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**ENTREPRENEURSHIP IN RUSSIA:
PATTERNS AND PROBLEMS OF ITS DEVELOPMENT
IN THE POST-SOVIET PERIOD**

BY:

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**A THESIS SUBMITTED TO THE UNIVERSITY OF
GLASGOW FOR THE DEGREE OF
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Abstract

The development of a robust small and medium-sized enterprise (SME) sector has been widely seen as important to Russia's socio-economic transformation. This has been clear from state policies and rhetoric that claim to support the development of entrepreneurship and publicly advocate its importance. Significantly however, this official support for the SME sector has been out of line with the patterns of entrepreneurial development on the ground. Entrepreneurs continue to face a host of obstacles in the spheres of legislation, tax, accessing credit, as well as administrative barriers; all of which have complicated the development of small and medium sized businesses. Given the direct role that individual entrepreneurs play in shaping the SME sector, an understanding of entrepreneurs themselves – their experiences, attitudes, values and beliefs – is required in order to understand the patterns and problems of entrepreneurial development. Yet notably, much of the existing literature has not attached a high degree of importance to the experiences of entrepreneurs in processes of development. This thesis addresses this gap in the literature by exploring the patterns and problems of entrepreneurial development from the perspective of entrepreneurs themselves. It asks the question: how have behaviour, attitudes, values and socio-cultural context impacted on the development of entrepreneurship? Qualitative ethnographic research methods were used to explore the experiences of entrepreneurs and their responses to the challenges of the Russian business environment in four regions of Russia: Moscow, Sverdlovsk, Tver' and Kaluga. Semi-structured interviews were conducted with entrepreneurs as well as state officials and leaders of business associations. Involving a variety of individuals who have played a role in shaping the entrepreneurial process provided insight into the attitudes, beliefs, perceptions and values towards entrepreneurship. This thesis found that the relationships that entrepreneurs form with other entrepreneurs, as well as with state officials and leaders of business associations are instrumental to understanding the patterns of behaviour of entrepreneurs and how these, in turn, shape entrepreneurial processes. It also finds that informal practices such as *blat* and personal networks are integral strategies used by entrepreneurs to navigate the challenges of doing business in Russia. At the same time, this thesis concludes that these behaviours of entrepreneurs, which often occur in collusion with state officials and leaders of business associations, have subverted the integrity of the formal system and have contributed to a pattern of entrepreneurial development which has suffocated the potential and prosperity of the SME sector. The entrepreneurial process in Russia has thus been a complex mixture of successes and frustrations and the experiences of entrepreneurs are key to understanding this process.

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List of Abbreviations

ARM	Association of Russian Managers
EBRD	European Bank for Reconstruction and Development
FDI	Foreign direct investment
IMF	International Monetary Fund
NGO	Non-governmental organisation
OPORA	Ob"edineniia Predprinimatel'skikh Organizatsii Rossii
RSBF	Russia Small Business Fund
RSPP	Rossiiskii Soiuz Promyshlennikov i Predprinimatelei
SME	Small and medium sized enterprises
Tacis	Technical Assistance for the Commonwealth of Independent States
UN	United Nations
USAID	United States Agency for International Development
VAT	Value added tax
VTsIOM	Vserossiiskii tsentr izucheniia obshchestvennogo mneniia
WTO	World Trade Organisation

Introduction

This transformation period, this process has been about the growth of entrepreneurship [35].

While the development of entrepreneurship in Russia has been broadly understood as important to the socio-economic transformation of the country, much less importance has been attached to the experience of individual entrepreneurs (OECD, 2003; McMillan and Woodruff, 2002; Pissarides, 1999). Given that individual entrepreneurs have been directly involved in the process of socio-economic change, they have been instrumental in shaping entrepreneurship in Russia. Yet the majority of studies of business development have failed to give adequate consideration to entrepreneurs' experiences. Furthermore, most studies that have examined the development of entrepreneurship in Russia have concentrated on entrepreneurs in large businesses (Hoffman, 2002; Freeland, 2000; Hanson and Teague, 2005; Frye, 2002; Kryshstanovskaia, 1996; Kryshstanovskaia and White, 1996). These gaps in the literature are significant because in many ways, entrepreneurship in Russia has not developed in the way that was expected by most academic advisors and policy makers. The aim of this research project has been to help fill these gaps by exploring how entrepreneurs of small and medium sized enterprises (SMEs) have established themselves and have survived the challenges of the Russian business environment; why individuals become entrepreneurs; and how relationships with state officials and other businesspeople has impacted on their position and the success of their business.

Before going any further, it is necessary to define small and medium sized enterprises. According to the Russian state statistics committee, *Goskomstat*, small enterprises have been defined according to number of employees. The maximum number of employees varies according to sphere of activity. The maximum numbers are: 100 employees in industry, construction and transport; 60 employees in agriculture and the scientific-technical sphere; 30 employees in retail trade and services; and 50 employees in wholesale trade and other branches of activity. Small enterprises have also been defined according to rate of turnover. Currently, small enterprises are those considered to have a rate of turnover not greater than 100

million roubles (Itar-Tass, 2004). According to exchange rates in January 2005, this was equivalent to approximately 3.6 million US dollars (www.oanda.com, 2006).

Significantly, there is no definition for medium sized enterprises in Russian legislation (Russian SME Resource Centre, 2003; Chufistov, 2004; Firestone, 2005). While the size of small enterprises, based on number of employees, is clearly indicated as being no more than 100 and large enterprises are those with 500 or more employees (Russian SME Resource Centre, 2003), medium sized enterprises seem to occupy the space in between. The term however is popularly used, which is clear by references to the SME sector by public and private figures alike.

Nearly all of the entrepreneurs taking part in this study fell within the definition of small enterprises. Since however, this was not exclusively the case (some respondents fell outside the realm of this definition into what could be described as medium sized business) and because enterprises of this type have popularly been discussed in terms of forming a significant part of what is called the SME sector, throughout this thesis, I use this term and refer to my respondents as being entrepreneurs of SMEs.

This is also an appropriate point to consider what is meant by the term ‘entrepreneur’ and the entrepreneurial process in this thesis. There is no one universal definition of these terms in the literature, and a multitude of descriptions about what it means to be an entrepreneur and/or involved in the entrepreneurial process exists. The lack of a single, commonly accepted definition of entrepreneurship stems in part from the fact that entrepreneurship has been explored from a number of different disciplines in the social sciences: from economic, historical, psychological, sociological and business management perspectives. Yet even amongst all these disciplines, there are common themes to understanding entrepreneurship, which are discernible in the literature. Definitions of entrepreneurship thus appear to follow two patterns. The first is to describe who the entrepreneur is, for example, a ‘risk-taker’, and the second is to identify what the entrepreneurs does – contributes to processes of innovation in the economy (as a result of taking risks). While there might be subtle differences, both the individual attributes and the actions of entrepreneurs go hand in hand and are part of understanding what entrepreneurship involves. Psychologists

explain the idea that entrepreneurs are risk-takers by looking at their perception of, as well as their apparent willingness to exploit, economic opportunities that the rest of the population appear not to exploit (DeCarolis and Saporito 2006; Kahneman and Lovallo, 1994; Simon et. al., 1999). These actions and tendencies amongst certain individuals are then interpreted as being a source of innovation bringing dynamism to the economic and social spheres.

Another aspect that is central to understanding entrepreneurs and the entrepreneurial process is motivation; why do certain individuals act on entrepreneurial opportunities while others do not? This relates in part to the way in which entrepreneurs exploit opportunities. After all, it has already been established that entrepreneurship involves some degree of risk because of the nature of uncertainty that characterises the circumstances under which they operate. However there are also other factors that are considered important. For some economic theorists, such as Kirzner and Knight, the opportunity to earn a profit is seen as a critical source of motivation (Kirzner, 1973; Knight, 1971). Yet for other economists and social scientists, profit is viewed as a simple by-product of entrepreneurial pursuits and not something that is directly sought after (Schumpeter, 1934; Swedburg, 2000). Instead motivation comes from the satisfaction of creating something that is new and successful. The intricacies of this debate are not decided in this thesis. Rather, it accepts that there is a place for both sides of the argument and that an individual's motivation is shaped by a combination of factors, which in most instances cannot be reduced to one critical variable. The idea however, that motivation is an important part of understanding the entrepreneurial process in Russia is acknowledged here and a discussion of entrepreneurs' motivation is elaborated in chapter four on, *Becoming an Entrepreneur in Russia*.

Having established that motivation is an important aspect to understanding the entrepreneurial process and why certain people and not others become entrepreneurs, it follows from this that entrepreneurs must actually do something to effectively 'become entrepreneurs'. Thus entrepreneurship is also about a process of organising resources (material, human and financial) (Bonnell and Gold, 2002; Casson, 2003; Shane, 2003; Knight, 1971; Kirzner, 1973; Shumpeter, 1934). This organisation of resources is crucial because it is what brings everything together and leads to the

establishment of an enterprise. Although this step is straightforward as far as it is a key ingredient to the entrepreneurial process, the reality in Russia is that this is one of the most complex dimensions of the entrepreneurial process and it most probably separates the 'would-be' entrepreneurs from established ones.

There are three definitions that stand out in the literature for highlighting these key factors introduced above. These definitions by Bonnell and Gold (2002), Casson (2003) and Shane (2003) and they are considered below.

In their edited book, *The New Entrepreneurs of Europe and Asia: Patterns of Business Development in Russia, Eastern Europe and China*, Bonnell and Gold have described entrepreneurs as referring to 'individuals or groups who carry out necessary tasks, including perception of economic opportunities, assembling the financial and material resources and inputs for economic innovation, recruiting personnel, and dealing with suppliers, purchasers, and the government' (2004: xv). Interestingly, although this definition begins by describing the role of individual entrepreneurs, it is clear from this that entrepreneurship is a process and the interactions that entrepreneurs have with different people and the kind of relationships that they form with them are important. A key argument of this thesis is that the relationships that entrepreneurs develop with other entrepreneurs as well as with individuals who hold a position relevant to the business sphere (such as directors of business associations, politicians and state officials) are central to understanding the entrepreneurial process and patterns of its development.

Casson, an economist, has defined the entrepreneur as 'someone who specialises in taking judgemental decisions about the coordination of scarce resources' (2003: 13). Casson thus highlights the role of individual choice in the entrepreneurial process. He states that, 'a judgemental decision is one where different individuals sharing the same objectives and acting under similar circumstances, would make different decisions' (2003: 14). This point is relevant in so far as it places emphasis on the diverse and varied nature of the entrepreneurial process, which Casson argues stems from differences in individual taste and access to information. While such differences are probably evident in most places, variations in access to information, in particular, hold much significance in the Russian context. There has not only been

a general lack of access to information, which has represented a significant barrier to entering entrepreneurship, but strategies have also been developed, which reinforce problems associated with acquiring information. These issues are discussed further in chapters four and five. Together, these contribute to specific patterns in the development of entrepreneurship in Russia and thus the point that Casson makes on the role of individual choice and action in entrepreneurship is an important one to defining and understanding the entrepreneurial process in Russia.

Similar to Casson, Shane also highlights the unique impact that individuals contribute to the entrepreneurial process. Shane states that people's perceptions influence the discovery, evaluation and exploitation of opportunities. At the same time Shane also builds further on the ideas of Casson by incorporating the impact of entrepreneurial opportunities into the discussion. Shane argues that both the characteristics of opportunities and the individuals who discover and exploit them are key to understanding the entrepreneurial process. Shane's central premise is that 'entrepreneurship can be explained by considering the nexus of enterprising individuals and valuable opportunities and by using this nexus to understand the processes of discovery and exploitation of opportunities, acquisition of resources, entrepreneurial strategy and the organising process' (2003: 11). The nexus that Shane describes captures the complex mix of factors that both shape and give rise to entrepreneurship and at the same time highlights the multifaceted nature of the entrepreneurial process.

This thesis draws on each of these definitions in its consideration of the patterns and problems of entrepreneurial development in Russia. In selecting respondents for this study, entrepreneurs were identified on the basis that they exploited economic opportunities to either establish and/or lead an enterprise. In the course of establishing and leading an enterprise, these individuals were involved in organising the necessary resources which enabled the enterprise to survive and succeed. Organising resources is understood to mean that entrepreneurs have coordinated the material and financial resources required to run the enterprise smoothly. The relationships that entrepreneurs have cultivated and the strategies they have developed are also seen as being key resources to entrepreneurs and is therefore a central part to defining the entrepreneurial process in the Russian context. The

particular activity that entrepreneurs were involved in was not crucial to the process of selecting respondents. However what was important was that these individuals held a leading role in a private enterprise and thus played a crucial role in the above-mentioned activities. From this, it is clear that the entrepreneurial process is multifaceted and defining entrepreneurship requires getting at both the individual level factors such as character traits, perceptions, motivations, position and background as well as taking into account factors that are broader than this micro level. Factors such as the structure of institutions, the nature of opportunities and how they have been exploited provide key insights into the entrepreneurial process. While in the field all of these factors stood out as being key to understanding the patterns and problems of entrepreneurial development and are therefore central to defining entrepreneurship here in this thesis.

1.1 The Research Objective & Literature Review

This research project has aimed to understand the patterns and problems of entrepreneurial development in post-Soviet Russia. Due to the direct involvement of entrepreneurs in the process of socio-economic transformation, it has also placed emphasis on finding out what their individual experiences indicate about the entrepreneurial process. Thus the main research question of this thesis has been:

- How have behaviour, attitudes, values and socio-cultural context impacted on the development of entrepreneurship?

In addition, this thesis has also addressed the following sub-questions:

- What were the expectations of small business development and how have these been met in reality?
- How have relationships with state officials and other individuals relevant to the small business sector (for example directors of business associations, politicians and state officials) impacted on the position of entrepreneurs and the success of their business?
- How have entrepreneurs responded to the challenges of the Russian business environment?
- What effect have the actions of entrepreneurs had on their position within the business environment and on the environment itself?

Together, these research questions explore the human dimension to entrepreneurship and thus help to untangle some of the intricacies of the entrepreneurial process in Russia.

Yet in order to get to the entrepreneurial processes occurring at this individual level, it has been necessary to explore entrepreneurship more broadly. This has involved looking at the concepts and principles that guide ideas of entrepreneurial development, not just in Russia, but also in the West. The development and growth of entrepreneurship in Russia has been a relatively recent phenomenon, and because of this, Western views and literatures have been important to understanding how entrepreneurship has developed in Russia. Western ideas about entrepreneurship and economic development were strongly promoted in Russia both by Western and Russian policy advisors who implemented the economic reform program. It has therefore been important that Western ideas and concepts of entrepreneurship be considered here in this thesis. Key among these have been contributions from ‘transition’ theorists who have based policy advice on the so-called, Washington Consensus – a term coined by Williamson in the late 1980s. Anders Aslund (1991, 2001) has perhaps been the most renowned of ‘transition’ theorists espousing the merits of liberal economic ideology to the development of post-Soviet Russia. Others included in this group, and whose work has been considered in this thesis are, Aslund and Johnson (2004), Boycko et. al. (1995), McMillan and Woodruff (2002), Williamson (1990), as well as publications by the EBRD and Tacis.

The Washington Consensus was a set of policy advice advocated by Washington based institutions such as the International Monetary Fund (IMF) and the World Bank, which was given to countries undergoing a ‘transition’ to a market economy. The policy advice was monetarist in nature and based on liberal economic theory. It therefore focused on broad macroeconomic indicators such as fiscal discipline, tax reform, privatisation, and interest rate and price liberalisation as measures of economic development. The Washington Consensus economic policy reform programs were built on the idea that the key to rapid economic development lay in the set of economic policies pursued and that the kind of natural resources, physical and human capital that the country possessed was secondary to its economic transformation. Thus at the onset of post-Soviet Russia’s transformation, there was

an expectation that once the economic policy reform program was implemented from above, its positive effects would ‘trickle down’ to the rest of the economy. These reforms were to create the ‘right’ environment in which entrepreneurship would flourish, and this in turn, would be a source of sustained economic growth and development.

The failure of these expectations to materialise in reality has been key to understanding the patterns and problems of entrepreneurial development in Russia. The transition economics literature described above has thus been relevant to the first sub research question, which looks at the expectations of entrepreneurial development in Russia and the extent to which these have been met in reality. An understanding of some of the weaknesses of this literature as well as its key ideas and concepts help to illustrate why the gap between the rhetoric and reality of SME development in Russia has developed. One problem with this literature has been that it has oversimplified the process of economic development and underestimated the role that the human side of entrepreneurship plays in this process. As a consequence, this approach has been unable to explain the particularities of why entrepreneurship has developed in such a complex way in Russia. ‘Transition’ theory has given inadequate attention to the impact of people’s behaviour, their relationships, attitudes and values on these processes. Another problem has been that this approach has given too little attention to the influence of socio-cultural context. This thesis brings these issues to the forefront and shows clearly that behaviour, attitudes, values and socio-cultural context have had a significant impact on the development of entrepreneurship in Russia.

Other more general theories about entrepreneurship, that have not necessarily been preoccupied with the process of socio-economic transformation in Russia, are also explored in this thesis. While these literatures also emphasise the importance of entrepreneurship to economic development, they have not been totally focused on one particular policy agenda in the same way that ‘transition’ theory has been. In this thesis, these literatures were used to explore the factors that make entrepreneurship happen. For instance in Shane’s *General Theory of Entrepreneurship* (2003) he describes an individual-opportunity nexus in which he proposes that a combination of social and individual factors intersect and give rise to

entrepreneurship. Although Shane does not consider the context of Russia, the framework is nonetheless useful and has been applied in this thesis where the impact of both individual level factors, and broader socio-cultural factors on the entrepreneurial process has been considered. In addition to this, by looking at more general literatures on entrepreneurship, it becomes apparent that many of the individual features that motivate people to become entrepreneurs are not that different across cultures. It is however clear that the socio-economic and cultural context of Russia has been distinct and so its particular impact requires special attention.

This thesis addresses the particular features of Russia's socio-economic and cultural context in various ways. The economic environment clearly has an impact on the development of entrepreneurship and thus an awareness of the characteristics of the Russian economy is important. While the literature on transition theory discusses economic conditions, the objective has also been to put forth policy recommendations aimed at correcting macroeconomic conditions such as high inflation, and to reduce the size of the informal economy. It is therefore important to separate out the political agenda associated with transition theory and look at economic reports that simply profile the Russian economic climate. On the one hand there are official reports produced by Goskomstat (although problems associated with reporting and the fact that entrepreneurs of SMEs are often hidden from formal statistics, mean that sometimes this only provides part of the picture) as well as other economic reports produced by news agencies such as Itar-Tass, Interfax, Reuters, the OECD and the World Bank, as well as economists. While these other economic reports can run into the same reporting problems as Goskomstat, they are all useful for highlighting broad trends in the Russian economy. As such, these studies help to paint the background picture and thus provide the context within which entrepreneurship is played out.

However, an important shortcoming of these kinds of economic reports is that they often do not get close enough to what is occurring at the grassroots level. For instance many of these kinds of reports have given an optimistic economic outlook over the last few years, but on the ground, the picture looks less rosy. Entrepreneurs of SMEs not only continue to rely heavily on the informal sector to carry out their

activities, but they also spend much of their time going between the formal and informal economy. The formal and informal systems have in fact been linked together and entrepreneurs of SMEs have played a vital role in making this link. This has made the role of entrepreneurs in the process of economic development particularly important; even if it has not been for the way that liberal market economics and official state rhetoric suggest. This again points to the fact that the behaviour, attitudes and relationships that entrepreneurs form are significant to the way that entrepreneurship has developed. This is an issue that this thesis addresses.

Studies that look beyond these macroeconomic, political and social trends are therefore necessary in order that a more complete picture of entrepreneurship in Russia is developed. There have however, been relatively few studies that explore the conditions that entrepreneurs face and thus complement the kind of findings produced in these economic reports. These studies are important because they provide a basis to understand why the small business sector has developed in its particular way, and have thus been central to this research project. Studies such as those by Radaev (2002, 2003), Glinkina (2003), Arnot (2000) and Barkhatova (2000) have explored the realities of entrepreneurship at the grassroots level and identified some of the problems that entrepreneurs of SMEs face. In addition to this, there have also been a number of Russian newspaper articles and reports from Russian non-governmental organisations (NGOs) that identify the problems of entrepreneurship (Khakamada, 2003; *Chto meshaet...*, 2005; OPORA and VTsIOM, 2005). Identifying these problems is of course important, and to some extent, the findings of this thesis simply add to the existing body of literature. However, identifying the problems is only a first step to explaining the pattern of entrepreneurial development. It is also necessary to explore why problems in the spheres of accessing credit, premises, dealing with a heavy tax burden as well as navigating a host of administrative barriers have persisted. This thesis builds on the existing literature by linking together the personal experiences, relationships, values and outlooks of entrepreneurs with the problems of entrepreneurship. Together, these shed light on broader processes of economic development.

By asking the question, how have entrepreneurs responded to the challenges of the Russian business environment, it was possible to explore issues from the point of

view of entrepreneurs, examining their characters, identities, and outlooks. This provided a basis for understanding what motivates entrepreneurs and why they behave in a particular way. Out of this, the kinds of strategies that entrepreneurs have developed to cope with the problems in the small business sector emerge and these are fundamental to understanding the patterns and problems of entrepreneurial development in Russia. In Clarke's work on employment and labour patterns in post-Soviet Russia, he has examined whether or not households have developed survival strategies to cope with the upheaval of the socio-economic transformation (1998). Although Clarke argues that the behaviour of households do not represent survival strategies, the question is important. This thesis has picked up on the concept of survival strategies and has applied it to the situation of entrepreneurs. Contrary to Clarke's findings, this thesis finds that the strategies that entrepreneurs have developed to cope with the challenges of the Russian business environment have in fact been important to their survival and success. Similarly Ledeneva (1998, 2000, 2001) has explored the role and function of informal practices in Russian society, but not on the basis that these represent a kind of survival strategy for entrepreneurs. This thesis pulls these ideas together to explain the rationale behind the behaviour of entrepreneurs and finds that informal practices are developed by entrepreneurs as strategies of survival.

1.2 Key Analytical Themes

This thesis relies on two key analytical themes in its exploration of the patterns and problems of entrepreneurial development. The first key analytical theme is the relationship between entrepreneurs and state officials and the second is informal networks. These themes are related in so far as both of them emphasise the human dimension of entrepreneurship – focusing on the attitudes, behaviours, perceptions and values of entrepreneurs – and thus provide insight into the main and sub research questions of this thesis. The relationship between entrepreneurs and state officials represents a critical juncture in which the behaviour and attitudes of entrepreneurs, as well as those of other members of society towards them, can be explained. This is because the interests and objectives of entrepreneurs and state officials have intersected and, at times, even clashed in the economic sphere. Understanding the relationship between entrepreneurs and state officials is therefore fundamental to grasping why entrepreneurs behave in the particular way that they do.

While state-business relations have been addressed in the existing literature, the focus has primarily been on big business and state officials at the elite level. For instance, Hanson and Teague (2005), Frye (2002), Freeland (2000), Hoffman (2002), White and Krystanovskaia (1996), Blasi et. al. (1997) and Lapina and Chirikova (2002) have all touched on the relationships between business people and politicians in the course of looking at how these business people have acquired their status and maintain their position. Lapina and Chirikova (2002) for example, argue that relations between the state and business are characterised by interdependence. This thesis builds on this view of state-business relations and suggests that the relationships between entrepreneurs of SMEs and low-level state officials are not that different from the relationships between representatives of big business and state officials at the highest echelons of state power. The interdependence of state officials and entrepreneurs emerges from the fact that their interests intersect in the economic sphere. While there is clearly the potential for conflict between entrepreneurs and state officials, due to the fact that state officials have been able to influence the economic environment in which entrepreneurs operate based on the administrative tools that they wield, there is also the potential for collusion. Although the opposing nature of state-business relations might seem paradoxical, it is the essence of the complex tension that characterises the relationship between entrepreneurs and state officials. The opposing dimensions of their relationship stem from the fact that both have been forced to operate together in the same unfamiliar, confusing and even illogical environment. In such an environment it has often been the case that each needs the other in order to overcome the obstacles that they face, even though their interests and roles stand in opposition to the other.

The relationship between entrepreneurs and state officials is also important because it offers insight into the kind of strategies that entrepreneurs develop to survive and establish themselves in the Russian business environment. Yurchak (2002) has looked at issues of governmentality from the Soviet to post-Soviet period in Russia. He suggests that relations between state officials and entrepreneurs have taken on a hybrid form in which they can either be 'officialised' or 'personalised' based on whether the aim has been to fulfil the objectives of the state, or the personal interests of the individuals involved. The 'officialisation' and 'personalisation' of state

business relations has developed in response to the rigidities of the formal system. Thus the way in which entrepreneurs and state officials relate to one another is also a reflection of how they relate to the formal and the informal systems. The formal system is malleable, and entrepreneurs and state officials treat it as something that can be modified to better suit the immediate interests of the parties involved. This demonstrates the ways in which entrepreneurs and state officials often collude with each other in order to come to a mutually satisfactory outcome with regards to their activities and obligations.

The ‘officialisation’ and ‘personalisation’ of state-business relations is closely related to the second key analytical framework of this thesis: informal practices. Informal practices are the strategies that entrepreneurs have developed to navigate around the obstacles they encounter in the business environment. The most prominent informal practices used by entrepreneurs are bribery and *blat* networks. The way in which entrepreneurs have employed these practices helps to explain the rationale behind entrepreneurs’ behaviour. As such, they provide insight into the patterns and problems of entrepreneurial development in Russia.

As informal practices, bribery and *blat* are closely related. Both are used to ‘solve problems’, but the method of doing this is quite different. Whereas *blat* is used ‘between friends’, bribery is not (Humphrey, 2002; Ledeneva, 1998). Bribery often occurs between people who are not on equal social standing or position (Humphrey, 2002). It is therefore a more common practice between entrepreneurs and state officials, whereas *blat* is particularly visible amongst entrepreneurs and those with whom they look to for help and support in their business pursuits. Ledeneva has defined *blat* as, ‘the use of personal networks and informal contacts to obtain goods and services in short supply and to find a way around formal procedure’ (Ledeneva, 1998: 1). While *blat* networks have a long history in Russia, having existed before the shift to a market economy, *blat* has remained as a special system of favours exchanged between people in order that they can access resources that are in short supply. This basis of exchange has created an important degree of indebtedness within *blat* networks, which in turn ensure reciprocity between those involved in the exchange. These networks have, however, evolved and acquired particular significance in business transactions. In the post-Soviet period in Russia access to

finances and information have been two resources that have been in short supply. Since these resources are also critical to entrepreneurs' capacity to run their enterprises, *blat* networks have acquired special significance in the business sphere.

As a feature that binds relationships in place, *blat* networks have been important to understanding the patterns of entrepreneurial development in Russia and why policies developed 'from above' have had a limited impact on the behaviour of entrepreneurs. Findings from this research project revealed that networks have been used in both an inclusive and exclusive way, whereas most of the literature treats networks as either a positive or a negative phenomenon. Entrepreneurs have simultaneously relied on their networks to access scarce resources, which indicate that these networks are used in an inclusive way, and they have also been used to protect their position by restricting access to resources to individuals outside their networks, which indicate that networks are applied in an exclusive fashion. In this way, *blat* networks have represented an important strategy of entrepreneurs' survival in the Russian environment.

While entrepreneurs have seen these strategies as crucial to their survival in the Russian business environment, the fact that they have been used to circumvent formal procedure has, in some ways, added to the problems that they face. These strategies undermine efforts to improve the image of business in the public 'mind'. In addition, they have also held entrepreneurs in the undesirable position 'in-between' the formal and informal systems. The effect has been that while entrepreneurship appears to operate on some levels, on other levels it does not. The overall picture of entrepreneurship has been a complex mixture of successes and frustrations. This thesis endeavours to shed light on this picture by drawing attention to the human dimension of entrepreneurship to reveal the intricacies of entrepreneurial development in Russia.

1.3 Structure of Thesis

To address the question of how behaviour, attitudes, values and socio-cultural context have impacted on the development of entrepreneurship, (and after a discussion of methodological issues in chapter two), this thesis begins by looking in chapter three at the context from which private enterprise developed in post-Soviet

Russia. Particular attention is given to the role of the state in promoting SME development and the problems associated with portraying the development of the small business sector in an overly simplistic and idealistic way. It soon becomes clear that entrepreneurship has not brought the kind of successes that official rhetoric has proposed. Rather SME development has been a complex mixture of successes and frustrations, which have emerged out of the way that entrepreneurs and other actors relevant to business, such as state officials, politicians, and leaders of business associations, have responded both to their environment and to each other.

The complexity of entrepreneurship begins to emerge in chapter four, where it is shown how, in fact, it was possible for some people to become entrepreneurs and establish their businesses. This chapter explores the kinds of people, and in which types of social situation, have stood the best chance of becoming entrepreneurs. In the process, some insights into the specific characteristics of the entrepreneurs that took part in this study are made.

This picture of the intricacies of entrepreneurship develops further in chapter five. In this chapter a similarly complex mix of factors, which influence the behaviours of entrepreneurs in the conduct of their business are considered. Entrepreneurs face a series of frustrations as they attempt to deal with inter-related obstacles that range from accessing credit, through finding premises and the heavy tax burden, to dealing with a host of administrative barriers and a hostile cultural environment. This chapter explores how entrepreneurs have approached their business activity as individuals and the kind of strategies they have developed to deal with these particular challenges. It also addresses the consequences of entrepreneurs' strategies and how these can, in some ways, place restrictions on the position of entrepreneurs.

In this chapter, the limited impact of state policies, which claim to nurture and encourage entrepreneurial activity, have had on the ground becomes apparent and thus the reasons why there is a gap between the rhetoric and reality of small firm development emerge. In order for entrepreneurial development to be supported, entrepreneurs have had to come up with additional strategies to try to resolve issues, such as the negative public image of entrepreneurs, and improve their position on a broader front – as entrepreneurs in general. There have been two ways that

entrepreneurs have attempted to do this. One has been to take on and adapt the official rhetoric concerning socially responsible business. Another has been through the activities of business associations. Both of these strategies provide insight into the outlook of entrepreneurs as well as highlight the significance of entrepreneurs' relationships with state officials and other actors relevant to the business community to entrepreneurial processes.

Chapter six concentrates on the first approach whereby entrepreneurs try to improve their position by demonstrating social responsibility in their business activities. This, it is argued, represents a 'collective' attempt by entrepreneurs to improve their image in Russian society and win support for their position. While socially responsible business practices were not absent under the Soviet system, the concept of a socially responsible enterprise has been refined to fit the contours of the present business environment and address the 'wild' and 'uncivilised' image of Russian business. These 'new' socially responsible business practices, also, sometimes draw on Soviet understandings of the workplace as a source of welfare for employees, whilst adapting former practices to the more widespread experience of social malaise in the contemporary context. This is an attempt to address the negative image of business, which emerged in the early 1990s when it appeared as though entrepreneurs had been running amok. Rather than the behaviour of entrepreneurs being seen as rational – given the irrationalities of the system, the public image of entrepreneurs has been one in which they were seen to be flouting the formal rules to improve their personal socio-economic position while many other social groups had been suffering from the effects of the transformation. In addition to this, the 'wild' market of the early 1990s caused damage to the authority of the state, making it appear weak in the face of a rising entrepreneurial class. The concept of socially responsible business thus appears to provide a solution to these problems. This chapter explores the way in which socially responsible business has been framed as rectifying the mistakes of the past, whereby entrepreneurs of SMEs have had to 'repent' for the injustices of Russia's 'wild' market in the early 1990s is explored. Finally, the chapter questions the extent to which entrepreneurs of SMEs, on their own, are actually able to offer any solution to the 'uncivilised' business environment.

Chapter seven focuses on the second ‘collective’ way that entrepreneurs have tried to overcome the challenges they confront in the Russian business environment. The role that business associations play in improving the business environment and assisting entrepreneurs to negotiate its challenges is considered. Due to the unique position of business associations at the interface of the state and business, business associations appear to have the capacity to defend the interests of entrepreneurs and broadly improve the Russian business environment. In line with the concept of socially responsible business practices, business associations also offer the added benefit of ‘civilising’ the business environment by mediating the forum of interest articulation away from the haphazard and personalised form of interest articulation that predominated in the 1990s. While this strategy appears logical in principle, a complex mix of factors has influenced the extent to which business associations have been able to address the interests of entrepreneurs in practice. Factors such as a mismatch of expectations between the leaders of business associations and entrepreneurs over what the role of these organisations should be, as well as the degree to which business associations defend the interests of SMEs or those of the state are considered here. Both this and the other ‘collective’ strategy described above address the question about what the consequences of entrepreneurs’ strategies to survive and improve their position have on the business environment.

Each of these chapters together, paint a vibrant picture of the patterns and problems of entrepreneurial development in Russia. In the chapters that follow, this thesis will show that an exploration of the human dimension of entrepreneurship – that is the behaviours, values and perceptions of entrepreneurs and other actors relevant to the business community – are key to untangling the complexities of the entrepreneurial process in Russia.

Chapter 2

Methodology

While entrepreneurship has been central, in some form, to the transformation of the country and has thus held broad macroeconomic and social significance, it has at the same time, been about people, their patterns of behaviour, relationships, as well as the attitudes that other actors in society have held toward them. Thus to understand the broader impact of entrepreneurship in Russia requires that this human dimension be examined. This thesis therefore looks at the experiences of entrepreneurs and the strategies they have used to navigate the business environment. From here, it then becomes possible to examine the patterns and problems of the development of the small business sector in Russia. To achieve this, it was important to allow the research subjects to speak and to tell their stories in the way they wished.

Qualitative ethnographic research methods have been the most appropriate approach for this purpose because they best allow research subjects to share their experiences, perceptions, values and beliefs related to entrepreneurship. While there is a risk that the emphasis on analysing individuals, their experiences and perceptions at the micro level will occur at the cost of broader analysis at the macro level, Gerson and Horowitz (2000: 201) have suggested that ‘to unravel the complexities of large-scale social change, it is necessary to examine the intricacies of individual lives’. This idea holds particular relevance to the Russian context.

Beneath the broad macroeconomic, political and social changes that have been occurring, individual lives have been uniquely affected in remarkable ways. Based on the ideas of Gerson and Horowitz (2000), qualitative research methods actually facilitate a link in the analysis between the processes occurring at the micro and macro levels. Certainly in this study, qualitative ethnographic research methods facilitated an exploration of some of the contradictions between the experiences of entrepreneurs and the rhetoric of the state with regards to SME development. The experiences and perceptions of entrepreneurs are embedded in a social context, so the approach is necessarily a holistic one that recognises that processes occurring at the micro level both shape, and are shaped by, processes occurring at the macro level. As a consequence, the focus that qualitative research methods place on

individual experiences and perceptions does not automatically preclude insights into broader social phenomena and trends; rather they form the basis of them. The approach taken in this research project also follows in the footsteps of other researchers on Russia such as Kay (2000, 2006), Bridger et. al. (1996), Ledeneva (1998, 2000, 2001) and Flynn (2004) who have placed emphasis on giving their research subjects a voice in their studies of various social groups, practices and processes using a qualitative ethnographic approach.

Qualitative ethnographic research is open to 'the world of experience' and as such creates 'cultural snapshots of small life-worlds' (Flick et. al, 2004: 5). To create such 'cultural snapshots', I carried out field research in Russia for a three month period where I conducted thirty-seven semi-structured interviews with entrepreneurs, leaders of business associations, state officials and lawyers in four different case study regions of Russia: Moscow, Sverdlovsk, Tver', and Kaluga regions. In addition to this, observations were documented in a field diary, which helped to contextualise events and experiences as they unfolded. During field research, I also collected pamphlets from business associations, other local informational materials and local newspapers from the different regions, which provided insight into conditions affecting the business environment. I also read The Moscow Times (available in Moscow) and Vedomosti (a national business daily newspaper) regularly, which kept me informed about major events, and economic, political and social trends affecting the business environment and state-business relations. In reading these newspapers, I also studied discourses and the political rhetoric surrounding entrepreneurship. These issues were then woven into interviews to test the relevance of issues of national significance at the local level and they also formed an important source of information when it came to the writing of this thesis.

Using a number of different methods, and interviewing a variety of individuals who have been involved in entrepreneurship in various ways, facilitated the triangulation of data collected. Triangulation refers to a process of validating data in which research phenomena are explored from different angles (Flick et. al.:178). In this research project, data was triangulated at different levels, both between and within the methods used. This not only enriched the data collected, but it also reflected the way in which the research process developed in a cyclical way. Just as the research

questions informed the methods used and the structure of interviews with research subjects, the issues raised by interviewees, the information gathered and the observations made were fed back and shaped the way in which research was subsequently carried out in the field. This kind of flexibility, which is inherent in using a qualitative ethnographic research approach, allows the research project to develop organically. This not only helps to keep the research grounded in the context in which it is explored, but this cyclical research process also highlights the extent to which analysis is an ongoing activity; findings are continually being considered, tested and re-considered.

In the sections below, I will discuss each of these research methods, the regions where fieldwork was conducted and ethical concerns to examine how each of these have shaped the research process and contributed to the writing of this thesis.

2.1 Interviews as a Research Method

In adopting my qualitative approach, I chose to conduct semi-structured interviews because they are both flexible to the study of social phenomena and sensitive to their intricacies (Gerson and Horowitz, 2000; Hakim, 2000). Interviews also reveal the perceptions, beliefs and values of those directly involved (Hopf, 2004: 206). Since this research project was concerned with understanding people's experiences in business, the kinds of relationships they form and why, the method of semi-structured interview provided the best way of accessing this kind of information. Gerson and Horowitz (2000: 218) have suggested that 'interviews provide the opportunities to examine how large scale social transformations are experienced, interpreted, and ultimately shaped by the responses of strategic social actors'. As a research method, interviews provide an important link between how events are experienced on the ground and how processes occurring on broader macroeconomic, social and political levels evolve. It is not just about seeing what is happening at one level or another, but rather it is also about seeing what is going on 'in-between' various levels of social phenomena. In any kind of qualitative research, or indeed even when using quantitative research methods, it is not possible to provide an absolute and verifiably true account of social phenomena. There will always be different views and biases through which various interpretations can be made. The fact that society cannot be reduced to clear cut categories, groups and divisions is

exactly the reason why qualitative ethnographic research and the use of semi-structured interviews have been effective in this research project; they best capture the complexities and intricacies of everyday life. Before going on to discuss the interview process in greater detail, it is necessary to first address how respondents were identified and found.

2.1.1 Gaining Access to Respondents

Entrepreneurs have been particularly difficult to access because of the way in which they have been portrayed in the media and perceived in society: they are seen as having established themselves in business on the basis of crime, corruption and nepotism. Entrepreneurs are all too aware of their reputation and because of this they have generally been suspicious of outsiders, such as people like myself who have expressed an interest in talking to them about their experiences and how they got started in business. Some of my potential respondents not want to participate in the study because they were suspicious about what kind of information I wanted to discuss with them. They did not want to risk putting themselves in a position where they might be asked details about such things as their financial background. While I had no intention of asking interview subjects questions with which they felt awkward and uncomfortable, and indeed every effort was made to create a relaxed atmosphere during interviews, in some instances, it was not possible to lay their suspicions to rest or to convince them to participate in an interview. Consequently, other individuals willing to participate in the research project had to be found.

In addition to this, many of the individuals taking part in this study, from the entrepreneurs, politicians and directors of business associations, could be described as an 'elite' in Russian society. This social status implies a degree of exclusivity and so access to them is restricted. Indeed the social status of elites is maintained by the fact that access is limited and controlled by people subordinate to them (Wolff, 2004: 199). Also, the demands involved in entrepreneurship leave these individuals with little time for participating in sociological research. Politicians and leaders of business associations also have busy schedules, which make it difficult to get them to agree to take part in research projects such as this one (Rossman and Rallis, 1998: 134).

