $10,000 (USD) and the growth was unexpected. In 1994 we made $640,000. That is not a bad return.

(011, Female, 42, Marketing)

A.2 Illegally Accumulated

A.2.1 Secondary Market Activity

When the borders were relaxed for foreign travel, opportunities for providing goods that had been previously unavailable were varied and numerous. Opportunity existed for potential entrepreneurs to accumulate assets that could be used later to establish legitimate businesses. The risk factor was significant, but as we have seen in Chapters 5 and 6 the willingness to take risks is a strong motivational determinant of entrepreneurship:

The best Polish companies are based on crime. In 1989-1991 it was the “golden era.” Smuggling, transfer rubles—many made fortunes for people. Those entrepreneurs that are the most rich are not clean. It is not from clean business. The best names are involved.

(012, Male, 45, Computer Networks)

I started in 1989 but the story begins two to three years earlier. I was circulating between Singapore and Poland doing some private business buying computer parts with my own funds and selling them in Poland. I built a base of capital and made more money than just doing business in Poland.

(016, Male, 45, Telecommunication Equipment)

[Small companies] do some smuggling and their prices are cut in half. The small business can afford to cheat because they can fold if they get in trouble.

(014, Male, 47, Import/Export)
A lot of pirates are selling software and many selling illegally obtained computers. The illegal computer supermarket is every Saturday on the street—Plac Grzybowski—there you can get anything you want at discount prices; it is the black market.

(028, Male, 23, Computers/Networks)

A.2.2 Illegal Business Converted to Legal

Some businesses provided an opportunity for entrepreneurs to accumulate capital through secondary market activities and then to convert their operations to the legal market. However, for some small business owners this mechanism of converting from illegal to legal activity has limited their opportunity to expand. Without documentation of their business history they are ineligible to seek financing in the legitimate market:

Generally, everything I did before was illegal. Most who didn’t want to accept the life in Poland did things abroad. In 1989 I was selling Swedish granite and US cars—used cars—and computers from Taiwan. I also traveled to Turkey and back to Poland. We were smuggling leather jackets and other things. [Then I started a legal business.] I don’t want to be a very rich man—the purpose is to provide for my family.

(030, Male 46, Distributor, H2O Heaters/Environmental Goods)

A.2.3 Gray Market Activity

Many businesses operated in the gray zone—on the edge of the law. Since the economy is still in a period of transformation, tax laws, trade agreements, etc., are still
being drafted and interpreted. Loopholes provide opportunities for entrepreneurs to be “creative.” Several of those interviewed discussed the importance of having an accountant who knew how to maneuver in the market:

Nothing illegal but what may be considered to be in the gray zone. I have two good tax lawyers who invent things for us in order to maximize profits. I don’t go for the option that it is against the law but if it is not clear we try to use it.

(020, Male 32, Mobile Phones)

There are some holes in the laws and if people are stubborn enough they can do it.

(001, Male, 55, Construction)

Basically taxes and tariffs are the same for everyone. Small companies—like with mirrors—can cheat a little bit. There are different types [of cheating] but everybody does it. The smaller businesses do more. Nobody will go to the tax office and say I made a lot of money I want to pay more taxes. Every firm does things to maximize profits.

(014, Male, 47, Import/Export)

In the service business, it is a cash business. In service maybe seventy-five percent goes on paper the rest is cash. There are some problems though when you are working in the gray zone.

(016, Male, 45, Telecommunication Equipment)

B. Institutional Loans

B.1.1 Domestic Bank Loans

One of the innovative ways OECD countries have dealt with high levels of unemployment is through self-employment programs. Although less than five percent of the unemployed traditionally opt for self-employment, for every new enterprise
started approximately one and a half new jobs are created, and the cost of running the program is less than the cost associated with unemployment benefits (Wilson and Adams 1994).

A self-employment program was adopted in Poland and is administered by the Ministry of Labor and Social Policy (for a complete history of self-employment programs see Wilson and Adams 1994). The program, however, appears to be more supportive of large enterprises than of the unemployed. Table 7.1 shows that banks providing loans to small and medium enterprises, under the Cooperation Fund, are in reality servicing loans that are not directed toward the unemployed sector. We can make this assumption if we consider that the amount of collateral needed to secure a loan averages from 140% to 200%, depending on the lending institution, and that in 1990-1991 interest rates could be as high as 80%. Interest is determined on a base rate—the Wibor rate, an internal bank rate; the amount banks charge each other for credit, about 20%—to the Wibor rate is added a margin. The total is the cost to the client and it can change for various customers.

During an interview with a chief loan officer Bank Rozwoju i Exportu he outlined the criteria for determining credit worthiness:

1. The company should be in operation for at least 18 months. We do not give start-up credit. They have to have a financial statement. There are some exemptions from this regulation, such as if you had run a successful business before.
2. If the application is for long-term credit for investment the applicant has to have a minimum of 40% of the investment. Even then we are reluctant to provide 60% of investment costs.
<table>
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<tr>
<th></th>
<th>Polish Development Bank</th>
<th>Bank for Socio-Economic Initiatives</th>
<th>Polish American Enterprise Fund</th>
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<tbody>
<tr>
<td>Total Amount Lent (USD)</td>
<td>23,190,000</td>
<td>7,768,000</td>
<td>24,640,000</td>
</tr>
<tr>
<td>Number of Loans</td>
<td>34</td>
<td>191</td>
<td>912</td>
</tr>
<tr>
<td>Average Loan (USD)</td>
<td>682,000</td>
<td>40,700</td>
<td>27,000</td>
</tr>
<tr>
<td>Average Terms</td>
<td>42 months</td>
<td>24-36 months</td>
<td>30 months</td>
</tr>
<tr>
<td>Collateral</td>
<td>150-200 %</td>
<td>150-200 %</td>
<td>140 %</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>market</td>
<td>market</td>
<td>below market</td>
</tr>
</tbody>
</table>

Average exchange rate (market rate $rf$) for 1992: Zł 13626.


Table 7.1: Summary Characteristics of Loans for Small and Medium-Sized Companies from Major Loan Companies in 1992.
When we review an application we look for three main points:

1. The investor's financial statement. It must go back at least 2 to 3 years. We review the balance sheet and the net income statement.

2. We look at the project. The environment, market feasibility. We make a financial analysis provided by the potential investor. For financial feasibility we use standard ratios - break even points, debt equity, return of capital, etc.

3. We evaluate the collateral. There is a list of collateral we accept but it is rather flexible. We need to be flexible because there is big competition on the market. Since the last 2 to 3 years many banks in Poland are fighting for the best customers. The number of clients has dropped in the last years.

Entrepreneurs confirmed the difficulty of obtaining bank loans:

Now [banks] are starting to create investment programs and just starting [loan] offices for this.

(009, Male, 36, Telecommunication/Paging)

Generally it is a problem getting money from the banks. I had some line of credit in a Polish bank but it was too expensive so I liquidated my credit.... Credit makes business easier but you are just making money for the bank.  

(019, Male, 48, Import—Seafood)

B.1.2 Entrepreneurial Organizations

Entrepreneurial organizations more often than not offer assistance in procuring a loan rather than actually extending credit themselves. In particular, Business Centre Club has wide contacts and is able to expedite the long application process for members, as well as to assist in the development of comprehensive business plans:

The Polska Foundation for Entrepreneurs extended me credit.... No trouble getting it but the interest rates were between thirty and forty percent.

(015, Male, 44, Dentist)

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B.2 Foreign

B.2.1 Foreign Banks

Many potential entrepreneurs found they were unable to obtain credit from a Polish bank. The reasons varied. The foremost reason for avoiding domestic banks was high interest rates. Those who had foreign contacts were able to get better rates and terms:

I invested partially from my own money plus money from a friend in Munich. I was lucky to have my friend who took out a loan for me in Germany and I have been able to pay it back.

(020, Male, 32, Mobile Phones)

To get bank credit you have to get some kind of money to put up and it doesn’t make sense for a small company. Where is that collateral supposed to come from? I have an account in an Austrian bank. There the interest and the terms are more reasonable.

(021, Male, 52, Lighting Design)

I use a bank outside of Poland. There are some specific ways to use banks. I have a trick. For a company outside of Poland I take credit in a bank for the products. Then I provide the goods and I get the money plus the interest rate—it is included in the price and the payment.

(014, Male, 47, Import/Export)

C. Non-Institutional Loans

C.1 Family Loans

Family loans represent a high proportion of available credit used to start new businesses. In anticipation of social change, families pooled resources and waited for an opportunity to enter the market:
I made a deal with my father. I told him I had this opportunity to go into business for myself—to be an owner. A worker just makes money for his boss. I wanted more. Mostly I wanted to be free to do what I love to do. My father lent me the money. I worked hard. And I have paid all the money back.  
(028, Male, 23, Computers/Networks)

My brother encouraged me to start my own business. He helped me with money to get started and in setting up the business.  
(001, Male, 55, Construction)

C.2 Friends Loans

Friends also seized the opportunity to enter the market during the early stages of social change. Some who were already established helped to launch others. Friends also were an early source of employees:

We raised the capital privately. There is no way to get a cheap and easy loan from the bank. When I started I had very low capital needs and friends gave me the money. I had no business plan.  
(027, Male, 50, Manufactures Ribbons)

In the beginning we had a third partner. But three years ago that partner found employment in the City Council. That would have been a conflict of interest so she had to leave the company. To buy out the third partner we had to take out loans.... from friends. The interest rates on loans from the bank are too high and they are difficult to get.  
(018, Male, 48, Researcher)
D. Foreign Connections

Those who were able to travel during the communist era not only gained experience but also received an additional payoff through foreign connections that were all-important for capital formation. Many potential entrepreneurs worked in companies outside of Poland and were able to open a branch of that company in Poland, or to mimic the technology and start their own company.

We found a company in Australia who were already in the communications business in Yugoslavia and the Balkans. So Poland was a natural place for them to expand. The core of their business was in SE Asia. They were very aggressive in third world countries because the type of communication service we provide is very expensive. You need a lot of people and labor is cheaper here.

(009, Male, 36, Telecommunication/Paging)

I was interested in all the changes that were going on. I had my Swedish connections and so I started a consulting business. One of my clients was in the telecommunications business and so we started to form plans for a separate company here in Poland.

(010, Male, 35, Distributor Computers/Programs)

E. Partnerships/Shareholders/Joint Ventures

For many entrepreneurs, when family and friends are unable to lend money and bank credit is unavailable, the next best method for capital formation is through investment partners. Since the entrepreneur usually orchestrates the arrangements, he or she is able to retain majority control and thereby protect his or her autonomy.
I started my own business but I didn't have financing. Normal bank credit was impossible. I had to find investors. I found them and now the company is owned by shareholders.

(017, Male, 45, Exhibitions, Advertising)

It was an important idea but how to move the idea was a problem. Then I talked to another guy who helped with contacts in Italy. Then I found a third person in Poland.

(019, Male, 48, Import—Seafood)

We started a joint stock venture in February of 1993. There is a general assembly of shareholders.

(009, Male, 36, Telecommunication/Paging)

In 1991 the company was started as a share holder company. There are five major stockholders—each with more than five percent. It is listed on the Warsaw Stock Exchange and is twenty-six percent public.

(031, Male, 36, Network Integrator)

In summary, biographical accounts inform us that the process of capital formation for entrepreneurs in the context of the Polish economic transition is very similar to the process in established capitalist societies. However, two major differences should be noted. First, instead of domestic institutional loans being a major source of financing a business, Polish banks and entrepreneurial organizations are playing a very limited role. Second, illegal activity is generally a socially accepted means of capital formation. This is a unique circumstance that more than likely will be modified during social change. Acceptance of illegal activity can be explained in several ways. First, under communism there was a notion of “them and us” that condoned getting one's “due” from “them.” Second, during the communist era when the government depended on the black and gray markets to supplement the consumer
market, illegalities were basically overlooked. As legislation tightens around illegal activity this “opportunity” will decline.

Class Consciousness and Class Action: Organizational Development

In this section, I explore the notion of entrepreneurial class consciousness, indicated through the establishment of formal organizations. Referring back to Chapter 4, I argue that these processes parallel the transformation of entrepreneurial recruitment patterns started during “reformed socialism” in the 1980s—when recruitment patterns shifted from ascription to achievement—and intensified in the post-communist period, that is, after 1989. I take into account two principal dimensions—specialized education, and associations and organizations supporting entrepreneurial activity.