While attaching the label 'elite' to entrepreneurs helps to explain why it was difficult to gain access to them, it is important to recognise that this is only a partial explanation. Indeed in some respects, this label is not entirely appropriate for some of the entrepreneurs that took part in this study. This is because even though entrepreneurs hold a relatively privileged position in terms of socio-economic well-being, particularly when compared to other groups in society such as women, migrants and ethnic minorities who have been especially vulnerable to the vagaries of the socio-economic transformation, entrepreneurs confront a host of barriers, which makes them appear vulnerable and their socio-economic status, fragile. Even while this status has not always been entirely appropriate, it has nonetheless been associated with them and has put additional pressure and demands on entrepreneurs, which in turn make them a more difficult group to access. Instances in which the label 'elite' appeared to be inappropriate for entrepreneurs of SMEs came through very clearly during interviews and this is illustrated particularly in chapter five.

2.1.2 The Role of Gatekeepers

Both because of entrepreneurs' suspicion of outsiders and the 'elite' status of respondents, I decided to make initial contact with my respondents with the assistance of chosen individuals who were acquainted with entrepreneurs and had already gained their confidence. Such contacts played the role of 'gatekeepers' by enabling me to gain access to entrepreneurs. Gatekeepers played a fundamental role in negotiating my entry into the field by making initial contact with respondents. I became acquainted with gatekeepers through the networks of my supervisors and other academics in the UK. There were two principle gatekeepers who helped me, one a journalist in Moscow, and the other a deputy in the local administration in Moscow. In addition, I had also established contact with individuals during a previous work placement in Moscow from 2002-2003. In this intermediary position, my gatekeepers played an important role in helping me to establish a trusting relationship with my respondents. Establishing trust with respondents is fundamental to creating an atmosphere where they want to contribute to the research project in a meaningful way. Without this trust, the information and data collected could become less reliable.

It would have been very difficult to successfully carry out my field research without the assistance of gatekeepers and the level of influence they had in the collection of data needs to be recognised. Because of the role gatekeepers play in negotiating access into the field and making initial contact with respondents, to a certain degree they have the power to decide whom to include and exclude from participating in the study. As a consequence, they played an indirect role in shaping how the groups under study have ultimately been represented in this thesis (David and Sutton, 2004: 107; Reynolds, 2002: 301). The fact that my two principle gatekeepers were living and working mainly in Moscow, had an impact on the distribution of interviews such that the largest proportion of them were conducted in Moscow (see below). To a certain degree there is little that could be done to control for the influence of the gatekeepers, especially given my dependence on them for access into the field. It was however beneficial that I was not relying solely on the assistance of just one gatekeeper, rather there were two, as well as a few other key informants. I made contact with these other informants through a 'snow-balling' technique during the course of conducting field research, whereby as I met more individuals, I was able to make contact with yet more people that helped me access research subjects. That gatekeepers would have an impact on the shape of the research project is neither unusual in sociological research, nor to the context of Russia, where establishing personal links with influential people counts for a lot in terms of gaining access (Humphrey, 2002; Ledeneva, 1998).

2.1.3 The Interview Process

Seventeen interviews were conducted in Moscow, five in Sverdlovsk, eight in Tver' and seven in Kaluga. The proportion of male and female respondents was almost equal and this might have stemmed from the fact that my two principle gatekeepers were women, which contributed to a more even spread across genders than might have been expected. As indicated above, and due to the position of my key informants, most of the respondents were found in urban areas and a large proportion of them were involved in retail-focused enterprises. The higher concentration of individuals involved in retail trade rather than in production and financial services was due to issues of accessibility, discussed above. The age of respondents ranged from twenty-four years to sixty-eight years. This demographic information, along with respondents' current position, education, professional background and the

region where they lived was collected via a short questionnaire, which I asked respondents to fill in following the interview. This information is summarised in appendix one. Throughout the thesis, respondents are identified by number codes and some background information about them is given, such as gender, field of activity and whether they are from Moscow or provincial Russia. I do not differentiate between the different provinces where fieldwork was conducted. This is because these areas are small enough that individuals who hold a prominent position in the business community could be identified if their region were named. In these cases also, the gender of the person is also often omitted.

Interviews ranged in length from fifteen minutes to over an hour. Interviews were most often carried out in the place of work of the interviewee. Interviews were also conducted in the flat where I was staying in Moscow and Tver', or in the home of the respondent. Some of the interviews in Moscow were conducted in office space provided by one of my gatekeepers, which provided private and neutral territory for us to speak. Almost all of the interviews conducted in Kaluga occurred in the building of a business association or in the interviewee's place of work. The location of the interview did not seem to have too much impact on the nature of the interview, although the issue of time pressure was most apparent when interviews were conducted in the interviewee's place of work. However this was not the case in every instance and many of the interviewees with whom I spoke in their office were very generous in giving their time. This was most often the case where interviews were conducted with entrepreneurs in their place of work. This might have been because, as the individuals in charge of the business, they had the freedom to spend the time talking to me without the fear of reprisals from senior staff. Time constraints were more apparent when speaking with state officials and Directors of business associations in their place of work.

All of the interviews were taped using a dictaphone. Prior to switching it on, I asked the permission of the interviewee to use it. During this time, I explained the aims of the research project and told them about how the information would be used, assuring them of anonymity and confidentiality. Interviewees were also made aware of the fact that a trusted Russian former colleague would transcribe the interview and that the tape would be coded to protect the identity of the interviewee. This gave

interviewees the opportunity to make informed consent about participating in the interview.

I used an interview guide as a framework to help structure the interview and this also lent a degree of consistency across all the interviews. Interview questions were open-ended and aimed to understand the challenges of entrepreneurship and how they could be overcome. The interview guide was however, just that: a guide. Interviews were adapted and evolved out of the discussions I had with respondents and some of the issues raised by them were fed back into other interviews. This was useful because it not only kept the research 'grounded', but it also served as a process of ongoing analysis in the field. Weaving issues raised by earlier respondents into later interviews served as a way to verify and assess the significance of these issues. In this way, data collected during interviews were triangulated and the interview process evolved organically.

Interviews with entrepreneurs focused on their experience in business, their motivations and expectations, as well as how they have dealt with obstacles. Interviews with leaders of business associations sought to explore the kind of role that these organisations play in assisting entrepreneurs defend their interests in the Russian business environment. Interviews with politicians and state officials sought to explore their perceptions of the Russian business environment and how they interact with entrepreneurs. Finally, interviews with lawyers served to provide expert knowledge into the nature of the Russian business environment and the opportunities that entrepreneurs have for legal recourse to address some of the problems that they have faced.

Exploring each of these groups offered a different perspective of entrepreneurship and shed light on the complexities of doing business in Russia. This also served as a way to triangulate the data that was collected. Coming at the research question from these different angles aimed to provide a fuller picture about the development of entrepreneurship in Russia. The different perspectives could be pieced together to create a mosaic of individual experiences to tell a more complete story about why the problems of entrepreneurship are such as they are in Russia.

At the same time, it must be recognized that the division between the roles and backgrounds of interview respondents was not always as clear-cut as might first appear. During the course of field research it became clear that many of the respondents fulfilled more than one professional role. For instance some of the entrepreneurs and leaders of business associations interviewed also held political roles as deputies in the local administration. Similarly, some of the leaders of business associations also had their own businesses, as did state officials. The overlapping roles of individuals made it difficult to draw defined boundaries and to match different perspectives with the respondents' various professional roles. While this might complicate the issue of triangulation, it was an important finding that reflects the reality within which entrepreneurship has developed in Russia. What is more, rather than glossing over or simplifying the realities of entrepreneurship, this approach captures it in its entirety, no matter how 'messy' or complex it might be. These kinds of discoveries became possible because this approach did not involve going into the field with rigidly preconceived ideas. Rather semi-structured interviews are particularly effective in sociological ethnographic research because they are open to new discoveries.

The interview approach focused on having the interviewee reveal how they perceived and reacted to a particular set of circumstances and the aim was to encourage respondents to provide narratives and biographies of their experiences related to entrepreneurship. Gerson and Horowitz have suggested that narratives and biographies 'become the lens through which social contexts and arrangements' can be viewed (2000: 216). Given some of the difficulties associated with access and the potential unwillingness of respondents to discuss certain issues they felt to be too sensitive, I decided to conduct interviews using this approach, which gives respondents some control over the interview process, allowing them to determine the issues that they were willing to discuss. In most kinds of sociological research, giving this element of control over to the respondent is important because power relations between the interviewer and interviewee often tend to be lopsided in favour of the interviewer (Rossman and Rallis, 1998: 106). While this was not strictly the case in this study, given the social status of some of the respondents, it nonetheless helped to create a comfortable and trusting atmosphere, which I believe in the end made respondents more willing to open up about their experiences and share their

views on what entrepreneurship is like in Russia. Basing interviews around the narratives and biographies of respondents also provided a common point of reference among most interview respondents, which added consistency and a degree of structure that became important during the process of analysis.

Before concluding the interview, I made an effort to ask interviewees if they had any questions that they would like to ask of me. I found this to be a good opportunity to give something back to the interviewee and it allowed us to switch roles. This was useful for me because I was able to get a sense of what it is like being the respondent in an interview. By being on the receiving end of the questions I became more aware of what the experience was like for my respondents and perhaps this helped improve my interview technique.

2.2 Observations in the Field

Observation is an inherent part of ethnographic research. In this study, observational data was recorded in a diary throughout the period that field research was carried out. Information documented in the field diary served to highlight themes and draw attention to issues that were raised by interview participants. The field diary was useful for reflecting on events, people's behaviour and relationships and helped me to see the 'bigger picture' amongst the details recorded (Flick et. al., 2004:8; Rossman and Rallis, 1998: 137). As such the field diary was an important tool in the process of analysis both during the period of field research and afterwards. The field diary provided an analytical tool during the course of field research, and was important in directing the evolution of interview questions. For instance, by taking note of how an interviewee responded to a certain question, or to new information that an interviewee provided, subsequent interviews were enhanced as new ideas and themes could be incorporated and their significance to overall research findings could be tested.

It was important when recording things in the field that I was discreet in how and when I made notes. I was careful to write down notes and thoughts when I was in private as I felt it might make some people uncomfortable to act in an open and unrestricted way if they thought that everything they said and did would be recorded. In doing this, special effort was made to be sensitive to the interests of respondents

and to respect their privacy. When writing field notes, I also used pseudonyms to anonymise individuals who were recorded in the diary in the event that the diary was lost.

After leaving the field, the field diary continued to be used as a point of reflection where I was better able to see the 'bigger picture'. The field diary proved to be an effective way to 'capture the moment' during which events were recorded and in a sense, took me back to that time and place. At the same time however, I had also gained a new sense of objectivity that came with being away from the field where I have had the opportunity to reflect on the whole experience. I believe that both this objectivity as well as the events, experiences and thoughts recorded in the field diary helped me to create a more balanced and perhaps accurate picture than would have been possible without the field diary.

Compared to interview data, information collected in the field diary was not coloured by the personal judgements of my respondents and what they saw as being relevant to discuss. Weinberg points out that many of the things that researchers might find interesting and distinctive about local life simply does not occur to locals as interesting or worthy of mention at all (2002:135). At the same time it is important to recognise that while field observations will not be affected by the biases of respondents, these observations have been mediated by my own biases and perceptions. This being said, the field diary has been effective as a complimentary tool with interview data. In fact the two forms of data collection worked in tandem with one another, each informing the other. Interviews provided insight into peoples perceptions of their everyday lives, while the context in which individuals operated was captured in the field diary. In this way, the field diary served as a method of triangulation with data collected from interviews and vice versa.

Up to this point I have discussed the research methods used in this project in a collective way, as if they all occurred in the same place. However, both the interviews that were carried out and the observations that were made were spread across four regions of Russia. The value of using a case study method for this research project will now be discussed and each of the regions where fieldwork was conducted will be described.

2.3 The Case Study Method

Case studies are designed to explore specific cases in an in-depth way (David and Sutton, 2004: 111). The case study method offers a flexible approach, which helps to narrow the focus of the study, while at the same time it makes it possible to explore processes that shape social phenomena in a holistic way (Hakim, 2000: 59-60; Yin, 2003: 27). In addition to this, Burton has suggested that when the focus of a study is on a contemporary phenomenon within a real life context and in circumstances in which the researcher has little control over events, then the case study approach represents an effective method of framing the study and collecting relevant data (Burton, 2000: 218). The vast size and diversity of Russia has made the use of the case study method appropriate for this particular study. There are different types of case studies, which can broadly be divided into two groups: explanatory and exploratory (David and Sutton, 2004: 112). While explanatory case studies are used in deductive, quantitative research, exploratory case studies are relevant for inductive qualitative research (Yin, 2003: 6, 20). Given the nature of this study, an exploratory case study method was used.

There are some disadvantages to the case study approach, which deserve attention. One of the main criticisms has been that they are not representative. A way to get around the issue of being representative is to use more than one case study (Burton, 2000: 224). Use of multiple case studies provides a basis for comparison to indicate similarities and differences amongst different cases. Multiple case studies also help to add further depth to a research project, and in the process of attempting to understand the particularities of certain cases, the explanatory potential of this approach is improved. Another way to deal with the lack of representation in case studies is to use cases that are somehow typical of the phenomena under examination, or to avoid exceptional cases (Burton, 2000: 225). While this study cannot claim to be representative, a case study approach is able to provide detailed accounts from a holistic point of view, providing what Hakim (2000: 59) describes as 'portraits' of social phenomena. The four regions where field research was conducted will be discussed to highlight key characteristics and indicate the reasons why these regions were selected.

2.3.1 The Case Study Regions

In this study, field research was carried out in Moscow, Sverdlovsk, Tver' and Kaluga regions (see figure 2.1 below). Taken together, they represent a diverse cross-section of Russia's regions and offer a rich source of data collection. At one end of the spectrum, there is the highly urbanized setting of Moscow and at the other end of the spectrum is the rural setting of a small village and town in Sverdlovsk region; in the middle are the two provincial towns and regional centres of Tver' and Kaluga. The decision to conduct field research in these four regions was made on the basis that they represent three different types of regions in Russia. These are namely: urban, provincial and rural regions. The idea was that each of these case regions would have something unique to offer in terms of the 'type' of setting they represent and by selecting interview respondents from across this spectrum, broad insights into how entrepreneurship has developed could be gained. A further objective of selecting interview respondents from a combination of urban, provincial and rural settings was to enable comparisons to be made between the different case regions. More specifically, the aim was to explore the extent to which patterns and problems of entrepreneurship have differed between urban, rural and provincial cases and whether there have been any differences in the kind of strategies that entrepreneurs have developed in response to these.

However, even with these 'ideal' objectives in mind, it is clear that issues about the extent to which these particular regions could be considered representative of other regions that fall into the categories of urban, provincial and rural remain. In the first instance, Moscow simply cannot be considered representative of Russia. It stands out for its highly developed economic infrastructure and relatively higher standard of living. Russians have told me on many occasions that Moscow is not Russia and in order to get an idea of what the country is about, one must explore beyond the capital city. In addition, given the nature of Moscow as a hub of relative prosperity, and the close location of Tver' and Kaluga, it is recognized that the vast majority of entrepreneurs and individuals taking part in this study could be considered relatively better off than individuals in regions further from the highly developed region of Moscow. Factors such as these could have contributed to a picture of entrepreneurship in Russia that might not be replicated in exactly the same way if other case study regions were selected. The selection of Sverdlovsk was therefore

significant to this study for the contrasts that it provided. Yet the perception amongst respondents from each of the case study regions that Moscow provides a kind of ‘benchmark’ to understanding the development of entrepreneurship in other areas of the country is significant and has been useful to the overall findings of this study. Rather than simply ignore the most exceptional of case study regions, this study accepts that it is atypical and attempts to draw on this to inform understandings of the entrepreneurial process in Russia.

Importantly, the selection of these particular case study regions was also guided by practical considerations. For reasons indicated above, I encountered difficulties finding respondents. Many were suspicious about the prospect of discussing certain details of their work with me (particularly financial details). The nature of their position also made it difficult to make contact with them. When I did find individuals willing to speak to me, I relied on the ‘snowballing’ technique to lead me to other respondents. While I remained committed to the idea that my study incorporate urban, provincial and rural settings, the position and contacts of my gatekeepers also played an important role in determining where I went and thus which case study regions were selected. Thus although these regions, and particularly that of Moscow, cannot be considered ‘typical’ case studies, these were the places where I had access and was able to find respondents; without whom completion of this project would not have been possible.

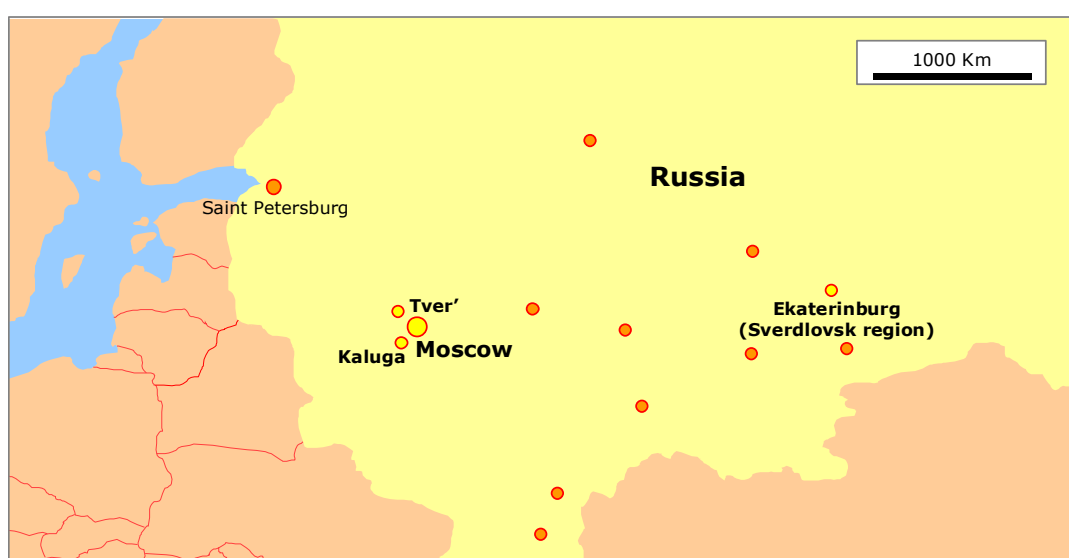


Figure 2.3.1.1 Regions used for the gathering of field data

2.3.2 *Moscow*

As the nation's capital, Moscow (see figure 2.3) is the largest and most developed urban center amongst the cases and in 2004 had a population of 10.3 million (www.gks.ru). Its relatively developed financial, communication and technological infrastructures that support the business community make it an important setting to explore the development of entrepreneurship. Moscow appears to be the place where one might expect the SME sector to be strongest and most effective. Of all of Russia's regions, Moscow region ranks first in terms of having the greatest number of SMEs located in its territory. In 2004, there were approximately 953,000 SMEs in Russia. Of this total, nearly twenty percent were located in the city of Moscow (http://www.gks.ru/scripts/db_inet/dbinet.cgi 2004). Relative to the rest of Russia's regions, foreign direct investment (FDI) is highest in the capital city receiving nearly thirty-eight percent of the national total of FDI (OECD, 2004: 87). And whilst it is not typical of the rest of Russia, the logic behind conducting field research there was that it provides a kind of benchmark against which entrepreneurship in the other regions could be gauged. In fact, it was not uncommon for interview respondents, by way of explanation, to compare the situation in their regions to how they thought it was in Moscow. In this way, conducting research in Moscow actually enhanced my overall understanding of the complexities of entrepreneurship across the different regions.

2.3.3 *Sverdlovsk*

Sverdlovsk (see figure 2.2) is situated in the center of Russia between Europe and Asia and is strategically located as the gateway to both these continents. For this research project, fieldwork was carried out in a village and an adjoining small town located approximately 150 km south east of the regions' capital city, Ekaterinburg. While Moscow has become the financial center of Russia, Sverdlovsk has a long history in the industrial sector, owing to substantial resources in minerals and raw materials (Sverdlovsk region, 2003). Its location between two major continents further enhances the economic potential of Sverdlovsk. Sverdlovsk attracts two and a half percent of the national total of FDI. While this share appears to pale in comparison to that of the city of Moscow, Sverdlovsk ranked seventh amongst Russia's regions as a recipient of FDI in 2002 (OECD, 2004: 87). Arnot (2000) has

suggested that based on its historical legacy in industry, its rich human resources and investment potential, combined with the effects of socio-economic transformation, Sverdlovsk appears to be an ideal setting for the development of the SME sector. As a percentage of the total number of SMEs in the country, 3% are located in Sverdlovsk region (http://www.gks.ru/scripts/db_inet/dbinet.cg 2004). Again, while the number of SMEs in Sverdlovsk region appears to be a small portion of the total number of SMEs in the country, according to a statistics produced by the organisation, Analytics of SMEs, at the end of 2000 Sverdlovsk ranked sixth among Russia's regions for the total number of SMEs (<http://giac.ru.analitica/> 2001). Still, this further illustrates the extent to which SMEs are concentrated in Moscow.

Much of the field research carried out in this region took place in a rural setting. Official population statistics on these regions are scarce and I was told in 2004 by one of my key informants there that the village had a population of approximately 1000 and the rural town had a population of approximately 33,000. Trade and agricultural sectors have dominated the local economies of the village and small town where fieldwork was conducted. Consequently, and in contrast to what the above statistics suggest, entrepreneurial opportunities in the SME sector were limited. In the village where fieldwork was carried out, one individual dominated the local economy and, along with his spouse, owns almost three-quarters of the property in the area. The village had been built around what is now a former State farm, which dates back to the Soviet period. Today, agricultural activities have largely been confined to subsistence farming. Given the size and diversity of Russia, it is difficult to state with accuracy the extent to which this area in Sverdlovsk is typical of other small towns and village environments. However, it is probable that this area is not unique in the country (Hiven, 1998; Liesl and Gambold, 2003). As a rural location, it is nonetheless clear that that these areas in Sverdlovsk stand in stark contrast to not only Moscow, but also, as will become apparent below, to both Tver' and Kaluga regions. As such, a case study of these rural areas in Sverdlovsk adds another dimension and helps paint a picture about the development of the small business sector in Russia.



Figure 2.3.3.1 Sverdlovsk region

2.3.4 Tver'

Tver' (see figure 2.3) is a provincial town located approximately one hundred and fifty kilometres northwest of Moscow and in 2004 it had a population of 403,000 (www.gks.ru). Its location is particularly significant because it is strategically located between Moscow and St. Petersburg, which have historically been Russia's largest and most prominent cities. Tver', which is located in the Central Federal District along with Moscow and Kaluga, received on average USD 5.04 per capita in FDI in 2002 (OECD, 2004: 26). The economic potential of the region has been enhanced by the transportation and trade links established with these two cities. In addition, Tver' has strong industrial, natural and human resources. Tver' also has a strong pharmaceutical industry, which has grown off the back of specialists from Tver's medical institutes (Delovoi Vizit, 2004). These features suggest that the economic potential of Tver' is strong. However the number of SMEs in Tver' region, relative to the rest of the country is small. Only 0.7% of the total number of SMEs in Russia are located in Tver' (http://www.gks.ru/scripts/db_inet/dbinet.cgi 2004). Still, given its strategic location between Moscow and St. Petersburg, inclusion of this provincial town has been valuable for adding richness and insight into the study.

2.3.5 Kaluga

The second provincial town in which field research was conducted was Kaluga and in 2004 it had a population of 332,000 (www.gks.ru). Of the four regions studied,

Kaluga and Tver' share the most in common. Both are provincial towns located virtually equidistant, but in opposite directions from Moscow with Kaluga being located approximately one hundred and fifty kilometres southwest of the capital. In much the same way that Tver' has benefited from its location between two of Russia's largest urban centres, Kaluga has benefited from its proximity to Moscow and the developed transport infrastructure that surrounds it. These transport links have opened Kaluga up to tourists, investment and trade; all of which have been important to the development of entrepreneurship in the region. Kaluga also boasts a number of natural resources, the most significant of which are land and forestry. Kaluga also has an industrial base in machine building, the timber, pulp and paper industry, and building materials. However, similar to Tver' region, the number of SMEs in this region is relatively small compared to that found in Sverdlovsk and in Moscow. As a percent of the total number of SMEs in the country, 0.7% are located in Kaluga region. However in terms of FDI, Kaluga appears to be in a stronger position than Tver', attracting USD 34.02 per capita FDI in 2002 (OECD, 2004: 26). As such, Kaluga ranks high in the regions that make up the Central Federal District. Yet again, both for the similarities and differences that Kaluga shares with the other three regions, it has provided an interesting basis for comparison, as well as added overall vibrancy to the study.

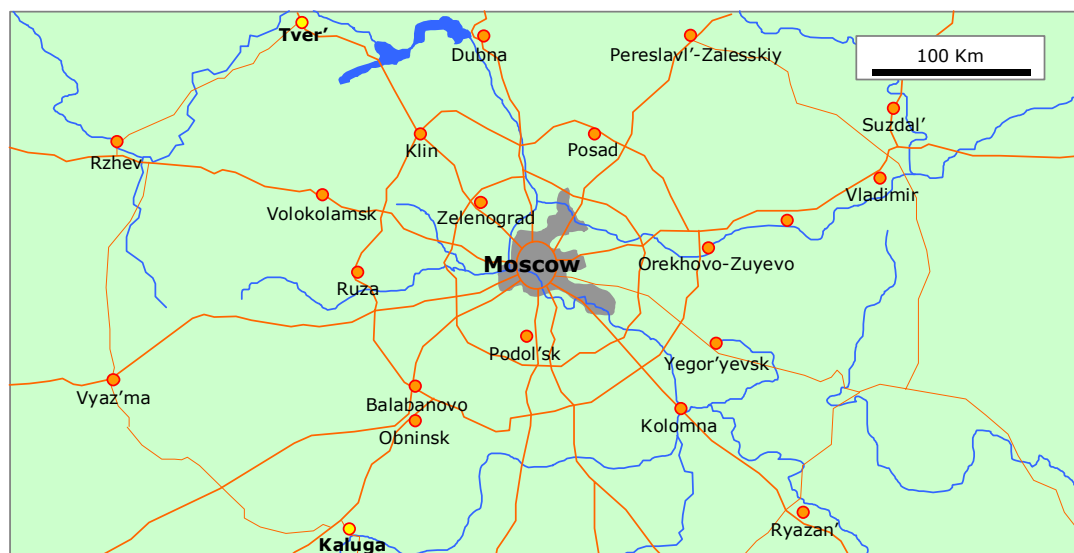


Figure 2.3.5.1 The cities of Moscow, Tver' and Kaluga

While there were practical reasons related to accessing interview participants that influenced my decision to conduct field research in these four regions, using a multiple case study approach to explore the problems of entrepreneurship and the development of the SME sector in Russia has had the advantage of adding richness to the data collected. A weakness of the study could be that the breadth of regions under consideration precluded in-depth explorations into a couple of regions in Russia. While an exploration of two case study regions might have allowed for more direct comparison between regions, conducting field research in four regions added diversity to the study. What is more, an important finding of this study has been that there was very little difference in both the nature of problems experienced by entrepreneurs, and in the way in which these obstacles have been dealt with, despite the apparently contrasting environments of each of these regions. What has been more, it would seem that many of the kinds of problems faced by entrepreneurs in this study, share much in common with other studies that have touched on the problems of entrepreneurship in Russia (Arnot, 2000; Kay, 2006; Bridger et. al., 1996; Glinkina, 2003; Radaev, 2002, 2003). Based on these, and the findings of this study, it seems that geographic location has not been *the* determining factor with respect to the kinds of problems that entrepreneurs face. Rather, these problems have been rooted in the nature of economic, social and political systems and the way in which entrepreneurs interact with state officials in particular, as well as with other members of society. Given this, the decision to conduct field research in four different regions did not detract from the study; rather it has yielded findings that both corroborate with, and advance the existing literature.

2.4 Analysing the Data

Analysis of the data collected is an ongoing process that begins before going on field research and continues even in the stages of writing the thesis. As new information is gathered, it is incorporated and analysed with the existing data, and this in turn informs the research process and the direction it takes. Below, different stages in this analytical process are considered. While these are discussed separately here for ease of explanation, it is important to point out that the stages in the analytical process are often overlapping.

2.4.1 Pre-Fieldwork Analysis

Prior to going to Russia to conduct field research in 2004, I had researched the role of business associations, particularly the Russian Union of Industrialists and Entrepreneurs (RSPP), using Russian media sources and the Internet. This research both informed and shaped my ideas about how I wanted to approach my research in the field. For instance, I developed my interview guide based on information I had gathered during this earlier stage of research. In addition to this and based on the findings of this research, I wanted to explore further the extent to which business associations facilitate interaction between the state and business and so I incorporated this aspect into my research methods that I used during field research.

2.4.2 Analysis in the Field

The flexibility in the research methods chosen were important to the overall process of analysis as they allowed for these ideas to develop and evolve while I was in the field. When using an exploratory case study method, Yin (2003: 6) has suggested that the research tends to follow the intuitive paths of the researcher. As such, I had the freedom to let new and unexpected findings guide the research project, allowing it to evolve in directions that could not have been anticipated prior to conducting field research. For instance, it became apparent soon after I had arrived and had conducted a few interviews that the key issue to focus on was the problems of entrepreneurship and how they are dealt with, thus shifting the priorities of this study away from the role of business associations. State-business relations have remained an important theme of the thesis, but not in the way that I had originally anticipated that it would. This illustrates the way that ongoing analysis of findings influenced the shape of the research project. Being able to follow up new discoveries also kept the study grounded in the social context.

My analysis of discourses in the media also informed the direction of this research project. Relevant themes, such as political rhetoric about business and SME development were incorporated into interviews to test their significance on the ground. Similarly, the way in which interviewees responded to these issues was also considered and formed part of the ongoing analysis in the field. In the same way, observations noted in the field diary helped to create an image of the context within which the research unfolded as well as informing the research project. These bits of

information were, in a sense, put together to come up with a bigger picture. At each stage of analysis, these pieces of information were reviewed and adjusted to see how they all fit together.

2.4.3 Post-Fieldwork Analysis

My return from Russia in August 2004 signalled a new stage in the analysis of data. At this time, interview transcripts were looked at collectively and my field diary was typed out. Interviews were analysed and sorted on a thematic basis. During the initial reading and translation of transcripts, common themes and issues were noted. At a second stage, information from these interviews was separated out and recorded under the appropriate theme, using a kind of ‘cut and paste’ technique. In addition, consideration of who was saying what, and how issues were discussed was considered. This was an important part of the process of fitting together the different pieces and perspectives contained in the raw data. For consistency, the same codes used to identify interview respondents on cassette tapes for the transcriber and in the field diary, were also used in the analysis of interview transcripts. This ‘cutting and pasting’ process was repeated for each interview and theme. As the process continued, the way in which different themes were linked together and related became more apparent and sub themes were created. Similarly, it was also an effective way of untangling complex issues and separating out certain phenomena that might not have been as closely related as I initially thought.

After my field research, the field diary was mainly used as a reference point, to provide context and recreate the picture of how events unfolded while I was in the field. This was useful to refer back to during the process of analysing interview transcripts, as it added colour and depth to them. So even while events and conversations recorded in the field diary could not be quoted directly for ethical reasons, they were useful for revealing subtleties such as emotions and perceptions, which are important to the overall understanding of the views and beliefs of respondents. These subtleties add greater richness to the issues addressed in this thesis.

Media research was an important part of data collection, which also provided a framework to support findings from interviews. In some respects, it was used in a

similar way as the field diary, to provided a contextual background in which the interviews took place. For instance, political speeches were analysed in terms of how they reflected the political and business climate, which was important to understanding the context within which entrepreneurship was evolving. Like interviews, this data was organised on a thematic basis. Also important was that these trends could be examined and changes traced over a period of years; whereas the observations made in the field were confined to a relatively short period of time of three months. In other respects, media sources stood alone and could also be used to explain gaps in the interviews. Sometimes references were made to pieces of legislation, but the information provided was incomplete and/or biased. While interviews and observations provide great insight into perceptions, beliefs and values, media sources do not. It is this relative objectivity, which is important to the overall analysis. Just as ethnographic research is good for keeping data 'grounded' in the social context, media sources are good for keeping information 'grounded' in political and economic contexts as reported in the news. Thus an analytical framework was developed out of data collected from media sources. In this way, information gathered from media sources complimented and sometimes 'balanced out' information gathered from interviews and observations.

During field research, I focused on analysing the Moscow Times and Vedomosti. After returning from Russia, media sources continued to be searched via a Russian newspaper database, Eastview. This was an effective resource because themes and topics were searched across a number of Russian newspapers over a period of years, usually from 2000 to the present (although in certain instances it was relevant to include earlier periods in the search, for instance for issues addressed in chapter three of this thesis). Themes that were raised in interviews and observations often guided the themes explored in media sources, although this was not exclusively the case. As with information from interviews, relevant information from media sources was separated out and organised on a thematic basis. Constant reviews of the interviews, observations, media reports and the themes contained within them helped to indicate central and sub-themes. Findings from interviews and observations made during field research, as well as information from media sources were written up and form the basis of chapters three to seven in the thesis. This thesis is the product, which

brings together each of these pieces of information and data, and endeavours to tell about both the development and the problems of entrepreneurship.

2.5 Ethical Concerns

Consideration of ethical issues is fundamental to maintaining the integrity of the research. Issues such as trust, relationships and reciprocity are both inherent part of conducting field research, as well as central to ethical concerns. In the field, each of these issues has an impact on the kind of information gathered. Trusting relationships are more likely to yield richer, more accurate findings than ones build on suspicion and uncertainty. Significantly, different kinds of relationships form; some of these are short-term and span the length of an interview, while others are longer term and span the course of fieldwork and even beyond. In either case, it was important that I establish an atmosphere in which these people were willing to trust me and open up to me. To do this, the longer-term relations I developed with gatekeepers and key informants were crucial.

It was often the case that, based on the good relations that I had developed with gatekeepers and key informants, research subjects were willing to take part and assist me achieve my objectives. My gatekeepers and key informants were able to vouch for the aims and objectives of my research project in a way that I would not have been able to do on my own as a foreigner in Russia, particularly given the time constraints within which field research was to be conducted. Developing trust on such a basis in which it is extended through reputable and known individuals is a common custom in Russia that is used to access information and resources that one would otherwise not be able to get at on one's own (Ledeneva, 1998).

In order to build good relations with people, whether it was on a short or long-term basis, it was important that I was open and up front about my research aims and the extent to which I could reciprocate their assistance. It was also important that I did not leave them under false pretenses as to how I, or this research could help them in their business endeavours. Still, while I was limited in the extent to which I could assist my research subjects, the desire to reciprocate their help was always present.

Reciprocity comes in different forms, and I found that there were small things I could do to reciprocate and express my thanks for their time and effort in helping me in my research. For instance, at the request of one of my key informants I went to the local college and we held a kind of open forum to share and exchange information about what our lives are like in the UK and in Russia. Interestingly, while this forum took place at the request of one of my key informants and even though it was not directly related to my field research objectives, I found it to be a valuable experience. In a similar way, I also made time following interviews to ask my respondents if they had any questions that they would like to ask of me. While it was a small gesture, it was mutually beneficial and it gave me a chance to feel like I was giving something back to the respondents. This also helped to reinforce open and honest relations with people. It not only helped me in my research pursuits, but it was also part of leaving my respondents with a positive feeling about the experience.

However, by being involved in situations where I would not typically be a part of did at times contribute to me feeling a sense of intrusion into the lives of my respondents. In many of the interviews, and particularly those with entrepreneurs, I was asking about their problems and how they have coped with them, which at times touched on their emotions. As they opened up to me and shared their experiences, I became aware of the fact that, despite how I felt, I was limited in the extent to which I could help them to resolve these problems. I tried to lessen my sense of intrusion by being sensitive to the kinds of issues they were discussing and provide an outlet for them to share their problems and vent their frustrations. Again, giving interviewees an opportunity to ask me questions helped balance relations. My aim was not to make the interview process one where I simply took the information that they gave me, but rather the aim was to create an atmosphere where information was shared and exchanged as far as was possible.

It is possible that my relations with gatekeepers and key informants might have affected the way that respondents viewed me. For instance, respondents might have been unwilling to present views that opposed those of my gatekeepers and key informants, depending on the kind of relationship between them, in fear that this information would filter back to the key informants who, in some instances, held

influential positions within the community. This points to issues around power that both the researcher and gatekeepers hold relative to research subjects. So while in some respects my key informants were good 'sounding boards' of whom I could ask questions and get their views on findings, I also had to read between the lines and remain aware of what people were saying and why they might have said or acted in a way that they did. These issues are not necessarily things that detract from the research process, but recognising how they impact on it has been important to the way in which the data has been analysed.

Just as these relationships have an impact on the kind of information gathered, my role as researcher also had an effect on the research process. This is considered in the final part of section in this chapter.

2.6 My Role as Researcher and its Impact on the Research Process

In conducting field research in a foreign environment, I soon became aware of my position in the setting as a researcher and the kind of impact this was having on the research process. The fact that my presence in the research setting would play a role is inevitable given that the research project would have been impossible without my being there to conduct it.

The way in which others perceived me almost certainly had an impact on my relations with people in the field, which in turn would have had an effect on the kind of information I was able to gather (Silverman, 2000: 198). My position as an outsider, a native English speaker (although I spoke Russian throughout the period of field research) and a young woman carried with it both advantages and disadvantages. On the one hand, these aspects of my character posed challenges to gaining entry into the field and convincing people involved in the field of entrepreneurship to speak with me. My outsider status and the fact that I am not a native speaker of Russian might have given the impression amongst those with whom I wanted to study that the cultural divide between us was too wide for me to cross. The risk was that people might not have been able to see beyond this cultural divide and be willing to open up about their experiences, beliefs and values with me. In addition, entering a field that is predominantly made up of men, which has thus had an impact on the overall business culture, might have affected the way people spoke to me and the

kind of information that they were willing to share (Silverman, 2000: 206-207). They might have assumed that as a young, foreign woman I would not be able to understand 'what was going on' or 'how things are done in Russia'. To a certain extent, there was little I could do to overcome the personal biases of individuals, particularly when the relationships with respondents spanned such a short period of time, lasting for the most part, the duration of the interview. All I could really do was persevere with my efforts and demonstrate to individuals my knowledge and awareness of the topic both through the kinds of questions I asked and through my responses to their experiences. I found that this often went some way to bridging the divide between respondents and myself.

Importantly however, these aspects of my identity did not just represent obstacles that had to be overcome. I was also able to use those things that made me different from my respondents to gain a unique insight into their experiences, what they do and why. Gerson and Horowitz have suggested that it can be more useful to be an outsider (2000: 212). They have said that as an outsider it becomes possible for the researcher to,

ask probing and even silly or stupid questions, to remain in places from which insiders would be excluded, to violate rules that insiders could not violate, and to cross social lines between groups who may be in conflict or out of contact (Gerson and Horowitz, 2000: 212).

By being aware of how people in the field might perceive me, I was able to turn this around and make it work to my advantage. Even while certain questions might seem 'silly or stupid' because of my outsider status, I felt less inhibited to ask about things that might be considered obvious to those directly involved in business. Being an outsider 'looking in' gave me a different perspective on things as I had the opportunity to view situations in a way that insiders do not.

Given that the aims of this research project have been to explore how entrepreneurs have established themselves and survived the Russian business environment and the extent to which relationships with state officials have impacted on their position to explain why entrepreneurship has developed in the particular way that it has, a qualitative ethnographic approach was the most appropriate one to take. The strengths of qualitative ethnographic research, which are its flexibility, openness and

opportunity for in-depth analysis, made it possible to explore the complexities of entrepreneurship and at the same time provide an indication of the way in which Russian society operates. The holistic character of ethnographic research widens the ‘sociological eye’ of the researcher (Gerson and Horowitz, 2000: 203). I was not only able to see how factors affecting the entrepreneurial process fit together, but I was also able to pick up on certain subtleties of entrepreneurship and how people related to one another. These intricacies might have remained hidden from view had I relied on quantitative research methods. Use of qualitative ethnographic research methods has had the advantage of keeping intact the complexities of entrepreneurship and the social, economic and political processes that have been influencing its development. Based on these research methodologies, these intricacies of entrepreneurship are explored and the stories of the people that took part in this research project are told in the chapters that follow.

This thesis begins by examining the wider political context in which entrepreneurship developed and the role that the state played in this process. Within this context and following on from this, chapter four explores the characteristics of entrepreneurs and how certain people have been able to develop their businesses. However even despite the success of these entrepreneurs, it becomes apparent in chapter five that entrepreneurs have faced a number of complex challenges in the Russian business environment. Chapter six and seven then explore the consequences of the challenges of entrepreneurship and how entrepreneurs have attempted to deal with these. Chapter six focuses on how entrepreneurs have sought to improve their image by buying into and adapting official rhetoric concerning socially responsible business. Chapter seven explores an alternative strategy of entrepreneurs to overcome some of their problems through the activities of business associations.

Chapter 3

The Role of the State and the Development of Entrepreneurship in Russia

Over the last twenty years the structure and composition of the Russian economy has changed dramatically. One of the most distinct changes has been the introduction and development of private enterprise in the country. This has fundamentally changed the dynamic of Russian society and led to the formation of a new social group – entrepreneurs, which had been absent (as a legitimate factor in the economy) under the Soviet system. From the early 1990s, a number of laws aimed at promoting the development of private enterprise were passed. The motivation behind these laws was twofold. First, as a fundamental feature of market economies, the development of private enterprise was considered to be essential to the process of socio-economic transformation in Russia. Second, and related to this, has been the idea that small and medium sized enterprises (SMEs) are the engine of economic growth (Pissarides, 1999; McMillan and Woodruff, 2002;). Together, these laws have been about creating a healthy economic environment, in which private enterprise has officially been recognised as playing an important part. Significantly however and against this background, a hostile cultural environment for the development of entrepreneurial activity has persisted. Thus despite the official view, which has claimed to support small business activity, these laws, and the public rhetoric that has accompanied them, have continually glossed over the problems associated with entrepreneurship in Russia.

This chapter will discuss the economic reforms and policy initiatives that gave rise to and have claimed to support SMEs in post-Soviet Russia, looking first at the radical economic reform program under Yeltsin and then at the initiatives introduced under Putin. This will indicate the role of the state in promoting the development of the SME sector in Russia.

3.1 Radical Reform and Enterprise Development in the 1990s

The early 1990s marked a decisive shift towards the development of private enterprise in Russia. Prior to this, under the Soviet system, private enterprise had

been banned and all forms of work activity were either brought under direct state ownership and control, or were regulated by highly restrictive state regulation. Under Gorbachev's perestroika reforms some of the restrictions on non-state economic activity began to be relaxed. During 1987 and 1988 measures were introduced to enable the development of self-employment and small cooperatives but they remained constricted by various regulations aimed at preventing independent entrepreneurial and profit making activities. At the end of the perestroika period further legislation enabled the formation of *malyi predpriyatiya*, *товарищества* and leased enterprises that were subject to fewer restrictions. In some cases the cooperatives and other forms of small enterprise formed the basis for the small businesses that would emerge in the 1990s, while others ceased operating during the period of the transition. In practice the majority of these small enterprise forms were used illegally by state enterprise managers as ways of diverting state funds to their own private control. Some of these formed the basis of what would become large companies in the post-Soviet period, others went out of existence, and a few may have survived to become SMEs in the post-Soviet period – but detailed information is not available on the fate of most of these enterprises during the course of the transition (Cox, 1996). As these efforts to rejuvenate the system from within failed to have their intended effect, the way was paved for more radical reforms to be introduced under Yeltsin (Aslund, 1991: 108).

Thus in the beginning of 1992 a radical economic reform program was introduced, which aimed to create an effective and robust market economy. The main elements of the reform program involved price liberalisation, privatisation and macroeconomic stabilisation. Together these reforms were to create an environment within which private enterprise could flourish. Unlike the situation that emerged during perestroika, under full market conditions private enterprise was to have free reign to direct its activities. Open markets and free prices meant that, at least in theory, entrepreneurs would have the freedom to source resources, negotiate fair market prices and then go on to sell products at prices set by the market (Williamson 1990). Under a free market economy, private enterprise would be unshackled from state regulation, which would provide small businesses with the kind of tools they needed to develop effectively.

Privatisation reform was particularly important to the development of small private enterprises because it was the reform that allowed for the transfer of property from the state to members of society. It was however significant that the main focus of this reform was on privatising existing enterprises rather than on creating new ones. This was in fact a controversial aspect of this reform because it implied that there were restrictions in terms of who could take part in the reform program. Those who had already established de facto control over property, for example enterprise directors, would have an unfair advantage of maintaining control over privatised property compared to those who were not in such positions. Yet despite this, according to Yeltsin the official line was that the aim of privatisation was to create 'millions of owners' through what was described as, 'the people's privatisation' whereby the country would be transformed and the standard of living would be improved (Nelson and Kuzes, 1995: 149).

This idealistic rhetoric was also evident elsewhere in official documents that called for the support of small enterprise. In a state decree, 'On Priority Measures for the Development and State Support of Small Enterprises in the Russian Federation' issued in 1993, small enterprise development was described as 'one of the most important directions of economic reforms, contributing to the development of competition, supplying the consumer market with products and services, creating new jobs, and formatting a wide stratum of owners and entrepreneurs' (State Decree, 1993: 2). In this, small enterprise development was portrayed as having a far-reaching positive effect on the organisation of Russian society and its economy. This rhetoric tied in with Yeltsin's remarks about privatisation reform in the sense that it was also portrayed to have an extensive positive impact on society.

According to official rhetoric, the new owners of small private enterprises were to be found in a variety of places. Firstly at state enterprises where, once privatised, enterprise directors and labour collectives would become shareholders in the newly privatised companies. Secondly, it was assumed that excess labour released from the state enterprise sector would create ideal candidates to become part of Russia's first generation of entrepreneurs (Arnot, 2000). The new entrepreneurial class were also to emerge out of the privatisation of the cooperative cafes, restaurants and small shops and services formed during perestroika. Thus there appeared to be a number

of different sources from which a new post-Soviet entrepreneurial class would emerge.

The actual process of privatisation was to be carried out through a combination of the allocation of shares to employees and managers of state enterprises and the distribution of vouchers with which citizens of Russia were eligible to purchase shares in enterprises when they were privatised at auction (Clarke and Kabilina, [no date]). Vouchers had a face value of 10,000 roubles and could be purchased from the State bank for 25 roubles (Clarke and Kabilina, [no date]); a clearly nominal sum so as to encourage citizens to participate in the program and create the kind of 'people's privatisation' that Yeltsin had described. Enterprise management and the labour collective had a choice between three schemes that determined how shares would be distributed between managers, employees and outside investors when the enterprises were privatised at auction. Once a scheme had been selected and prior to auction, local government and state privatisation committees would hold the remaining shares of the enterprise (Boycko et. al., 1995: 159). The various schemes, described below, appealed to different stakeholder interests amongst enterprise managers, employees and local governments (Boycko et. al., 1995: 159). Since enterprises usually made their choice between the first two options, only these schemes will be outlined.

3.1.2 Privatisation: Option 1

In the first scheme, 25% of shares in an enterprise would be distributed to the workers free of charge (Boycko et. al., 1995: 159). These were non-voting shares, which meant that shareholders would not have a significant influence over the activities of the enterprise. At a reduced price, the workers could purchase an additional 10% of shares (Boycko et. al., 1995: 160). Top managers had the option to buy a further 5% of shares at book value (Boycko et. al., 1995: 160). The remaining shares would be held by government privatisation committees and would be sold at a later date through an auction (Nelson and Kuzes, 1994: 126). According to this design, a majority of enterprise shares (at least 60%) would be sold to individuals outside the firm. As a result, most enterprise directors did not favour this option as it meant that they would not have majority control of the enterprise that, up until that point, they had had de facto control over.

3.1.3 Privatisation: Option 2

Under the second option of enterprise privatisation, managers and workers had the opportunity to purchase a controlling share of the enterprise (Clarke and Kabilina, [no date]). This scheme allowed managers and workers to purchase 51% of enterprise shares at a cost of 1.7 times the book value of the shares (Boycko et. al., 1995: 160). These were voting shares. According to this scheme, managers were able to establish majority control over the enterprise, which added greater security to their position. No less significant, under market conditions managers of formerly state-owned enterprises also had freer rein to operate the firm according to their interests. It has been for these reasons that more than two-thirds of enterprises chose this option of privatisation (Shmeleva, 1993: 60).

3.2 The Failure of ‘People’s Privatisation’

Significantly, this reform did not bring about the kind of ‘people’s privatisation’ that Yeltsin described. On the one hand, the structure of control over enterprises did not change substantially with voucher privatisation. For obvious reasons, the prospect of owning shares in what in many cases were unprofitable enterprises did not appeal to large segments of the population. Added to this was the fact that gaining legal title over a share of an enterprise was an alien concept for most people who were accustomed to the Soviet principle of collective ownership. Finally, and in cases where the enterprise was in fact profitable, enterprise shares were bought up from unwitting employees by unscrupulous investors (Nelson and Kuzes, 1995: 139).

On the other hand, the economic situation had declined to such an extent that owning shares in enterprises was not a priority for the vast majority of the population. In fact the radical economic reforms, particularly price liberalisation, brought serious economic decline to the country. Price liberalisation reform fuelled inflation (See table 3.1 below) and the inheritance of debt from the Soviet era combined to create an economic crisis in Russia in which the socio-economic well-being of the population was dramatically eroded. Rapid inflation increased the level of poverty in post-Soviet Russian society because it both diminished the value of wages and eroded the savings of the population. Under these circumstances many preferred to

sell their vouchers for cash to meet their immediate needs (Nelson and Kuzes, 1995: 136).

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
%	2500	840	220	130	20	10	80	40	20	19	15	12	11

Table 3.1: Annual rates of inflation in percent (December to December according to consumer price index)

(*Rossii v Tsifrakh*, 2000; *www.gks.ru* 2005)

In these difficult economic conditions, this also meant that it became very difficult for SMEs to flourish in the idealised way described above. Even if entrepreneurs had the capital and resources to set up their own business, high levels of poverty in the country meant that there were few consumers around who could afford to buy the products. Table 3.2 indicates the growth in inequality that occurred as a result of the socio-economic transformation. This table shows that before the economic reform program took effect, the level of inequality was relatively low in 1992. Interestingly, the level of inequality peaked in 1994 at the time when voucher privatisation came to an end. This is significant because it suggests a positive correlation (though not causality) between the privatisation of state enterprises and the decline of social welfare provision.

Year	1992	1993	1994	1995	1996	1997	1998	1999	2000
Coeff.	0.298	0.398	0.409	0.381	0.387	0.381	0.379	0.394	0.394

Table 3.2: Gini Coefficient¹ (index of income distribution)

(*Rossii v Tsifrakh*, 2000 and 2001)

This reality contradicts the myth that SMEs are the engines of economic growth and social prosperity. Even while the rate of SME growth was highest during the period of voucher privatisation (see figure below), it was not enough to reverse or even

¹ The gini coefficient is a measurement of (in)equality in a population that is based on a scale from 0-1. A figure of zero represents absolute equality and a figure of one represents absolute inequality.

slow the dramatic economic decline and the deterioration of social well-being that had been occurring at the time. Because of the serious economic decline, SMEs in Russia could not rise from the ashes of the destroyed Soviet system to become the thriving heart of the new market economic system.

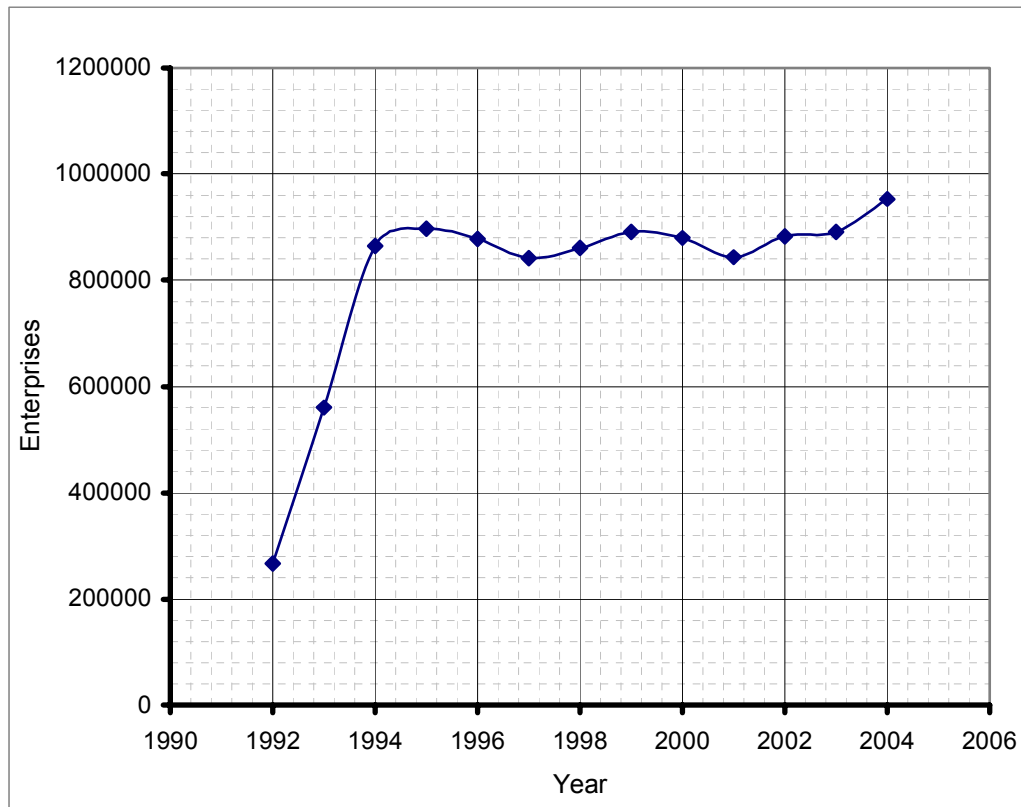


Figure 3.3.0 Number of small enterprises between 1991 and 2004
(Goskomstat, 2004; Rossiia v Tsifrakh, 1996, 1999, 2005)

Still, such rapid growth of SMEs in light of the economic decline seems to be an anomaly and requires some explanation. Radaev (2003: 118-119) has suggested six factors that help to explain the rapid growth of SMEs in the early 1990s when the economy deteriorated significantly and the plateau of SME growth thereafter:

1. The rapid growth of SMEs should be considered in relation to the low starting level
2. Once the initial division of markets was completed, the range of opportunities available at the beginning diminished and economic barriers to entry arose, limiting opportunities for new start-ups

3. SMEs lost their exclusive position. Continuing liberalisation after 1992 aimed at creating equal conditions led to a levelling of prices and income opportunities for establishments of varying sizes. Prior to this small enterprises had more liberal price and wage formation rights, as well as tax privileges.
4. In the first stages small-scale privatisation and start-ups of newly established firms remained the primary channel for the conversion of state-owned resources into private holdings. By the time of the official large-scale privatisation program, the SME sector had lost much of its importance.
5. It became more difficult for small enterprises to attract skilled workers and professionals from large state-owned enterprises after liberalisation when the wage gap between the two sectors diminished.
6. Official statistics only recognise legally constituted small enterprises, but at the grassroots level there has been a steady reorganisation of SMEs registered as 'enterprise' into the 'individual entrepreneurs without a legal entity' form (i.e. they became self-employed individuals). The reason why entrepreneurs would want to convert their legal status is because the tax system is simplified and provides certain tax privileges for individual entrepreneurs and is not subject to statistical reporting. Since 'individual entrepreneur' is not an official category, a large part of the SME sector was (and still is) concealed from official statistics.

All of these factors suggest that the high rate of growth was a momentary phenomenon and given the changes in market conditions in which SMEs lost their 'exclusive' position, it was uncertain whether this sector would become a major force in the economy.

3.3 Statistical Overview of Small Business Activity: Federal & Regional Perspectives

Statistics help create a picture about the development of the SME sector by providing a broad overview of what is happening in a particular context. They can indicate a multitude of trends from general growth patterns in various economic sectors and regions, changes over time, as well as variations and anomalies. In this

section, federal as well as regional² statistical data will be analysed. Presentation of data in this way will allow for cross-regional and region-to-federal comparison such that variations in the development of the small enterprise sector amongst the case study regions will be highlighted and how each of the cases fits into the federal context will be indicated.

Goskomstat produces comprehensive source of statistical information on a range of socio-economic indicators. It is considered an authoritative and reliable source for statistical data because the methods used for data collection are consistent across the regions. This is a significant advantage over data collected from multiple regional sources. Principally this is because regional sources may contain any number of differing criteria for gathering and manipulating data. For example, there is scope for the raw data to vary due to different methods of data collection. Or, in relation to the aims of each respective study (be them political or otherwise) the way in which the data is presented can vary significantly from region to region as different aspects of the data are highlighted or, more importantly, hidden. This makes the process of overlaying two or more sets of data from different sources particularly problematic. Further, the periods in which various sources are gathered is often different, leading to the possibility of false conclusions being drawn when comparing the data sets. Indeed a number of regional sources were initially considered for this study (due in part to their accessibility) but it became apparent that any cross regional variations or trends were hidden by the more significant inconsistencies in data collection. Returning to *Goskomstat*, its value is reflected by its frequent use in existing literature. As such, and for the purpose of consistency, this section will only discuss data produced by *Goskomstat*.

Goskomstat produces an annual publication of statistics on Russia's regions with one chapter devoted to small enterprises. Data relating to the size, structure and financial position of small enterprises is of particular relevance here. Taken together, this data helps develop a picture of the small business sector and how it has changed over time. In this section, data from 1997-2004 will be considered for each of the case study regions as well as for the federal level. This will provide an indication of what

² This will focus on the case study regions.

the situation was like just prior to the financial crisis in 1998 and will show the impact that this had on subsequent development of the small business sector up to the end of 2004, the year in which fieldwork was carried out.

Figure 3.3.1 shows the number of small enterprises across the four case study regions and at the federal level

	1997	1998	1999	2000	2001	2002	2003	2004	Ranking in Russian Federation
Russian Federation	861100	868000	890600	879300	843000	882300	893000	953100	-
Central Federal Okrug									
Kaluga Oblast	6800	4700	5600	5900	5900	6800	5600	6300	37
Tver' Oblast	3700	3600	3400	5700	5700	7400	7000	5400	40
Moscow	181300	175200	176100	180000	182200	189400	190900	196700	1
Urals Okrug									
Sverdlovsk Oblast	31600	25900	31900	21600	21600	22800	25100	28600	6

Figure 3.3.1 – Number of Small Enterprises per region between 1997 and 2004
(*Regiony Rossii*, 2005: 392)

Figure 3.3.1 shows the relative size of the regions in terms of the number of SMEs within them and it also indicates how each of the case study regions ranks amongst all of regions of Russia. It is important to appreciate the number of SMEs that exist in Moscow (ranked number 1 in the Russian Federation) relative to, in particular Kaluga and Tver', which have far fewer enterprises. Sverdlovsk, ranked number 6 in the Russian Federation, occupies a position somewhere in between. While Kaluga and Tver' have a lot less small enterprises relative to Moscow and Sverdlovsk, Kaluga and Tver' rank higher than approximately half of the regions in Russia. Even without seeing the full list of regions and how they rank, the information above clearly highlights the variation across regions and the extent of to which the number of SMEs are concentrated in Moscow.

Figure 3.3.2 shows the change in the number of SMEs by case study region and in contrast with the federal level from 1997 – 2004.

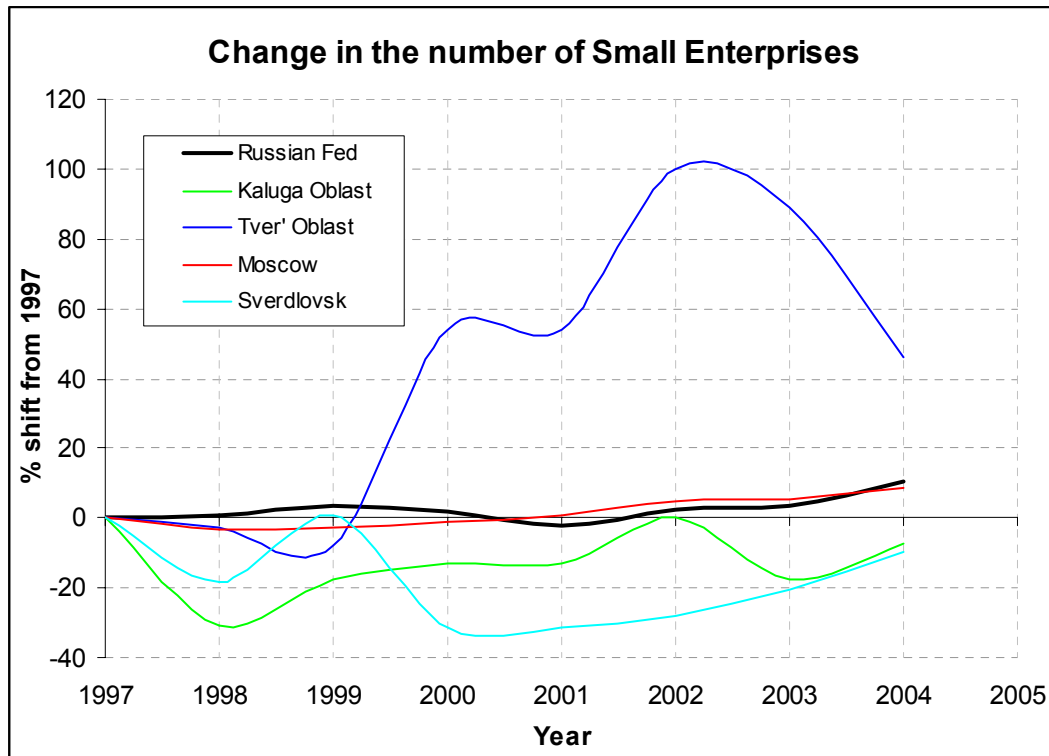


Figure 3.3.2 - Percentage shift in the number of Small Enterprises between 1997 and 2004 (*Regiony Rossii, 2005*)

What stands out most from this figure is that the pattern of small enterprise growth in Tver' deviates from that in the other case study regions and at the federal level. The number of SMEs has increased significantly in this region, a 46% increase between 1997 and 2004 compared to Sverdlovsk (-9%), Moscow (8%) and Kaluga (-7%). Further, the number of SMEs in Tver' peaked in 2002 with a 100% value of growth relative to 1997. The data suggests that there is something particular about the Tver' region that has allowed for such significant growth in the number of small enterprises, so much so that the rate of growth in SMEs in Tver' between 1997 and 2003 actually exceeded the growth of the total number of enterprises (which is shown in figure 3.3.3 below). This is in stark contrast to all other regions in the study as well as at the federal level. Tver' differs from the other regions in that in 1997 SMEs accounted for only 14% of the total number of enterprises. This compares with 42% in Sverdlovsk, 32% in Moscow and 38% in Kaluga. The apparent 'boom' in the number of small enterprises in Tver' between 1999 and 2002 might be

accounted for on the basis that it was starting from a relatively lower level than the other regions. Interestingly, there is a drop in the number of SMEs between 2002 and 2004 suggesting that this upsurge in the number of small enterprises was somewhat unsustainable. The initial decrease in the number of small enterprises in all case study regions in 1998 can be attributed to the financial crisis. Interestingly this phenomenon was not evident at the federal level.

Figure 3.3.3 shows the change in the number of all (small, medium and large) enterprises and organisations in each of the case study regions and at the federal level.

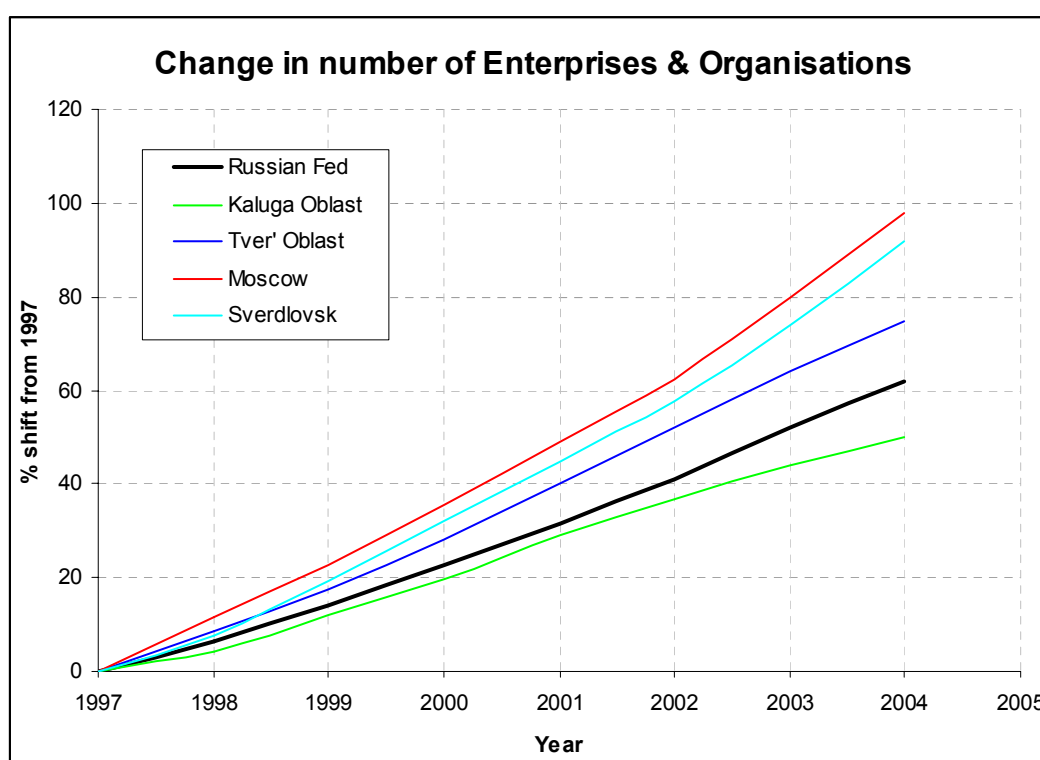


Figure 3.3.3 - Percentage shift in the number of Enterprises & Organisations between 1997 and 2004 (*Regiony Rossii, 2005: 384-385*)

Interrogation of the data in figures 3.3.3 reveals that there has been an obvious and steady rise in the total number of organisations across all regions. It is also clear from this that the percentage growth in Tver', Sverdlovsk and Moscow has been above growth at the federal level with Sverdlovsk and Moscow exhibiting a particularly high rate of growth over the sample period: 92% and 98% respectively between 1997 and 2004. This suggests these regions have been particularly suited to

new investment (be it for small or big business) and/or that enterprises face less of the obstacles associated with starting a new business as compared with the national average. In contrast, Kaluga exhibits growth below that at the federal level suggesting that there is resistance to the formation of new businesses relative to Russia as a whole as well as to the other case study regions explored in this study. Other than highlighting these particular trends, these statistics do not provide any explanations as to why growth patterns have developed in this way.

Looking at figures 3.3.2 and 3.3.3 together reveals a significant discrepancy in enterprise growth patterns across the case study regions. Figure 3.3.2 showed a decrease in the number of small enterprises in Sverdlovsk and Kaluga over the sample period. This is particularly relevant in Sverdlovsk, where overall enterprise growth has been high, as indicated in figure 3.3.3. This discrepancy in growth patterns between all sizes of enterprises versus just small enterprises is significant because it indicates that, even while growth in the overall number of enterprises has been high, something unique has been happening at the level of small enterprises to cause this counter-veiling trend to emerge. One possible interpretation of this data is that conditions for establishing a small enterprise are more complex than for larger and/or established enterprises.

The next three figures explore various financial indicators. Figure 3.3.4 shows the change in volume of production produced by small enterprises in millions of roubles. Volume of production indicates the number of units produced.

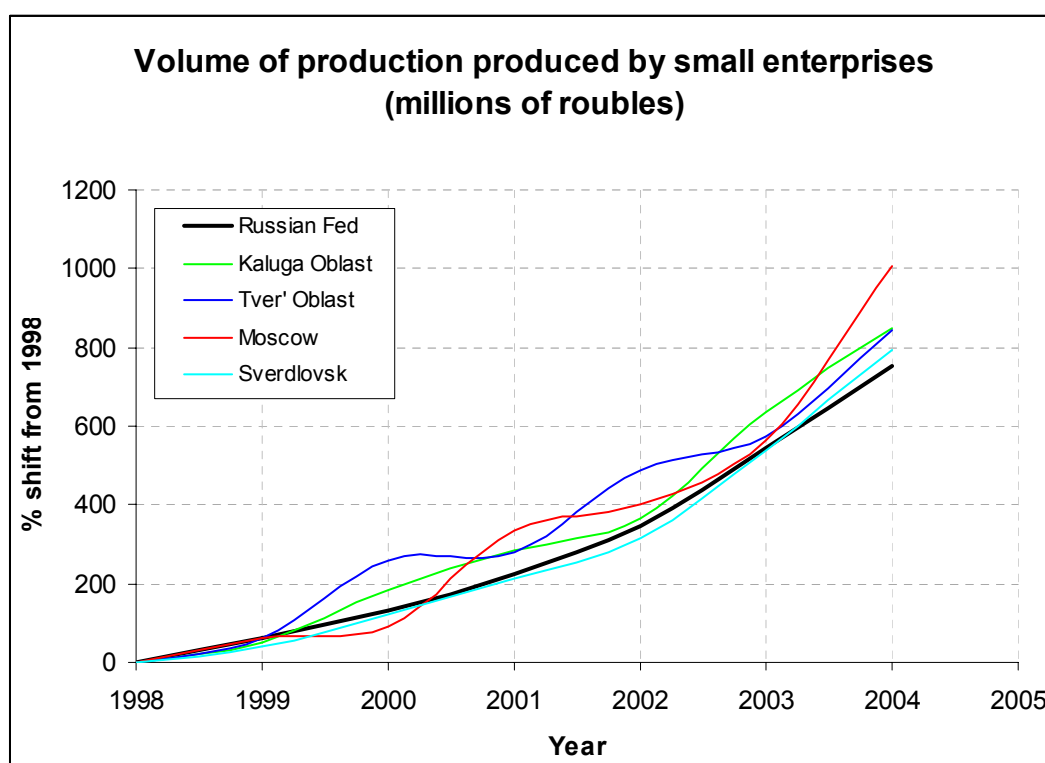


Figure 3.3.4 - Percentage shift in the volume of production (measured in roubles) by Small Enterprises between 1997 and 2004
(*Regiony Rossii*, 2005: 396-397)

This figure shows a steady increase in the percentage change in the volume of production in all the case study regions. In addition, the increase experienced in all the case study regions was higher than the federal level. This overall trend in increased volume of production can be linked to favourable economic conditions that emerged as a result of the devaluation of the rouble in 1998 following the financial crisis. This created a situation where it became relatively less expensive to produce goods. As is clear from figure 3.3.4 above, the effect was generally positive and gave a boost to Russian production.

In figure 3.3.5 below, turnover in small enterprises in each of the case study regions and at the federal level in 2005 is shown. Turnover indicates the number of units sold.

	Million roubles	In percent
Russian Federation	9,633,632.4	100
<u>Central Federal Okrug</u>		
Kaluga oblast'	67,213.0	0.7
Tver' oblast'	31,484.4	0.3
Moscow	3,382,463.3	35.1
<u>Ural Federal Okrug</u>		
Sverdlovsk oblast'	402,007.0	4.2

3.3.5 Turnover of small enterprises by case study region in 2005
(in millions roubles)

(*Rossiiskii statisticheskii ezhegodnik*, 2006)

This figure shows that turnover is by far the largest in Moscow. This reflects the considerably larger market that exists in the capital city compared to the other case study regions. The rank of the case study regions in relation to each other here corresponds to that in figure 3.3.1 in which Sverdlovsk is a distant second to Moscow, while Kaluga and Tver' regions are much further down the line, but in terms of figures, these two provincial towns sit closely together.

The final financial indicator considered here is shown in figure 3.3.6, which illustrates profit / loss of small enterprises by case study region and at the federal level. Profit is equivalent to turnover minus expenses.

	1999	2000	2001	2002	2003
Russian Federation	130398	122963	123407	108455	362575
<u>Central Federal Okrug</u>					
Kaluga oblast'	-96	658	90	848	862
Tver' oblast'	254	365	2115	531	459
Moscow (city)	19528	31442	32328	42134	24990
<u>Ural Federal Okrug</u>					
Sverdlovsk oblast'	11821	2604	3343	2768	2954

The symbol (-) means loss.

3.3.6 Financial results (profit / loss) of the activities of small enterprises
by case study region (in millions of roubles)
(*Rossiiskii statisticheskii ezhegodnik*, 2004)

Each of the case study regions shows variation in the level of profit / loss. Kaluga, Tver' and Moscow show an overall increase in profits, but this was also accompanied by a period of lower profits. Interestingly, this decline in profits occurred at different times across these three regions. In Kaluga, profits declined significantly in 2001, whereas in Tver', 2001 marked a peak in the level of profits in the small enterprise sector. In Moscow, the growth in profits was steady until 2003, when it dropped by nearly 50%. The overall increase in profits in these three case study regions followed the pattern at the federal level. The data in the figure above also corresponds to data in 3.3.4, which shows a steady increase in volume of production.

In contrast to this, the overall level of profits decreased substantially in Sverdlovsk by 75% from 1999 to 2003. This decline in profits fits with the pattern of growth shown in figure 3.3.2 where the number of small enterprises declined. Similarly in Tver', the apparent explosion in number of SMEs in 2002, shown in figure 3.3.2, appears to have occurred on the back of a huge upturn in profits for SMEs in 2001; a 480% increase over the year 2000 value of 365 million roubles (figure 3.3.6). The pattern across data shown in figures 3.3.2 and 3.3.6 is broken when Kaluga is considered. Here, the overall number of enterprises decreased (according to figure 3.3.2), but in figure 3.3.6, overall profits increased. This might suggest that unprofitable, or near unprofitable enterprises were pushed out of the market and made way for greater profits amongst the remaining enterprises. However without further information, it is not possible to verify such possibilities from the data available.

These financial indicators are important because they indicate, to some extent, the health and viability of the small enterprise sector in the four case study regions and in contrast to the federal level. One important indicator missing from this list is cash flow. An indication of cash flow is important because it shows total cash receipts after cash payments (including such things as depreciation and amortisation) have been made over a given period of time. Turnover, on the other hand, does not include expenses and where expenses have been incorporated into calculation of profit, it also includes such things as assets, which can be manipulated and reflect in

overall figures. Taken together, turnover and profit indicators can give a distorted view of the health and viability of enterprises.

Thus far, the small enterprise sector has been considered as one distinct unit, albeit across the different case study regions. In the last three figures below, this sector is broken down into various sub-units and various structural elements of the small enterprise sector are highlighted. Figure 3.3.7 shows the distribution of the number of small enterprises in main branches of the economy in the case study regions and at the federal level at the end of 2003.

	Number	% of number of enterprises in the region				
	All enterprises – Thou.	Industry	Agriculture	Construction	Transport	Trade & public catering
Russian Federation	890.9	13.3	2.0	13.1	2.5	46.8
Central Federal Okrug						
Kaluga oblast'	5.6	18.4	5.2	14.7	2.8	35.8
Tver' oblast'	7.0	15.4	3.5	14.0	2.5	48.8
Moscow (city)	190.9	7.7	0.1	10.4	1.7	51.4
Ural Federal Okrug						
Sverdlovsk oblast'	25.1	12.0	1.1	12.5	1.8	47.9

Figure 3.3.7. - Distribution of the number of small enterprises in specific branches of the economy in the case study regions (at the end of 2003)
(*Rossiiskii statisticheskii ezhegodnik*, 2004)

Figure 3.3.7 does not indicate any particular disparities across the four case study regions. The percentage spread of the different economic branches is fairly consistent across the regions, even given their differing nature. Figure 3.3.7 highlights that the trade and public catering sector is by far the sector most tapped into by entrepreneurs in all regions and at the federal level. This reflects the lower start-up costs associated with this sector compared to costs involved in industry and constructions sectors. The relatively small share of small enterprises in the agricultural sector stems from the fact that these types of enterprise receive low returns, especially in the sphere of small enterprises. The larger proportion of entrepreneurs in the trade and public catering sector was reflected in this study as the vast majority of respondents had enterprises in this sphere of activity.

Figure 3.3.8 shows the volume of production by main economic branches in each of the case study regions and at the federal level.

	Industry	Agriculture	Construction	Transport	Trade & public catering
Russian Federation	361,473.2	17,238.9	368,929.0	54,378.6	410,441.5
Central Federal Okrug					
Kaluga oblast'	3,658.1	260.7	1,871.2	491.7	3,821.3
Tver' oblast'	1,691.9	83.9	1,792.2	401.8	1,538.4
Moscow (city)	41,031.3	224.9	65,098.4	3,596.1	92,721.6
Ural Federal Okrug					
Sverdlovsk oblast'	12,059.5	136.2	10,029.1	677.4	11,400.9

Figure 3.3.8 - Volume of products (goods & services) by main type of activity, produced by small enterprises in specific branches of the economy, by case study regions in 2003 (in millions roubles)
(*Rossiiskii statisticheskii ezhegodnik*, 2004)

Although figure 3.3.8 considers a financial indicator of volume of production, it also helps to build a picture of the structure and size of the small enterprise sector by economic branches. Considering the data in figure 3.3.8 along with the data in 3.3.7, it appears that, in general, the industry and construction sectors yield a higher volume of production per enterprise than the trade and public catering sector. For example, in Kaluga 35.8% of SMEs are found in the trade and public catering sector in 2003 (figure 3.3.7) and produced 3,821.3 million roubles (figure 3.3.8). This is compared to the industry sector, which produced 3,658.1 million roubles, almost as much, with only 5.6% of the region's small enterprises. It is a similar story in the construction sector and this trait was visible across all the case study regions.

In the next figure, 3.3.9, the number of places of employment in the sphere of entrepreneurial activities (amongst enterprises without legal status, i.e. self-employed individuals) from 1999 to 2003 is illustrated. Significantly, this is the only set of data found that highlights the variable of gender in relation to the small enterprise sector.

	Total number of jobs	Main employment		Supplementary employment	
		Contract labour	Casual labour	Contract labour	Casual labour
	Thousands				
Total					
1999	10220	2349	4732	178	2961
2000	9893	2532	4519	169	2673
2001	8155	2746	3644	215	1550
2002	8632	2730	3967	177	1758
2003	10832	4641	4216	158	1817
Men					
1999	5434	1250	2389	128	1667
2000	5258	1327	2317	103	1511
2001	4310	1399	1934	144	833
2002	4471	1316	2108	109	938
2003	5704	2350	2262	98	994
Women					
1999	4785	1099	2343	50	1293
2000	4635	1204	2203	66	1162
2001	3845	1347	1710	71	717
2002	4160	1414	1859	67	820
2003	5128	2291	1954	60	823

Figure 3.3.9 – Number of places of employment in the sphere of entrepreneurial activities
(*Rossiiskii statisticheskii ezhegodnik*, 2004)

Figure 3.3.9 suggests that the ratio of men and women employed in this sector has been fairly equal and this has consistently been the case since 1999. In 1999, 53.2% of the total number of jobs in this sector were occupied by men and in 2003 the figure was 52.7%. Similarly for women, the figures were 46.8% in 1999 and 47.3% in 2003. These figures tie in with the spread of men and women taking part in this study, in which the number of male and female respondents was almost equal with slightly more males than female respondents. A clear drawback with this data is that it does not show how employment is distributed between men and women across

different sectors of the economy. For instance, it is not known whether the gender split is so even across industry, agriculture, construction, transport, and trade sectors. One might expect to find more men engaged in entrepreneurial activities in the industrial and constructions sectors of the economy than women, but these kinds of statistics were not available in the *goskomstat* data and so this cannot be confirmed.

Finally, figure 3.3.10 shows the percentage shift in the number of workers employed in small enterprises from 1997 – 2004.