The classical definition of class consciousness is associated with Marxism. This perspective notes that within a social class there is awareness among members of common interests—based on their own class circumstances and in opposition to the interests of other classes. There is a basic distinction made between class-in-itself—the objective basis of class interests—and class-for-itself—the consciousness of these interests. In this segment I am working from a neo-Marxist perspective—that a set of values and beliefs and a political organization will emerge in order to represent and realize the objective interests of the class; but these interests are not revolutionary by nature: rather, they are in the interest of expanding a market economy.
I have contemplated varied ways of gauging class consciousness. Traditionally, researchers, challenged with measuring class consciousness, test self-placement within class structure, examine attitudes, or investigate voting patterns (Lazerfeld et al. 1944; Berelson et al. 1954; Lockwood 1966; Goldthorpe, Lockwood, Bechofer and Platt 1968; Butler and Stokes 1969; Bulmer 1975). I discounted each of these methods for one reason. In the context of radical social change these measures may not be reliable. I question the reliability of the first two measures because class structure and attitudes are shifting. Until they crystallize, they may not clearly reflect class consciousness. Voting behavior would not be reliable since there has been such a proliferation of political parties, and it is often confusing which social groups a particular party platform represents. In a 1996 survey owner respondents were asked this question: Do you think that any of the currently existing political parties (inside or outside the parliament) represent interests of businessmen from private and state-owned companies? Twenty-one percent answered yes; sixty-four percent answered no; and fifteen percent did not know. The twenty-one percent who answered yes were then asked which of seventeen parties represents the interests of the group (businessmen) best. Thirty-two percent identified Unia Polityki Ralnej (Janusz Korwin Mikke); thirty-one percent, Unia Wolnosci (Leszed Balcerowicz, Bronislaw Geremek, Tadeusz Mazowiecki); and eighteen percent, Sojusz Lweicy Demokratycznej (Aleksander Kwasniewski, Jozef Oleksy); no other party received higher than four percent support (Demoskop 1996). These statistics suggest that political parties are not a reliable indicator of class interest. I concluded that formation and endorsement of educational
programs and organizations supportive of entrepreneurial activity are more representative of class interest.

Organizational development around a particular occupational group can be viewed as the professionalization of that particular group and indicates increasing class consciousness. In general, the concept of profession refers to a particular occupational group distinguished by its technical know-how and a common culture. Occupations become "professionalized" through a process that identifies a specific set of tasks that have become associated with a particular full-time job. Training programs, usually university affiliated, are established for the purpose of creating experts and for the recruitment of new professionals. Professional associations are established to support members and their interests and to lobby for favorable legislation and market protection. Additionally, these associations establish a code of ethics protecting members of the profession from libel. In most instances, professionalism is accompanied by higher income, higher prestige, and greater job autonomy (Wilensky 1964; Bledstein 1976; Hodson and Sullivan 1990).

In Poland the first observable trend toward professionalization of entrepreneurs is the establishment of entrepreneurial associations, providing not only training opportunities but also financial instruments and lobbying service. During the communist period, the Democratic Party, one of the two parties allied with the Polish United Worker's Party, was designated to defend the interests of employers and the self-employed. In addition, there were craft guilds providing certification for opening
private enterprises. However, there were no spontaneously formed entrepreneurial organizations.

In 1989, the Adam Smith Research Centre was established as the first private, non-profit institution in Eastern Europe whose statutory goals are strongly associated with entrepreneurship. In 1991, the prestigious and very visible Business Centre Club (BCC) was founded, promoting market economy and representing some of the most influential business leaders in Poland. Polish Federation of Independent Entrepreneurs, established in 1994, is a copy of an American-style business organization. Polish Foundation for Small and Medium Enterprise Promotion and Development has over thirty business support centers throughout Poland. The list continues to grow, including Chambers of Commerce at both national and regional levels.

It is always important to place research in an appropriate context, but it is most significant in this situation. I have been discussing the proliferation of entrepreneurial support organizations, but if we contrast this to the biographical accounts I provided in Chapter 3 their prominence may sacrifice significance. It appears that entrepreneurs do not readily join organizations and are often mistrustful of them. However, if we put this in the context of the transformation and read the accounts carefully, we see there is not only awareness of the existence of support organizations but also acknowledgment of possible benefits. In the 1996 Demoskop research, seventy-seven percent of owner respondents were aware of existing business organizations. As for actual membership, only twenty-two percent of respondents were members of business organizations, and only twenty-seven percent of those who were not members declared their willingness to
join. Among all respondents, forty-seven percent had actually dealt with any of those organizations. Of all owner respondents, fifty-eight percent agreed that the key objectives of organizations such as national and general associations of businessmen (e.g. Business Center Club) were representing interests of the business community and expressing its opinions about current events (Demoskop 1996).

Is this moderate cognizance and reluctance to join an indication that class formation is stagnant? If we put it in context, I think not. Several issues must be considered. First, organizations are still “young,” and they admit to having made mistakes. Even the most visible organization, Business Centre Club (BCC), was founded only in 1991 and in fact is not very big, having 650 member companies and 1300 member entrepreneurs. Several leaders of entrepreneurial groups confided that their organizations were modeled according to an American style, and they felt that this construction has inhibited the acceptance and expansion of their groups:

PFNP is a copy of the American style of business organizations. It was organized following the C. Wilson Harder concept to get direct involvement in the political system through membership voting on upcoming legislative issues. This was one of the failures in trying to copy the American style of business organizations. The Polish mentality is not the same and strategies cannot be adopted from other cultures. The recruitment was based on local representatives—trained at the Centre—going to SMEs and presenting the organization. They outlined the benefits and encouraged membership. In the US there are over 600,000 members—mostly recruited this way—but in Poland it failed. The entrepreneurs here believe it is not useful to join an organization that is lobbying in a closed situation. They feel that the government is so corrupt and is comprised in the interest of big business only that it is a waste of their money to support an organization that has no chance of being heard. Polish entrepreneurs don't think they need representation because the government is so inefficient. They think that it is better to go into the "hidden economy." About 35% of small business is still part of the hidden economy. This is not regarded as immoral in Poland. It is
accepted as part of the necessary strategy for getting ahead.] [Because of
several mistakes by the Board we have just created a new Board. The
old Board wanted to be at the national level but now we see that we must
go to the local level. It was a false assumption that we have to be at the
national level. This was one of the errors of following the American
plan.²

(Representative-Polish Federation of Independent Entrepreneurs)

Another underlying issue of low interest in joining entrepreneurial organizations
is disagreeable recollections from the previous system. Under the socialist system,
ideology infiltrated all aspects of life. Rituals of affirmation were imposed from above
and also staged from below (Burawoy and Lukacs 1992). As one of the respondents
mentioned during an interview, “I had to belong to the guild. Now I don’t want to be
part of that.” Other respondents recall that organizations make them think about
collective ventures and big rallies rather than business. Respondents could not imagine
co-operation with their competitors. They are afraid of information leaks and
employees being bought out by stronger companies.

Most often entrepreneurs engaged in SMEs felt that it was a waste of their time,
energy, and money to belong to an organization because the organization is perceived
as serving the interests of the “Big Fish.” There is an elementary lack of knowledge
among many owners of SMEs as to the goals and methods of such organizations and
what they can offer members. The concept of lobbying is not universally understood
and has undertones of favoring those with political clout.

I would argue that considering the above issues—putting organizations in
context—it is persuasive that the BCC has 1300 individual members, or that the Polish
Federation of Independent Entrepreneurs, founded in 1994, has 800 members. This is evidence that there is an awareness of common goals and interests among entrepreneurs.

A second observable trend that developed in Poland in the early 1980s is the flourishing of a new type of education: post-secondary schooling, providing technical skills in new technology. It is interesting that contrary to governmental plans, a large proportion of graduates from these schools entered the “second economy.” Their skills were needed in various semi-legal import transactions dealing with computers and video equipment. It is estimated that in 1985 the well-educated and relatively young people generated almost twenty percent of the national income through their “second economy” activities (Kaminski 1991). It has been argued that in Poland during the 1980s the schooling system helped to enhance entrepreneurial spirit. Since 1989 there has been a proliferation of new business schools and university courses in economics, trade and commerce, along with numerous training programs and workshops for entrepreneurs. In just three years, 1990-1992, the number of schools of higher economics almost tripled, from five to fourteen, and the number of students almost doubled, from 24 to 40 thousand (Heyns 1996). In 1996, the most prestigious business school in Poland, First Private Higher School of Business and Administration, had an enrollment of two thousand students.

It is noteworthy that not only young people and students are interested in business-related education but also established entrepreneurs. In a 1996 research project (refer to Demoskop, Chapter 2) businesspersons reported having a high opinion
of their general knowledge (76%), as well as specialist knowledge necessary to carry out their activities (78%). However, sixty-three percent agreed that ongoing education is indispensable for achieving market success and another thirty-one percent agreed it is helpful although not indispensable for success. One third (34%) of the respondents would most like to learn a foreign language. Fewer would choose training in management (19%), finance and accounting (14%), and law (11%). It is obvious that business people recognize the need for foreign language proficiency in a global marketplace.

Entrepreneurial Class in the Stratification System

In illustrating the position of the entrepreneurial class among other social classes I proceed with standard methods—accounting for social stratification as a linear combination of education, occupational status, and earnings. Education is measured by type of education. Earnings are measured as total income. Occupational status is measured on the International Prestige Scale (Treiman 1977 which was developed as the best single index of occupational prestige from a large-scale cross-national inventory.

Table 7.2 proposes the solution to principle component analysis of social stratification position in Poland in 1978 and 1992. We can see that there are no significant changes in the structure over time. In both years, education and occupational status are equally important—much more important than income.
The criteria for distinguishing among classes follows the logic employed by Kohn and Slomczynski (1990) and by Kohn, Slomczynski, et al. (1996)—classes are tailored to the particulars of the economic structure. The six classes in 1978 are thus differentiated:

1. Entrepreneurs—owners of the means of production and members of the owners’ families employed in those industries.
2. Managers—employees in top decision-making positions in state and cooperative enterprises; employees who have the formal title of supervisor and who have supervisory authority over twenty-five or more people; employees who have supervisory authority over fifty or more subordinates, whether or not they have the formal title of supervisor; and employees who have supervisory authority over two or more levels of subordinates.
3. First-Line Supervisors—employees who have direct supervisory authority over two to twenty-four workers, none of whom is a supervisor.
4. Non-Manual Workers—non-supervisory employees whose work is predominantly non-manual in character—the core of the intelligentsia, consisting of professionals, technicians, and office workers.
5. Non-Production Workers—non-supervisory employees whose work is predominantly manual in character and who are employed in secondary and supportive industries and in service.
6. Production Workers—non-supervisory employees whose work is predominantly manual in character and who are employed in the large-scale manufacturing and extractive enterprises of the centralized economy.

In 1992, classes are distinguished in the context of the transformed system, keeping in mind that Poland is no longer socialist but has not fully developed the class structures of fully capitalist societies. I therefore preserve all but one of the distinctions made for Poland under socialism the exception is the distinction between manual workers in core and secondary sectors of the economy. I continue to distinguish entrepreneurs, but it is now possible to differentiate between entrepreneurs who have
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<thead>
<tr>
<th>Indicators</th>
<th>1978</th>
<th>1992</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Men</td>
<td>Men</td>
<td>Total</td>
</tr>
<tr>
<td>Education</td>
<td>.837</td>
<td>.886</td>
<td>.891</td>
</tr>
<tr>
<td>Occupational Status</td>
<td>.894</td>
<td>.856</td>
<td>.881</td>
</tr>
<tr>
<td>Earnings</td>
<td>.644</td>
<td>.631</td>
<td>.600</td>
</tr>
</tbody>
</table>

Eigenvalue 1.940 1.917 1.931
% of Variance 64.6 63.9 64.4

three or more non-family employees and the self-employed who do not employ more than two non-family members. I distinguished these two categories for entrepreneurs because of the difference between distributions of stratification variables. I also differentiate experts—professionals whose work is based on control over knowledge—from other non-manual, non-supervisory employees. Therefore, the seven classes in 1992 are as follows:

1. Employers—owners of the means of production who have at least three non-family employees.
2. Self-Employed—owners of the means of production who have no more than two non-family employees: also includes members of the owners’ families employed in such enterprise.
3. Managers—employees who direct and control the operation of a firm, organization, or major governmental unit, or a large subdivision thereof as well as other employees in appropriate occupational categories who directly or indirectly supervise the activities of more than fifty people, some of whom are themselves supervisors.
4. Supervisors—all other employees who supervise at least two people.
5. Experts—non-supervisory employees who work in professional occupations that usually require either university or polytechnic institute education.
6. Office Workers—all non-supervisory employees, other than those classified as experts, whose work includes a substantial non-manual component.
7. Blue Collar Workers—non-supervisory employees whose work is predominantly manual in character.