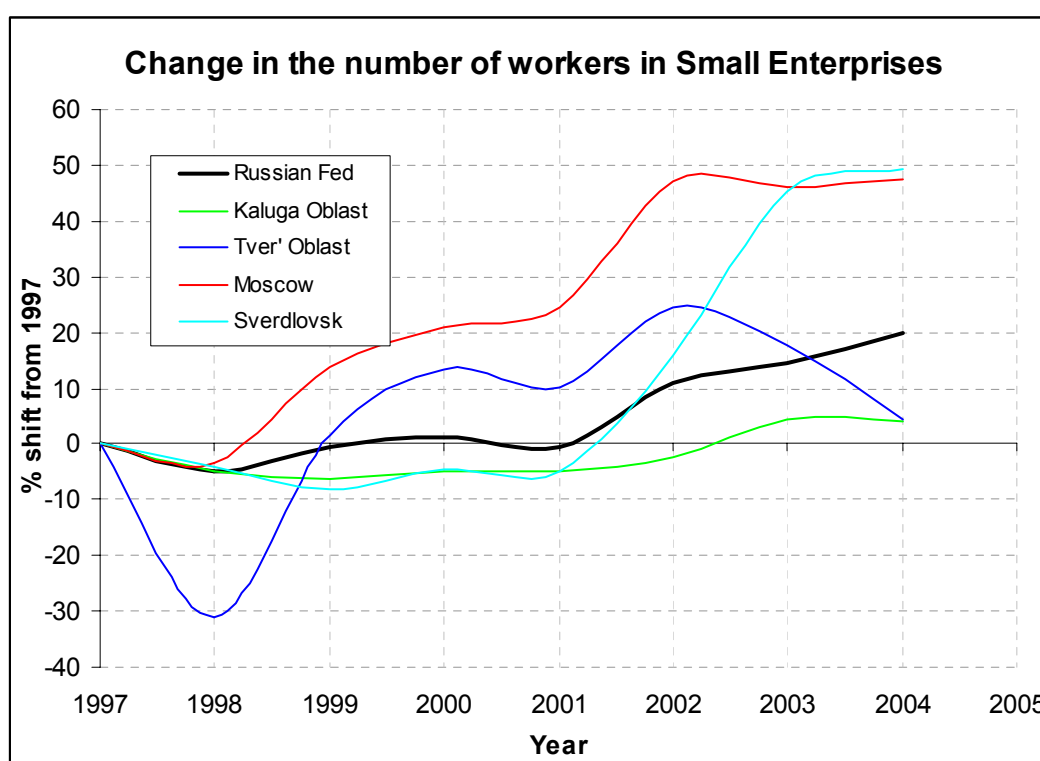


Figure 3.3.10 - Percentage shift in the number of workers employed in small enterprises between 1997 and 2004
(*Regiony Rossii*, 2005: 394-395)

The number of workers is a good indication of the size and performance of a business. According to official rhetoric, one of the key strengths of the SME sector is its capacity to soak up the excess labour that emerged as a result of de-statisation of the economy. This data shows that in each of the case study regions, the number of workers in the small enterprise sector has increased since 1997. While Moscow and Sverdlovsk show a higher than average increase in number of workers, Tver' and Kaluga show less than the national average. These statistics are particularly

interesting when considered against data contained in figure 3.3.2, which shows the change in the number of small enterprises. There it was illustrated that the number of enterprises has stagnated in Moscow and declined in Sverdlovsk. Despite this, figure 3.3.10 shows that both these regions exhibit a large increase in the number of workers over the sample period 1997 – 2004. The fact that the number of workers employed in the SME sector has increased but the number of SMEs has decreased might suggest that the existing SMEs have grown in stature during the sample period. Looking at Sverdlovsk in particular it would seem that establishing an SME is a particularly challenging hurdle to overcome, but once this is accomplished growth is certainly possible. This is backed by the fact that the total number of enterprises in the region (from small to large) has increased (figure 3.3.3). A possible explanation for this is that once established, enterprises of all sizes are relatively better equipped with appropriate knowledge and resources to survive and prosper.

In addition to these statistical indicators discussed above, the chapter on small enterprises produced by *Goskomstat*, also provides information on agricultural enterprises and the production of the main types of agricultural products. These were not considered in any detail because of the small number of respondents in this study (one) who have been involved in this type of activity.

This overview of statistical data relating to the small enterprise sector has been useful for highlighting general trends and growth patterns. Whilst the growth of the total number of enterprises during the sample period was strong the data has highlighted that the growth at the small enterprise level has been nowhere near as healthy. Of the small enterprises that do exist, the majority (46.8% at the federal level) are in the Trade and Public Catering sector. This general picture of the SME sector has been supplemented by details of what has been happening at the regional level, which has not always been the same as what has been occurring at the federal level. For example, the slow growth in small enterprises was more extreme in Kaluga and Sverdlovsk where there was actually a decline in number during the sample period. Whilst in Tver' the complete opposite was true with a boom in the number of small enterprises during the sample period. This raises important questions such as why do these anomalies exist. Furthermore, it has also become

clear from this overview that statistical data is limited in the extent to which particular trends can be explained. In a number of cases, possible explanations on the patterns of small enterprise development were proposed, but without further information, it has not been possible to confirm these trends. A further limitation of *Goskomstat* figures is that they only report on what is occurring in the formal sector. It is already known that much of small business activity is hidden from official view (Radaev, 2003: 119). Thus there are very few clues provided in these figures that help create a picture of how entrepreneurship has been developing in these case study regions. This underscores the value of going to the regions and conducting qualitative research. This kind of approach adds greater depth and understanding to what is produced in statistics and thus qualitative and ethnographic data have an important role to play in helping to fill these gaps. In this study, use of qualitative research methods has helped to uncover and dissect the complexity of entrepreneurial development in Russia. In the chapters that follow various factors that have contributed and inhibited the prosperity of this sector are considered from the perspective of the people directly involved in the sphere of small businesses.

3.4 State Policy and the SME Sector

Around the time that the rate of SME growth plateaued in 1994, the state began to develop policies targeted at the development of this sector. While a state decree 'On Priority Measures for the Development and State Support of Small Enterprises in the Russian Federation' was established in 1993, which recognised the importance of this sector to the socio-economic transformation, the most important law governing support for SMEs was the federal law introduced in 1995 'About State Support of Small Entrepreneurship in the Russian Federation' because this law marked the beginning of a series of legislative measures and policy initiatives aimed at building institutions to support this sector. This law also became the foundation upon which subsequent annual federal and regional programs were to be based. According to the Russian SME centre (formed with the support of an international organisation providing technical assistance) there have been around fifty documents published that regulate the activities of small businesses since 1993, the vast majority being published between 1995-2000.

In the mid-1990s international governmental and non-governmental organisations (NGOs) also became involved in developing the SME sector in Russia, offering targeted technical assistance to enterprises and relevant institutions. Thus to all intents and purposes, there appeared to be a flurry of activity around the development of SMEs. Before addressing the contribution of international governmental and non-governmental organisations to SME development, the efforts of Russian state initiatives will be discussed.

3.4.1 The Federal Law: 'On State Support for Small Business in the Russian Federation'

The 1995 federal law 'On State Support for Small Business in the Russian Federation' defined the general provisions for supporting the SME sector and established the ways in which state organs were to both stimulate and regulate the activities of small business (Federal Law, 1995: 1). In this section, the key elements of this law will be highlighted. Article 6.1 of the law elaborates on the areas in which the state would focus its support. These were: formation of infrastructure to support and develop small businesses; the creation of favourable conditions for use of state financial, material, technical and informational resources; the establishment of simplified procedures for the registration of small businesses, the licensing of their activity, the certification of their products and the submission of accounting reports; and finally support for the foreign economic activity of small business. The second part of article 6 outlines the obligations of federal executive bodies. These included: formulating proposals for the improvement of the legislation of the Russian Federation in the sphere of state support of small businesses; analysis of the conditions of small business including measuring the efficacy of its support and preparing forecasts as well as proposals on the priority directions of state support for this sector; realisation of the Federal Program of State Support for Business and ensuring the participation of subjects of small business in state programs; and to coordinate the activities of the federal organisations which support small businesses with state participation (Federal Law, 1995: 2-3).

Article 7.1 of the law states that a draft federal program of state support for small businesses shall be submitted annually by the Federal Assembly to the government for its approval before the federal budget is presented (Federal Law, 1995: 3). This

aspect of the law appears to ensure that the small business sector remains on the government's agenda year after year. The second part of this article addresses how state and municipal programs are to support small businesses. The provisions outlined here repeat some of the tasks included in Article 6.1 of the law. However one provision included here that was not mentioned previously was on measures to involve the socially unprotected strata of the population (invalids, women, young people, retired servicemen, the unemployed, and refugees) in entrepreneurship. Here, emphasis is placed on incorporating as many sections of the population as possible in entrepreneurial activities and the underlying message is that anyone and everyone are equally capable of becoming an entrepreneur. While certainly egalitarian in content, this was part of the idealistic rhetoric that suggests that entrepreneurship is played on a level field. This idea is challenged in chapter six.

Article 8 of the law establishes that a federal fund for the support of small business will be created for the purpose of financing the programs, projects and undertakings aimed at supporting and developing this sector. Its funds will come from budget resources, money received from the privatisation of state and municipal property, income earned from its own activity as well as from voluntary contributions from outside sources. By providing financial assistance to the small business sector, this law anticipates that the federal fund will assist in the formation of market relations, contribute to the de-monopolisation of the economy and stimulate competition. It is also anticipated that by distributing financial support to various programs and projects, the federal fund will play a role in creating new places of employment and stimulate innovation in products and new technologies (Federal Law, 1995: 4-5). The federal fund is therefore expected to play a key role in realising the federal law on state support for small business in Russia. In selecting various projects to provide financial support, the federal fund is required to select projects that meet the state's objectives of supporting the small business sector as outlined in article 6 (Federal Law, 1995: 5).

Articles 15-18 outline specific areas in which the state will provide support to small businesses. These areas include: support for the foreign economic activity of small businesses in article 15; support in the information sphere in article 16, including informational support in the spheres of the economy, law, statistics, production and

technology; assistance with modern equipment and technologies including the creation of a network of business technoparks and business incubators in article 17. The priorities addressed in article 17 highlight the government's need for improvements in production and technology and its bias towards supporting productive labour over non-productive labour. Article 18 focuses on providing support in the sphere of training, retraining and advanced training of personnel (Federal Law, 1995: 7-8).

In article 19 of the law, the importance of the work of small business associations to the development of the SME sector is highlighted and the law endeavours to support them by including a provision to provide them with premises on easy terms. The law views such associations as a resource that can be involved in the preparation of draft laws and normative acts and also recognises its capacity to popularise the ideas of small business in the mass media. As such, the third section of article 19 indicates that to improve the system of state support for small businesses, the activities of associations should be coordinated with those of the state. To achieve this, councils for the development of small business may be set up under executive bodies (Federal Law, 1995: 7-8). As with article 7, there is some evidence here that the law is striving to incorporate relevant groups into the development of the small business sector and create an egalitarian environment so that small businesses can flourish. While there is some logic in the inclusion and coordination of activities and objectives between state programs and business associations, the formation of executive councils risks adding an unnecessary layer of administration. There is also a risk that by coming into the fold of state influence, small business associations might be in danger of losing their autonomy in determining how to provide support to small businesses at the grass roots level. In fact, there have been some concerns in recent years that these potential risks have materialised and become a reality (Nikitin and Buchanan, 2002; Fariziva, 2004). This is addressed further in chapter seven.

3.4.2 The State Committee of the Russian Federation for the Support and Development of Small Entrepreneurship

Following the 1995 federal law 'On State Support for Small Business in the Russian Federation', a state committee was formed to help fulfil its aims and objectives. The state committee, which is formally called the 'State Committee of the Russian

Federation for the Support and Development of Small Entrepreneurship' (and will hereafter be referred to as the state committee), was initially formed by presidential decree in June 1995 and was later approved by the government in October of that year. Much of what is covered in the presidential decree is repeated in a government resolution of October 1995 and so only the resolution approved by the government will be discussed.

The state committee is an executive organ of the government whose primary aim is to realise state policy in the sphere of assisting the entrepreneurial sector in the economy and is subject to the federal law on 'State Support for Small Business'. The committee was also tasked with coordinating federal and regional activities in order to realise programs of state support for small enterprises (Postanovlenie o gosudarstvennom komitete, 1995: 2).

As the state committee is subject to the federal law on state support for small businesses, many of its tasks derive from the objectives outlined in that law. These include such things as: to develop proposals for the elimination of legal, administrative and economic barriers for small businesses; to assess the effectiveness of state measures; to create an infrastructure of support for small businesses including consulting, information and financial support; to carry out a complex set of measures to modernise the equipment and technology of small enterprises; to support initiatives that promote the professional development of cadres in entrepreneurship; to prepare proposals that establish tax and other general privileges for subjects of small enterprises (Postanovlenie o gosudarstvennom Komitete..., 1995: 2-4). As the tasks of the state committee are a derivation of the federal law, there is not much new or unexpected in its outline of activities and responsibilities.

The state committee is however expected to cooperate with other ministries involved in the economic development of the country such as the Ministry of the Economy and the Ministry of Finance. Together these state organs are to provide procedures for funds from central ministries to be given to fund regional programs (Postanovlenie o gosudarstvennom Komitete..., 1995: 4). In addition to this, the state committee is also to work closely with the Federal Fund, provisions for the creation of which were outlined in article 7 of the 1995 federal law, as discussed

above. The relationship between the State Committee and the Federal Fund is a special one. The State Committee was not only entrusted to coordinate the activities of the Federal Fund, but the chairman of the committee would sit as a member of the executive council in the Federal Fund (Postanovlenie o gosudarstvennom komitete..., 1995: 1). This crossover in personnel from the state committee to the Federal Fund was reciprocated whereby the chairman of the board from the Federal Fund was also to sit on the executive board of the state committee (Postanovlenie o federal'nom fonde..., 1995). In this respect, efforts to support the development of small enterprise in Russia are addressed in a coordinated fashion across multiple executive state organs.

3.4.3 The Federal Fund for Small Business Support

While the role of the Federal Fund was outlined in the federal law 'On State Support for Small Business', the kinds of activities the Fund would be involved in were not elaborated on. These will be addressed here. The fund was created and formally approved in April 1996. In the Fund's charter, it is described as a state NGO that carries out financial provisions of federal policy in the sphere of state support for small business. The charter also outlines the kinds of projects that it will finance, which as would be expected, conform to the aims and objectives set out in the 1995 federal law on state support to small enterprises as well as to those of the state committee. These include projects that stimulate innovation and new types of production and technology, improve the level of skills and qualifications of cadres, research projects, conferences and seminars relating to the SME sector (Ustav federal'nogo fonda, 1996: 2-3). It is clear from this that there is a significant degree of repetition between the aims and objectives listed in both the federal law, the state committee and in the charter of the federal fund.

In addition to providing financing for such projects, the fund is also to be involved in fundraising activities, establishing links with expert councils and commissions at home and abroad, as well as organise consultations to the government on such things as legislation and tax (Ustav federal'nogo fonda, 1996: 3). A particularly interesting role of the fund, which is not mentioned in the other pieces of legislation, is that there is a provision which allows it to give credit on favourable terms, short-term loans on a competitive basis, as well as provide financial help free of charge to

subjects of small business (Ustav federal'nogo Fonda, 1996: 3). Such a provision is significant because obtaining credit has continued to be a contentious issue for entrepreneurs of SMEs³. While such a provision appears to offer the kind of support that entrepreneurs of SMEs require, upon closer inspection it would seem that its use in practice might not be as widespread. The reason why this seems to be the case is because of the way in which the provision has been worded: 'for achieving its main aims the fund...has the *capacity*⁴ to give...' (Ustav federal'nogo Fonda, 1996: 2-3). Stated in this way, the provision appears much less definitive about how, when and on what terms financial support would be given to small businesses. In addition to this, it looks as if providing funds to small enterprises has been less about meeting the needs of entrepreneurs than it has been about meeting those of the fund.

In fact the use of vague language and terminology is also evident elsewhere in the charter of the federal fund. This issue also pertains to both the 1995 federal law 'On State Support for Small Business' and the documents governing the state committee. In all of these documents the tasks and objectives are phrased in a very bland and generic way. For instance each of these documents use such terms as: 'to prepare proposals for...', 'to recommend...', 'to work out legislative projects...directed at stimulating and developing entrepreneurial activities...', 'to carry out a set of measures to provide subjects of small business with ...' some kind of perk or incentive. When phrased in this way, these objectives appear provisional and give the impression that there is a lack of substance behind what is written in the documents. This is because there is no clear mechanism in these documents to indicate concretely what aspects of entrepreneurship will be improved and how; just that things will be 'worked out' and 'developed'. This is significant because there can be a big difference between proposing to do something and actually outlining what is going to be done. It is possible that the tentative tone of the documents governing state support to the small business sector reflects the consultative status of the State Committee and the Federal Fund to the government. As such, their power and influence depends on the extent to which the government is willing to provide funds to support them. Still, what all of this suggests is that there is room to

³ See chapter five for further discussion on entrepreneurs' experiences with accessing credit.

⁴ Author's emphasis.

manoeuvre between what these documents say and what actually is done on the ground.

3.4.4 Federal Programs to Support the Development of the Small Business Sector

The vagueness that has permeated these documents has been offset to some extent by the annual and bi-annual programs established under the direction of the State Committee and Federal Fund which lay out how the state's policy is to be carried out and implemented on the ground. The first program formulated following the 1995 Federal Law ran over the years 1996 and 1997. This program set out specific measurable goals and objectives, which makes it easier to assess the effectiveness of the program regarding the achievement of its stated aims. For this particular program a couple of its expected outcomes were to increase the number of small enterprises by 150-200 per cent and to create approximately one million new places of work (O federal'noi programme..., 1995: 3). While this kind of program seems to go a step further than the 1995 federal law and the documents pertaining to the tasks of the state committee and the federal fund, in terms of providing more concise information about what will be done to support the small business sector, even these specifics do not guarantee that the program would be any better able to fulfil the broad objectives of state policy. At best it merely indicates how the vague concepts outlined in the documents of the State Committee and the Federal Fund can be translated into specific actions. In fact, looking at the goal to increase the number of small enterprises by 150-200 percent, as mentioned above, it is clear that the program fell well short of achieving its stated objective as the number of small enterprises in the country actually declined from approximately 877 000 in the beginning of 1996 to approximately 861 000 in the beginning of 1998 (Goskomstat, 1996; www.gks.ru 2004; see also figure 2.1 above). This would suggest a discrepancy between what the state says it will achieve and what is actually possible to achieve through its initiatives. In addition to this, the lack of any more specific proposals about *how* this would be achieved is indicative of the way in which state initiatives were at the same time both ambitious and not very realistic.

It would seem that this discrepancy stems in part from a lack of genuine commitment from the state to support its initiatives to develop the small business sector.

Although during Yeltsin's address to the Federal Assembly in 1996, support for

small enterprises was high on the state's list of priorities, when it came time to follow through on Yeltsin's gestures concrete action was absent. Shortly after the federal budget had been approved, money to the Federal Fund to support small business was cut by 500 billion roubles in favour of spending on national defence and law enforcement agencies (Lolayeva and Zhuravlyov, 1995). This represented a substantial reduction in funding. The program required 883 billion roubles in 1996 in order that it could successfully fulfil its objectives, so this meant that it lost more than half of its total funding from the budget. Thus despite the rhetoric that espoused the importance and value of SMEs to the country's development, little of this was matched in reality. If there is to be a chance for the federal programs to succeed, there must be continued support over the lifetime of the program from the government. It is all very well and good if the state committee came up with a comprehensive and effective looking program, but the best program in the world would not meet its stated objectives if the relevant stakeholders (in this case the government) were not completely behind the program from beginning to end.

As it turned out, the failure of this first program in support of the development of the SME sector was significant because the financial crisis occurred a short time thereafter. If it proved difficult for the state to stand behind the SME sector prior to the financial crisis, it would have been even more difficult to do so following the financial crisis. The 1998 financial crisis had a detrimental effect on SMEs causing a decline in number between 1999-2001 (Astrakhan and Chepurensko, 2003; Radaev, 2003). So despite the policies and initiatives brought in by various state organs since 1995, SMEs fell to the wayside and did not develop in the way that the government suggested they would. It was not long after the financial crisis that there was a change in presidential leadership and Putin came to power. However before going on to discuss state policy in the SME sector under Putin, the efforts of international development agencies to assist the SME sector in the 1990s will be discussed as this constituted another kind of initiative similar to those provided by the Russian government.

3.5 Technical assistance to the SME sector from the International Community

In addition to stepped-up efforts on the side of the Russian government to support the SME sector in the mid-1990s, there was also a lot of activity from the

international community to provide technical assistance to the SME sector in Russia. From about 1994, international organisations such as Tacis (Technical Assistance for the Commonwealth of Independent States), the EBRD (the European Bank for Reconstruction and Development), and USAID (the United States Agency for International Development) got involved in developing Russia's SME sector. Like the Russian government, these international agencies and organisations have pushed the same idealistic rhetoric about the vital capacity of SME development to economic growth and social prosperity.

Tacis was formed in 1991 as part of a European Union initiative to provide grant-financed assistance to the new independent states of the former Soviet Union and Mongolia (<http://ec.europa.eu>, 2006). Its primary objective has been aimed at enhancing the transition process in these countries, of which support to the private sector and assistance for economic development has formed a central part of its activities. Tacis, like many international development organisations, has recognised the importance of SMEs stating that 'they are the very backbone of many economies' (Tacis, 1997: 8). In keeping with this view, Tacis set up a program in the mid 1990s to support training and to provide advice to banks in how they could assist in the process of restructuring in relation to their work with SMEs (Tacis, 1997: 6). The approach of Tacis was based on the idea that by engaging with the institutions that were to support the SME sector, its efforts would go some way to improving the environment for SMEs.

The EBRD similarly lent support to Russia in the development of its SME sector by targeting the Russian banking system. In 1994 the EBRD set up the Russia Small Business Fund (RSBF) through which Russian banks were to provide loans to the SME sector. Some of the Russian banks participating in the program included KMB bank, Chelindbank, NBD bank, Sberbank, Uraltransbank and Uralvneshtorgbank. The President of the EBRD said about this program in 1995 that 'the Russia Small Business Fund, which lies at the heart of the EBRD's mandate, is visibly encouraging the growth and development of an entrepreneurial society and the ability of Russian banks to profitably service the needs of the private sector' (www.ebrd.com, 1995).

Finally, USAID, played a prominent role in providing assistance to Russia in developing the SME sector. In the early 1990s when the United States was developing its program to assist the socio-economic transformation of Russia, one of the aims of the Clinton administration was to come up with programs that would 'really make a difference over there' (Time, 1993). Part of what emerged from this was funds to provide advice and capital to the Russian SME sector. For instance USAID provided grants to local non-governmental organisations (NGOs) to organise successful small business training programs. The US Peace Corps was similarly involved in developing the Russian SME sector by providing advice and teaching skills in subjects such as, marketing and accounting. The Russian-American Enterprise Fund was also set up under USAID to provide capital and to help set up joint ventures with American companies.

Each of these efforts from international development agencies was part of a wider effort in the West to help bring about the socio-economic transformation of Russia. What the programs of these international development agencies also highlight is that the West espoused the same idealistic rhetoric about SMEs and their potential to promote economic development and stabilisation with seemingly the same limited success. This is significant because it indicates that these ideas about the capacity of SMEs are not unique to Russia. While many of the individuals taking part in this study indicated a degree of awareness about these programs, they expressed varying levels of success with regards to tapping these resources. Meanwhile, western programs have received much criticism for firstly asserting a Western agenda without due consideration for local needs, interests or practices and secondly for failing to dramatically improve the standard of living in the country (Wedel, 2001). Even if these projects appear to have the right intentions, it seems that these efforts were not enough to have a broad and meaningful impact on society.

It has been ironic that at a time when both the Russian government as well as international agencies were, in principle, particularly active in supporting the SME sector that there had been no real visible improvement to it. As the figure 2.1 above shows, the number of SMEs stabilised at the level it had been prior to the introduction of targeted programs aimed at improving conditions for small enterprises. While all of these programs demonstrated an accurate understanding of

the problems facing SMEs, for example in terms of recognising the need for reducing administrative barriers, improving the tax system and providing infrastructure to support the growth of small businesses, they did not seem to have the intended result to increase the size of this sector and create new places of employment. Aslund has suggested that the problem has been that this so-called ‘support’ for the SME sector has been ineffective because what it really meant was increased regulation over the activities of entrepreneurs of SMEs (Aslund, 2001: 360). While ‘over’ regulation is certainly a problem for any business, this kind of explanation does not go far enough to explain why a heavy handed approach has been taken towards small businesses. The answer to this rests in social attitudes and values regarding entrepreneurship, which will be discussed later in this thesis in chapter five.

3.6 Patterns and Problems of SME Development: The View from Russia

There is a mountain of data on SME development in the Russian language literature. However closer examination of this indicates that the vast majority of documents at both the federal and regional level are narrowly focused on policy and do not engage in critical debates about the nature of SME development (Rossiiskoe obozrenie..., 2002; Usloviia i factory razvitiia...2006; gosudarstvennaiir poderzhka..., 2003; Oblastnaia tselevaiaa programma..., 2002; Tverskoi malyi biznes..., 2003; Sostoianie i razvitie malogo predprinimatel’stva..., 2002; Poderzhka i razvitie predprinimatel’stva v 2000..., 2001; O sostoianii malogo predprinimatel’stva..., 2002; Informatsiia o sostoianii razvitiia..., 2003; Ob effektivnosti gosudarstvennoi sistemy..., 2006; Otsenka innovatsionnogo potentsiala..., 2006; Administratsiia Tverskoi oblasti, 2002; Osobennostn razvitiia malykh...2004; Dinamika pokazatelei..., 2004; Maloe predprinimatel’stvo..., 2002; Analiz sostoianiia..., 2006). Much of this literature is both vague and general, simply stating what the problems have been in the sphere of small business activity, and then describing the policies and programs that have been developed to address these problems. While many of these documents seem to ‘tick the right boxes’ in terms of identifying the areas that require improvement in the SME sector, such as in the areas of infrastructure, tax assessment, access to credit and administrative barriers, they make little headway in terms of conceptualising the impact of individual attitudes, behaviours and motivations on either the problems, or the proposed solutions to the

development of the small business sector. Discussion of these aspects of entrepreneurial development is crucial to addressing patterns of its development.

While clearly not representing the majority of documents in the Russian language literature, more critical debate on the nature of SME development, which highlight the impact of individual attitudes, behaviours and motivations, can be found at both the federal and regional levels. In these debates, three related and interconnected themes have emerged. These are namely: the impact of policy on the SME sector; the weakness of the SME sector in supporting economic development; and the structural position of the SME sector in the Russian economy. Whereas official policy reports and documents have discussed the small enterprise sector in terms of what it can achieve and bring to national social and economic development at the national level, these other literatures (which have been found in academic and media sources) have approached the issues from the opposite point of view to consider where policies have fallen short and to explore how the small enterprise sector has failed to develop in the manner that was expected.

In a book printed by the Liberal Mission Fund in Moscow, some of the common expectations of the SME sector are considered, not on the basis that they could have been real possibilities, but rather from the point of view that these constitute myths of small enterprise development. The main idea is that the apparent shortcomings of the small business sector stem partly from the fact that official propaganda about its potential has been unrealistic. For instance the proposition that the small business sector will become the main source of employment in the economy as larger, inefficient enterprises are restructured is a classic myth (Chepurenko et. al., 2004: 16). In terms of addressing some of the key issues facing the small business sector, this would appear to be the more rational approach to take and is more helpful in understanding some of the problems and possible solutions in this sphere of the economy. In other words it is proposed that the way forward is not necessarily more policies, laws and proclamations of support to small enterprises, but rather a reality check of what can and cannot be achieved. From here, policies that genuinely meet the needs of entrepreneurs can be developed. Chepurenko et. al. propose that some of the laws currently in place could be revamped so that they actually operate according to the spirit of the law (Chepurenko et. al, 2004: 240-242). What this is

actually driving at is that problems for the small enterprise sector do not lay in the laws themselves, but rather in the extent to which they are implemented in practice. From this, it seems quite clear that there is some mechanism that is not being addressed between the seemingly relevant and rational laws on the one hand, and the persistence of obstacles for entrepreneurs in the spheres of tax, credit, legislation, bureaucratic red tape and criminal groups on the other. This issue will be addressed more fully later in the section.

Articles from Russian media sources have been equally critical of the state and its inability to support this sector through its policies. On the one hand the state has been criticised for changing the rules too frequently (Ivanova, 2004; Khakamada, 2003) and on the other for introducing changes that lack substance (Kozak et. al., 2004). As an example of the latter, a recent government program introduced in 2004 to improve entrepreneurs' access to credit was denounced as representing nothing more than a superficial gesture. At first glance, this program appeared to be an initiative that would genuinely address the needs and interests of small business owners and aspiring entrepreneurs. The idea was that the government would provide guarantees on the credit issued to entrepreneurs, thereby eliminating most of the risks to the lender, which was to be the Russian Development bank. The credit was also to be made available on favourable terms. However upon closer inspection, it became clear that this programme might not be as straightforward or as benevolent as it first appeared. Firstly, the amount that the government was planning to distribute to the Russian Development bank was not significant. According to one article on the subject, if every small enterprise in the country were given an equal share of the three billion roubles the government was allocating to this programme, each would get approximately \$20 (Kozak et. al., 2004: 69). While it is unlikely that every enterprise would get a share of this money anyway and so the share to enterprises would be greater than \$20, the point is clearly made that the amount put forward by the state is far too small to have a meaningful impact on enterprises. What was more, it was further claimed that there was no guarantee that the Ministry of Finance would even fulfil their promise to provide this money to small businesses. This claim was made on the basis that under a previous scheme in 2003 that had similar intentions, state officials never actually transferred any of the then promised 100 million roubles to the federal fund of small business support (the agency discussed

above) (Kozak et. al., 2004: 69). While it has not been possible to verify whether in fact there is any truth to this claim, it nonetheless highlights a lack of public trust in the government to support the needs and interests of small businesses.

Such claims that government initiatives aimed at assisting the small business sector have failed to have a dramatic effect on the ground have been evident elsewhere. Following the recent reforms to the tax system, Russian journalists have debated the extent to which the simplified tax system will benefit small businesses. Some claim that stipulations insisting that entrepreneurs must contribute to the pension fund effectively eliminate reductions in the tax burden and thereby defeat the purpose of the reform (Visloguzov, 2004). The main criticism has been that the reform has not gone far enough – although the system of tax assessment might be simpler, the burden on small businesses has not been entirely reduced and so the interests of business have not been fully met.

Sociological studies carried out at the regional level⁵ have also explored the impact of policies and initiatives aimed at supporting the SME sector. Of particular interest was that in some of the studies focusing on Moscow and Kaluga, questions were raised about the extent to which programs aimed at supporting the SME sector have been effective. In a study conducted in Moscow in 2002, it was found that, ‘...in addressing existing infrastructures of support for small business, only 25% of respondents said that these correspond to their needs’ (Ob itogikh..., www.mbm.ru 2003: 5). In another related Moscow study, which looked specifically at problems of providing informational support to entrepreneurs, it was found that even with seemingly positive indicators coming out from government programs there is evidence that people prefer to continue to rely on using established practices such as direct personal contacts than use formal channels established by the state (Problemy informatsionnogo... www.mbm.ru 2003: 3, 4). Based on this it would seem that

⁵ The issues identified were virtually the same across the regions, except that in studies conducted in Moscow, the idea that this area is considerably better off relative to the rest of Russia’s regions was highlighted. This did not mean that there were fewer problems for entrepreneurs in Moscow, rather that the generally higher standard of living there perhaps made it easier to develop a stable living from entrepreneurship in Moscow compared to most other places in the country (Ob itogikh..., www.mbm.ru 2003). Overall, these sociological studies were successful for highlighting the attitudes of individuals involved in the SME sector (from entrepreneurs, state officials and leaders of business associations) at the grassroots level.

official attempts to support the SME sector and the policies associated with this have not had the intended effect. Taking this a step further, the findings from these studies also indicate that informal practices play an important part in patterns of entrepreneurial development. In addition to this, it is clear that there is a gap between the policies implemented from above and how these play out in practice on the ground. Given this, the extent to which the findings from these kinds of sociological studies have been fed back into policy initiatives is uncertain and this is therefore an area that deserves further investigation.

Irina Khakamada, a pro-business politician, has viewed the challenges facing the SME sector in terms of how they damage the economy. Related to this, she also considers the significance of state-business relations and the extent to which these underlie the persistence of problems in this sector. Khadamada argues that each of the challenges confronting businesses represent significant costs, to the entrepreneur concerned with running his/her enterprise, and also to the economy. Entrepreneurs are compelled to make a variety of payments to cut through bureaucratic red tape and remain in favour with local government officials. Khakamada estimates that these unofficial payments to the state come to approximately \$4 billion a year; an amount which could be better used to expand business activity, increase wages and improve the skills of entrepreneurs and their employees (Khakamada, 2003). At the root of these costs, according to Khakamada, are state officials who view small businesses as 'an additional source of income' (Khakamada, 2003). In particular, Khadamada emphasises that many of the problems faced by entrepreneurs of SMEs stem from pressures put on them by the state and government officials and thus impact on the prosperity of the small enterprise sector. The link that Khakamada makes to the relationships between state officials and entrepreneurs and the development of the economy is a key issue that is developed in this thesis. This relationship is important because it impacts how policies operate on the ground and these relationships reflect the attitudes and behaviours of the key actors in the development of the small enterprise sector. An exploration of the nature of this relationship thus provides insight into the pattern of entrepreneurial development in Russia.

In addition to this, the kind of relationship that Khakamada describes also plays a role on entrepreneurs' reliance on conducting part of their activities in the informal

sector. This also relates back to the idea presented by Chepurensky et al. that policies themselves are not the critical problem for entrepreneurs. Similar conclusions were also evident in some of the regional literature. A conference paper based on findings of a study carried out in Kaluga oblast' found that for many entrepreneurs their problems lay in how formal rules are interpreted by state officials. This stems from the fact that there is room for state officials to interpret regulations governing SME activity in such a way that can interfere with the efforts of entrepreneurs. It was noted that 'successful activities of entrepreneurs often depends on good relations with local officials' (Sergeeva et al., 2003: 48). Stated another way, an uncooperative relationship between state officials and entrepreneurs damages their business, which ultimately weakens the SME sector and its contributions to economic development. This study noted that excessive power of state officials, a lack of professionalism and 'crony' interests often create barriers that undermine entrepreneurial initiative and the development of entrepreneurship in general' (Sergeeva et al., 2003: 48). This statement is significant for highlighting how attitudes and beliefs can shape behaviour and thus patterns of entrepreneurial development. In addition, it is clear from both this and the findings of the Moscow studies discussed above that regardless of how appropriate some of the policy measures might appear, a failure to take into account the informal practices and strategies used both by entrepreneurs and state officials can invalidate their impact on the ground. Unless these are addressed, the contribution of the SME sector to economic development will continue to be weak.

The way in which the small enterprise sector has developed in the absence of effective policy on the ground and in light of state-business relations has had an impact on the structure of the Russian economy. In her book on small enterprise and employment, Ivanova draws attention to the significance of the informal sector to small enterprises and how this has influenced the development of the Russian economy. Ivanova discusses the informal sector in structural terms and as something that has become a key component to the way in which the economic system operates. It was not something that emerged with the onset of the transformation period, rather Ivanova emphasises that it has evolved out of the old system and continues to change and adapt to new conditions (Ivanova, 2004: 35-37). Conditions have been such that the informal sector has become a fixed feature of the Russian economy. Certainly an

informal sector features in most economies, from capitalist to command systems alike, so the suggestion that Russia's informal economy is not a recent phenomenon is not surprising or groundbreaking. However, what has been significant about the informal sector in Russia, and a point that Ivanova makes clear, is that it has formed a critical part of the small enterprise sector and has been fundamental to the way in which it operates. The informal sector accounts for such a large portion of employment that without it, the economy generally and the small enterprise sector in particular, would suffer substantially. The informal sector thus has both negative and positive implications. On the negative side, employment in the small enterprise sector means that the government receives fewer taxes and is then less able to redistribute monies to society and support this sphere. People working in the informal sector lack social guarantees and are, as an example, vulnerable for not being eligible to receive pension support from the state. On the positive side, the informal sector helps to meet individuals' immediate needs providing a place of employment, income and a means to put food on the table for themselves and their families (Ivanova, 2004: 53-54).

In addition, Ivanova argues that while many of the laws introduced in the early 1990s were aimed at stimulating the growth of small enterprises, there were also a number of measures that actually hindered their development. Ivanova notes how in the early 1990s measures were introduced which led to high taxes and limited cash flow in enterprises. In this respect, the arguments put forward by Ivanova differ slightly from some of the points made above as greater emphasis is placed on the impact of poor policies than how they have been implemented. At the same time it is recognised that other factors, such as constantly changing legislation, corruption on the side of state officials and the growth of criminal structures all served to push small enterprise activities further into the shade in the informal sector (Ivanova, 2004:39).

The debates in the Russian literature around the faults and/or inadequacies in the legal and policy frameworks and its impact on small enterprises seem to indicate a lack of commitment on the side of the state to support the small business sector. This lack of commitment can be tied to the negative attitudes and perceptions towards entrepreneurs, which have been reflected in relations between the state and

business. Overall, these debates have been critical of government actions and initiatives. Entrepreneurs, on the other hand, have appeared to be the victims, vulnerable to state officials who have been willing and able to abuse their power. Certainly entrepreneurs of SMEs are in a weaker position relative to the state. Yet if state-business relations are important to overall development of the SME sector, then do entrepreneurs also have a role to play in improving conditions? Khakamada has suggested that entrepreneurs' weaker position partly stems from a lack of political power amidst the small business community (Khakamada, 2004). Based on this, it would seem that much could be gained if the small business community could unite at the grassroots level.

In addition to this, a number of the documents have indicated that developing constructive dialogue between business and the state forms an important part of improving the SME sector (Otsenka predprinimatel'skogo... <http://sme.ural-business.ru> 2005; Tverskoi maliy biznes... www.nisse.ru 2003; Sergeeva et. al., 2003; Maloe predprinimatel'svo... <http://www.mbm.ru> 2002). Although it has not been stated explicitly in these studies, it would seem that such dialogue would help bridge the divide between the policies that do not meet the needs of entrepreneurs on the one hand, and the tendency of entrepreneurs instead to rely on informal strategies on the other. Such dialogue is therefore important for building greater understanding between the small business sector and the state. It should also be added that a priority of such a dialogue should be to acknowledge the place of informal strategies, why they have become critical to the activities of entrepreneurs and the consequences they have on the development of the SME sector.

These debates have focused on the role of the state and structural conditions that have shaped the environment in which small enterprises operate. While these are important, not enough attention has been given to how individuals have responded to these conditions and consequently contributed to the pattern of entrepreneurial development. Thus there is another side to the SME sector that deserves attention. Entrepreneurs have demonstrated substantial creativity and have shown strength in the face of adversity as they have attempted to overcome the challenges of the business environment. This dimension of entrepreneurs has become particularly clear from the findings that emerged out of this ethnographic study. Its absence in

the debates in Russian literature might stem partly from the kind of methodological approach adopted in these studies. Many were based on findings from survey-based questionnaires, which often allow fewer opportunities for respondents to elaborate on their answers to explain why or how certain phenomena are perceived in the particular way that they are. Ethnographic research provides the opportunity to dig deeper and explore the impact of social and cultural factors on SME development and it therefore has a role to play to enrich some of the findings presented here. Using qualitative ethnographic methods, this thesis endeavours to explore the attitudes and strategies that entrepreneurs have developed to survive and succeed in business, and investigate how these have impacted on patterns of development in the SME sector.

3.7 Small Enterprise Development Under Putin: More of the Same?

Following the financial crisis when SMEs seemed to fall to the wayside of government action, SMEs have been brought back to the foreground of the state's agenda under President Putin for the same reasons the sector was considered important under President Yeltsin. Under Putin SMEs have been seen as essential to effecting the full transformation of the Russian economy and raising the level of prosperity in the country, the basic goals that eluded Yeltsin while he was in power. During Putin's introductory remarks to the Federal Council to discuss state policy on SMEs he said that 'it needs to be recognised that without the development of this sector in the country, there will neither be a steady improvement in economic growth, nor an improvement in people's lives' (Putin, 2001b). During this same speech, Putin also said that 'the more people involved in small business, the more stable and healthy is the Russian economy.' (Putin, 2001b). Both of these statements clearly indicate continuity with the Yeltsin period, which idealised the role of SMEs and made the link between the development of the SME sector with economic growth and social prosperity in the country. These comments also clearly indicate that the spotlight has once again been turned on the SME sector under the state policy of Putin.