Table 7.3 describes social class according to social stratification position and its components—education, occupational status, and earnings—represented as the ratio of the class mean to the total mean. In terms of correlations between social class and social stratification—expressed in terms of eta—they are very substantial: 0.82 in 1978, 0.71 for males in 1992, and 0.74 for the total sample in 1992. Similarly, the
correlations (etas) of social class with the components of social stratification, particularly with occupational status, are substantial, albeit well below unity. Table 7.3 also provides us with some interesting facts about the entrepreneurial class in relation to other classes. In terms of social stratification position entrepreneurs consistently rank below managers, non-manual workers (1978), experts (1992), and supervisors. In 1978, in terms of education, entrepreneurs ranked behind managers, non-manual workers, and supervisors, but in 1992 they were ranked just behind experts and managers. This is consistent with results of analyses in Chapter 4. When we examine occupational status the same ranking holds true—entrepreneurs have moved ahead of supervisors. With regard to earnings, entrepreneurs are consistently ranked higher than supervisors and experts, and only in 1978 were they ranked lower than any other class, that is, managers.

Except for earnings, these findings approximate what previous analyses have shown. Primarily, analysis shows that educational attainment for entrepreneurs elevated during the 1970s, 1980s, and 1990s. At first inspection, the high ranking of entrepreneurs on the earning scale seems paradoxical. It is certainly at odds with the predominant ideology of socialism. We have seen how the entrepreneurial class was restricted and diminished in size. However, under real socialism it was the also class that filled the gaps and provided much needed supplies and services that were deficient under the command economy (Wesolowski 1996). As a result, entrepreneurs were among the highest income group. Table 7.4 shows how entrepreneurial income increased dramatically in the early 1990s and then equalized by 1994.
<table>
<thead>
<tr>
<th>Social Class</th>
<th>Social Stratification Position*</th>
<th>Education</th>
<th>Occupational Status</th>
<th>Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. 1978 (Men)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurs</td>
<td>1.05</td>
<td>0.94</td>
<td>1.06</td>
<td>1.21</td>
</tr>
<tr>
<td>Managers</td>
<td>1.57</td>
<td>1.54</td>
<td>1.58</td>
<td>1.44</td>
</tr>
<tr>
<td>First-Line Supervisors</td>
<td>1.20</td>
<td>1.20</td>
<td>1.20</td>
<td>1.14</td>
</tr>
<tr>
<td>Non-Manual Workers</td>
<td>1.27</td>
<td>1.36</td>
<td>1.24</td>
<td>1.00</td>
</tr>
<tr>
<td>Non-Production Workers</td>
<td>0.78</td>
<td>0.78</td>
<td>0.78</td>
<td>0.83</td>
</tr>
<tr>
<td>Production Workers</td>
<td>0.81</td>
<td>0.78</td>
<td>0.81</td>
<td>0.94</td>
</tr>
<tr>
<td>Correlation (eta)</td>
<td>0.82</td>
<td>0.69</td>
<td>0.78</td>
<td>0.43</td>
</tr>
<tr>
<td>B. 1992 (Men)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employers</td>
<td>1.17</td>
<td>1.10</td>
<td>0.95</td>
<td>1.73</td>
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<tr>
<td>Self-Employed</td>
<td>1.03</td>
<td>1.02</td>
<td>0.91</td>
<td>1.20</td>
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<td>Managers</td>
<td>1.58</td>
<td>1.31</td>
<td>1.82</td>
<td>1.57</td>
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<tr>
<td>Supervisors</td>
<td>1.19</td>
<td>1.09</td>
<td>1.30</td>
<td>1.12</td>
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<tr>
<td>Experts</td>
<td>1.53</td>
<td>1.34</td>
<td>1.89</td>
<td>1.13</td>
</tr>
<tr>
<td>Office Workers</td>
<td>1.15</td>
<td>1.10</td>
<td>1.19</td>
<td>1.08</td>
</tr>
<tr>
<td>Blue Collar Workers</td>
<td>0.83</td>
<td>0.89</td>
<td>0.75</td>
<td>0.81</td>
</tr>
<tr>
<td>Correlation (eta)</td>
<td>0.71</td>
<td>0.63</td>
<td>0.76</td>
<td>0.37</td>
</tr>
<tr>
<td>C. 1992 (Total)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employers</td>
<td>1.16</td>
<td>1.09</td>
<td>0.95</td>
<td>1.86</td>
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<tr>
<td>Self-Employed</td>
<td>1.03</td>
<td>1.00</td>
<td>0.92</td>
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<tr>
<td>Managers</td>
<td>1.58</td>
<td>1.31</td>
<td>1.86</td>
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<td>Supervisors</td>
<td>1.17</td>
<td>1.08</td>
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<td>0.90</td>
</tr>
<tr>
<td>Blue Collar Workers</td>
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<td>0.86</td>
<td>0.70</td>
<td>0.81</td>
</tr>
<tr>
<td>Correlation (eta)</td>
<td>0.74</td>
<td>0.69</td>
<td>0.78</td>
<td>0.38</td>
</tr>
</tbody>
</table>

* Expressed as the ratio of the class mean to the total mean.

Conclusion

Consideration of formation of an entrepreneurial class in transitional Poland begins with patterns of capital formation. We have seen that mechanisms are very similar to those employed in established capitalist societies, but that the emphasis shifts to non-institutional methods—family and friends, foreign contacts, and illegal activity.

Another powerful indicator of entrepreneurial class formation is the professionalization of the class. Organizational development has been slow but is nevertheless impressive. The proliferation of entrepreneurial organizations and professional schools testifies to the fact that class consciousness and class action are on the rise.

Lastly, we have seen that entrepreneurs are distinguished as a privileged group with respect to social stratification measures—education, occupational status, and earnings. Educational attainment has consistently increased starting in the 1970s and continuing through the 1990s. In terms of occupational status, entrepreneurs have moved ahead of supervisors. With respect to earnings, entrepreneurs are among the highest income group.
Endnotes - Chapter 7

1 Education is a mediating factor to consciousness of organizations. Less than half (45%) of those with primary education had heard about business organizations, while among respondents with higher education the awareness rose to 85%.

2 C. Wilson Harder is the founder of the National Federation of Independent Business in the United States. After 50 years of activity it has more than 650,000 members.
CHAPTER 8

CONCLUSIONS AND DISCUSSION

In 1989, after forty-five years, the era of communist rule in Eastern Europe and the former Soviet Union ended; the post-communist era began. Today, although these countries share a common history with regard to past parallel political systems and administrative command economies, experiences vary (Bohm and Kreacic 1991; Stark 1992). This primarily quantitative research addresses a relevant aspect of the political and economic transition in Poland—recruitment patterns and formation of an entrepreneurial class. I focus on the entrepreneurial class because it is crucial for a successful transition to a market economy. I have focused on Poland because the Polish entrepreneurial class, albeit small, maintained an important role during "real socialism" and was larger in Poland than in other communist-dominated countries.

I have approached this project from a sociological perspective, incorporating economic and political science propositions. In particular I focus on patterns of class recruitment and formation of an entrepreneurial class under conditions of radical social
change. I use data from national surveys containing “work histories” that pertain to the period 1949 to 1993. This allows me to demonstrate that over time the entrepreneurial class has followed an evolutionary course, with the impact of social origin decreasing and the impact of education increasing. In other words, from 1949 through 1993 entrepreneurial class recruitment patterns have become less dependent on ascription and more dependent on achievement.

Addressing the question of who the new entrepreneurs in Poland are, I identify determinants of actual entrepreneurship. Utilizing qualitative data, biographical accounts relating to how people start a business under conditions of radical social change, I develop a typology of entrepreneurship—push and pull factors, facilitators, and motivational predilections. This typology allows me to identify independent variables within national surveys. I have focused on six types of variables that potentially affect entrepreneurship: (1) family background, (2) human and cultural capital, (3) political and organizational activity, (4) economic assets, (5) institutional infrastructure, and (6) psychological predilections. Although most direct effects are washed out in full models, I show that the chances of being an actual entrepreneur increase for those who come from advantaged family backgrounds. Especially important is the influence of participation in business activity by family members. Education is an important variable when contrasted with family background and party membership. In the context of other variables the importance of education is through an indirect effect. Cultural capital in the form of experience with foreign travel and knowledge of foreign languages have an indirect effect on being an actual entrepreneur.
These are new variables for the study of entrepreneurship and relevant to the Polish experience. Those individuals who are privileged with respect to greater financial assets are more inclined to engage in entrepreneurship than those who are less privileged.

Since predictions for expansion of the entrepreneurial class are formidable, I address the questions of whether potential entrepreneurs share common characteristics with actual entrepreneurs and whether they differ from the rest of the population. In contrast to actual entrepreneurs, potential entrepreneurs originate in families in which the father has less education and the family is less frequently involved in private business. On the average, potential entrepreneurs have less experience with foreign travel and are less likely to be involved with trade unions. The most important difference between actual and potential entrepreneurs is with regard to economic assets. Actual entrepreneurs are more privileged and potential entrepreneurs are deprived with regard to household income per capita and expendable resources and ownership of cars and telephones.

The final phase of the research describes mechanisms contributing to the formation of an entrepreneurial class. Although a market economy is significantly supported by Polish society, institutions that normally provide instruments of financial support in a capitalist economy have not crystallized in Poland. Returning to the biographical accounts, I construct a typology of capital formation, illustrating innovative methods used by entrepreneurs during the transformation of the economic system.
Entrepreneurial class consciousness and class action are investigated through organizational development. I demonstrate a proliferation of post-secondary institutions providing technical skills and new technologies. Another recognizable trend is the establishment of entrepreneurial associations providing training opportunities, financial instruments, and lobbying service.

Lastly, I illustrate the position of the entrepreneurial class among other social classes. Accounting for social stratification as a linear combination of education, occupational status, and earnings, I illustrate that before the transition entrepreneurs consistently ranked below managers, experts, and supervisors. However, by 1992, in terms of education and occupational status, entrepreneurs had moved ahead of supervisors. With regard to earnings, entrepreneurs are consistently ranked higher than supervisors or experts.

Implications for Theory and Policy

My research makes an important contribution to three ongoing theoretical debates. The first debate centers around the nature of radical social change in Eastern Europe. Some researchers claim that the abandonment of communism was of a revolutionary nature, and that the development of democracy and the market requires a clear break with the past (David 1985; Krasner 1984; Baumgartner and Jones 1993; Hall 1993; Rutherford 1994). The opposite view stresses the evolutionary aspect of change in Eastern Europe (Stark 1992, 1996; Etzioni 1993; Toonen 1993; Offe 1995).
Both of these views pertain not only to the general organizational principles of society but also specifically to social structure. Testing whether the entrepreneurial class is a new segment of the social structure or whether it is continued from the previous era is very relevant for this debate. My analyses clearly indicate three periods—1949-1968, 1969-1988, and 1989-1993—with a continuous trend. In the first phase of the transformation (1989-1993) recruitment patterns for the entrepreneurial class are similar to those operating in the last stage of the communist system in Poland (1969-1988). These results support the evolutionary perspective on structural transformation in Eastern Europe rather than the revolutionary perspective.

The second debate deals with the role of political assets in the process of status attainment. In particular, it has been argued that those who occupied politically important positions in the past or who originated in families with a communist tradition were able to adjust to the radical social change by establishing private businesses. In my analyses I used variables related to the political past—party membership of the respondent and his or her father and membership in youth organizations. Certainly none of these variables showed an important effect on either being an actual entrepreneur or being a potential entrepreneur when other variables were controlled. Thus, I am inclined to reject the hypothesis about the importance of the Nomenklatura system for the present time period—at least with regard to small business. Maybe this hypothesis should be restricted to economic elites.

The third debate pertains to the extent of inequality introduced by radical social change. Some researchers have advanced the hypothesis that the increased economic
inequality during the phase of “wild capitalism” is resulting from the high earnings of the entrepreneurial class (Bruszt 1992). Such a claim is made in the context of positional measures of income inequality, when five percent of the richest are compared with the bottom or middle income groups. My analyses show that indeed the entrepreneurial class are economically privileged—their income is considerably higher than the national average. However, from a positional standpoint managers and high administrative officials belong to the same income category. It is not reasonable to attribute the increase in income inequality to the entrepreneurial class since this class does not affect income differential (top five percent to the median income). Therefore, on the basis of my analyses, I conclude that the hypothesis that increasing income inequality is caused by high earnings of the entrepreneurial class is at the least questionable.

In Chapter 4, data showed that from 1949 through 1993 entrepreneurial class recruitment patterns became less dependent on ascription and more dependent on achievement. What can policy-makers cull from these results? First, promotion of educational attainment should be made a national priority. Organizations that promote educational attainment can be bolstered and supported through legislative and financial provisions. For instance, educational exchange programs can be developed, or state universities can be subsidized to offer special courses in entrepreneurship.