There have been a number of inter-related factors that have contributed to a renewed interest in the SME sector under Putin. Firstly, despite recent economic growth in Russia, the structure of the economy remains unbalanced, depending heavily on the

oil industry for revenues. While the world market price for oil has been consistently high for the last few years, it represents an unreliable long-term strategy for the economic development of Russia. In this respect, the development of the SME sector under Putin has been part of a strategy to balance the structure of the economy.

Balancing out the economy in this way has also had the added advantage of shifting attention away from the political and economic weight of big business in the country. When Putin became president in 2000, a concerted effort was made to re-define the boundaries between the state and representatives of big business. This was in response to the notorious 1990s under Yeltsin when cronyism prevailed and big business held substantial sway over much of the state's policy. The primary objective of this effort was to strengthen and re-assert the authority of the state over the country's affairs. Once representatives of big business were pushed back from the limelight, it provided a space, which SMEs were well placed to fill. This sharing of space has been much more amenable to the interests of an administration that has been trying to assert its authority over the affairs of the country because, as a Russian journalist pointed out, 'small-scale owners...ensures the stability of the state. They are well enough off to strive for changes, but not wealthy enough to try to influence the authorities' (Latynina, 1996).

An example of the way in which the visibility of SMEs has increased while that of big business has simultaneously decreased has been with the creation of two new pan-Russian business associations, OPORA and Delovaia Rossiia, which were formed with the endorsement of the Kremlin (Radeav, 2003: 126). The Kremlin is now able to call on both these, as well as the RSPP (the Russian Union of Industrialists and Entrepreneurs, the organisation representing the interests of big business) to collectively voice the interests of business (Granik, 2001a; Germanovich, 2001). The formation of two new organisations has been important because it provides an opportunity for the organisations representing SMEs to, at least superficially, offset the weight of the RSPP (see chapter seven for further discussion on the role of business associations and the development of these organisations). In this way, bringing SMEs back to the foreground of the state's

agenda has reflected the change in relations between representatives of big business and the state.

Thirdly, since Putin came to power the state has also set ambitious goals in the economic and social sphere in which SMEs are needed to play an important role. In 2003 Putin set the objective to double GDP in ten years (Putin, 2003). In order to achieve this, it was recognised that SMEs would have a vital role to play (www.rian.ru 2005). The view of the state was that the SME sector, unlike big business, represented an as yet largely untapped source of economic growth. Prior to announcing the goal to double GDP within ten years, Putin said that previous efforts to improve economic growth had not made use of the capabilities of the Russian economy (Putin, 2002). Then at the time that increasing and diversifying economic growth became a clearly stated objective, entrepreneurship became the basis on which the success of the country depended. To this end Putin stated that ‘the success of this country greatly depends on the Russian entrepreneur’s success’ (Putin, 2003).

Economic growth and diversification of the economy had become so important to the Putin administration because the country has remained haunted by the effects of the social and economic degradation that occurred in the 1990s. Paradoxically, despite positive economic growth indicators, the social well-being of the population has been lagging behind growth in the economy. Population indicators pointed to ill-health in the country. Mortality rates had increased and the rate of population growth was in decline. While life expectancy has dropped at a higher rate for men over the period of transformation from 62 years in 1992 to 58.8 years in 2003, there has also been a noticeable decrease in women’s life expectancy from 73.8 years in 1992 to 72 years in 2003. Housing and education were also areas that had declined in quality, thus hampering individual well-being. This has been a serious problem because, based on the rhetoric contained in the above quote by Putin, an improvement in people’s lives cannot be made without the development of the SME sector (Putin, 2001b). In this way, SME development and social welfare has been inextricably tied together in the ideology of the state. However realising this rhetoric is no easy feat because without a healthy population there is not a large enough pool of labour resources on which to build a strong SME sector. This in turn makes it

difficult to ignite the kind of sustainable growth in the economy that Putin has sought.

Where entrepreneurship and SME development have become so important to realising national goals and priorities, one would expect to find an environment in which this sector is supported and cultivated. Certainly in speeches to the public and to the business community, Putin has demonstrated accurate knowledge of the problems at hand and has even indicated an interest in resolving these issues. Putin has talked about the problems associated with a bloated bureaucracy, the need for administrative reform and the problem of contradictory legislation governing business activities, which leave entrepreneurs vulnerable to arbitrary harassment (Putin, 2003, 2004, 2005). In fact, and somewhat in contrast to the situation under Yeltsin, Putin has sometimes offered a more humble and realistic appraisal of the situation that entrepreneurs of SMEs have been confronted with. During his introductory remarks to the Federal Council in December 2001 Putin acknowledged that despite the country's hopes, small business has not been the 'motor of reform' (Putin, 2001b). He then went on to say that entrepreneurs run into obstacles every step of the way; obstacles which have been created by municipal, regional and federal levels of government (Putin, 2001b). Similarly, in the federal program of state support to small enterprise for the years 2000-2001 it was recognised that the sectoral structure of SMEs has remained unchanged in that entrepreneurs have preferred to develop their businesses in the non-productive sphere of activity (in trade and public catering) than the productive sphere because the costs of doing so are lower. However despite these differences in attitudes towards the situation, in practice, Putin seems to have merely followed in the footsteps of Yeltsin, offering the same bland solutions to the same complex problems that continue to undermine the development of the SME sector.

In the federal program of state support to small enterprise for the years 2000-2001, the first program implemented under Putin, the main directions of the program correspond almost exactly to those set out in the 1996-1997 federal program. There is overlap and repetition in the areas that call for: formation of normative/legal substantiation for the support and development of small enterprise, the development of progressive financial technologies for the support of small enterprise, enhancing

the effectiveness of the existing infrastructure for support to small enterprise, and improving the information systems serving the interests of small firms. In fact inspection of subsequent programs and documents produced by the state committee for the support of small enterprises indicates that there is very little variation in the content since 1995. While there is virtually nothing objectionable in terms of the content of these pieces of legislation that cover the support of the small business sector, one is left with the feeling that these programs hold very little substance and the lack of change in state policy is cause for concern. One can then only draw a few unfavourable conclusions to account for the lack of change in state policy. One might assume that the policies have not changed because the situation for entrepreneurs of SMEs has not improved in the ten years that these initiatives have been run, which obviously does not reflect well on the reform process. However even if this were the case, then one would wonder why virtually the same program has been approved to tackle a set of problems that it has clearly failed to rectify. This would suggest a degree of ignorance or lack of interest on the part of the state for having blindly accepted similar programs repeated year after year despite the fact that the programs have not improved the SME sector in any substantial way. In any case this points to a waste of state resources and casts doubt on the state's ability to support the SME sector.

While the state's ability to support the SME sector might be questioned, there have been some positive changes in the economic and political climate that have had an impact on the growth and development of small businesses during the time that Putin has been president. Economic and political affairs have stabilised, which has contributed to less uncertainty making it relatively easier for entrepreneurs to plan for the future. In fact the Russian economy currently looks brighter today than at any other point following the introduction of economic reforms in the early 1990s. Following the financial crisis in 1998, the economy appears to have rebounded, recovering from its decline in the 1990s. Between 1999 and 2004, at the time Putin made his ascent to power and was elected President of Russia, the economy grew by 48% (Gavrilenkov, 2005). The real value of the rouble has recovered to the level it was in 1998 before the financial crisis, and output of the main commodities have reached the levels of 1990. Meanwhile, wages have been increasing while unemployment has declined to 6.8% (Gavrilenkov, 2005). Together, these have

increased consumption levels in the economy and raised living standards in the country (World Bank, 2005). In addition to this, the number of SMEs in the country has increased each year since 1999 (see figure 2.1 above).

Yet significantly, most of these improvements cannot be put down to government policy or initiatives that specifically target the SME sector (although Putin could be attributed with stabilising the political arena). It cannot be said that changes to the legislation under Putin have been non-existent, (most notably because of the introduction of tax reforms in 2003) more that the extent to which these reforms have had a positive impact on entrepreneurs is still not certain⁶. It is possible that the SME sector, like other sectors of the economy and society have simply benefited from favourable economic conditions. When looked at from this perspective, these changes represent a bit of a mixed bag in terms of offering the SME sector something new. In this respect, the government under Putin has not made any remarkable changes in its approach to developing the SME sector; instead it has preferred to ride the wave of favourable economic conditions. It is possible that once the economic tide turns against Russia's favour that the situation for SMEs will become bleaker as there will no longer be veneer behind which the problems associated with a cultural environment hostile to the efforts of entrepreneurs can be hidden.

3.8 Conclusion

The rise of private enterprise in Russia has fundamentally changed the make-up of society. This was something that was promoted with much enthusiasm by the state. Official rhetoric in the early 1990s claimed that private enterprise would solve a host of issues such as, unemployment and underemployment, and low quality and quantity of goods on the market. In the process it would also increase economic growth and boost social prosperity. In fact even since the halcyon days of the early 1990s, the message about the capacity of the small business sector to transform the country has remained virtually unchanged. Throughout the post-Soviet period in Russia, the official rhetoric has been matched with the creation of new state organs

⁶ The impact of tax reform on entrepreneurs of SMEs will be discussed more fully in chapter five.

set up specifically to focus on the development of the small business sector as well as a series of annual federal programs aimed at realising state policies.

All of this official recognition about the importance of the SME sector suggests that the government has been fully behind the development of small businesses. However, it has been uncertain whether the official position has actually translated into effective policy support from the state. The way in which the state relates to business at ground level appears to be important to the overall picture. In the remainder of this thesis the way in which entrepreneurship has developed at the grassroots level is explored. From this perspective, entrepreneurship appears to be a much more complex process than the idealistic rhetoric of the state has proposed and some of the reasons why this has been the case are considered. Given the difficult environment the Russian economy offers for the development of entrepreneurship in the SME sector, the next chapter explores the question of what it takes to become an entrepreneur in contemporary Russia and seeks to identify the complex of social and individual factors that enable some people to overcome the difficulties in setting up their businesses.

Chapter 4

Becoming an Entrepreneur in Russia

A Russian entrepreneur may very well be the most resilient and optimistic entrepreneur in the world.

Viktor Sedov, executive director of the US-Russia Centre for Entrepreneurship

As a free market began to develop and private enterprise was legalised in the early 1990s, the field of entrepreneurship was heralded as a key feature of the post-Soviet Russian economy. Under both Yeltsin and Putin, an idealised notion of private enterprise has prevailed (as discussed in chapter three), offering the promise of improving the standard of living in the country and has even been cited as being key to unlocking the country's potential (Putin, 2002). This message has been so strong that virtually anyone and everyone has been encouraged to get involved in some kind of entrepreneurial activity (Bridger and Kay, 1996; Arnot, 2000; Kay, 2006).

However entrepreneurship is an exclusive field and the fact that not everyone has been able to do it is part of what makes entrepreneurial ventures particularly lucrative (Shane, 2003). After all, if everyone did the same thing by getting involved in entrepreneurship, the returns would be lower, therefore making it a less appealing and perhaps a less worthwhile risk to take. So the idea that anyone is capable of becoming an entrepreneur is simply unfounded; to be successful in entrepreneurship requires a certain combination of ambition, determination, skill, tenacity, knowledge and networks, not to mention sheer luck! What is more is that this is true of entrepreneurs in any market economy, be it in Russia or the West. Entrepreneurship is a risky business; and in few places has this been more the case than in post-Soviet Russia. Beset with economic, and political crises, as well as the disintegration of the social welfare system in the 1990s, post-Soviet Russia has been characterised by uncertainty making it a particularly harsh environment to conduct business.

Consequently entrepreneurs are part of an elite and exclusive group, so entrepreneurship will never be an activity for everyone. In fact entrepreneurship requires an uneven playing field with limited opportunities. Unequal access to information and resources, along with different individual experiences and characteristics are key to separating merely aspiring entrepreneurs from successful ones.

It has been in the interest of individuals to exploit those factors that restrict the chances of others becoming entrepreneurs to keep the playing field uneven. In fact it is the persistence of inequalities, be it personality, skill, knowledge or networks that gives competitive advantage to those who have become successful entrepreneurs. In Russia however, due to the process of socio-economic transformation, the barriers to entrepreneurship have been particularly complex; compared to the West, structures and institutions to support entrepreneurship have been less reliable. The way in which entrepreneurs in Russia have responded to these barriers has been an important part of what make the process of becoming an entrepreneur there unique. In particular, cultural practices of *blat*, knowledge of the rules of the game, the legacy of a Soviet past and people's experiences (or lack thereof) of this past have played a role in defining who can become an entrepreneur in Russia. Using data collected from field research, this chapter will look at the process of becoming an entrepreneur in Russia, exploring the features of Russia's uneven playing field to show how certain people have been able to become successful entrepreneurs⁷.

4.1 Entrepreneurship in post-Soviet Russia: Pushed or Pulled into Action?

The decision to become an entrepreneur is affected by individual characteristics and shaped by one's environment. Peoples' character traits and perceptions indicate why some individuals show a greater propensity for entrepreneurship than others. At the same time, the dramatic changes brought about by the transformation significantly altered employment patterns such that for some people, entrepreneurship became the obvious activity to get involved in. For some, the transformation brought unemployment and underemployment, so entrepreneurship offered a way to make ends meet (Bridger et. al., 1996; Clarke, 1998). For others, the transformation created new opportunities in which people had a chance to improve their standard of living through entrepreneurship (Silverman and Yanowitch, 2000). The factors that motivated certain people to become entrepreneurs depends both on what they needed and expected to get out of it. Whether for profit or survival, the prospect of an entrepreneurial career might have been difficult to resist. Based on research findings, it seems that individuals were driven by two principle aims: the 'need' to become an entrepreneur because of shifting employment patterns on the one hand,

⁷ This thesis largely only deals with the experiences of successful entrepreneurs since the aim of this study was to speak to those currently involved in entrepreneurship.

and the drive to find a career that would bring greater satisfaction (whether this was based on financial or non-financial goals) on the other. For simplicity these two factors will be considered separately, although it is recognised that in many cases both factors had a simultaneous impact on people's decision to become entrepreneurs.

4.1.1 Shifting Employment Patterns and the 'Need' to Become an Entrepreneur

As the social safety net of full employment fell apart under the post-Soviet system, employment in the state sector became less significant. Many of the jobs in this sector no longer met the needs of a market economy and therefore became redundant. What was more, wages in the state sector were declining both in relative terms because of inflation and in absolute terms because of their non-payment (Clarke, [n.d] <http://www.csv.warwick.ac.uk>). This contributed to unemployment and underemployment and many people were faced with the prospect of having to look for jobs for the first time in their lives. For older generations, this would have been a particularly daunting task.

At the same time that state sector employment was going into decline, the rhetoric of the time upheld the private sector as the engine of the new economy. In contrast to employment in the state sector, private sector employment offered a higher income (Clarke, [n.d.], <http://www.csv.warwick.ac.uk>; Silverman and Yanowitch, 2000). Under these conditions, entrepreneurship appeared to be the logical alternative in employment. However as logical as it might have seemed, it meant that people really had to take the initiative to find ways of earning an income.

This can be illustrated by the case of the owner of a recruitment agency.

Circumstances forced her to consider the kinds of skills that she had developed and what she could apply to an entrepreneurial career. However even while the decision to become an entrepreneur appeared to be the logical decision, it was also clear that this involved some getting used to before becoming settled in to a new career. After having fallen victim to 'cut backs and unemployment' this woman described this period as a time of adjustment saying that, 'and for two years there was a period of such adaptation, firstly the change to the market, and then secondly I had to find some type of work that I would enjoy doing' [30]. Clearly this was a process of

adaptation that took time to get used to. Also interesting is the reference to a dual transformation; firstly there was the transformation occurring on a broad economic level, and then secondly there was a more personal transformation as this individual sought to develop a new career. This 'dual' transformation reflects the complexity of the entrepreneurial process in post-Soviet Russia. Another woman who owns a furniture-making company in the same provincial town also emphasized the suddenness with which employment patterns changed.

I worked in an academic research institute...when our institute closed I needed to find something to do. But there was no work available...that is why we decided to do something new, maybe even useful, and maybe even start a business that did not demand a lot of expenditure. [32]

Here again it is evident that despite entrepreneurship seeming to be the logical alternative to unemployment, the economic conditions of the time made it a particularly difficult thing to achieve in practice. While there was clearly a need to do something, there were also definite constraints in terms of cost that interfered with opportunities to become an entrepreneur, as was discussed in the previous chapter. Also interesting is the reference made to being involved in something that is considered useful, highlighting on the one hand how employment patterns have changed over the Soviet and post-Soviet period. On the other hand there is a degree of continuity whereby in the Soviet period employment was associated with national goals of building socialism and in the post-Soviet period 'useful' employment is associated with the building of capitalism. Of course the idea of socially useful work is a Soviet construct and one that was widely recognised in the late Soviet period as being untrue to the extent that many forms of work were not, in fact, considered to be all that 'useful' in practice. It is nonetheless interesting that respondents described their search of alternative forms of employment in terms of doing something that is 'useful'. Another individual who, following a career at a research institute, became the Director of a publishing house in Moscow repeated this sentiment of 'usefulness' saying that:

I wanted to continue to work in scientific research, but this is of no use to anyone, that is to say that once our country changed [in 1992], it has now become necessary to be involved in business [18].

This individual has expressed a degree of compulsion to become an entrepreneur that stems from this idea that business is useful and that under the circumstances of a changing society, it made sense to become involved in business. New economic

conditions altered expectations and required that individuals make compromises in their careers, sometimes having to make choices between what interested them and what was economically viable. This same individual went on to describe the kind of compromises and changed expectations he experienced as he became an entrepreneur.

In the past when I was involved in scientific research, when I was a senior researcher, I was involved in science and this was interesting to me. Here in business, I am forced to participate. What I do is not what I intended; bearing in mind that I have two higher degrees in mathematics, yet I find myself here [18].

Such dramatic changes in career paths have not been uncommon in post-Soviet Russia and are actually a reflection of the significant changes that occurred as a result of the transformation. As job prospects were becoming bleaker, the cost of living was increasing. Thus severe economic conditions played an important role pushing people into entrepreneurship in which there was a sense that there was no viable alternative. When explaining the reasons behind becoming an entrepreneur, often the answer was as basic and fundamental as needing to support the family. For many, the conditions were such that it really did not matter what one was doing, as long as it earned enough money to feed the family. In this respect, the process of becoming an entrepreneur was very much about survival.

4.1.2 Entrepreneurship and Living the Post-Soviet Dream

For some people, becoming an entrepreneur was more than simply making ends meet. It was about being satisfied with, and deriving satisfaction from, their work. To these people also, entrepreneurship represented all the good things that the Soviet system was not: wealth, freedom and independence. In contrast to the principles embedded in the Soviet system, entrepreneurship is also an inherently individualistic endeavour; it is built on the idea that one can choose their own career and be in charge of their own destiny. Indeed studies of entrepreneurship have found that entrepreneurs show a tendency to want to assert control over their own affairs (Shane, 2003; Baron, 1998; Schiller and Crewson, 1997). By asserting control, people have a greater sense of freedom and independence. A study carried out by Hisrich and Grachev (1995) on the Russian entrepreneur also highlighted the desire for independence as ranking high among entrepreneurs in their survey. Similarly in the present study, entrepreneurs mentioned all of these factors as playing a role in

their decision to become an entrepreneur and were also identified as reasons for their satisfaction with that role once established.

An entrepreneur from Moscow who runs a firm that supplies automotive parts described those aspects of entrepreneurship that he enjoys:

You are your own boss. You make decisions yourself. Because you are free, you are free to move, free to think. You aren't 'under' anyone, where they can deprive you of profits [2].

This individual clearly gained fulfilment from being in charge of his work, which gave him a sense of being in control of his own destiny; he was not at risk of losing out on financial opportunities because someone else was in charge of running the business. Of course with this independence and freedom also comes responsibility, as the success of the business depends heavily on the actions of the entrepreneur. This is often the case in SMEs where the entrepreneur and the business go hand-in-hand; the entrepreneur is the business and vice versa. However as this individual indicated, this sense of responsibility (which is not necessarily a negative aspect of work) has been far out-weighed by the sense of freedom and independence gained from controlling the enterprise. This also stems from a passion and love of one's work; people are more willing to take on responsibility with work that they are passionate about. Another entrepreneur from Moscow who runs her own grocery store made this connection between responsibilities that come with independence, and love of one's work.

Generally to work independently is very interesting. You decide yourself what goods to buy, the kind of goods that customers ask for, those that are advertised... If I didn't like my work, there wouldn't be any customers, and they love my shop. If I enjoy something, I put my heart into my work and people sense this [6].

This passion for her work is part of what drives this entrepreneur and gives her a sense of satisfaction. Significantly, Cooper and Artz (1995) in their study of entrepreneurship in the West, have made a link between level of satisfaction through non-economic goals and the success of the enterprise. As people are increasingly satisfied with their work, they are encouraged to invest the time, effort and money into making the enterprise work, all of which are essential to surviving the post-Soviet Russian environment. Cooper and Artz (1995) also point out that entrepreneurs who are satisfied with their work will work more effectively with their

employees and customers, which is something that this entrepreneur also points out. It is clear also that many of the factors from which people derive satisfaction in entrepreneurship have not been unique to the Russian context. Across different cultures such things as wealth, freedom and independence as well as the desire to be satisfied with one's work have driven entrepreneurs. The main difference has been the setting of Russia, within which the culture and experience of entrepreneurship has not been long developed. However the ways in which nascent entrepreneurs across different cultures experience these things for the first time might differ little.

For others taking part in this study, satisfaction in entrepreneurship has been guided by economic goals. In this regard, the prospect of earning a higher income has made entrepreneurship an attractive career choice. This objective to earn a higher-income correlates to the idea that greed motivates entrepreneurs, which was identified as a factor in a study of five developing countries including Russia carried out by Djankov et. al. (2005). An individual who runs an electrical engineering firm in a provincial town discussed how both a desire to be satisfied in one's work as well as a goal to earn a high-income influenced his decision to become an entrepreneur.

Firstly I see work as an income, and I expected probably as any person does, to be satisfied. One needs satisfaction probably...to not act against one's conscience. Of course I wanted to become a wealthy person and that is why I started this business [21]

An entrepreneur from Moscow involved in the automotive industry was even more direct about his financial aims when he said, 'I wanted to make a profit. The aim of any entrepreneur in business is to make a profit' [1]. Studies on business in post-Soviet Russia have in fact shown that entrepreneurs and employees of their enterprises earn higher incomes than employees of state enterprises (Clark [n.d.], <http://www.csv.warwick.ac.uk>; Silverman and Yanowitch, 2000). In Clarke's study on employment in the new private sector, it was shown that incomes were on average 35% higher in the private sector than in traditional sectors of the economy (Clarke, [n.d.], <http://www.csv.warwick.ac.uk>). It is not clear however, whether profits were desired for status and prestige, or if it was sought for more modest means to satisfy one's basic needs. Indeed, some argue that money is not what ultimately motivates entrepreneurs; rather it is simply a by-product of entrepreneurship (Swedburg, 2000). However it could be argued that in the context

of post-Soviet Russia where the opportunity to earn a real income (where money operates as a universal equivalent) is a new experience, so entrepreneurs might indeed be directly motivated by profit.

Another by-product of entrepreneurship that individuals identified as being a source of satisfaction was the variety of work involved and the opportunity to communicate with people. This fits in with the literature on character traits of entrepreneurs in which extroverted people show a propensity to do well in the role of entrepreneur (Shane, 2003). Communication with people is particularly important to developing a successful business because it often requires persuading others and generating support and enthusiasm about your ideas. Below, two female entrepreneurs discuss this aspect of entrepreneurship, which they find satisfying:

I'm not sure what I like about my work. I suppose in general, the work itself is interesting; there are opportunities to communicate with people and then it also covers a broad sphere of activities [13].

This interests me; it makes me feel good. I am a creative person, that is why I am always trying to think of something new and interesting, so I would not be interested in simply being an executive in an office with a salary...of course to take risks, to win is interesting to me, new relations, new networks, partners. I am interested in communicating with people [20].

Interest in communicating with people is essential for developing networks, as is clearly indicated within this second quote. In post-Soviet Russia the development of strong networks has been fundamental both to business survival and success. However at an even more basic level, networks are crucial for shaping the kinds of opportunities that are available to individuals. In this way, it is obvious to see how factors evident at the individual level, such as traits and motivation, converge with the socio-cultural aspects of networks in entrepreneurship. The two go hand-in-hand shaping the opportunities available and indicating the kind of people who are most capable of seizing them and becoming successful entrepreneurs.

In the context of the push and pull factors discussed above the next section explores the socio-economic and cultural factors that restrict access to opportunities for entrepreneurship to a minority of individuals in post-Soviet Russian society. This involves looking at the effect of social norms and practices that guide the behaviour of entrepreneurs. In the following section I examine how differences in peoples'

identity (age and gender) and personal history (employment, experience and skills) impact on entrepreneurial opportunities. Then in the section after that I examine the role of individual level factors that lead certain people to become entrepreneurs. This involves consideration of the character traits that assist individuals to overcome the obstacles to entrepreneurship in Russia, the perceptions and attitudes that both attract and motivate people to become entrepreneurs. As will be shown, entrepreneurship is embedded in a socio-cultural context, so consideration of these factors will provide insight into the nature of Russian society and the development of entrepreneurship therein.

4.2 Socio-Cultural Practices and the Restriction of Entrepreneurship in Post-Soviet Russia

Although the Soviet system formally collapsed in 1991, practises from the Soviet period have been carried over to the post-Soviet period. In particular, the Soviet practice of *blat* has remained an important cultural norm in the post-Soviet period. Amidst the tremendous amount of socio-economic change that has been occurring since the early 1990s, it made sense to carry out transactions in a manner that was familiar to the parties involved. *Blat* is culturally unique to the Soviet and post-Soviet contexts (Ledeneva, 1998: 1). However, the way in which *blat* has been used in post-Soviet Russia has changed from how it was used in the Soviet period. The reason for this is because *blat* is not used to get scarce goods since the post-Soviet economy is no longer characterised by constant shortages and money now operates as a universal equivalent, which can be used to obtain goods (Ledeneva, 2000). In the post-Soviet period, the principles of *blat* remain the same, but it is used to acquire different things. *Blat* is still about using personal contacts to obtain something that is scarce, but today it is information and access to finances that are in particularly short supply. As *blat* has remained interwoven with economic and political power, it has also been used to gain leverage with authorities and official institutions, which can then facilitate access to these scarce resources. *Blat* has therefore become an essential practice for meeting business needs.

In most of the literature, social networks have generally been treated as either a positive or negative phenomenon. When viewed from a positive standpoint, networks are seen as an important strategy of survival used in particular, by

vulnerable groups. Based on this perspective, networks fulfil different functions, for instance to facilitate collective action and for the sharing and distribution of resources (Salmenniemi, 2005; Caldwell, 2004; Putnam, 1993). The opposite point of view, which casts social networks in a negative light suggests that the bonds of reciprocity that link individuals in a network can be a source of strain and tension when obligations to the network cannot be met (Woolcock and Narayan, 2000: 228). In addition to this and when networks are not based around poor and/or vulnerable groups, social networks have not been viewed as contributing to a social good, but rather as being driven by self-interested objectives and for the personal gain of members of the network (Woolcock and Narayan, 2000: 230; Buttrick, and Moran, 2005: 363). When considered in the framework of economic development, these kinds of networks are associated with negative economic consequences characterised by corruption and rent-seeking behaviour (Huber and Worgotter, 1998: 86; Woolcock and Narayan, 2000: 230). However an alternative view that emerged from this study sees *blat* networks not in this essentialist dichotomy of positive or negative, but rather as being both inclusive and exclusive. For entrepreneurs taking part in this study, *blat* networks were used as a kind of survival strategy in much the same way that (other) ‘vulnerable’ groups have relied on networks to access scarce resources. While the question of whether entrepreneurs in Russia constitute a vulnerable group is debatable, it is clear they have particular vulnerabilities that when exploited, threaten the security of their position. Indeed many of the entrepreneurs taking part in this study often viewed themselves as vulnerable and they used networks to insulate themselves from the insecure aspects of their position. In this regard, the *blat* networks of entrepreneurs were ‘inclusive’. *Blat* networks have also been used as a strategy of survival in an ‘exclusive’ way to restrict outsiders from accessing resources. By keeping others out of a network, their own chances of success are enhanced. Entrepreneurs’ use of *blat* networks thus both perpetuates and even widens social differences and inequalities. This in turn helps to keep Russia’s playing field uneven and so in this way the use of *blat* is a kind of survival strategy that entrepreneurs of SMEs need. Below, the way in which *blat* has evolved is explored to show how entrepreneurs of SMEs have used it as a strategy for survival.

As in the Soviet era, *blat* continues to be a strategy used to circumvent irrational and complex rules in the formal system in Russia. In this regard, *blat* represents an unwritten code for getting things done more efficiently. However, being an informal practice guided by unwritten rules, it is an implicitly vague concept and not everyone has the capacity to exploit it to its greatest effect. To do so requires a good understanding of the rules that govern these informal practices. Knowing the rules is clearly a competitive advantage in business, as the owner of a travel agency explains:

For many years I have learned how to live in this country. If you play in this team, in this game, that means you play by the rules that exist. That is why I believe that I have done sufficiently well for myself in this life...it is possible to live in our country, only it is necessary to participate in the situation...then everything will be fine [20].

Being an active player and taking part in the game are clearly important to developing a successful enterprise. Less clear however, is how specifically these rules operate and how an aspiring entrepreneur learns them. Yet what does seem clear is that it takes time to develop an understanding of the rules and the particular ways in which the formal system is navigated. The time during which one is 'learning the rules' therefore represents a critical period for the survival of an enterprise; those who learn the rules quickly have a better chance of surviving the Russian business climate than those who do not. The owner of the travel agency highlighted in the above quote that learning the rules takes time and this was also recognised by an entrepreneur in Moscow. This entrepreneur, who is involved in the printing industry, described one of the basic rules he came to learn: 'we know after many years of experience that it is possible to negotiate with officials' [28].

The fact that the principles governing business transactions are unwritten points to the uneven playing field that both prospective and established entrepreneurs in Russia must deal with. The implication is that entrepreneurship is closed to those who lack knowledge about the informal rules. While both the quotes above suggest that some of the rules can be learned through the experience of running an enterprise, as well as through the sharing of knowledge and experience between friends and kin, there are also structural factors such as gender, location and age that restrict who is able to learn the rules of the game. However before considering the impact of these factors, the significance of personal contacts to enterprise development and survival in Russia will first be addressed.

The reliance on personal contacts to acquire scarce goods (be it physical goods, or information and finance in the post-Soviet context) is significant because it personalises the formal system and the exchanges made under it. In fact, personalising exchanges is preferred because of a lack of trust in formal institutions, which has been magnified by the degree of change and uncertainty that has been occurring (Humphrey, 2002). This lack of trust has been clear from entrepreneurs' preference to keep business 'close and personal' as this helps to reduce risks (Salmin et. al., 1994: 23; Ledeneva, 1998; Buttrick, and Moran, 2005). Establishing trust between those involved is therefore essential to accessing scarce resources.

In some places, inspectors deal with things on a personal basis. In other places, your documents are passed through a window and you don't know who you are rubbing shoulders with...when it is done on a personal basis, this is closer and better...We simply have good relations with people [13].

The result is that tight networks form, which are central to both the development and even to the survival of businesses (Ledeneva, 1998; Huber and Worgotter, 1998). During interviews entrepreneurs highlighted the centrality of networks in entrepreneurship. The director of a sports organisation in Moscow said the following about the importance of networks and the personalisation of relations with officials:

In principle, everything in Russia is decided only through acquaintances. That is, if I want to resolve a problem with the help of an official, it will not be possible unless he has a personal interest in it...then he will be able to help [4]

From the point of view of this entrepreneur, having key people take an interest in his affairs has been seen as necessary in order to get the help that he requires. 'Help' comes in many forms and increasingly, as the practice of *blat* has evolved from the Soviet period, it has been used to acquire financial resources. The personal connection however remains essential to tapping any kind of resources. A property developer from a provincial town also highlighted the general importance of personal networks in business saying that, 'in Russia, networks are worth more than money...everything is handled face to face. We decide everything through personal contact. The lads eat, drink, and then after that...[things are sorted out]' [23]. This entrepreneur not only stresses the value of networks to resolving the challenges of business, but it is also apparent that gender has a divisive impact on entrepreneurial opportunities in which women face exclusion because they do not take part in the

same social practices as men⁸. Drinking is both deeply rooted in male culture (Kay, 2006; Leon and Shkolnikov, 1998) and it also appears to be an important part of the process of business negotiations in Russia.

When discussing how they got started in entrepreneurship, many entrepreneurs taking part in this study cited that having connections or being 'friends' with certain people was important. Through these networks entrepreneurs were able to access relevant information about the kind of market that they were entering and/or the necessary finance to get the enterprise off the ground. Other studies on entrepreneurship in Russia have also highlighted the importance of having 'friends' and connections (Ledeneva, 1998; Huber and Worgotter, 1998; Radaev, 2002). Some of the entrepreneurs taking part in the present study described the role of friends and connections in the following ways:

I had work experience, there were definite networks, contacts with partners, and generally, it was clear to me that I could not [continue] to work as a tour operator [20]

I found friends, which have assisted me. But this wasn't about business; they gave me money because they know me. [12].

Whether for information or for access to finance, it appears that by tapping the resources of contacts, things are kept within an inner circle of trusted individuals. In effect, these kinds of networks are 'closed' and only those with whom trust has been established have access. This in turn has an impact on who can do business, where access to such networks is key. As a consequence, the sphere of entrepreneurship will remain closed to those who lack useful personal relations. These 'closed' networks, while perhaps beneficial for those involved, also have the potential to limit opportunities for business development and growth. Ultimately the success of an enterprise depends on the resources that a network has available to it. Where there is no bridging across networks, opportunities to access additional resources outside a network will be difficult; especially where the establishment of trust is a necessary precondition to doing business with others. Trust takes time to establish, and this is something that many entrepreneurs have little of.

⁸ The impact of gender on entrepreneurship is considered more fully later in this section of the chapter.

While the discussion above has shown some of the benefits, as well as potential shortfalls of relying on personal networks to access entrepreneurial opportunities, there are also clear drawbacks to being excluded from networks. Illustrating this, a Moscow entrepreneur involved in the automotive industry said that ‘everything is difficult for us here. If you don’t have acquaintances, or money then you won’t be going anywhere’ [1]. Another entrepreneur who runs an engineering consulting firm in a provincial town talked about how his company has lost out as a result of not having links with the city administration.

In general, relations with the city administration have not taken shape...because we are a relatively young company and we do not have these connections in the higher echelons of power, in the regional and city administration, that is why we have not been able to develop as we would have liked [21]

Based on this quote and from the perspective of this entrepreneur, there is the idea that everything has been ‘sewn up’ already. This implies a kind of monopoly of state relations has been established. Such a monopoly inhibits dynamism in the economy, which theoretically, SMEs should both contribute to and benefit from. It is also clear from this statement that establishing networks take time to develop and until this happens, the development of the firm will be restricted. Where operating an enterprise requires the tacit approval of the authorities, *blat* is now particularly useful to entrepreneurs for getting access to the ‘necessary people’, especially in state structures, to negotiate the terms of a business transaction. It has also been important because formal processes have been unclear and procedures have been mired in bureaucracy (the problems of which were highlighted in the previous chapter). Thus institutional links remain important to advancing one’s business interests, as was highlighted in the above quote by the director of the engineering consulting firm. Even though this individual struggled to become part of the city administration’s network following the establishment of his business, his links to state structures through his previous employment proved decisive to the development of his business.

They were researching the market here and I received this information that they were interested in working in this region. At that time I was working at the administration in the department of employment – this is helping people to find work. I was a specialist there. I received the information because they left their contact details. I simply met with them and offered them my services. [21]

For this individual, his previous position within the administration played a crucial role to him becoming an entrepreneur. It is also clear that the use of *blat* conflates different spheres of influence across business, political spheres, and in some cases even across social spheres and the concept of conflict of interests appears to be absent. Based on this individual's experience, it is clear that his position within the administration gave him access to information that he would otherwise not have had. Networks to state structures are valuable because of the control over information that they continue to hold. What is more is that valuable information from state structures is limited to those who have established links to them. As was highlighted here, establishing these links is not straightforward and depends upon one's employment and experience, which in turn implies a degree of exclusivity for those individuals that have connections with state structures. The precise role of background and social position will be addressed below.

It is evident that networks are dynamic, varying over time and in the strength of links. However the extent to which networks are conflated across economic, political and social spheres effect the degree to which individuals can enhance their own position. While the director of the engineering consulting firm demonstrated the limits of transitory links to the state on the longer term development of his business, others showed particular skill in embedding their networks with those of the state or other spheres of influence (for instance to business associations⁹). This concept of embeddedness, which refers to 'the process by which social relations shape economic action' (Uzzi, 1996: 674), holds particular relevance to the nature of networks in post-Soviet Russia. While conducting interviews it became clear that many individuals were not just entrepreneurs, they also held other roles, often of political significance, as deputies in the local administration or as directors of business associations. At first glance, this phenomenon of dual, and in some cases even multiple roles, seems to present a serious conflict of interest. One individual who took part in this study illustrated how public and private economic spheres have merged to open doors that remain closed to people who are not part of such an

⁹ One of the principle aims of business associations seems to be to establish strong links with the state, so having links to them would be useful. See chapter seven for a discussion of the role of business associations.

embedded network. This individual was a businessman and an elected deputy of the local council and was using his public position to fulfil his private business interests.

I go as a deputy, and they give me the time and I am able to speak [with them]. They listen to me and they must give me an answer. And if I was simply a person from the street, who knows if they would speak to me or not. It's possible that they won't have enough time for me. But try it yourself, go to the authorities and see for yourself. The head of the local council has reception hours and a note will just be made that you came. You draw the conclusion that access every Monday from 16:00-18:00 is not what is intended. A few Mondays he might be sick, on some Mondays he is away on holiday, and on other Mondays he has been called out to a meeting...he can't refuse me. I can simply call him up on the phone. A simple person from the street can't call the head of the local council. I can call, ask a question and get an answer. I can make arrangements, that today I will be in the area 'shall we meet'? [or] 'today I will be at this place, come and meet me'. But an ordinary person can't just walk in from the street and gain access. There are 14 of us [local deputies] in all, we are already acquainted, we already shake hands with each other, we are friends already, so we resolve things a different way. [12]

It is clear from this statement that access to the head of the local council is exclusive, and only a limited circle has access to such influential individuals. Despite the potential conflict of interest, having a 'dual role' has proved to be an invaluable strategy for those who are in a position to combine spheres of influence and use informal contacts to advance their interests. *Blat* networks of those with dual roles are particularly enriched and represent a lucrative and relatively exclusive means of navigating a bureaucratic system that runs counter to the interests of entrepreneurs. Yet there have also been disadvantages for those who have a dual role, affecting the way they have been perceived in the local community. For instance, the conflation of roles and responsibilities perpetuates a negative stereotype of entrepreneurs, which portray them as being involved in shady and corrupt activity. This negative stereotype highlights a general mistrust of entrepreneurs, and in response to the stigma of entrepreneurship some feel the need to hide their wealth as well as any other indicators of a privileged social position. Local perceptions and entrepreneurs' responses to them could prompt a downward spiral of mutual mistrust between entrepreneurs and the local community and subvert recognition of the social and economic merits of entrepreneurship, which is ironic given the way in which state rhetoric has glorified their role in society (as discussed in chapter three).