In Chapter 6, potential entrepreneurs were shown to be those who are more deprived with respect to the accumulation of economic assets. This finding has particular implications for policy formation—potential entrepreneurs can convert their
potentiality only if the problem of shortage of capital will be solved through the
development of credit institutions and investment instruments.

Additionally, for potential entrepreneurs family background is a significant
factor. The policy implication is that those who have family backgrounds that include a
history of business activity might be targeted through institutional reform.

Continuing on the theme of accumulation of economic assets, the formation of
capital typology in Chapter 7 indicates that entrepreneurs use innovative ways for
accumulating investment resources. This is of particular importance to both
governments and financial organizations. A major supply of capital is provided by
foreign investors and banks. Although this method brings revenue and business into the
domestic market the outflow of interest capital is excessive.

Biographical accounts showed that another popular method of capital formation
has been illegal activity. During the communist era governments tolerated a measure of
gray market activity in order to subsidize the consumer market. Legitimate methods of
capital accumulation would be preferable for a transitional economy but would require
institutional support.

Private financial institutions are not yet solidified. Although they will evolve
over time, some measure of public support may be needed. However, too great a
degree of government intervention may be intolerable. On the other hand, a slow
economy can trigger inflation and high taxation.
Future Research

My analyses included differences between men and women being actual or potential entrepreneurs, but this is an important issue that deserves more attention. During the transformation women have been experiencing widening inequality in an increasingly gender-based labor market (Einhorn 1993; Moghadam 1993; Heyns 1996). Future research should address this problem through analysis of longitudinal data investigating how men's and women's entrepreneurial activity varies over the life course. Analyses should include differences between men and women with regard to past work experience and family structure.

Another direction for future research should be with regard to the relationship between firm size and entrepreneurial activity. The focal point of this project has been entrepreneurs engaged in small and medium business enterprises. SMEs provide sources of variety with regard to innovation, market competition, and diffusion of new technologies and knowledge. They play a central role in economic growth and employment opportunities but differ from giant corporations with regard to transaction costs. Comparison of determinants between entrepreneurs of SMEs and larger enterprises may clarify the overall profile of entrepreneurs.

I would also suggest research of other determinants of actual and potential entrepreneurship. I took great care in the selection of the variables I included in these analyses. I constructed a typology of entrepreneurial activity that addressed strategies used during radical social change. However, the political and economic systems are
evolving. Since the formation and role of an entrepreneurial class are a process, further investigation may reveal additional or newly devised strategies.

This research has focused on entrepreneurial class formation in Poland, but the process is crucial to all post-communist societies. Post-communism does not imply adoption of a uniform alternative system: rather, it is the rejection of the communist system (Holmes 1997). I limited the scope of my research to Poland. However, similar processes are being carried out in other countries, and comparison of gradual and "shock" transitions could prove valuable for the advancement of entrepreneurial study and theories of class formation.
APPENDIX A

INTERVIEW SCHEDULE:
BIOGRAPHICAL ACCOUNTS OF ENTREPRENEURS

All interviews will be conducted in an informal style -- focused discussions. The following scripts will guide the interviews. The first group of respondents have been selected through their previous participation in a panel study conducted by the Institute of Philosophy and Sociology, Polish Academy of Sciences. They fulfill the criteria of ownership of a business and they each employ at least one non-family person. The second group of subjects are representatives of various business organizations supportive of entrepreneurial activity. Their job descriptions include public relation activities.

Introduction to Respondents

Thank you for taking the time to see me. My name is Elizabeth Osborn. I am a graduate student at The Ohio State University in Columbus, Ohio. I am in the sociology department and I am writing my doctoral dissertation on the development of an entrepreneurial class in post-communist societies. The information you provide me today will advance my knowledge of the role of entrepreneurs in the context of the present Polish economy.

I would like to ask you some questions about your experience with business activity (business organizations). I assure you that this is a confidential interview. At no time will your name or the name of your business (organization) ever be connected to any written text or oral presentation.

I will be asking you several questions, but please feel free to add any information that you feel is important. If at any time I ask a question that you do not know the answer to, or that makes you uncomfortable, please let me know immediately and I will clarify my question, or we will move...
to another topic. If at any time you desire to terminate the interview, please let me know immediately and I will discontinue the questioning.

Before we begin, do you have any questions? Are these conditions acceptable to you?

Do you have any concerns about the interview?

Interview Schedule: Entrepreneurs
(Focused Discussion)

I. Background of Individual:

1. What is your age?
2. What is your education? (Do you have any business school training?)
3. Have you ever been in business before this experience?
4. Do you have a business history in your family? Did either your mother or father or grandparents engage in private business?
5. Do any of your close friends or associates own their own business?
6. What was your previous occupation?
7. Do you have another job other than your business? How many hours do you devote to each activity?

II. How the Business Was Started:

1. When did you start your business? Please tell me the month and year.
2. What factors did you consider important in making the decision to start a business? Please include financial, physical, and emotional considerations.
3. How did you proceed once the decision to open a business had been made?
4. How did you choose a location for your business?
   A. Did you consider various differences in locations with regard to infrastructure? Was phone service a consideration? What other communication capabilities were important to you?
   B. Was transportation infrastructure an issue for your decision to locate in one area as opposed to another?
   C. Was the density of banks in the area a consideration for locating in one place over another?
5. Who helped you start your business? Please include support from family, friends, and institutions.
III. How Business Functions:

1. What type of business do you have? Do you manufacture a product or do you provide a service?
2. Please describe the current state of your business.
3. How many employees do you have? How many, if any, are family members? How many are friends?
4. How have you recruited employees?
5. Is there a hierarchy of authority in your business? What role do you play in the organizational hierarchy of your business?
6. What types of benefits does your business provide employees?
7. Have you maintained any ties with suppliers, distributors, or other business connections from a previous job? Have these connections given you an advantage in starting or maintaining your business?

IV. Institutional Arrangements:

1. Are you satisfied with the legal requirements for running a business?
2. Are you satisfied with the economic support available to entrepreneurs from various government agencies?
3. What are your connections with various organizations that support business?
4. Do the various business organizations represent your interests?

V. Attitudes:

1. What is your attitude toward the notion that property should be considered as a basic human right?
2. What is your opinion of the capital market? What changes would you like to have considered?
3. What is your opinion of the labor market? What changes would you like to have considered?
4. What is your opinion of the consumer market? What changes would you like to have considered?
APPENDIX B

INTERVIEW SCHEDULE:
BIOGRAPHICAL ACCOUNTS OF REPRESENTATIVES OF
BUSINESS ORGANIZATIONS

I. When the Organization Started:
   1. When did the organization start?
   2. What was the impetus for starting this organization?
   3. What is the purpose or "mission" of the organization?
   4. Are there multiple agendas that are served by this organization?
   5. Does the function of the organization overlap with other organizations?