Blat networks and the phenomenon of dual roles have simultaneously negative and positive effects on the integrity of the formal system. Even while these practices might be aimed at overcoming irrational or overly complex rules, violating them ultimately undermines the integrity of the formal system to the extent that an informal system of unwritten rules and social codes operates along side it and becomes entrenched. Yet significantly, this is also what creates and perpetuates an uneven playing field in entrepreneurship, since not everyone has been equally familiar with the rules of the game and so it represents an advantage to those able to rely on *blat* effectively. Thus the existence of an informal system is reinforced because it is in the interests of the entrepreneurs who know how the informal system operates to maintain it. As long as it remains exclusive, the informal system will continue to represent a competitive advantage for those who use it. In addition, pressure to rationalise the formal system, which might be more inclusive, is minimised as energies go into getting round the system instead. This highlights the tension between enterprise as something that is naturally elite and exclusive, versus the principle of equal opportunities within a free market system. Due to the vested interests that this set of circumstances serves, there are few options available to alleviate this tension without significantly disrupting the current status quo.

The nepotism that results from conflated interests and roles breeds resentment towards both officials and entrepreneurs from amongst those excluded. Yet at the same time, these practices and their effects must be viewed within the socio-cultural context of post-Soviet Russia. The phenomenon of being an entrepreneur and at the same time a politician, or a director of a business association, or a social activist bears resemblance to the strategy of engaging in multiple forms of employment to make ends meet; leaving the question about conflict of interest aside, in order to make businesses work, entrepreneurs must tap into a number of professional roles. In this way, the use of *blat* networks and the phenomenon of dual roles represent an important survival strategy of entrepreneurs in Russia. While this represents a strategy for success for entrepreneurs, it reflects the flaws in the system and entrepreneur's rational response to them (Ledeneva, 2000; Yurchak, 2002: 280). In the end, these practices play a defining role on who can become an entrepreneur; it certainly takes a particular kind of person to be able to cover all these different spheres of influence, which therefore indicates the exclusivity associated with

becoming an entrepreneur in Russia. The skills and practices that entrepreneurs have developed have been their tools to survive in the fluctuating environment of post-Soviet Russia.

4.3 Personal History, Identity and Social Difference

Personal history and identity play an important role shaping opportunities for individuals to become entrepreneurs. Even the ability to develop effective networks, which was discussed above as being a valuable asset in entrepreneurship, depends partly on one's personal history and social status. Both of these things shape who a person is and their position within the community. Personal history refers to a person's experience, skills and employment background. Discussion of identity involves reference to social differences, including age and gender, that affect the way that a particular group is viewed. While socio-economic status probably also has an impact on shaping entrepreneurial opportunities, it will not be covered here as it was not something that the individuals taking part in the present study attached significance to. This might stem from the general perception in which they viewed themselves much like the vast majority of Russian society as having struggled through the vagaries of socio-economic transformation.

Personal history and identity are not mutually exclusive as there is some degree of overlap between these factors. In particular, identity might influence the kinds of experience, skills and employment history of an individual. The interplay of these factors occurs everywhere and is not unique to the post-Soviet Russian context. At the same time however, experience and memories of the Soviet system have had a distinct impact on entrepreneurship in post-Soviet Russia shaping peoples views about employment and disrupting the status quo of socio-economic positions.

4.3.1 Personal History

The kind of experience that people gain, whether it has been through work experience or more generally through life experience, can be put towards an entrepreneurial venture (Shane, 2003). In this regard experience of the Soviet past has a unique impact on Russia's post-Soviet entrepreneurs. On the one hand it might be suggested that individuals who have had first hand experience of the Soviet system would be better placed than those lacking such experience, given the

continuity of social norms and access to elite networks of political and/or economic significance from that period. On the other hand, this line of reasoning does not account for the success of today's younger entrepreneurs who have had minimal, or no experience with the workings of the Soviet system. To illustrate this point, the youngest entrepreneur taking part in this study at 27 years old was much more successful than the oldest entrepreneur in the study at 66 years old. The 27 year old controlled two offices with significant turnover in Moscow, while the 66 year old had been struggling recently to maintain his one office in the same city¹⁰. The idea that post-Soviet Russia's entrepreneurs are former managers of Soviet enterprises with an engineering background (Tullar, 2001; Kryshanskaya and White, 1996) needs to be updated as the changes of the early 1990s become more distant to take into account the role played by younger generations. This illustration highlights that entrepreneurs have acquired skills through a combination of experiences learned and passed on from the Soviet system and through practical experience of the post-Soviet environment in Russia. Thus being adaptable to change is an important part of being a successful entrepreneur. However this has been something that people have not been equally capable of doing because of the extent and level of change that has been occurring in post-Soviet Russia (Yurchak, 2002).

For some, experience of the Soviet period represents a burden that is difficult to overcome, even despite the continuity of social norms from the Soviet period. For individuals who grew up and experienced much of their adult lives accepting the principles of Soviet society, the extent and rapidity of change might have posed significant psychological barriers for some. Indeed the way in which entrepreneurial activity was abhorred by some sections of society in the early 1990s (and in fact there remain traces of this today) has reflected the contrasting principles guiding Soviet society versus those guiding market economic systems. Even while the choice of entrepreneurship has for some, been a logical or obvious one, the stigma attached to it has proved too challenging for certain individuals who have had a long experience of Soviet ways of life to overcome. Yet for others, the Soviet system always entailed a degree of 'enterprising spirit' and activity either within

¹⁰ The fact that this individual managed to maintain control over his office, in spite of recent difficulties should not be discounted as insignificant to his overall success as an entrepreneur. On the contrary, it shows an ability to survive challenges that he has faced.

management or in the shadow economy and those involved in such activities might have been able to adapt more readily.

Experience and skills are also developed through previous employment, which can then be applied to entrepreneurial roles (Bolton and Thompson, 2004). Certain careers translate into private enterprises better than others, so some people might be in a better position than others to become entrepreneurs. For some of the entrepreneurs taking part in this study, there was a clear link between earlier careers and their entrepreneurial activities. For instance, a former Director of Intourist opened a travel office [20]; a doctor has also become the director of a network of pharmacies [22]; and the former president of a regional Chamber of Commerce and Industry has become the Director of a business consulting firm [35]. Given the risks inherent in entrepreneurship, there are obvious advantages to developing private enterprises that closely relate to one's former position or specialisation as this helps to reduce the risks involved. There is already familiarity with the industry and establishing contacts with others involved in the industry would be more straightforward than if one was entering a market with which they were unfamiliar. These examples highlight the ways in which specialist skills have been transferred directly into creating new private enterprises. Indeed for some, careful consideration was given to the skills they had developed when contemplating entrepreneurial opportunities. One woman who set up her own recruitment agency described this process:

I was working in an academic research institute, and in one incredible moment I fell victim to cut backs and was unemployed...it was not possible to continue to work in my area of specialisation...everything had changed. I had to find a new career that fit my skills [30].

What is also interesting about this quote is that the way in which this woman considered her set of skills reflects the rhetoric and advice that was being given at the time (Bridger et.al., 1996). Through previous employment people also acquired generalist skills that they have been able to apply to private enterprise. However having the relevant skills is only part of what is needed. In addition to this, one must have the confidence and self-belief in their own skills.

I am not a specialist in electrical engineering, that is I don't have a specialisation in this branch in which we operate, but in general this isn't demanded of me, because I am the director. I graduated from the faculty of

economics and I have sufficient education to do this, so not knowing the number of currents, amps, or some instruments, is not so important for me [21]

Of course I gained skills from previous work, I was a senior researcher in one of the National Information Institutes. Naturally I had skills as an organiser, which allowed me to create this structure, and understand how it must work. Of course it was far from being without mistakes, but this business developed sufficiently successfully and evolved into what we have now [18]

4.3.2 Identity and Social Difference

The extent of one's experience of the Soviet system is also related to generation. Those who were older at the time of the Soviet Union's collapse logically had extensive experience of the Soviet system. In the previous section that looked at the impact of personal history it was suggested that the extent of Soviet experience had an impact on the capacity of individuals to adapt to change. Generation and adaptability are therefore connected in the same way that extent of Soviet experience and adaptability to change has been linked. Those who are currently in their mid thirties to mid forties were in a unique position at the time that the Soviet Union collapsed. At that time they would have been at either the beginning or early stages of their careers. At this stage Soviet work customs would not yet be ingrained practice, so they might have been in a better position to adapt to the changing socio-economic environment relative to older generations (Yurchak, 2002: 281). In fact Ledeneva has suggested that it has been the younger entrepreneurs who have the skills necessary for navigating the formal system (2000: 316). It is perhaps because these skills arise out of the inefficiencies of Russia's market economy, rather than simply arising out of the Soviet system that younger generations show a greater capacity to master these skills. It is therefore possible that as time goes on, it will be the practical experience that entrepreneurs gain from working in the post-Soviet environment that will matter most. It seems that today's nascent entrepreneurs will have the best chance of success where their practical experience matches existing conditions in post-Soviet Russia. The propensity of younger entrepreneurs to master these skills might also contribute and perpetuate the image of entrepreneurs as being unscrupulous if they are perceived as demonstrating a willingness to exploit informal rules to benefit their enterprise.

Gender also plays a defining role shaping perceptions about who can become an entrepreneur. While the gender split of entrepreneurs taking part in this study was almost equal, men in general dominate the field of entrepreneurship. As was shown above, this partly stems from the kind of social practices and norms (such as drinking) that is rooted in male culture and is also part of the negotiating process in Russian business culture. As a consequence of being excluded from participating in the same social practices as men, women face the risk of not being taken seriously. Opportunities for men and women in entrepreneurship are also tied to gender expectations whereby traditional gender frameworks have placed men in the role of breadwinner (Ashwin, 2000; Kay, 2006). As a consequence, the expectation is that men are primarily responsible for providing for the family. Thus the careers of men tend to be in more high profile roles, visible from the way in which men have continued to dominate political and economic spheres. Men's dominance in these spheres explains why men earn higher incomes, which is also further justification for their role as 'breadwinners'. In making the link between men's breadwinner status and entrepreneurship, women appear to be left out of the equation. This happens despite the fact that women too, need to earn an income to help feed the family. Still, the majority of female entrepreneurs are excluded from the most lucrative opportunities. This has been clear from the early 1990s, when women held peripheral positions in entrepreneurship dominating the rise of cottage industries rather than the banking and financial sectors (Bridger et. al., 1996; Bridger and Kay, 1996). What has been more, this peripheral position of women has become entrenched as competition in the marketplace has become increasingly intense and opportunities to start a business have become more difficult.

Some of the men taking part in this study expressed their obligation to the family as playing a role on their decision to go into business. One entrepreneur involved in the construction industry in Moscow said that, 'you see I have a family. I didn't have a choice. I have to support them, like any man' [7]; while the director of a Moscow publishing house gave his reasons saying that, 'naturally, I needed to earn money to feed the family [18].

Gender expectations contribute to understandings about masculinity and manhood, and so shape understandings of what it means to be successful. One of the

consequences is that this places pressure on men to conform to their gender roles, while at the same time excluding women from taking part in the lucrative opportunities in entrepreneurship. So strong are these social expectations that they are internalised by men and women. The Moscow entrepreneur in the construction industry actually embraced this role explaining that fulfilling these expectations provided a source of satisfaction for him.

A writer said that, 'a person is happy when they go to work with pleasure in the morning and return with pleasure to their home in the evening'. This is a play of words but it is very insightful. I can't say that I get satisfaction from my work, but I get satisfaction from the idea that I am useful to my family and to feel that I am their rock of support [7].

While these entrepreneurs were able to live up to their gendered roles, a sense of inadequacy and low self-worth can result for those people that have been unable to fulfil gender expectations. Gender therefore has an impact shaping not only who can and who cannot become an entrepreneur, but also the particular kinds of entrepreneurial activities that men and women can become involved in. These restrictions then have an impact on future employment patterns and skill sets and thus could also affect socio-economic position. In this way, the divisions and restrictions in entrepreneurship become entrenched, limiting the kinds people that can become entrepreneurs.

All these features of a person's history and identity shape others' perceptions about who can and cannot become an entrepreneur. While individuals' circumstances might vary widely, these perceptions matter because they contribute to the building of a reputation and a network of support. As was shown in the discussion above, these things are important to accessing scarce resources by *blat* and so are a part of processes that shape who can become an entrepreneur.

So far the impact of socio-cultural practices, background and social differences have been explored to show that opportunities in entrepreneurship have not been equally open to all members of society in post-Soviet Russia. This discussion has, up to this point, been indicative about the kinds of people who can become entrepreneurs. In the next part of this chapter, the character traits of entrepreneurs are considered to illustrate how these have helped them overcome the obstacles of entrepreneurship in the post-Soviet Russian business environment.

4.4 Character Traits of Entrepreneurs

Informal observation suggests that character traits play a role in determining who becomes an entrepreneur. Indeed numerous studies, particularly in the field of psychology, have been concerned with identifying the traits that distinguish entrepreneurs from the rest of society (Chell et. al., 1991; Swedburg, 2000; McClelland, 1961). However despite the logic that entrepreneurs are somehow unique in their character make-up, and to the dismay perhaps of those involved in such studies, no definitive character profile of entrepreneurs has been found to exist (Baum and Locke, 2004). The ambiguity of such research stems from the fact that many of the characteristics commonly associated with entrepreneurs, such as ambition, initiative, motivation, optimism, passion, perseverance and tenacity, could also be found amongst non-entrepreneurs. For instance, one can be ambitious or demonstrate a tendency to persevere and not be an entrepreneur. Studies of vulnerable groups in post-Soviet Russia have shown that non-entrepreneurs demonstrate a similar strength of character in the face of adversity (Bridger et. al., 1996; Kay, 2000; Field and Twigg, 2000; Clarke, 1998 and 1999). Another reason why it is difficult to apply a particular set of traits to entrepreneurs is down to the fact that many traits are connected and closely associated to one another, so attempts to draw lines between different traits oversimplifies entrepreneurs' identities, which like any identity, are complex. Yet despite the ambiguity of the effect of personality traits on entrepreneurship, it remains fair to state, particularly given the severity of the post-Soviet Russian business environment, that aspiring entrepreneurs who lacked certain attributes would have struggled to get their ventures off the ground. Character traits affect attitudes and these have an indirect effect on the success of an enterprise. Baum and Locke (2004) suggest that traits affect behaviour, which in turn can have an impact on the performance of the firm. While the presence of certain traits does not define who becomes an entrepreneur, personality does matter (Morris, 2002). Character traits nonetheless remain a subjective feature of entrepreneurs. As a consequence, a discussion about traits in entrepreneurs runs the risk of being descriptive. Despite this, on the basis that an exploration of certain traits helps to paint a picture about the kinds of people that become entrepreneurs, it remains relevant to highlight some of these traits. In the context of post-Soviet Russia, such traits as determination, perseverance, tenacity and optimism have stood

out as being significant, helping entrepreneurs to deal with the challenges inherent in this activity.

Given the amount and rapidity with which change has been occurring in post-Soviet Russia, as well as the fact that entrepreneurship is a relatively recent development, individuals there have faced a particularly challenging situation. Under these circumstances it is certain that only a minority of people could withstand the demands of this environment. And perhaps due to the nature of the system, certain character traits stand out as being particularly relevant to entrepreneurship in post-Soviet Russia. In a sense, the conditions of the post-Soviet Russian business environment provide clues as to the kinds of traits that would be important to have in entrepreneurship. An entrepreneur in the construction industry in Moscow said the following about the demands of running your own business:

In the present conditions, everything depends entirely and fully on you, your ability and speed to make decisions. Another thing is that many people were so rooted in the Soviet way of life that they cannot change to these conditions...it is difficult for them and they are not receptive to this situation [7]

It would seem that if ‘everything depends’ on the individual, then surely a person’s character is important to their success as an entrepreneur. At the very least this is certainly what some entrepreneurs believe. Despite the ambiguity of trait theory, the perception that entrepreneurs are somehow different from the rest of society remains evident. Here, the way that entrepreneurs have adapted to the changing conditions of post-Soviet Russia is identified as distinguishing them from the rest of society. This fits in with the discussion above on background and generation where it was suggested that an ability to adapt to change has been important to an entrepreneur’s success.

In the face of adversity, unwavering determination and a positive attitude have been essential to surviving in this business environment. Such determination was evident amongst a number of entrepreneurs, all of whom were facing different circumstances. For instance a Moscow businessman, who has been attempting to create a new enterprise said the following about his ambitions in entrepreneurship, ‘I have had one dream and it has not disappeared. Even though I don’t yet have the power to catch hold of it, I will carry my plan through to the end’ [12]. In a rather

different situation, a female entrepreneur who, along with her husband, lost their businesses at the hands of criminal groups showed a similar sense of determination to succeed when she said that, ‘all the same we will not give up. I think that everything will change – how can you live any other way?’ [8].

While both of these entrepreneurs is at an early stage in the entrepreneurial process, their determination to succeed is clear from their statements. At the same time however, it is also evident that having determination is often not enough to overcome the obstacles that are an intrinsic part of entrepreneurship in Russia. Given this, the limitations of applying a particular set of traits to entrepreneurship also become clear and the association of certain traits to entrepreneurs represent only one dimension of many that indicate the kinds of people who become entrepreneurs.

In most instances, the challenges of doing business in Russia would overwhelm the majority of people. However having a positive outlook seems invaluable to persevering through the obstacles that continue to plague the Russian business climate. Entrepreneurs’ optimistic outlook relates to their determination and perseverance to make their enterprises succeed, as a belief in positive outcomes helps one to see things through to the end. Many entrepreneurs saw themselves as optimists. When asked about coping with the challenges of entrepreneurship, a female entrepreneur who runs a shop in Moscow said that, ‘basically, I’m an optimist by nature’ [6]. Another Moscow entrepreneur who owns a financial consulting firm suggested that, ‘only optimists are in business. All pessimists, they seek to settle down at work and sit quietly. And in our country only optimists get involved in business’ [13]. Given the complexity of the post-Soviet Russian environment, it also seems fair to say that a pessimist would find it much more difficult to survive the challenges that are an inherent feature of Russian business.

Part of being optimistic is also about looking forward into the future. In an environment such as Russia, this is significant given that uncertainty pervades the system making it difficult to plan for tomorrow. One entrepreneur who despite having struggled in the past, epitomised the positive outlook in entrepreneurs, said:

Everything will only get better. We will work, we will manufacture serious products, we will build new houses, our children will get married and have

kids and everything will be ok...I am rarely dejected. And even when I was in prison, when the authorities quite often wanted to come down on me, I believed that this was like a holiday for me [11]

Such an optimistic outlook is part of a kind of 'against-the-odds' determination found amongst entrepreneurs. After all, it seems obvious that having a positive outlook would help a person to stay determined. Being optimistic is also about being confident; another trait that social scientists associate with entrepreneurs (Shane, 2003; Tullar, 2001; De Carolis and Saporito, 2006; Simon et. al., 1999). Based on the attitudes and perceptions of these entrepreneurs, one gets the impression that to believe in anything other than a positive outcome would be to seal defeat. In the eyes of an entrepreneur, such an attitude has no place in business. However, character traits also interact with cognitive processes shaping who has the capacity to become an entrepreneur. While certain traits are indicative about behaviour and attitudes, cognitive processes emphasize the 'action' dimension in entrepreneurs; how they perceive risks and seize opportunities. Of course there is a degree of overlap between traits and perception to the extent that factors that cause entrepreneurs to act in a certain way might also be reflected in the make-up of their character. The role of perceptions and attitudes in developing entrepreneurial action will now be considered.

4.5 Perception and Entrepreneurial Action

The way in which individuals react to situations is also crucial to understanding why certain people become entrepreneurs (Simon et. al., 1999; Shane, 2003; De Carolis and Saporito, 2006). Significantly, entrepreneurs are often forced to act in situations that are characterised by a high degree of uncertainty, with a shortage of information, where emotions tend to run high, and must also act under conditions of fatigue (Baum, 1998; De Carolis and Saporito, 2006). All of these factors affect the way in which entrepreneurs make sense of the world around them. And as a consequence, this effects their decision to exploit opportunities. In fact cognitive theory suggests that the way in which entrepreneurs think and process information has important repercussions on how they perceive the risks and opportunities of entrepreneurship (Baron, 1998). Because of the kinds of circumstances that characterise entrepreneurship (high uncertainty, shortage of information and strong emotional attachment to their work), entrepreneurs are susceptible to what psychologists

describe as, 'cognitive biases'. Cognitive biases are like 'shortcuts' that reduce one's mental effort and help people process new and unfamiliar information (Baron, 1998). Given the nature of the post-Soviet Russian environment, it is rational to assume that entrepreneurs there would be susceptible to such cognitive biases.

Psychologists have identified three main biases that affect risk perception. Namely, these are: overconfidence, illusion of control and belief in small numbers.

Overconfidence denotes a failure to know the limits of one's knowledge, and tends to occur when individuals overestimate the probability of being correct in their judgement of a situation. Illusion of control happens when individuals overemphasize the extent to which they can affect the outcome of a situation, where chance has a significant impact on the outcome. Both overconfidence and illusion of control have also been linked to entrepreneurs' level of optimism in which they tend to view business situations in a more positive light (Shane, 2003: 113; Shane et. al., 2003; Simon et. al., 1999). Finally a belief in small numbers occurs when individuals make decisions based on a small sample of information sources. Where individuals rely on information from individuals that are close to them, such as colleagues or advisors, they are more likely to receive positive feedback, which could further distort their perception of the situation (De Carolis and Saporito, 2006). Given the significance of tightly knit networks in Russian business culture and the lack of access to sources of broader information, it seems reasonable to suggest that this bias would be evident amongst entrepreneurs in Russia, thereby affecting the way they assess entrepreneurial opportunities. However given that these tight-knit networks are developed with the aim of acquiring accurate information, relying on a small number of sources of information does not automatically translate into this information being misrepresentative of reality, rather networks in Russia often represent a lucrative asset.

All of these biases help entrepreneurs filter out information that would otherwise persuade them not to seize opportunities. In this way, each of these biases, which affect risk perception, potentially have both positive and negative consequences on the behaviour of entrepreneurs. On the one hand, by reducing an entrepreneur's perception of risk, they are more likely to seize an opportunity than others who are not affected by these biases. This helps to explain why certain individuals will act in

what otherwise appears to be a risky endeavour. On the other hand, because cognitive biases effectively cause individuals to cut out relevant information, individuals might not give adequate consideration to the risks involved. As a result, their ventures might be prone to failure. Thus cognitive biases give no indication about the likelihood of success, merely they indicate why and how entrepreneurs act differently from non-entrepreneurs.

During field research, risk perception was manifest in a lack of fear over the risks involved in becoming an entrepreneur. This was clear from interviews when entrepreneurs expressed a sense of fearlessness when speaking about their experiences dealing with the challenges of a changing socio-economic environment. As an outsider, I was often amazed, given the degree of instability in post-Soviet Russia, at the courage and boldness with which entrepreneurs seemed to seize opportunities. When asked about their lack of fear, a property developer from a provincial town said the following,

No, I have never been afraid. It is not possible for somebody to survive in Russia if they are afraid. You need to have courage here...Russia is a very risky country and it requires an adventurous spirit. Audacity is needed to work here. I didn't think, I was young, I had a young child, there wasn't any money, I didn't think about anything, I just went forward [23].

The impression is that there was very little planning involved; faced with few alternatives, this person took a leap of faith on the hope that everything would turn out okay. This sense of 'acting without thinking' reflects the kind of environment within which he established himself as an entrepreneur. Perhaps if one thinks too much about the possible consequences of their actions then they might be less likely to seize entrepreneurial opportunities. Given the circumstances, many entrepreneurs would not have been afforded the luxury of stability and time to weigh up the potential costs and benefits of starting a venture; rather they were often driven by a much more basic need to survive. Thus perhaps this approach was the best out of few, less appealing alternatives. A strong sense of bravado and confidence also comes through from this quote, which is an asset often found in the character of entrepreneurs (Shane, 2003).

However in an environment characterised by crises and upheaval, it has not been altogether impossible to calculate some of the risks of entrepreneurship. Rather,

some entrepreneurs indicated there was a process of selection over which risks are worth taking. For instance responding to a similar question as the property developer, another entrepreneur from the same provincial town spoke about his lack of fear with regards to the potential consequences of breaking the rules,

Theoretically I should be scared, but in practice I don't know one instance in which someone has suffered, there are no obvious examples where someone gave somebody money to get a license and was held responsible for it. I don't remember such an incident happening [21].

The lack of fear expressed by this individual can be accounted for on the basis that bribery has become an accepted practice within Russian business (Arnot, 2000; Radaev, 2002) (see also chapter five). The idea that entrepreneurs perceive opportunities differently from others is important because without this difference, more people would likely seize entrepreneurial opportunities, with the possibility of lowering the returns of venture formation (Shane, 2003). Also, without differences in risk perception the uneven playing field in entrepreneurship might be levelled out. Even entrepreneurs interviewed for this study recognised a difference in the way that they perceived opportunities. The owner of a travel agency in a provincial town pointed out this difference in risk perception and how by taking these risks she enhanced her position.

I just took a risk to participate in this project to take a loan from the regional government...it turned out well for me, some were scared and couldn't seize the opportunity...many were afraid of this because in our country this was not accepted practice. It was accepted to receive everything for free, so to get credit, and then to have a huge obligation to the bank for many, many years was not acceptable to most people [20].

While the idea that entrepreneurs' perception of opportunities differs from other members of society is clear from this statement, it also highlights the unique features of the post-Soviet environment. Not only was borrowing money seen as being risky, but also the entire concept of borrowing money was foreign to post-Soviet Russian society, going fundamentally against the principles by which people had been accustomed to operating. To go against the grain of what had been the norm illustrates again the importance of being able to adapt to change, and also points to a certain strength of character amongst entrepreneurs.

The way in which entrepreneurs perceive the opportunities that they seize is also important. One Moscow entrepreneur, involved in the construction industry described how he saw the situation.

Up until the crisis [in 1998] we wore rose-coloured glasses and saw everything in a rose colour, and after the crisis the majority of us realised that it is necessary to work harder and then maybe something will turn out...I [now] understand that we need to work persistently and then we will have such success [7].

It is evident from this statement that perceptions change. After having looked back upon his experience in business, this individual recognised that his perception of the situation was not completely objective. While it might be impossible for anyone to have a completely unbiased view of a situation, in this particular instance, this person's 'rosy' view of his environment had a direct impact on his behaviour as an entrepreneur. Perhaps this also reflects the way in which cognitive biases create mental 'shortcuts' and help entrepreneurs to make sense of what is otherwise a complex situation. A tendency for entrepreneurs to have a 'rosy' view of a situation occurs because they tend to take an 'inside view' focusing on the immediate circumstances while ignoring the outcomes of related situations, which might otherwise affect their views and consequently change their behaviour (Kahneman and Lovallo, 1994). Also relevant is that this 'rosy' view reflected the rhetoric of the time in which entrepreneurship was portrayed as a straightforward and logical thing to do. In addition to this, it is important to remember that this individual was speaking in retrospect, so how he views his past experiences in entrepreneurship today might be different, and less 'rosy', from how he viewed these experiences at that time. The main point is that when looking at the world through rose-coloured glasses, there is a lack of objectivity. Thus, the way in which entrepreneurs make sense of the world around them has an impact on how they see and act on opportunities. Unlike traits, which tend to be relatively constant over time, perceptions of risks and opportunities are dynamic and reflect situations at a particular given time. Looking at the actions of entrepreneurs from the perspective of cognitive processes provides insight into why certain people seize entrepreneurial opportunities.

4.6 Conclusion

This chapter has explored various aspects of becoming an entrepreneur in post-Soviet Russia. To begin with, a holistic view of entrepreneurs was adopted looking at both the socio-cultural practices that govern their actions, and the traits that effect behaviour and factors that motivate people to become entrepreneurs. In taking a holistic approach, the various dimensions of becoming an entrepreneur were considered using contributions made from different social sciences disciplines. This has helped add further depth to understanding the processes by which individuals become entrepreneurs in post-Soviet Russia. It has been shown that the process of becoming an entrepreneur is played on an uneven field and so is restricted to a minority. It was also shown that entrepreneurship is embedded in culture. The context of socio-economic transformation has had a distinct impact on the Russian business environment and the way in which entrepreneurs have responded to this has distinguished the process by which individuals have become entrepreneurs there.

The first part of this chapter highlighted both the background of socio-economic transformation and its impact on the development of entrepreneurship, and the way in which social practices and norms have evolved in this environment and shaped entrepreneurial behaviour. It was argued that the cultural practice of *blat* and the phenomenon of informal systems and unwritten rules, which restrict who can become an entrepreneur, have in fact been exploited by entrepreneurs to give them a competitive advantage in business and so represent a kind of survival strategy for entrepreneurs. It was shown that *blat* networks are both inclusive and exclusive in the way that they simultaneously perpetuate and widen social inequalities. As a consequence, the use of *blat* networks in entrepreneurship serves to keep Russia's playing field uneven. In addition to this, it was shown that personal history and social status play a role in determining who can become an entrepreneur, particularly because these remain relatively fixed over time and contribute to structural inequalities. Those who have been able to establish strong networks, particular with state structures, as a result of their personal history and social status have been in the best position to exploit entrepreneurial opportunities. Through such strong networks, entrepreneurs have been able to tap important resources such as information and finance, both of which have been in short supply in the post-Soviet period. As a result of being able to tap into such resources through networks, it was

shown that background and social position are interrelated with cultural practices and norms.

In the later sections of this chapter individual characteristics and factors that motivate individuals to become entrepreneurs were considered. Looking at this dimension of entrepreneurs helps to paint a fuller picture about the kinds of people that become entrepreneurs, as well as shed light on why and how entrepreneurs seize opportunities. While trait theory presents some limitations to understanding entrepreneurs, a discussion of some of the traits that stood out most in entrepreneurs was valuable. One of the goals of this thesis has been to give entrepreneurs a voice and to tell their stories. Since many of the entrepreneurs taking part in this study identified traits that they believed have been important to their success, it was important to discuss it here. In light of the harshness of the post-Soviet Russian business climate, it was shown how certain traits helped entrepreneurs overcome its inherent challenges. However, it was also useful to consider the impact of trait theory in tandem with the impact of cognitive processes had on entrepreneurial behaviour. Cognitive theory emphasizes the 'action' dimension in entrepreneurs and so indicates how risks are perceived and why they seize opportunities. This showed the ways in which entrepreneurs differ from the rest of society, suggesting again that entrepreneurship is not something that everyone is equally capable of.

Because entrepreneurship has been accorded great economic significance, particularly in the context of post-Soviet Russia in which economic growth and development have been priorities of the transformation, it has been important to explore the processes that influence individuals to become entrepreneurs. In this case, those factors that restrict entrepreneurship have been of particular significance. However despite the rhetoric that anyone is capable of becoming an entrepreneur, the fact that people differ greatly in their individual make up means that this rhetoric does not actually play out in reality. The uneven playing field of entrepreneurship is not only inevitable, but even desirable, particularly for those who have become successful entrepreneurs because it gives them a competitive advantage over others. Less desirable however, might be the use of informal rules and personal networks to maintain Russia's uneven playing field as this is a factor that both subverts the integrity of the formal system and perpetuates a negative image of entrepreneurship

whom outsiders regard with suspicion. It also leads to structural inequalities, which might have nothing to do with personal ability or character. While networks have been a crucial part of entrepreneurs' strategies to navigate the harsh Russian environment, they have been overly personalised and ultimately limit broader opportunities for entrepreneurial growth and development. One way of enhancing these networks might be to encourage the development of 'de-personalised' networks through formal organisations such as business associations. Of course as was suggested in this chapter, these cultural norms and practices persist because they do in fact constitute rational responses to an irrational system, so membership in a formal organisations might prove insufficient to 'de-personalising' networks.

Having examined in this chapter the complex of factors that affect who becomes an entrepreneur in contemporary Russia, the next chapter examines how a similar complex of factors influences the operations of entrepreneurs in the conduct of their business.

Chapter 5

The Challenges of Doing Business in post-Soviet Russia

There are difficulties everywhere there is business [13]

Chapters three and four discussed the emergence of the small business sector in Russia and the factors affecting the chances of individuals to become entrepreneurs. In contrast to the state's official view in which much significance has been attached to the role of the SME sector, this chapter paints a rather different picture. Looking at how entrepreneurship 'happens' on the ground, it will be shown that entrepreneurship has been fraught with a complex set of interconnected obstacles which has conflicted with the state's idealistic portrayal of the capacity of the SME sector to contribute to socio-economic prosperity in Russia. Indeed the process of getting established as an entrepreneur is often riddled with organisational and logistical challenges from such basic things as, transforming ideas into a practical business activity, to more fundamental issues like finding capital and getting long-term loans, overcoming stiff competition, attracting new clients, and making enough money to cover costs and indeed earn a profit. These kinds of challenges are a basic part of establishing a successful enterprise – whether the process is taking place in the West or in post-Soviet Russia. However, the process of socio-economic transformation in post-Soviet Russia has thrown up additional challenges and magnified those that would normally be present for nascent entrepreneurs. In spite of the state programs to support the SME sector, Russia has lacked reliable structures and institutions to cultivate entrepreneurship. Although there is some commonality between the kinds of challenges that entrepreneurs face across different cultures, those that entrepreneurs face in Russia are more complex.

These challenges have been made more complex by the fact that the socio-economic transformation in post-Soviet Russia required that a new legal infrastructure be developed to facilitate market transactions. Overhauling the legal system is of course an immense task. Given the relative inexperience of the country with the legality of private enterprise and the immediate need to create appropriate legislation that fit the demands of a market economy, the most straightforward solution was to import legal systems from the West (Hendley, 1997: 234-235). This solution fitted

with the general tendencies in the early transformation period to accept Western support and advice (Wedel, 2001). This approach to legislative development meant that a new legal infrastructure was implemented from above and without consultation with economic actors (Barkhatova, 2000: 661; Aslund and Johnson, 2004:12). It was expected that Russian economic actors would simply accept this new legal infrastructure as being impartial and that it would defend and protect the rights of entrepreneurs (Hendley, 1997: 239). It was further assumed that this process would lead to predictability in market transactions and this in turn would create greater stability for entrepreneurs and the market.

This assumption however, proved to be false. In the 1990s the difficulties associated with developing a new political, economic and legal infrastructure were seen in the extent to which laws were ambiguous, contradictory and in some cases, even non-existent (Radaev, 2002: 206; Radaev, 2003: 120; Bonnell and Gold, 2002: xiii). The formal system, and the institutions that represent it, have not operated as they were intended. Given the enormity of the task to introduce a new set of institutions that would facilitate market transactions, the lack of clarity in legislation was unsurprising. The complex nature of this environment has meant that entrepreneurs in Russia have had to find ways to navigate around a formal system that has not worked for them (Ledeneva, 2000). In so doing, the development of reliable institutions and infrastructure to support entrepreneurship has continually been subverted; at the same time that practices to overcome the challenges of business have become entrenched. The problem has therefore been a circuitous one and the environment for entrepreneurship in Russia has remained hostile. The challenges of doing business in Russia have similarly placed further restrictions on entrepreneurs and as a consequence, have perpetuated and even widened social and economic inequalities in Russia.

It has been widely recognised in the literature that the Russian business environment has been fraught with obstacles. Key among these have been difficulties accessing credit, finding premises, a heavy tax burden and a host of administrative barriers, all of which have fuelled the use of bribery and *blat* (Ledeneva, 1998, 2001; Radeav, 2002, 2003; Barkhatova, 2000; Khakamada, 2003; *Chto meshaet...*, 2005; OPORA and VTsIOM, 2005; Glinkina, 2003; Humphrey, 2002; Kay, 2005). Reliance on

bribery and *blat* has contributed to the intermediary position of entrepreneurs of SMEs between the real and informal economy. It is also clear that, based on the obstacles that entrepreneurs face, their relationship with officials has been an important factor that has affected the way that entrepreneurs respond to a complex formal system. Despite liberal economic theory that envisions the market as eliminating biases in the allocation of resources, discriminatory extra market forces have operated, restricting access to resources. Discriminatory extra market forces operate alongside market forces and have been framed by relations between entrepreneurs and officials and involve criminal elements and/or shadowy transactions, which are exercised as a form of control to exclude activity that would interfere or undermine that of the individual(s) that are imposing this control.

Significantly the challenges of business have persisted against a background in which the state has, on the one hand shown enthusiasm for the SME sector, and at the same time has recognised the need to reduce the barriers of entrepreneurship on the other (Putin, 2003, 2005). As indicated in chapter three, support for the SME sector has been caught up in the drive to establish law and order in society. Since Putin became president in 2000, one of the main priorities of the state has been to eliminate contradictions in legislation by bringing local and regional laws into conformity with federal laws. While this objective has helped to eliminate ambiguities in the system, it has not had a desirable effect on state bureaucracy and the way that it relates to entrepreneurs. In his state of the nation address in 2005, Putin specifically criticised the state bureaucracy for ‘using the favourable conditions and emerging opportunities to achieve its own selfish goals rather than to increase the prosperity of society’ (Putin, 2005). He further stated that,

Focusing the efforts of law enforcement bodies on the fight against crime, including tax evasion, we encountered frequent violations of the rights of our business community, and sometimes a blatant racket on the part of state officials... There can be no place in our law enforcement agencies for people whose primary aim is to fill their own pockets rather than uphold the law. (Putin, 2005)

This quote indicates that increasingly, the problem for entrepreneurs has revolved around their relationship with state officials, rather than with criminal bandit groups as in the early 1990s.

Importantly, the state's enthusiasm for the SME sector and its recognition of an unfavourable business environment and some of its related causes, does not add up to the reality within which entrepreneurs find themselves. Aslund and Johnson have suggested that the challenges of the business environment continue to persist because as state agencies gain greater authority to enforce regulations on business, the opportunities for corruption also increase (Aslund and Johnson, 2004: 11). Also, both entrepreneurs' and officials' attitudes to the law and state institutions have been important. Yurchak (2002), Hendley (1997) and Hendley et. al. (2000) have suggested that a Soviet legacy in which the law was perceived as malleable has persisted in post-Soviet Russia. Yurchak has described how, by looking at relations between the state and individuals, the law could be adapted to suit the interests of those involved. More specifically, Yurchak has stated that relations between the state and individuals took on a hybrid form in which they could either be 'officialised' or 'personalised' based on whether the aim was to fulfil the objectives of the state, or the personal interests of the individuals involved (2002: 280). A fundamental feature of this hybridisation of relations between the state and individuals in both Soviet and post-Soviet Russia has been that it has allowed people to rationalise the extent to which laws should be upheld and respected or broken and ignored (Yurchak, 2002: 301). Hendley has highlighted a legacy of Soviet law, which was flexible to meeting political aims such that 'personal connections (political and otherwise) could trump any apparent legal obligation' (1997: 230). This legacy remains evident in Russia today. Both of these interpretations show a degree of overlap with the ideas of Ledeneva who has emphasised the importance of the use of personal connections to navigate around a complex formal system (1998, 2000, 2001).

The challenges that entrepreneurs face today are therefore tied up in socio-cultural practices of the past that have been adapted to fit the conditions of a transforming society. The aim of this chapter is to highlight the kinds of challenges that entrepreneurs face by exploring how they have interpreted their environment and the strategies they have used to deal with these barriers. It will be shown that, paradoxically, entrepreneurship is something that functions in Russia, but not effectively, and it operates in such a way that it ultimately undermines the further development of this sector. Despite the state's enthusiasm for SME development

and recognition of its problems, entrepreneurs of SMEs occupy an intermediary position between formal and informal systems and consequently have been vulnerable to the harassment of officials, which further reinforces their 'in-between' position. By looking at some of the obstacles that entrepreneurs have been up against, this chapter will illustrate the resilience of entrepreneurs on the one hand, as well as highlight some of the paradoxes of Russian society on the other. This chapter will consider some of the most common problems that entrepreneurs face in their day to day activities of starting and running a business from accessing credit, finding premises, dealing with a heavy tax burden and navigating a host of administrative barriers. It should be recognised that although these obstacles will be considered separately, they are inter-related and have been framed by the complexities of economic, political and social change.

5.1 Starting Out and Finding the All Important Start-Up Capital

Obtaining the necessary capital for starting and developing a business is absolutely crucial for all entrepreneurs. As one male entrepreneur involved in selling automotive parts in Moscow said, to be successful in entrepreneurship you need 'money; money and a bright spirit' [1]. Quite simply, without the necessary capital, there is no business; and without continued lines of available credit, enterprises will not grow. Given the fundamental importance attached to obtaining capital for enterprise formation and development, it is easy to understand why a 'bright spirit' is also essential for succeeding in the post-Soviet Russian business environment. Despite the obvious need for access to credit, a lack of available credit remains one of the fundamental obstacles for entrepreneurs.

In Russia, there are a few principle reasons to explain why credit is difficult to obtain. Firstly, instability in the Russian economy increases the risk to banks and financial institutions of loaning money¹¹. As a consequence of this, substantial collateral is demanded in order to receive credit (Sysoev, and Makeev, 2003; OPORA, VTsIOM, 2005). Finally, the perception of entrepreneurs has been that credit is expensive. Given variability over time and across regions, it is difficult to be precise about the cost of credit. However, the annual rate of interest charged to

¹¹ The unstable economic environment is something that is always in the background, and not necessarily something that can be overcome by individual entrepreneurs or financial institutions.

small businesses ranged from 20-25% from Nikoil bank and the National Development Bank (Sysoev, and Makeev, 2003). Another article in the Russia Journal stated that Russian banks make credit available at interest rates between 15-45 per cent depending on the region of the country and the type of business (Petrova, 2003). Yet more importantly, Barkhatova has indicated that whatever the formal terms of credit in terms of size, length or cost of a loan, banks can vary the conditions of giving credit depending on the personal material interests of those who organise the loans (2000: 667). Similarly Khakamada, a pro-business politician who currently heads an Interregional public foundation for cooperation on development of social solidarity 'Our choice', has said that the priority of making credit available to small business has fallen behind its priorities to their shareholders, major borrowers, and more recently to the development of the consumer lending and mortgage sectors (Khakamada, 2003). Consequently, the needs and interests of entrepreneurs of SMEs come far down on the list of priorities of institutions issuing the credit. This has been the case despite efforts on the part of such organisations as Tacis and USAID to improve lending practices between banks and SMEs as well as the state's apparent commitment to establish structures to provide finance to SMEs (which was discussed in chapter three).

The cost of credit and the demand of collateral reflect both the priorities of investors and perceptions of risk associated with issuing credit. Perceptions of risk are an inherent part of the obstacles that block access to credit and unless these are overcome, loans from formal credit structures will remain elusive for entrepreneurs of SMEs. Since perceptions of risk are a decisive factor in the provision of credit to entrepreneurs, it is the investors that hold the power in this situation. The director of a regional business association described the situation from the point of view of investors.

For the director of a fund, it is important that he sees that the money he is giving will not disappear. It is important that he sees that this business is very successful, profitable, that business is going well and that he will recoup his investment [35].

This quote highlights the interests of investors and helps to explain why credit is expensive and a security deposit is demanded. That an investor would want to protect his interests is to be expected; indeed this would be the case anywhere. What

becomes important is whether the steps taken to protect investors' interests exceed real risks. According to the responses of entrepreneurs who took part in this study, it would seem that within formal credit structures the demands made on entrepreneurs are excessive. As a result, opportunities for the growth and development of entrepreneurial activities are effectively closed. The above quote also highlights another challenge of organising credit in which creditors are reluctant to provide loans unless it is clear that the business is running successfully. Implicitly, this means that entrepreneurs looking for start-up capital will not be able to satisfy the interests of creditors.

In fact the structure of interest payments charged by banks illustrates the way in which entrepreneurs of SMEs have been discriminated against. Significantly, the rate of interest that banks charge for loans decreases, as the size of the loan increases (Sysoev and Makeev, 2003). Such a structure of interest payments clearly favours big business over SMEs because a large loan requires a deposit, which is something that entrepreneurs (particularly in the early stages of their development) lack. Barkhatova, who found a similar bias that favoured big business, suggested that this stems from banks' preference to issue larger sums of credit, affordable only to bigger and wealthier businesses, because of the higher revenues this brings to banks. This leads to a situation where bank loans are restricted to established enterprises (Sysoev and Makeev, 2003). It also highlights a paradoxical situation in which credit seemingly exists, yet it remains a scarce resource for entrepreneurs of SMEs because of the requirements that must be met before it is disbursed. A deputy director of a factory in provincial Russia makes plain the paradoxical situation that entrepreneurs face:

Credit, please, in our country take as much as you wish. There are no limits; we have a large amount of money. A different question is how much does this credit cost. Please, there are no limits if you have a good reputation in the region, are a good taxpayer, the banks are vying with each other to offer you credit. But it is inconceivable to develop [a business] under such a rate of credit. It is very expensive. [24]

While it appears that credit resources are available, the perceived cost of the credit is a definite deterrent to taking it up. Clearly there is an important distinction to be made between *availability of credit* and *access to credit*. Credit appears to be available but access is restricted to individuals that can both afford to pay for the

high cost of credit, and have the capital to put down as collateral. Credit becomes available only once one or both of these obstacles are overcome. However overcoming them is not easy, particularly for entrepreneurs of SMEs and especially for those just starting out. Illustrating the difference between *access to* and *availability of* credit, a male entrepreneur who makes building materials in provincial Russia indicated why it remains difficult to overcome the demands of organising credit.

It is difficult to get credit, especially in our region. Although KEMBL bank and the European Bank for Reconstruction and Development¹², even the Russian banks, Sberbank, came here [thus] starting competition and they began to give credit. But it is rather hard to get it. Firstly you need to earn a legal income [have an income that is not earned in the shadow economy]. Secondly, you need to have collateral, and then you will receive credit. This is not accessible to the majority of rural entrepreneurs. They have neither legal income nor a deposit. If you start your business from nothing and you are not close to bureaucrats, then you are doomed to be refused credit. [11]

Importantly, even though credit is theoretically available (the banks exist and loans are on offer) the mechanisms for accessing it do not correspond with conditions within which these entrepreneurs operate. Credit is not available to entrepreneurs who operate in the shadow economy and consequently they will always be excluded from opportunities to develop a fully legitimate enterprise. Entrepreneurs are effectively forced to go between formal and informal structures in order to survive in business. Paradoxically entrepreneurs are simultaneously in both an awkward yet important position. In one sense, entrepreneurs are neither fully part of the formal economy, yet they are not totally disengaged from it. In this way, entrepreneurs have been forced to go between the formal and informal economy, which makes them more vulnerable to the whims of state officials¹³.

The entrepreneur quoted above also suggests that the kind of relationship that business people have with state officials is important and can determine whether one will, or will not receive credit. Other entrepreneurs that took part in this study also shared this view. A female entrepreneur who runs a textile firm in Moscow described the ease of getting credit from banks and associated this with her firm's connection to state structures.

¹² The entrepreneur was making reference to a project aimed at improving bank lending practices towards SMEs. This project was highlighted in chapter three.

¹³ This is discussed further in the sections that follow.

We get credit from Sberbank. We have lots of banks now that give credit. Since we buy cotton and yarn in wholesale, I give this yarn as a deposit. Especially as our firm delivers cotton to the state, there is not a problem with credit. They give us credit up to \$2,000,000. [14]

While it is not possible to make a general comment about firms' connections with the state and their ability to access credit, this individual has highlighted their links to the state as having been important. It has been this kind of situation that has reinforced perceptions amongst entrepreneurs who have experienced difficulty getting credit that nepotistic relations with bank or state officials determine how credit is distributed.

Given the perceived barriers to accessing credit, the majority of entrepreneurs do not get credit through formal structures such as from banks (OPORA and VTsIOM, 2005: 13; Barkhatova, 2000: 668; Radaev, 2003: 121; Glinkina, 2003: 60). Even though credit is scarce, it is evident that entrepreneurs do get credit from somewhere. Where formal credit structures have failed entrepreneurs, they have been forced to rely on informal structures to organise credit. Many entrepreneurs in this study used *blat* to tap the resources of friends, family and potential business partners. Organising credit in this way is evidence of how entrepreneurs are able to navigate around the barriers that obstruct access to credit. Two different variations of organising credit are considered below.

First, from a male entrepreneur who makes building materials in provincial Russia:

I have a bit of money, and I get the rest from friends in Moscow, who are sufficiently wealthy. They give me a small amount of credit in the region of \$50,000-60,000. [11]

And second from a male entrepreneur who runs an electrical engineering consulting firm in provincial Russia:

I had a partner...In order to start your business, it is necessary to have some kind of capital, or if the person doesn't have capital, like myself...but I had an idea. I could propose this idea to people who have money. If they like this idea then we become partners. [21]

Both of these quotes illustrate how these individuals obtained credit despite their lack of access to credit offered through formal structures. In essence, these financial agreements work because they are flexible and better meet the needs of all parties

involved. By arranging credit in the informal sphere, both parties are able to make their own rules about how credit is disbursed and paid back. The entrepreneurs receive the credit that they desperately need, and the donors usually receive something in return for their financial support. The tendency to organise credit in this way also reflects entrepreneurs' preference to maintain control over their affairs, which was discussed in the previous chapter.

Of course organising credit in this way can sometimes be problematic. One problem is that it is essential that entrepreneurs have contacts with people that have money. Another issue is that relying on personal contacts for loans must have its limits. Unless these individuals are extremely wealthy, it is unlikely that they would have a similar amount of resources as a bank, or the capacity to disburse credit on demand and/or on an ongoing basis. In this way, loans provided through friends and family can have a limiting effect on the growth of enterprises; limits on lines of credit will ultimately limit the growth of the enterprise. Moreover, relying on credit through informal credit structures invariably precludes entrepreneurs from becoming fully part of the real economy. This has a damaging impact on entrepreneurs by isolating them further from the mainstream economy (Glinkina, 2003). What has been more, as entrepreneurs are forced to move outside formal credit structures, banks and financial institutions invariably lose out on the potential opportunities to provide credit and receive interest on that credit in return. In the end, the organisation of credit through informal structures also has a negative impact on the banking structure and the macro economy as opportunities to share in the potential profits and earnings of small businesses are lost to the informal sector of the economy.

Finally, the director of a regional business association offered a third method of organising credit, which uses a combination of formal and informal means. This method enabled an individual to obtain credit through a formal structure by having a reputable person vouch for them. As this respondent explains,

One variation is to get credit from a fund, which has a very good director that I know and that respects our organisation...Today our organisation has a very good reputation. And I, as a specialist have a very good reputation. I helped one of the members of the organisation to get credit. [35]

This quote is similar to the quotes from the entrepreneur who makes building materials and the entrepreneur who runs a textile firm considered previously in that it highlights the importance of having useful personal contacts to organise credit. It also shows how informal networks operate alongside formal structures. The intertwining of informal practises with formal structures is similar to the phenomenon discussed by Yurchak in which relations between representatives of formal organisations and entrepreneurs take on a hybrid form showing both an ‘officialised’ and ‘personalised’ character. As a strategy, this requires that entrepreneurs have a developed network of useful and relevant contacts. Moreover, the kinds of contacts that individuals have can predetermine who can and cannot access the resources necessary to succeed.

The difficulties associated with organising credit in post-Soviet Russia, whether it is organised through formal or informal structures, are cyclical and have a divisive impact on the development of SMEs. In order to get a loan, a deposit is required, but in order to make a deposit, it is necessary to have money or an asset. Even where it is possible to get a loan without a deposit, it is a short-term loan and this limits the extent to which enterprises can develop. The director of a regional business association explains how small, short-term loans (for which a deposit is not required) limit the growth of enterprises.

It is possible to get a small amount of credit without a deposit. But usually those people that make use of such credit are those who trade, that is small traders in the market who trade in stalls. They can make use of such credit because the rate of interest is very high and they need to return this credit very quickly. So they take credit, buy goods, sell them, and then return the money. That is why most often it is they who make use of such credit...a couple of thousand dollars’ is not sufficient for opening a serious enterprise. The point is that if someone goes into trade today, then they will only ever be involved in trade. [35]

The credit that is accessible and affordable for nascent entrepreneurs today is insufficient if the individual wants to be involved in an activity that is more sophisticated than basic trade. The nature of credit structures creates different levels of barriers for entrepreneurs. Inaccessibility to start-up capital bars entry into entrepreneurship. Where the credit available is insufficient, the entrepreneur is barred from developing the activities of the enterprise further. Essentially

entrepreneurs are caught in a credit trap because they are unable to accumulate the capital that is necessary for growth. The consequence is that smaller enterprises are disengaged from growth opportunities and become isolated from larger firms. This reality contrasts with expectations in the 1990s that small enterprises would be able to develop their activity in the productive sphere and thereby make a more valued contribution to economic growth. Development of the productive sphere has long been a priority of the state because it provides concrete outputs such as employment, goods and new technology – all the things that the late Soviet and early post-Soviet economy were seen to need in order to rejuvenate itself. The following response from a male director of an electrical engineering consulting firm in provincial Russia illustrates the nature of the credit trap that confronts entrepreneurs of SMEs.

To start your business from nothing is impossible. It is impossible to start your business without capital; this is an American dream – that it is possible to start your business selling ice cream for example, and then become Ford. This is a fairytale – and it is not possible in Russia [21].

Many smaller enterprises are relegated to the sidelines and are cut off from growth opportunities. As long as affordable, long-term credit from formal structures is inaccessible to smaller enterprises, their growth potential will continue to be unnecessarily restricted. However, one reason why the growth potential of SMEs continues to be restricted has been because it protects the profitability of established entrepreneurs and the official structures that feed off them. The various ways in which these groups, particularly official structures, benefit from maintaining this status quo will become clear in the sections that follow.

5.2 Securing Premises for Enterprise Activity

Another aspect that is fundamental to running an enterprise is securing premises. According to research jointly carried out by VTsIOM (Vserossiiskii tsentr izucheniia obshchestvennogo mneniia) and the Russian business organisation OPORA (Ob"edineniia Predprinimatel'skikh Organizatsii Rossii), access to premises was one of the top challenges that entrepreneurs of SMEs face (*Chto meshaet...*, 2005). Similarly, the primary issue for entrepreneurs taking part in the present study was about securing premises to rent, although it is clear that buying property also has its set of obstacles that must be overcome. Most entrepreneurs of SMEs (and particularly those who took part in the present study) do not have the means to buy

their own property. As a result, finding property to rent is the only option. Part of the reason why entrepreneurs of SMEs are unable to purchase office space is because the system of obtaining credit is underdeveloped as outlined above (Korchagina, 2004).

Securing premises has been a challenge particularly for entrepreneurs establishing new enterprises. For entrepreneurs that became owners/directors of former state enterprises, the issue of securing premises has been less problematic; they simply would have remained in the premises that they occupied in the Soviet period. Similarly, where individuals merely converted an existing cooperative from the late Soviet period to a private enterprise in the post-Soviet period, finding premises has not been an issue. In such cases, the birth of a new private enterprise required only a legal change on paper, and it did not involve any physical change. As one male entrepreneur who runs a watch repair and key cutting shop in Moscow said, ‘they decided to give me this place [in the Soviet period]. And now I have my shop in this same place’ [3]. Thus, securing premises to rent has been the most problematic for entrepreneurs creating new enterprises from the early 1990s to the present.

The extent to which securing premises poses a challenge to entrepreneurs varies across different regions. The problem of securing premises has been greatest in large urban centres, and with respect to the present study, Moscow was the region in which entrepreneurs expressed the most difficulties in securing premises. The challenge for entrepreneurs has been to secure commercial space that is both affordable and in a good location where the business can thrive. This has been no small task, since with the shift to a market economy, property has become a lucrative asset, particularly in the major cities where infrastructures are advanced and private enterprise has developed most (Bater, 1996). The dismantling of the planning system means that the state no longer plays a role in allocating goods or resources. Where this regulatory role has been absent, entrepreneurs of SMEs have been at risk of being squeezed out by the competition of larger and wealthier enterprises. This entrepreneur who runs a watch repair and key cutting shop in Moscow explained his experience of the effect that large retail complexes have had on affordable premises in this city.

In Moscow now there are very large retail complexes and centres. The rent there is very high. This is not affordable for me. It is only affordable for those who already occupy these premises. And a huge amount of money is demanded for each square meter [of office space]. [3]

The main problem for this entrepreneur has been the high cost of rent in Moscow. Yet the situation that this entrepreneur faces is also a paradoxical one. On the one hand, office space exists, but on the other hand, the cost of renting space precludes him from occupying it. The implication is that only larger and wealthier enterprises can afford to occupy this space. However, it is not always just the case that office space will be allocated to the highest bidder. A study on the conditions affecting the development of small business carried out jointly by OPORA and VTsIOM (2005) found that regional and local administrations influence the distribution of premises and use their position to gain extra income from the leasers of property. Similarly, entrepreneurs taking part in the present study indicated that access to premises depends on who owns and therefore controls the office space.

The male owner of an automotive parts supply firm in Moscow said the following:

To find the necessary kind of premises is very difficult. We have a problem with premises. Basically we have centralisation along the main streets in the city; that is there is a market, but businesses are criminalized there. And it is difficult to make your way into [these places]. You need to have some kind of contacts. [2]

And the male director of a Moscow sports organisation said:

It is practically impossible to obtain credit for premises. Everything is done through personal connections with people above you, and it is a question of personal interest. [4]

While the female director of a network of pharmacies in provincial Russia said:

It is not so simple to find premises. You can't simply buy it on the grounds that they don't give you money, credit from the bank; you can't buy premises. And even if you have a wish and the money to buy [premises] ...many other obstacles are put up that prevent you from buying premises. [19]

These entrepreneurs indicated that the allocation of office space is not only decided by market principles, instead they implied that discriminatory extra market forces decide how space is allocated. According to the experiences of these entrepreneurs, access to premises has been restricted on the basis of not having the right kind of contacts with the individuals that control the property. The result for the owner of an

automotive parts supply firm has been that he has been forced to set-up his enterprise outside the main streets in the city in a less than ideal location. That competition for office space would be most fierce in the centre of the city should be expected. However, one should not expect to find that premises are allocated on the basis of personal contacts. Yet it is precisely because of its scarcity that personal contacts have played a role in the allocation of office space. Ledeneva has indicated how the use of personal contacts to access scarce resources has been adapted to market conditions in post-Soviet Russia, particularly to conclude transactions in business (Ledeneva, 1998). Meanwhile Radev has written specifically about ‘shadowy’ transactions that are a part of accessing premises (Radev, 2002:196). Thus, the experiences and perceptions of these entrepreneurs that access to premises is linked to having networks with the right people fits in with the idea that discriminatory market forces play a role determining in how resources are allocated and accessed. For instance in the above illustration the director of the automotive parts supply firm faced discrimination from the people that controlled the property in the main streets of the city as well as the market factor of high rent. Both of these factors excluded him from obtaining the kind of office space that he desired. Where discriminatory extra market forces are more powerful than market forces, entrepreneurs of SMEs are especially powerless to exert their interests.

The difficulties of rented commercial property persist even after premises have been found. The owner of a watch repair and key cutting shop in Moscow expressed a similar sense of powerlessness over his rental property.

This retail square is going to be reconstructed and my shop will be in the way. They want to demolish it and build a large retail centre. My shop will not blend in with the new centre; it will spoil the view. They promised to find me some other new place. They wrote me an official response and the local council extended the period of my lease for a year or until they begin to redevelop this square. [3]

This entrepreneur is being forced out of the premises that he has legally occupied since before the fall of the Soviet Union. As a result, he is powerless against those who are going to be building the new large retail centre. Although this entrepreneur was promised that new premises would be found for him, he still faces the uncertainty of when he will be forced to re-locate, and the uncertainty of where he will be re-located. In addition to this uncertainty, there are also potential risks and

costs involved with moving premises. This entrepreneur could lose some of his existing clients if he is forced to move far. And there is no guarantee that he will be placed in an equally profitable location. Even if this entrepreneur is re-located close to his current premises, he could suddenly be confronted with competition from the new large retail centre. While this situation might not be unique to Russia, the degree of uncertainty that confronts this individual is accentuated by the fact that opportunities for judicial recourse are limited because these institutions lack the enforcement mechanisms that would strengthen their force as a structure that should protect the interests of entrepreneurs (Hendley et. al., 2000). Ultimately this entrepreneur is dependent on the interests of the owners of the large retail complex and on the actions of the local council. Based on previous experience with the local council, he would be justified to feel insecure about his situation.

I paid to lease the land for a five-year period. Turns out that I paid rent for just the building. So now it is [the end of the month] and my lease has finished. And a year ago the head of the local council said that when the lease finishes, he would throw me out. The head of the local council said to me, 'I don't need you!' [3].

Competition for scarce office space, and the desire to profit from the lucrative property market in Moscow make it difficult for entrepreneurs of SMEs to get established in business. Added to this are discriminatory extra market forces that squeeze out entrepreneurs who lack the right contacts. The barriers to entering the market are stacked against entrepreneurs of SMEs in which they have been unable to compete with larger and/or more established firms. This leads to imbalances in the economy whereby SMEs are physically located on the periphery, widening social and economic inequalities. While this set of circumstances might benefit those already established in enterprise in terms of limiting competition, it is problematic in the long-term. In the process, it also undermines further development of the SME sector, because theoretically competition is supposed to ensure the vitality of the market. Relegation to the peripheries of business, both physically and metaphorically, means that entrepreneurs of SMEs will never be able to make the kind of contributions to GDP growth that the state has envisioned (Putin, 2003).

5.3 A Heavy Burden: Tax

Taxes are high; they are very difficult to pay. [6]

The tax system in post-Soviet Russia has been widely seen as being ineffective and the need for tax reform has been essential (Smith, 1991; Aslund, 1995; Radaev, 2002, 2003; Liapunova, 2002). One of the main criticisms of the tax system has been it places a heavy burden on business. Some Russian experts and academics have illustrated just how burdensome the tax system can be by constructing examples of a hypothetical tax burden (when all taxes and payments are considered) that is greater than 100% of the anticipated income of a given individual entrepreneur (Barkhatova, 2000; Radaev, 2003: 120; Avilova, 1996). Entrepreneurs have found it difficult to meet the requirements of the tax system both economically and bureaucratically. Faced with such a heavy tax burden, entrepreneurs are forced to evade taxes and conduct their activities in the shadow economy. This has both negative consequences for the image of entrepreneurs and state revenues.

However since 2000, reforms to the system of taxation have been introduced with the aim of lowering taxes while maintaining government social programs (Shekshnia, 2001). A further aim has been to create tax advantages for individual entrepreneurs and small business owners through exemptions and reductions in tax obligations because of the additional pressure that high taxes put on SMEs. In 2003, a simplified system of tax assessment for small enterprises (which applies only to private entrepreneurs and small companies, see definitions below) was introduced with the article 'The simplified system of tax assessment', which replaced the previous law on the simplified tax system adopted in 1997 (Nefedov, 2004: 267; CEFIR, 2003: 9). This amendment to the law aimed to reduce the number of taxes that small enterprises were responsible for paying. Enterprises that choose to use the simplified system of tax assessment are responsible for paying either a turnover tax at a rate of 6 per cent or a profits tax at a rate of 15 per cent (Nefedov, 2004: 277). Under this system, the single tax is paid instead of the following taxes paid under the general system of tax assessment:

- Income tax on 'natural persons' (in relation to income received from carrying out entrepreneurial activities);
- VAT (with the exception of VAT liable for payment imported goods into Russia);

- Sales tax;
- Property tax (in relation to property used for carrying out entrepreneurial activities);
- The consolidated social welfare tax from income received from entrepreneurial activities (Nefedov, 2004: 268).

Small enterprises are however, responsible for making obligatory payments into the pension fund in accordance with the federal law 'About compulsory pension insurance in the Russian Federation' no. 167-F3, which took effect in 2001. Some have criticised this aspect of the law arguing that with this stipulation the tax burden on small enterprises has effectively not been lowered (Radaev, 2003; Visloguzov, 2004). There is however, much less room for disagreement on the fact that this system of tax assessment simplifies tax administration of SMEs (CEFIR, 2003).

Under this new amendment to the tax law the number of enterprises that could take advantage of this simplified tax system increased (CEFIR, 2003:). This was because the maximum size of the labour force of SMEs increased from those in previous definitions of what constitutes a small enterprise. Under the amended law and as indicated in the introduction of this thesis, the size of a small enterprise, measured in terms of employees, varies according to sphere of activity: in industry, construction and transport spheres small enterprises are those that have no more than 100 employees; in agriculture and the scientific-technical spheres – 60 employees; in wholesale, retail trade, and domestic servicing and other types of activity – 50 employees (Nefedov, 2004: 262)¹⁴. Small enterprises are also measured in terms of their rate of turnover; enterprises cannot have a turnover greater than 100 million roubles in order to be considered under the simplified system of tax assessment (Itar-Tass, 2004).

Despite changes that have been introduced to the system of tax assessment, the attitudes of entrepreneurs towards the tax system have remained negative (Barkhatova, 2000; Radaev, 2003). Possibly these attitudes remain because the

¹⁴ Prior to this, and according to the Federal Law 'On State support of small business in the Russian Federation' of 1995, small enterprises were defined according to the following maximum number of employees per sector: in industry, construction and transport, 100 employees; in the agricultural and scientific-technical sector, 60 employees; in wholesale trade, 50 employees; and in other branches and types of activity, 50 employees (Goskomstat, 1996).

perception that the tax system is overly burdensome has become entrenched in the minds of entrepreneurs. Another possible reason is a lack of awareness amongst entrepreneurs about the new tax system. A study carried out by the Centre for Economic and Financial Research in Moscow found that just over a third of respondents chose not to use the new system of assessment and 15 per cent of respondents did not have enough information about the system suggesting that there has been a lack of information to raise awareness about it (CEFIR, 2003). The fact that many entrepreneurs continue to view the tax system negatively is significant because it provides justification for tax evasion. A male entrepreneur from Moscow who runs a firm that supplies automotive parts candidly discussed his views of the tax system and how he has coped with it.

There is also a problem in taxation. Taxes are so high. For every rouble earned, you must pay 1.20 roubles in tax. It is not profitable. That is why everyone avoids paying taxes. We don't show all our profits, it's not profitable. [2]

The idea that entrepreneurs must pay 1.20 roubles in tax for every one rouble earned is consistent with the hypothetical tax burden outlined in the first paragraph of this section and points to the way in which perceptions about the tax burden have become entrenched. This open admission that they avoid paying their taxes by hiding profits should be shocking. Yet it is not, because this admission suggests that tax evasion is not only pervasive, but it is also a necessary part of surviving in business.

Significantly, this practice of tax evasion differs from that of tax optimisation schemes, which seek ways to legally reduce a firm's tax obligations. Although tax optimisation is legal, the state has made clear that the use of these strategies would not be tolerated (Syrov, 2003b). This means that without the use of tax optimisation, there is no longer a legally accepted method for people to reduce their tax obligations, leaving entrepreneurs with only two options: to either fulfil tax obligations, which they see as being too heavy a burden, or evade payment of taxes.

It would seem that negative perceptions of the tax system provide justification for tax avoidance and evasive strategies have become the norm. Another male entrepreneur who runs an engineering consulting firm in provincial Russia responded to the question of whether they consider taxes to be a problem, by saying that, 'of course it is a problem. In principle, if you do everything strictly according to the

system, then there is no sense being involved in business' [20]. When the issue of paying taxes comes down to a question of surviving or not surviving in business, non-payment of taxes is more easily justified. These conditions blur the boundary between legality and criminality and an informal grey area for tax payments remains despite official efforts to eliminate it.

However whilst it continues, tax inspectors and state official collude with entrepreneurs to negotiate ways around the formal system. This might occur both because tax official recognise that entrepreneurs are unable or unwilling to fully meet their legal tax obligations and also because the authorities are able to personally gain financially through the negotiation of the formal rules. Radaev has found that it has been common practise for entrepreneurs to give bribes to tax inspectors and state officials on the basis that officials will turn a blind eye to breaches of the tax code (2003: 209). An alternative to outright bribery is for entrepreneurs and officials to negotiate minor fines to conceal more significant violations of the tax code (Radaev, 2002: 208-209). Using this kind of strategy, the integrity of the law is not entirely breached and from the perspective of those involved the spirit of the law is maintained (Yurchak, 2002). In this way the law is manipulated such that it satisfies the interests of both officials and entrepreneurs.

However reliance on these informal rules reinforces the vulnerability of entrepreneurs to subsequent accusations from officials for breaking the law. The male director of the engineering consulting firm in provincial Russia highlighted the problems that arise.

And how can we protect our rights. We could ask that they don't take our taxes, but we don't do this. We don't do this because it makes no difference – we don't pay our taxes. [21]

It becomes clear from this that carrying out one's business activities in the shade exposes entrepreneurs' vulnerabilities to the state. While the use of these practices allows entrepreneurs to continue under conditions in which they perceive the tax system to be burdensome, it is clear that they also undermine the integrity of the system. Boundaries between legality and criminality are blurred not because of an inherent disrespect for the rule of law, but because these practices provide a solution that is seen as satisfactory to both entrepreneurs and officials. The issue therefore is

not so much about entrepreneurs failing the system, but rather that the system failing the needs of entrepreneurs. A female entrepreneur who runs a travel agency in provincial Russia and admitted to using a double system of accounting to evade taxes indicated that this was not the preferred way to conduct business. It persists because the alternative is seen as less reasonable.

The tax system that currently exists is not perfect and that is why many firms have a double system of accounting. It should really be close to reality in order that you can get all these accounts straight in your mind, 'we write 3, in your head that means 2'. One would like to have a more perfect tax system and better thought out government tax policy in order to survive and work better [20].

The effort involved in keeping numbers 'straight in your mind' indicates the difficulties associated with using informal strategies and why it is not the ideal solution for entrepreneurs. However it seems equally apparent that these practises will continue as long as the tax system is perceived as getting in the way of one surviving and operating their enterprise more effectively. Yet the situation is paradoxical because short-term solutions are traded off against the cost of the integrity of the system. Although informal systems provide a means for enterprise survival, they do not support the growth of enterprises in a legitimate way and they are caught in a trap that places boundaries on how a business can develop. The way in which entrepreneurs deal with the tax system illustrates the paradox of entrepreneurship in Russia showing that whilst it functions, it does so according to its own internal rules and logic. It is perhaps for this reason that reforms of the system have had unintended consequences.

5.4 Administrative Barriers and Harassment of Entrepreneurs

They put sticks in the wheels of entrepreneurs [36]

Administrative barriers are a major hindrance to entrepreneurs and disrupt smooth functioning of the enterprise. They are present from the earliest stage of start-up and they continue to be a problem for entrepreneurs after an enterprise has been established. A variety of different obstacles constitute administrative barriers, including bureaucratic 'red tape', and extortion by office holders, whom entrepreneurs confront as they attempt to navigate numerous regulatory demands. A multitude of regulatory demands, weak enforcement structures and the subordination of the legal system to social conventions provide fertile ground for the harassment of

entrepreneurs (Ivanter, 2002; Hendley, 1997; Hendley et. al, 2000; Radaev, 2002; Barkhatova, 2000; Ledeneva, 2000). In 2004, administrative reforms were introduced, of which one of the principle aims was to reduce pressure on business; there were approximately 30,000 state documents (not including the laws) regulating enterprise activities (Ivanter, 2002). Given the size of the bureaucratic apparatus, it will take time to reduce the number of regulations that govern enterprise activity and for administrative reform to take effect (Smirnov, 2004).

Where a tremendous amount of regulations still exist, enforcement structures are on the one hand weak, and on the other hand over zealous. The multiplicity of state regulations makes it impossible to enforce all of the rules (and in some cases it does not make sense to do so). Yet the irony is that office holders have the authority to enforce any number of regulations. It is this potential to strictly enforce of any number of regulations that opens the door for office holders to harass entrepreneurs over minor infringements of the rules. Officials are thus despised for their frequent and arbitrary inspections of enterprises. The nature of this system has forced entrepreneurs to find ways to circumvent its complex bureaucratic structures on the one hand, and the officials that enforce it on the other.

Whilst reforms to the system are important, reforms alone will not change the way in which entrepreneurs and officials relate to one another. This is important because the way in which they relate has an impact on the persistence of administrative barriers. Entrepreneurs and officials are interdependent (Lapina and Chirikova, 2002); one cannot get by without the other. While entrepreneurs rely on the tacit approval of officials in order that they can operate their businesses, officials rely on entrepreneurs as a source of revenue, whether in an official or personalised capacity. This interdependence not only shapes the way that entrepreneurs navigate administrative barriers, but entrepreneurs taking part in this study have also seen it as a hindrance to enterprise activities. The director of a business association in provincial Russia described the predicament that entrepreneurs find themselves in with officials.

I don't like that there are so many bureaucrats; the bureaucracy is attached to the fulfilment of business projects. Lets say you have a good idea and it seems possible to realise this idea and to carry it into effect sufficiently quickly. You invest your intellect, experience and knowledge into it, but it turns out that

little depends on this, but very much depends on the bureaucracy, from passing agreements in different stages of the project. A lot of time and energy is lost in order to build this idea. An entire year is needed to agree with different aspects to open production, and then continually report to many different controlling organs, which at any moment can stop production. They don't even understand and they don't bear responsibility in our country. If they stop production, then it is the enterprise that bears the loss, it will not be able to pay taxes and this carries losses. Unfortunately few are interested in this, I mean organs of power, state officials, and that is why things are very difficult for entrepreneurs and businessmen. [25]

Within this quote there is a very clear sense that entrepreneurs and bureaucrats are working at cross-purposes. What is also interesting is that in the same way that entrepreneurship has been upheld in rhetoric as being the source of economic growth and prosperity, entrepreneurs similarly hold officials responsible for holding business back. In the present study, this resentment towards officials was evident from the way in which entrepreneurs repeatedly described the role of officials in negative terms. A male director of an advertising agency in Moscow said the following about state officials:

If before they thought a lot about people, now any state official thinks about his pocket. [4]

A female manager of a firm that makes sports and recreation equipment said:

They want to receive things now, not tomorrow, not the day after tomorrow, not in five or ten years, but now. That is they think more about themselves, about their own pocket and not for the state. Although they consider themselves state employees and they are obliged to defend the state. [36]

And finally the male owner of a watch repair and key cutting shop in Moscow said:

Our Soviet official was here – the person who stands over you your whole life. The [post-Soviet] state official remains like this. They are the same. They come to you and instead of helping they put a stick in your wheel. They don't help you; they harm you. [3]

These entrepreneurs expressed an obvious contempt for state officials. Office holders are portrayed as being self-interested people that hinder entrepreneurs and feed off their income. This feeding on entrepreneurs occurs through systems of bribery and fines. Significantly, this idea that office holders 'feed' off the profits of entrepreneurs is not new; it stems from a system of living in the fifteenth and sixteenth century Russia when administrative office holders were 'fed' on the basis of their position in the state apparatus due to their ability to levy various 'private'

taxes (Volkov, 2000: 42-43). This analogy of 'feeding' is important because it shows cultural continuity in the relationship between office holders and those over whom they have authority (in this case it is authority over entrepreneurs of SMEs). This is an unbalanced relationship in which the power rests in the hands of office holders. However it is also a parasitic relationship, and by this very nature, there are limits in the extent to which office holders can 'feed' on earnings of entrepreneurs; office holders must be careful that they 'do not bite the hand that feeds them'. This situation reflects a contradiction of small business development in which the state expresses a need to reduce barriers to business, but in fact officials maintain these barriers in the way that they relate to entrepreneurs.

It is this contradiction that fuels the use of bribery and *blat*, and enables both entrepreneurs and officials to negotiate a compromise of regulations in parallel to the formal system. While bribery occurs between people that are not on an equal level, *blat* is something that occurs between 'friends' (Ledeneva, 1998: 39-42; Humphrey, 2000: 128-129). Personal connections are essential to *blat* and strengthen the sense of obligation to reciprocate favours. The use of money in bribery depersonalises relations to some degree, but the establishment of a direct personal link to those that are bribed similarly helps ensure favourable treatment. Certainly the perception amongst entrepreneurs has been that personal contacts in the state apparatus are invaluable to their welfare. A male owner of a firm that makes building and construction materials in provincial Russia said:

In general in Russia the importance of connections with state organs is greater than lawfulness, and even cash. This is very serious to have connections in the government, you are able to defend yourself, obtain things through such connections. But this isn't government policy; it is personal connections. [11]

It is clear from this that despite the tension that arises from entrepreneurs' and officials' interdependence, in many ways the conflation of these spheres is actually seen in a positive way as something that is necessary for meeting one's immediate interests. Thus the use of bribery and *blat* suggest that these two strategies are as much a part of the problem as they are part of the solution. Where entrepreneurs of SMEs rely on the use of bribery and *blat* to navigate administrative barriers, they risk being caught up in a perpetual cycle of shadowy transactions in which the rights of entrepreneurs are exploited (Glinkina, 2003) and entrepreneurs of SMEs are in

danger of being kept in an intermediary position between the informal and formal sectors of the economy.

Bribery occurs in the shadow economy, so immediately capital is removed from mainstream economic growth. Significantly, by some estimates the shadow economy in Russia accounts for more than 40% of GDP (*Strukturnye izmeneniia...*, 2005; *Western analysts...*, 2003). The extent of the shadow economy undermines the capacity of the state to manage the macro economy (Glinkina, 2003). What is more is that when SMEs operate on the peripheries of legality by relying on informal structures, the growth potential of the firm is limited. As Glinkina states, 'the existence of a strong shadow component in SME activity leads to the preservation of an irrational sectoral structure, with the absolute predominance of micro-enterprises (Glinkina, 2003: 58). SMEs run the risk of being isolated from the real economy generally and specifically from interactions with other enterprises that operate in the real sector of the economy. Losses are incurred both for the entrepreneurs of SMEs and for the development of the macro economy.

Bribery has become an entrenched practice for navigating around administrative barriers simply because it is easier to pay bribes than to follow the law (Radaev, 2002). The director of the electrical engineering consulting firm in provincial Russia indicated as much when he described the way in which he has gone about getting licenses for running his business.

To get a license is pretty simple. In order to get a license it is necessary to pay \$1000 and you will get the license. Of course, it is a bribe! It is very complicated to get a license the usual way. That is why everyone does it this way. If it is possible for an organisation to get a license, the organisation will all the same give a bribe. And if not, then they will especially give a bribe. It is simply easier to do so. Maybe it is more correct to get a license according to the rules, but this is not necessary. [21]

It is evident from this that the reason why entrepreneurs are so inclined to rely on informal means of getting things done is because the rules and regulations in place do not act as proper filters separating legitimate enterprise activity from illegitimate enterprise activity, which comes back to the idea presented by Yurchak (2002) and Hendley (1997; Hendley et. al., 2000) that laws are malleable and can be interpreted in ways that suit individual needs. The result in this case is that regardless of

whether an enterprise deserves a license, one can be acquired by paying a little extra. The choice for entrepreneurs is simple; through bribery the entrepreneurs will receive the necessary seal of approval from the authorities, and at the same time they will bypass the protracted process of document collection and approval. Yet regardless of how straightforward the choice might seem, by breaking the rules to get approval from the authorities, entrepreneurs seem never to escape the threat of harassment from officials. Whilst entrepreneurs appear to trundle on through administrative barriers in much the same way they navigate the obstacles of accessing credit, finding premises and avoiding tax, the potential for the process of entrepreneurship to 'breakdown' seems never to be too far away.

5.5 The Effect of a Hostile Cultural Environment on the Development of the SMEs

In addition to the obstacles created by economic and political conditions and administrative procedures, the development of entrepreneurship is also severely hampered by a hostile cultural environment. This has been a salient feature affecting the Russian business environment. Negative social attitudes and values towards entrepreneurship have been rooted in the perception that entrepreneurs have been responsible for tearing apart the fabric of Soviet/Russian society. In the 'public' mind, those involved in private enterprise have been associated with unethical and even criminal behaviour. This has placed entrepreneurs in a position where they have become the target of abuse from state officials on the one hand, and criminal racket groups on the other. Entrepreneurs have become the source of prey for these groups and in the process it has become difficult for entrepreneurs to behave in a 'normal' way. Ironically, entrepreneurs have, in many cases, been pigeon-holed into acting in the way that they have been accused.