II. Dynamics of the Organization:
   1. How is the organization arranged?
   2. How are the officers or directors of the organization chosen? Are these officers hired from outside the organization or appointed or elected from the membership?
   3. What is the hierarchical arrangement of the organization?
   4. How are members recruited? Are there dues or obligations that members must meet?

III. Relationship of Organization with Other Organizations:
   1. What is the relationship of the organization to labor? Is there an overlap of concern for employers and employees?
   2. What is the relationship of the organization to various political parties?
   3. Does the organization deal with issues of foreign investment?

IV. Interest Representation:
   1. How does the organization represent business interests?
   2. How does the organization influence legislation?
   3. Does the organization maintain any lobbying connections?

V. Policy Issues:
   1. What is the position of the organization with regard to the issue of privatization?
   2. What is the position of the organization with regard to the issue of restitution?
   3. What is the position of the organization with regard to the issue of foreign investment?
APPENDIX C

ENTREPRENEURS IN POLAND:
DATA FROM INTENSIVE INTERVIEWS, 1996

<table>
<thead>
<tr>
<th>ID #</th>
<th>Sex</th>
<th>Age</th>
<th>Year Start</th>
<th>Education</th>
<th>Type of Business</th>
<th>Competition</th>
<th>Family History</th>
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</thead>
<tbody>
<tr>
<td>001</td>
<td>M</td>
<td>55</td>
<td>1988</td>
<td>Some University</td>
<td>Construction</td>
<td>Highly Competitive</td>
<td>Brother, Sister</td>
</tr>
<tr>
<td>002</td>
<td>M</td>
<td>50</td>
<td>1991</td>
<td>M.A.-Nuclear Engineer</td>
<td>Publishing</td>
<td>Pirates</td>
<td>None</td>
</tr>
<tr>
<td>003</td>
<td>M</td>
<td>52</td>
<td>1989</td>
<td>Veterinary</td>
<td>Retail Food Stores</td>
<td>Big Chains</td>
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<tr>
<td>004</td>
<td>F</td>
<td>45</td>
<td>1990</td>
<td>University-Agriculture</td>
<td>Mushroom Farm</td>
<td>Former Partners</td>
<td>Daughter</td>
</tr>
<tr>
<td>005</td>
<td>F</td>
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</tr>
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<td>M</td>
<td>48</td>
<td>1990</td>
<td>Academy Econ.</td>
<td>Meat Store</td>
<td>Super Markets</td>
<td>Daughter</td>
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<tr>
<td>007</td>
<td>F</td>
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<td>Private Pharmacies</td>
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<tr>
<td>008</td>
<td>M</td>
<td>46</td>
<td>1976</td>
<td>Polytechnic-Engineering</td>
<td>Manufacture Auto</td>
<td>Very High/Foreign</td>
<td>Father, Wife</td>
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<td>Parts-Houseware</td>
<td>Domestic</td>
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<td>M</td>
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<td>M</td>
<td>35</td>
<td>1991</td>
<td>Ph.D., Engineering</td>
<td>Distributor Computers/Programs</td>
<td>Foreign Companies</td>
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<td>Sex</td>
<td>Age</td>
<td>Year</td>
<td>Education</td>
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<td>Competition</td>
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## APPENDIX D

**COMPARISON OF SOCIAL CHARACTERISTICS OF ENTREPRENEURS STARTING THEIR BUSINESS BETWEEN 1949 AND 1993 WITH PEOPLE WHO ARE PARTICIPATING IN THE LABOR FORCE IN OTHER OCCUPATIONAL GROUPS**

### 1949 - 1958

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<td>259.3</td>
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**A. Social Origin**

Father's SES (Mean) 173.6 233.0 259.3 199.1 150.0

Father's Occupation (%)

<table>
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<tr>
<th></th>
<th>Owner</th>
<th>Non-Manual</th>
<th>Manual</th>
<th>Farmer</th>
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<td>33.3</td>
<td>30.0</td>
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<td>36.6</td>
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<tr>
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<td>11.2</td>
<td>31.5</td>
<td>32.6</td>
<td>24.6</td>
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<td>8.4</td>
<td>21.4</td>
<td>43.4</td>
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</table>

Father's Education (Mean Years) 7.2 8.7 9.2 8.1 6.7

**B. Demographic Characteristics**

Age (Mean at Mid-Year 1953) 26.8 24.5 22.8 23.1 22.5

Men (%) 71.4 64.5 66.0 26.6 55.4

**C. Education**

Education (Mean Years) 9.1 15.3 15.3 11.4 8.6

Level of Education (%)

<table>
<thead>
<tr>
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<th>Basic Vocational</th>
<th>General High School</th>
<th>Vocational High School</th>
<th>College</th>
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182
### 1959 - 1968

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<td>9.5</td>
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<td>31.3</td>
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</tr>
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<td>14.5</td>
<td>16.1</td>
<td>23.2</td>
</tr>
<tr>
<td>Father's Education (Mean Years)</td>
<td>10.1</td>
<td>8.6</td>
<td>11.1</td>
<td>9.5</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>B. Demographic Characteristics</strong></td>
<td></td>
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<tr>
<td>Age (Mean at Mid-Year 1953)</td>
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<td>45.6</td>
<td>40.9</td>
<td>38.9</td>
<td>38.3</td>
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<td>72.0</td>
<td>37.8</td>
<td>44.7</td>
<td>26.2</td>
<td>72.1</td>
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<tr>
<td><strong>C. Education</strong></td>
<td></td>
<td></td>
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<tr>
<td>Education (Mean Years)</td>
<td>12.5</td>
<td>10.8</td>
<td>16.3</td>
<td>12.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Level of Education (%)</td>
<td></td>
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<tr>
<td>Basic Vocational</td>
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<td>25.5</td>
<td>0.6</td>
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<td>50.2</td>
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<td>1.2</td>
<td>14.4</td>
<td>2.7</td>
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<td>22.4</td>
<td>12.2</td>
<td>52.6</td>
<td>16.6</td>
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<td>19.6</td>
<td>9.9</td>
<td>82.1</td>
<td>11.0</td>
<td>1.2</td>
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REFERENCES


*Rocznik Statystyczny*. 1977, p.316, Table 5/484/.


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