The association of private enterprise with unethical and even criminal behaviour became particularly apparent in the late Soviet period following the introduction of a series of laws, which allowed small-scale private enterprise to develop. They were, firstly, the Law on Individual Labour Activity in 1986, the Law on Cooperatives in 1988 and the Law on Private Enterprise in 1990. Prior to these laws being passed, private enterprise was punishable as a criminal activity. So even while these laws established a legal basis for private enterprise to develop, the laws did not have the

same kind of automatic impact on the way the public viewed entrepreneurship. Public perception was that private enterprise gave rise to 'swindlers' and 'speculators' (Smith, 1991: 284).

It was of course true that a combination of high inflation and a shortage of goods created conditions in which speculative activities were one of the most profitable for entrepreneurs to become involved in during the early transformation period. In this respect, public perceptions about entrepreneurs have not been entirely inaccurate. Yet for many of the individuals taking part in this study, this was seen as an almost unavoidable and necessary starting point, which was used as a stepping-stone into more sustainable and profitable activities. There were certainly some instances where people were able to accumulate an incredible amount of wealth in this way (Kryshtanovskaia, 1996). Yet much less attention has been given to the fact that for many well-educated people, taking part in petty and shuttle trade involved a significant downgrade in their professional skill (Bridger et. al., 1996). For many it was a sacrifice, albeit an important one, that made it possible to make ends meet. And for this entrepreneurs have been branded as 'swindlers' and 'speculators'. When seen in this way, the line between what constitutes ethical versus unethical behaviour is not so clear-cut. Yet still, a negative public view of entrepreneurs has prevailed and has had a profound impact on how entrepreneurs have since been perceived and treated by large segments of the population. A negative public response towards entrepreneurship provided an impetus for a hostile cultural environment to grow.

State officials have played an important role in maintaining this hostile cultural environment that afflicts entrepreneurs of SMEs. Backed up by low public opinion of entrepreneurs and due to their position as 'rule enforcers', state officials have used administrative tools to make it difficult for entrepreneurs to carry out their activities. State officials have been able to play on the public fear that private enterprise has torn apart the fabric of Soviet/Russian society and use their discretion in issuing the necessary permissions, approvals or penalties to entrepreneurs from which they could derive personal benefits through unofficial payments and bribes. In order to minimise the harassment inflicted by state officials, entrepreneurs have had to form amicable relations with them, which could either be construed as, or in fact based on,

cronyism. Of course such nepotism was embedded in the Soviet system prior to the emergence of legal private enterprise, but this has evolved and changed under market conditions (Ledeneva, 1998). In order to overcome the obstacles erected in their path, entrepreneurs have been forced to navigate around the formal system and rely on a combination of semi-legal and/or illegal means to ensure the smooth functioning of their business. For instance by bribing state officials, entrepreneurs have not strictly been acting in accordance with the law, but this has been seen as necessary in order to avoid further or even more serious interference from the state. In this respect entrepreneurs have lived up to the commonly held public view that they are cheats and liars. However in contrast to this general view that places the blame on entrepreneurs for their behaviour, many entrepreneurs explain their actions as a necessary response to the exploitation by state officials.

What has also been significant about this is that state officials have not been acting in such a way as to protect the rights and interests of entrepreneurs. This has not only interfered with the effective implementation of state policies aimed at supporting the development of the small business sector to have its intended effect, but it has also contributed to further problems for entrepreneurs. The general animosity directed at individuals engaged in private enterprise meant that when problems arose, entrepreneurs could not look to the police to protect their interests (Smith, 1991: 287). Where official structures and institutions have proven deficient in protecting the rights and interest of entrepreneurs in the early 1990s, organised criminal groups stepped in and effectively filled the gap left open by inadequate state systems and official structures (Coleman, 1997; Volkov, 1999). A female entrepreneur and former café owner from provincial Russia described her experience with criminal bandit groups and the lack of support they received in the following way:

At that time [in the early 1990s] there were bandits; *kryshy* had all the power. It was necessary to pay them all; if you don't pay then they burn you down. At first we had a shop and a kiosk and then we got another kiosk. They regularly set fire to our kiosk...you don't even know why you pay; where does this money disappear to?...there is no protection from the state, from criminals, from bandits. How many times we wrote statements that they burned our kiosks, 'please find the guilty people'. No one ever reacted. We had three kiosks; they broke in doors, took things, and then set it on fire. No one searched for the criminals. We already paid, evidently you pay one and another you don't pay – but you need to pay [the other] as well. But you aren't

able to pay all of them. And why must I pay to anyone? We paid the state, we paid taxes, right? [8]

Although criminal racket groups had been present for as long as shadow enterprise activity had been tolerated by the Soviet regime, their presence had been limited by the fact that private enterprise had also been limited. Ironically, it was the expansion of legal enterprise activity that provided a basis for organised crime to grow.

Organised crime was like a parasite to entrepreneurs, extorting their earnings and leaving them with little to develop their businesses further. The problem of organised crime was so pervasive that according to Volkov, 'by the beginning of the 1990s, virtually no firm in the small business sector could get by long without engaging or being engaged by a private enforcement partner' (2002: 93). It seems clear from this, as well as from the entrepreneur's account above, that entrepreneurs' association with organised crime occurred not by choice, but rather by the lack of one. Under this set of circumstances, entrepreneurs have been more the victims of crime rather than the perpetrators of it.

Organised crime represents a particularly virulent aspect of the hostile business environment in Russia. Regardless of organised criminal groups' claims to provide a form of 'protection' that official structures have failed to give, the use of violence and intimidation has been essential to their staying power. This has contributed to a dangerous and threatening business environment, which not only affects those directly involved in business, but also has an impact on the general public and their perceptions of entrepreneurs.

At the same time, the way in which organised crime relates to entrepreneurs has not been all that different from that of state officials. In either case an entrepreneur is illegitimately harassed and the economic cost of this harassment is similar. Given the physically violent nature of criminal bandit groups, entrepreneurs might prefer to deal with state officials. However on the flipside, organised crime can become more 'civilised' by developing a genuine stake and integrating themselves in the business they 'protect' (Volkov, 1999, 2002). State officials in contrast, cannot fully integrate in the business of the entrepreneurs that they harass because of the political-administrative divide that will always keep entrepreneurs and state officials separate

(even if their activities become conflated). A difference then is that the relationship of state officials has less chance of developing into something that can be mutually beneficial. The female entrepreneur and former café owner from provincial Russia discusses her experience with both organised crime groups and state officials:

In principle nothing has changed. It has become even more organised; they demand money from you. Before bandits demanded money from us, and now it is the state. Now inspectors come and find faults with everything, you merely give them money, police, tax, fire [inspectors]. Essentially nothing has changed...Of course it is better to pay the state. One bandit comes, and then a second, and a third...he doesn't like you, he sets fire to your store...and with the state it is easier to come to an understanding, but he also does not give small business breathing space [8].

Indeed the role of organised crime and state officials have been interconnected and both shape (and in certain cases are shaped by) public perceptions. Together each of these contributes to and sustain Russia's hostile cultural environment and this suffocates the prospects of small business development. The persistence of a hostile cultural environment indicates that state policies and initiatives have not been able to achieve their objectives to provide support to the small business sector. Perhaps more than organised crime, the failure of state officials to act in the spirit of state policies that aim to support the small business sector represents a fundamental obstacle to these policies having any substantial impact on the ground. Of course the policies might overestimate the capacity of SMEs to contribute to economic and social prosperity, but these are more easily rectified and thus cause less damage than the exploitation of entrepreneurs by state officials.

5.6 Conclusion

Entrepreneurs in Russia appear to be caught up in a perpetual cycle of navigating barriers. It seems that just as one obstacle is overcome, another appears in its wake. This stems from the fact that the challenges of entrepreneurship are inter-linked, even though they were considered separately in this chapter. For instance, access to credit determines the extent to which an enterprise can continue its operations and grow, which in many cases would not be possible without appropriate premises. To access these things, entrepreneurs must come in contact with officials who have the power to decide their fate. Indeed entrepreneurs' contact with officials occurs on an ongoing basis whilst dealing with tax and other administrative regulations, for instance to obtain licences. Crucially, entrepreneurs and officials are interdependent

and their relationship has been marked by tensions as they each attempt to navigate perceived barriers of the formal system to achieve their personal needs and interests.

The relationship between entrepreneurs and officials has revolved around the complex environment in which they operate where new political, economic and legal infrastructures to support entrepreneurship have been introduced. As might have been expected, there were logistical problems associated with this process in which laws were ambiguous, contradictory and in some cases, even non-existent. Given the unreliability of laws, regulations and the institutions behind them, many have seen the formal system as obstructive to their interests and in response, have developed ways to navigate around it. With regards to obtaining credit, the real and perceived expense of it, along with the demand for substantial collateral has restricted access and pushed entrepreneurs to the periphery. Entrepreneurs have thus been forced to organise credit through friends and family, which is also limited to the extent that these personal networks have money to give. Similarly tax obligations have been perceived as placing a heavy burden on entrepreneurs, so strategies to avoid tax payment have become the norm. However this exposes entrepreneurs to penalties and fines from the authorities. Crucially, harassment of entrepreneurs goes hand-in-hand with their intermediary position between the formal and informal systems; they are easy targets because of their reliance on informal strategies of survival, which in turn keep entrepreneurs from fully operating in the mainstream economy. The circumvention of the formal system provides fertile ground for bribery and corruption and creates a host of new problems for entrepreneurs including increased susceptibility to the influence of criminal racket groups. The challenges of entrepreneurship have thus been circuitous, making them particularly difficult to break. Reliance on informal systems has thus become entrenched practise in Russia. As this has happened, it has become increasingly less likely that state policies could even have an effective impact on entrepreneurs of SMEs.

That entrepreneurs in Russia have been able to continue despite the challenges that they have confronted for much of the period of transformation is a testament to their character. However one cannot help but have the sense that this game of ‘ducking and diving’ around the formal system cannot be maintained indefinitely.

Entrepreneurs in Russia face a paradoxical situation; although on some levels

business appears to function, it has been thwarted by its own machination of relying on informal strategies to navigate around the formal system. Not only does the use of informal strategies create new obstacles for entrepreneurs, but it also makes it more complicated for them to protect their rights that formally exist. As the director of the engineering consulting firm in provincial Russia indicated above, entrepreneurs cannot look for support and protection within the formal system when this is the very system they, along with officials, flout. What is more, this pattern of doing business in Russia reinforces a negative image of entrepreneurs and gives the impression of an 'uncivilised' business environment. This then raises the question: is there a way out of this pattern, and if so, what is it?

In chapters six and seven different strategies that have been adopted by entrepreneurs are explored. In Chapter six I explore ways in which entrepreneurs have attempted to draw on the state's rhetoric concerning socially responsible business (see above in chapter three) and to create a better image for the small business sector by presenting it as more socially responsible. Socially responsible business is a theme that the state has promoted throughout the socio-economic transformation and as the effects of the 'wild' 1990s has settled down, it has represented a 'collective' type strategy of entrepreneurs to refine the image of business and promote a more positive reputation in society. As a strategy to overcome the challenges of the Russian business environment, it has developed in parallel with the individual strategies of entrepreneurs discussed in this chapter. Chapter six addresses a further dimension to the various ways that entrepreneurs have attempted to deal with the challenges of entrepreneurship and thus helps to illustrate the complex pattern of entrepreneurial development in Russia. On the one hand it is clear from the findings of chapter five that entrepreneurs attempt to resolve their problems by simply circumventing the formal system. Although it might appear to be a primitive solution, it actually involves a witty combination of individual stealth and the development of purposeful relationships for this strategy to be successful. On the other hand, there are also hints of a shift in the way that business is conducted, which is evident through entrepreneurs' collective demonstration of socially responsible business practices. This strategy helps to counteract some of the negative effects of entrepreneurs' individualistic attempts to deal with the challenges of the business environment and

could potentially ease entrepreneurs' reliance on the individualistic type of strategies discussed in chapter five.

In Chapter seven the role that business associations play in improving the business environment and assisting entrepreneurs negotiate its challenges are considered. Business associations represent a second 'collective' type strategy of entrepreneurs to both improve their reputation and that of the business environment in which they operate. Business associations can also be viewed as operating as a kind of channel for promoting 'socially responsible' business practices and thus this discussion follows on well from the discussion in chapter six. The unique position of business associations at the interface of the business community and the political sphere (where they have the capacity to promote the interests of business and influence state structures) are part of what make them potentially effective channels for promoting the theme of socially responsible business. There are of course other kinds of organisations, which also promote the theme of socially responsible business. For instance there are political parties, such as *Partiia Razvitiia Predprinimatel'stva* which has both a federal and regional presence and whose mandate has been to promote the image and interests of the business community. Similarly, there are state organisations and structures such as the department of trade and industry, the department for the development of small business and chambers of commerce and trade, which aim to support the business sector in various ways by providing informational support, promoting business interests and encouraging greater investment from both public and private spheres. These state structures also operate at both the federal and regional level. In chapter seven, the focus is primarily on business associations, which (in theory) do not have direct links to state structures. However some of the respondents that took part in the study were either members or representatives of some of these state connected structures, such as chambers of commerce and trade or the department for the development of small business. However in all instances, some of the key questions raised were the extent to which connections to state structures helped or hindered the efforts of these various types of business associations and thus consequently the position of entrepreneurs. There is clearly a wide range and multiple layers of organisations that claim to support and promote the interests of entrepreneurs. During the course of conducting field research the aim was to try to get a flavour of how these various organisations sought

to help the position of entrepreneurs and similarly how entrepreneurs perceived these organisations helped them.

Chapter 6

Socially Responsible Business and Creating a ‘Civilised’ Business Environment in Russia

The development of a country is not determined solely by economic successes. The spiritual and physical health of the nation is also important, although everything is interconnected of course (Putin, 2001)

Following the tumultuous period of the 1990s in which a new and controversial class of entrepreneurs emerged, the concept of socially responsible business has gained momentum. The 1990s have been described in Russian and Western media as a period of wild capitalism in which businesses emerged on the back of crime, corruption and nepotism (Hoffman, 2002; Freeland, 2000; Blasi et. al., 1997). Post-Soviet Russia’s brand of capitalism was ‘uncivilised’ and nothing like the kind envisaged by those living in Russia or by the Western reformers advising the government at the onset of the transformation period. While most attention has focused on big business, this image has trickled down to SMEs, which have been branded with a similarly negative reputation.

The way in which entrepreneurs have attempted to overcome the seemingly endless obstacles of the Russian business environment by ignoring formal rules in favour of informal ones and relying on social conventions of bribery and *blat* to survive has caused their reputation as corrupt, cheating and ‘uncivilised’ entrepreneurs to stick. While some entrepreneurs feel that their negative reputation is not justified, they of course recognise the problem that it poses to business development and so want to shed this reputation. It has generally been recognised that demonstrating social responsibility to society is one way that entrepreneurs can improve their reputation. In this respect, taking responsibility in the social sphere has been about entrepreneurs fulfilling their own ‘enlightened’ self-interest (Holme and Watts, 2000). In highly competitive markets, entrepreneurs see socially responsible practices as making good business sense, which gives them an edge over the competition and enhances their chances of survival and long-term prosperity. Crucially, if society cannot afford the products of small businesses, then its development will be hindered. An entrepreneur from the provinces made this point clear when he stated, ‘it is not good if I am the only wealthy person here and the rest are poor’ [11].

Whilst a universally accepted definition of socially responsible business does not exist, it is broadly understood to mean the integration of social and environmental concerns into business strategy (European Commission, 2002; Holme and Watts, 2000; www.unglobalcompact.org 2004). Donaldson has likened it to a contract between business and society, and as such, it has been inextricably tied up with issues of morality and the business community's obligations to society (Donaldson, 1982). While this is a useful analogy, the idea of indebtedness has also been fundamental to the interpretation of socially responsible business in Russia. Socially responsible business has been about giving back to society and 'repenting' for the injustices of Russia's 'wild' market in the early 1990s.

The concept of socially responsible business practices has overlapped with the rhetoric of SMEs as a panacea to poverty leading to socio-economic prosperity and at the same time as a way to 'civilise' the Russian business environment. After all the negative image of entrepreneurs reflects poorly on the Russian business climate, and so in this way the concept of socially responsible business holds significance on a broader macroeconomic and social levels as well. Socially responsible business has been portrayed as a catalyst, setting off a chain of events in which both business and society will prosper and the prosperity of each will reinforce the other. This logic fits in with the quote by Putin above that suggests that economic and social development are interconnected and a country's prosperity depends on its successes in both spheres.

However, as a moral obligation, there are no specific rules or guidelines, which state how much entrepreneurs must give in order to fulfil their responsibilities. Given their negative reputation in Russian society (as discussed in chapter five), this creates a particular problem for entrepreneurs. Their negative reputation provides a basis by which entrepreneurs can be held to ransom for the shortcomings of the socio-economic transformation. The economic crises of the 1990s witnessed both the decline of the social welfare system and the inability of the state to provide this to society. At the same time, entrepreneurs have been one of the few groups, in society to benefit from the economic reforms and so it seems appropriate that they should step in, take responsibility and 'fill the gaps' in social welfare provision. What is

more, their ability to assist in social welfare provision seems all the more practicable given the recent economic recovery. Crucially, this assumption ignores the fact that the capacity of entrepreneurs of SMEs to contribute to society has been limited and this has been particularly the case where they have faced numerous obstacles in the Russian business environment. Nonetheless, this reflects the way in which entrepreneurs are viewed by the state, in particular, as a ready source of cash. And significantly, it has been the perpetuation of entrepreneurs' negative reputation that has provided justification for their constant harassment by state officials, thereby igniting a vicious cycle. This is a cycle in which, while entrepreneurs attempt to shed their negative reputation by demonstrating social responsibility, they are constantly reminded of their indebtedness. This not only keeps them from prospering in such a way that they could genuinely contribute to society, but it also does nothing to change public attitudes so that entrepreneurship becomes something that is valued by society.

Based on entrepreneurs' negative reputation, this chapter will discuss how creating a 'civilised' business environment is seen by entrepreneurs as benefiting the state, business and society. Once this has been established, it will then be possible to consider how, and to what effect, the concept of socially responsible business has developed in Russia. However before going any further, it is necessary to clarify what is meant by the term, 'civilised' business environment' and its connection to 'normal' business behaviour. These terms emerged in situ and were used in relative terms to describe phenomena, both how they changed and differed, over time and across various locations. The drive to create a so-called 'civilised' business environment has occurred in reaction to the 'wild' 1990s in which a sense of chaos and lawlessness seemed to dominate the atmosphere. In Russian media it was clear that politicians were in favour of efforts to improve the image of business. Similarly, in the field, it was evident that both entrepreneurs and leaders of business associations were aware of this so-called 'uncivilised' business environment and the impact it had on their image and behaviour. The message coming from respondents was that in an 'uncivilised' business environment, entrepreneurs could not act in a 'normal' way, (even if their intentions were good), and also that as the business environment was becoming more 'civilised', entrepreneurs had greater scope to act in a more 'normal' way. Thus ideas about what constituted an 'un/civilised'

environment and 'normal' behaviour were expressed in relation to time, as in (to paraphrase comments from respondents) 'before, things were more wild, uncivilised and we couldn't act in a normal way' or 'now things have become more civilised and it is possible to observe official rules'. An 'un/civilised' business environment and 'normal' behaviour was also discussed in terms of one's location such that Moscow was often the place described as being the 'most civilised' and outlying areas and provinces were 'less civilised'. For instance it was common for respondents located both in and outside of Moscow to, by way of describing their position, behaviour and attitudes, draw a comparison with how they perceived the situations of others in different locations. Such kinds of comparisons highlight the way in which Moscow was perceived as a benchmark for measuring processes of entrepreneurial development and also the atypical nature of Moscow as a region for study (as indicated in chapter two). From these discussions the terms 'civilised' business environment and 'normal' behaviour was interpreted as meaning that, as conditions in the business environment improved, entrepreneurs could more easily play by the official rules and not encounter such adverse consequences on their business. By acting in a 'normal' way, entrepreneurs were behaving in the way that was expected and/or hoped at the onset of the transformation period in that they would abide by the rules and be able to develop their business. While this did not always seem to be precisely the case (i.e. an entrepreneur might be able to abide by the rules once their business is established, but this might not have been the case when the business was getting established), it illustrates the point that, at least in relative terms, certain things are improving. Thus despite the relativity of these terms in their description and understanding, they were key to locating change in the behaviour and attitudes of entrepreneurs in the context of a society that has been undergoing socio-economic transformation.

6.1 The Impact of a Negative Reputation on Today's Entrepreneurs

In chapter five, it was explained that the negative reputation of entrepreneurs grew in the early 1990s as private enterprise expanded. The sharp contrast between the decline of socio-economic well-being for the majority of Russian society along with a perceived rise of wealthy entrepreneurs of SMEs has been central to their negative reputation. However it was not just that a small portion of the population was becoming wealthy, the perception was that this small stratum of the population was

illegitimately acquiring wealth and effectively stealing from society. This general perception in society inflamed sentiments over the injustice of the socio-economic transformation. This explains in part why the concept of socially responsible business potentially has mass appeal. Although this contrast was most visible between big business and the rest of society, entrepreneurs of SMEs have been viewed as being involved in similar processes that benefited representatives of big business.

Entrepreneurs taking part in this study have been acutely aware of their negative reputation. An entrepreneur and social activist from provincial Russia described the kind of attitudes that he has come up against saying that, 'society regards entrepreneurs badly, scornfully, with envy and even with hatred...it is very important to change this opinion' [11]. Such an awareness of their negative reputation has also triggered these individuals to take stock of how they have been perceived in the public mind by adapting their behaviour. In conversations and interviews with entrepreneurs, people also spoke of the importance of not making an ostentatious display of their wealth. An entrepreneur involved in property development in a provincial city described why it is important for entrepreneurs to be discreet about showing their wealth:

In a poor country never show that you have money. One needs to understand this. You need to behave normally, like a normal person; to go around in normal clothes, behave normally because people around you don't live very well. If you don't then without a doubt someone will attack you. In Russia an expensive car is a source of danger, they'll hurl a crow bar against your head [23].

The need to behave in a discreet way stemmed from this individual's belief that society questioned the legitimacy of his wealth, which then left him vulnerable to attack. Of course this might be seen as a provincial attitude, since not everyone has been this sensitive with regards to flashing their wealth. With respect to the so-called 'new Russians' an ostentatious display of wealth has been part of their notoriety (Humphrey, 2002). However, such an open display of wealth has increasingly been frowned upon in society. Even some of the respondents from Moscow mentioned in conversations that they felt the need to conduct themselves in a discreet way because they perceived that the public questioned the legitimacy of their wealth.

The state has also publicly criticised those who make an overly ostentatious display of their economic success (Trefilov, 2000). Even while these criticisms were directed primarily at Russia's wealthiest business people, it is clear from the quote above that entrepreneurs of SMEs have been affected by the stereotypes of big business. It would also seem from this that entrepreneurs have become conscious of their reputation and they have been responding to it by taking care in how they present themselves to the community.

The view of many of the entrepreneurs taking part in this study was that their negative reputation was unfair and inaccurate. Comments about the negative image of business often followed entrepreneurs' discussions about the challenges of business in which they explained how, amidst all the difficulties they have faced, they have simply been trying to earn an income for themselves and in some cases how in the process, they have also created work and income for others. From this point of view, entrepreneurs have, in a sense, played the kind of role expected in the state's rhetoric. However despite their best efforts, entrepreneurs have been branded with a negative reputation, which has been a kind of punishment for them. In theory, the concept of socially responsible business can offer entrepreneurs a way out of this predicament because according to Holme and Watts (2000), socially responsible business practices provide them with the opportunity to show the 'human face' of capitalism, which consequently will help to improve the image of business.

6.2 A Bad Reputation: Why Does it Matter?

The reputation of business can determine whether it succeeds or fails, so a bad reputation is clearly not good for business and this is true in any market economy. It is therefore important for entrepreneurs to develop a reputation that will enhance the success of their enterprise. To do this, entrepreneurs must consider the opinions of two groups in particular: their employees and their customers. Employees are in a position where they can affect the quality of the products or services of a business, which then has an impact on customer satisfaction and customers reserve the right to decide which companies they will give their business to. This makes it important for entrepreneurs to impress a desirable image of their business on both their employees and their clientele.

Entrepreneurs have recognised that without an enthusiastic and effective workforce their business will suffer. This is because labour has control over their own work process and they can choose to work productively or unproductively, which then has a direct impact on the output of the enterprise (Ticktin, 1992). It has therefore been essential that entrepreneurs make an effort to attract and retain an effective workforce by providing some kind of incentives. By giving something to workers, entrepreneurs hope to get back good quality service and products that will help to enhance their reputation. Entrepreneurs taking part in this study recognised the need to take care of their workforce by providing adequate training, reasonable pay, as well as providing extra perks that come with employment at their enterprise. The director of a company that produces sports and recreation apparatuses for children explained the various ways in which she has supported her workforce:

Firstly the training of our employees, this is fundamental. Many of our employees study part time and we have helped them to receive a higher education. Secondly, this is the creation of a permanent place of employment for which there are definite benefits. For example we paid for our employees to go to a sanatorium to relax and improve their health. Of course businesses will come to the conclusion that to develop properly employees must be interested in working here [27]

Similarly, the director of a regional business association discussed why it is in the interest of entrepreneurs to support their workforce:

A businessman, this is the person that has something to lose...more than anything he is interested in stability and that is why he always, if he has the opportunity, invests in people. This is not only in their professional growth, creating normal working conditions, but it includes the social sphere...To have good specialists, qualified specialists, this is always extra profits, always, and a normal businessman is always interested in stability in order that people have enough things and are satisfied with their work [33].

Finally an entrepreneur who runs a furniture making business in a provincial town explained why she felt it was important to invest in her workers:

We struggle with drunkenness and absenteeism, but we also have our ways – it is necessary to retain workers. I increase their wages, create some kind of privileges in order that people work and remain interested. Our enterprise is located almost outside the city and I for example pay for the journey for people to go on a mini bus to and from the enterprise. I do this so people don't think that they are paying a lot of money to go a long distance. Although really this is in the city and the journey as such is within the city. But I pay for the journey for my workers and they like this, I think [32].

Each of these respondents have indicated that looking after one's employees and keeping them interested is important for the returns that it will bring to the business. In this respect the actions of entrepreneurs have been guided by 'enlightened' self-interest; by improving conditions for others, their aim is to enhance their position with higher productivity and profits (Holme and Watts, 2000). The responses of these entrepreneurs also indicates a degree of continuity from the Soviet period in these practices, even if the impetus for keeping employees interested has changed from meeting plan targets to increasing profits and creating a positive business image. For instance efforts to take responsibility for one's employees, whether it is to deal with drunkenness and absenteeism or to send employees to a sanatorium, are reminiscent of Soviet paternalism, in which the state took responsibility for the welfare of the workers. Also, the kinds of benefits provided are similar to the Soviet social wage in which benefits were given to motivate and reward workers to fulfil plan targets. Now however, the priority is to produce quality products and services, which is not only linked to an effective workforce, but this is ultimately what customer satisfaction is based on.

Customer satisfaction is vitally important to entrepreneurs because of the effect it has on the reputation of business. If firms get it wrong, it could cost the business. SMEs in particular, for whom advertising campaigns aimed at creating an image are a costly exercise, rely on the positive feedback of clients and 'word of mouth' to attract more business. Obviously however, few will be inclined to use companies that have a bad reputation and so business will suffer. In this way, consumer power has been a potentially potent factor that has caused entrepreneurs to take notice of their image and reputation. The impact of consumer power has however varied across locations and over time. For instance, it is possible that it has not been as strong in provincial Russia where there might be less choice in goods and services produced as in built up urban centres. Similarly, in the Soviet period consumer power was weaker because there was less choice available. An entrepreneur from Moscow, who coincidentally is the director of an advertising firm, pointed out how consumer power has affected his business:

Now that competition and consumer demand has appeared it has become more difficult. If before we could make packaging that was not of high quality, everyone liked it all the same, so it was easier before, you spent less time on things and now each product requires more effort to convince clients

that it is good... people have become more particular. The more that brands have appeared in Russia, people have come to understand what this means and their demands have become more sophisticated [5]

During the early 1990s when the market economy was just developing, the demands on business were less, partly because the expectations of consumers were not as high. The situation has however changed and consumer power has taken effect. As the director of a publishing house in Moscow explained, 'over time everyone begins to understand that it is necessary to develop a reputation, to work honestly, etc.' [18]. Yet significantly, the negative image of entrepreneurs had already become established in the early 1990s, having been rooted in Soviet socio-cultural values in which entrepreneurship has been seen as immoral and exploitative activity and this has posed a fundamental challenge to entrepreneurs interested in changing their reputation in society today. While the reputation of enterprises depends somewhat on consumer power or the influence of labour, these are not the only two factors shaping the reputation of entrepreneurs. Although the opinions of clients and the efforts of labour matter, the negative reputation of entrepreneurs in Russia has evolved out of a complex set of factors linked to the processes of socio-economic transformation. An entrepreneur involved in property development highlighted the impact of economic instability on the reputation of business and how this has hindered the development of business partnerships:

Let's suppose I have a business with you [a westerner] and we have money in Gutabank¹⁵. And if we sign a contract with you, an English person, to buy let's say glasses from there. We have money from you, we are honest people. We go to the bank, to Gutabank and they say 'we are having difficulties, there is no money'. And that's it. That is Russia for you. But then how can one go and explain this to a partner in the West. They would think that we were tricksters. But we're not tricksters, we're normal people [23].

The negative reputation of entrepreneurs has been tied up with Russia's ongoing economic instability. What is significant about this is that it is something that in many ways, is beyond their control, making entrepreneurs victims of the economic failures of the transformation period and not entirely, as many like to assume, the causes of it. This is, in a sense, ironic given the rhetoric of SMEs in which they have been portrayed as the engines of economic growth. It is also interesting that efforts to improve the reputation of business in Russia through socially responsible practices

¹⁵ Gutabank was one of the banks shut down during the 'mini' banking crisis in 2004.

have coincided with the recent economic recovery. The recent economic recovery has provided justification for business to shoulder some of the burden of social welfare provision. The image and reality of entrepreneurs and their role in society is clearly contradictory. Whether they are seen as victims or causes of the failures of the socio-economic transformation, entrepreneurs of SMEs cannot be the engines of economic growth. Consequently, the grounds for justifying entrepreneurs shouldering some of the burden of social welfare provision are weak. Those who have benefited most out of the economic recovery have been those associated with the oil industry – to which entrepreneurs of SMEs have little, or no, connection. Nonetheless, it has been convenient to hold entrepreneurs responsible when social security nets have been eroded, and it has still been suitable to use them as a solution to the problem. This contradictory role of entrepreneurs has been particularly visible through the rhetoric of SME development, of which the concept of socially responsible business has become an important part. In this rhetoric, socially responsible business practices have been promoted as a panacea for entrepreneurs, society and the state alike. Entrepreneurs benefit from an enhanced reputation, for which the potential of their businesses will no longer be held back; society will begin to flourish as its basic social needs are met; and the authority of the state will also be strengthened off the back of the prosperity of entrepreneurs and society. Together, each of these will contribute to creating a ‘civilised’ business environment in Russia. The motivation behind creating a ‘civilised’ environment will be considered first before moving on to explore the rhetoric surrounding socially responsible business and how it has subsequently developed in Russia.

6.3 A ‘Civilised’ Business Environment: Why is it Important?

A rejection of Russia’s ‘wild’ market economy, which dominated the 1990s, by business, the state and society has been central to creating a ‘civilised’ business environment in Russia. Each of the state, business and society stand to benefit from the development of a ‘civilised’ business environment. For the state, it is important simply because an ‘uncivilised’ business environment reflects badly on it. Based on the experience of the 1990s, an ‘uncivilised’ environment carries with it an image of a weak state. As a consequence, creating a ‘civilised’ business environment has been, for the state, about changing its image and strengthening its authority. In addition to this, an ‘uncivilised’ business environment could be seen to interfere with

national priorities to become integrated in the global economy and, for instance, to gain entry into the World Trade Organisation (WTO), for which Russia has yet to gain membership despite efforts to do so (Shekshnia, 2001; Interfax, 2006). While integration into the global economy and membership of the WTO might be of greater immediate relevance to big business than SMEs, the point is to highlight why the state would be interested in having a 'civilised' business environment develop.

For business, creating a 'civilised' business environment offers the potential to create greater stability, which is important for developing one's business. The property developer cited above made this point clear in his discussion about establishing business partnerships with non-Russian partners. Secondly, a 'civilised' business environment also encourages transparency, which would then have a positive impact on the image of entrepreneurs themselves. It would seem that a 'civilised' environment and transparency would also reduce opportunities for state officials to harass entrepreneurs; the logic being that in a 'civilised' and transparent system, entrepreneurs are somewhat protected against arbitrary abuse by the authorities. However, greater transparency also closes loopholes, some of which suit entrepreneurs. So while greater transparency might be intended to improve the situation for entrepreneurs, it can have unintended adverse effects on their position. Such a contradiction reflects the extent to which formal and informal systems are interdependent. The interdependence of these two systems makes it difficult to improve and or correct the formal system.

Finally, creating a 'civilised' business environment can benefit society by promoting stability and predictability, which might affect members of society in the sphere of employment and incomes, as well as in their role as consumers. A 'civilised' environment might also foster trust towards business, and thereby help to strengthen its reputation. Looking at it from these points of views, creating a 'civilised' business environment appears to tick all the right boxes with respect to political, economic and social goals. The concept of socially responsible business provides the vehicle to achieve these goals in practice.

6.4 Socially Responsible Business: A New Twist in the Rhetoric of SME

Development

The concept of socially responsible business has been built on the same kind of simplistic logic on which the rhetoric of SME development has been based. Under the rhetoric of SME development, which emerged with the onset of the transformation in the early 1990s, the state promoted the privatisation and creation of new enterprises as a panacea that would eliminate the failings of the centrally planned economy and create a robust market economy in its wake (Bridger et. al., 1996; Arnot, 2000). This rhetoric of course did not play out in reality. Rather than bringing growth and prosperity, the economic reforms of the early 1990s plunged the economy into a downward spiral of poverty and unemployment.

As it became glaringly obvious that the shortfalls of Russia's market economy did not simply represent a phase in its development that would pass of its own accord, the concept of socially responsible business has been promoted as the new solution to fix the country's socio-economic woes. By making contributions to society, the concept of socially responsible business has been portrayed as a catalyst that will set off a chain of events in which business, the state and society will prosper. As a result of SMEs paying taxes and giving back to society, the state will be in a better position to support social welfare programs. Society will then be in a better position to contribute to the social and economic prosperity of the country and the reputation of business will be enhanced on the back of entrepreneurs' philanthropic behaviour. Yet significantly it would be much more possible for well-established businesses operating in a stable environment to have this kind of impact rather than SMEs in less stable environments.

Russia of course is not alone in promoting this kind of rhetoric. In fact international and European organisations have actually been at the forefront promoting this rhetoric, describing corporate social responsibility as a panacea in poverty reduction. The United Nations (UN) has developed a 'Global Compact', which calls on businesses to cooperate with UN agencies, labour and civil society to promote universal social and environmental principles, which the head of the UN, Kofi Anan, has said will meet the 'needs of the disadvantaged and the requirements for future

generations' (www.un.globalcompact.org 2004). The concept of socially responsible business has been likened to some kind of super drug that has the capacity to empower society and eradicate the inequalities that are in fact, an inherent outcome of business activities in competitive market economies.

In Russia, representatives of business and the state buy into the rhetoric and the lofty ideals they represent both because of their mass appeal in society and the easy solution they provide in filling the gaps in social welfare provision. A state official in the department for the development of small business in a provincial town described the fundamental role that enterprises, particularly one's that are socially responsible, play in the country's prosperity:

Social contributions from business are the first brick in the economy of Russia...the more that we create small enterprises, the more there are entrepreneurs, then the more quality workplaces are generated; the more services are provided for the population, and tax receipts are increased. In the end, the socio-economic living conditions stabilise and become better [34].

A senior member of a regional branch of a Russian business association described how she saw the role of business in the development of the social and economic spheres. Like the state official cited above, her remarks were reminiscent of the rhetoric in the 1990s:

Really in order to develop the social sphere, it is necessary to raise the competitiveness of...business. A normal system must be working, business must fill the budget well [because] the budget resolves social problems and the authorities competently distribute the money...as business works better, then the more wages there are to give to workers, and more goes to the budget. Then citizens receive more opportunities thanks to the budget, they build up the social sphere, and the working collective can use the services of business, buy the products and services that it provides. And to begin this movement, industry, production and the economy sustains all spheres: social, cultural and others [26]

This kind of rhetoric simplifies what is in fact a complex process of creating a more prosperous society. Entrepreneurs are caught in an awkward position. Because of their negative reputation and their indebtedness to the state and society, it is important that business participates in the social development of the country. However, in the likely event that business cannot, on its own realise the lofty ideals of socially responsible business and the rhetoric in which it is embedded, then their negative reputation can become entrenched. By putting everything down to the

actions and capabilities of business, it will be clear whom to blame when the rhetoric inevitably fails to play out in reality, which will in turn reinforce the business community's indebtedness to the state and society. Despite contradictions in the rhetoric on the one hand and the role of entrepreneurs on the other, there have been efforts to put these ideals into action.

6.5 Transforming the Rhetoric into Reality?

The rhetoric surrounding the concept of socially responsible business has made it appear to be the ideal solution to satisfy the needs of business, the state and society. It is however essential to find ways of 'operationalising' the concept in order that these needs can be met in practice. One way of achieving this has been through both the media and business associations, which have acted as filters promoting social responsibility in the business community.

The Russian Congress of Mass Media organised a round table that aimed to define the concept of socially responsible business. Although this particular round table was unable to devise a definitive understanding of the concept, it was seen as important for raising awareness about the subject and highlighted that the role of business was beginning to change (Karpova, 2000). The Association of Russian Managers (ARM) has developed recommendations, based on their own research findings, about the kinds of activities that businesses can take with respect to demonstrating responsibility in the social sphere (Karpova, 2002).

Findings from field research indicated that business associations are useful for channelling information about the need, purpose and merits of socially responsible business down to entrepreneurs. This was most clearly demonstrated by the director of a Russian business association in provincial Russia who repeated the general rhetoric as he explained why business has been expected to contribute to society:

Every year we have a message from the President of the Russian Federation. Putin, set out everything very correctly...an entrepreneur should be socially responsible for his position in society. At the moment our government is trying to make it so that there aren't poor people, to improve the position of the less fortunate...now the task for all entrepreneurs firstly is to increase their social responsibility, that is, it is necessary to share with society, show humanitarian support, carry out social projects [25].

Business associations seem to be so effective at channelling information about the concept of socially responsible business that members of these organisations seemingly appear to accept, without question their obligations to society. When asked what she thought about the concept of socially responsible business, a member of a Russian business association responded in the following way:

Actually [socially responsible business] is not simply words. This really, I even have a book that says, this Russia wide organisation, Delovaia Rossiia, which unites medium sized business, began to speak about this, that we should consider social responsibility [27].

From this, one might be inclined to think that the concept of socially responsible business is 'operationalised' only in the most superficial way, being more about show than substance. While there is no doubt that the concept of socially responsible business has overlapped with the rhetoric of SME development, it would seem that from the individuals taking part in this study, including those who were not members of business associations, entrepreneurs believed that the concept has more than just rhetorical value. At the same time, the impression given from entrepreneurs was that they did not need to be told to take responsibility in the social sphere. Still, many entrepreneurs taking part in this study acknowledged there was merit in taking responsibility and felt they demonstrated social responsibility in their business operations. An entrepreneur from provincial Russia whose firm produces construction materials said that,

I believe that [empowering people] is more important than getting money and building some kind of small business and to have more profits etc. I am prepared to invest my money so that things will become a bit better. I believe that we ought to live well [11].

Similarly, the director of an accounting consultancy firm in Moscow said that, 'making contributions in society is important. In general people must do things not just for themselves, but for others, for those who are not able to things. To help, this is important' [13]. However, some entrepreneurs felt that the burden of socially responsible business should rest on the shoulder of big business because of their financial weight in the economy. The director of a publishing firm in Moscow highlighted this point saying that,

I believe that it is necessary to talk about the social responsibilities of business, but only from a certain level of developed business. In my case it is still early. Although in saying this, my business is very socially oriented.

And then those who sell oil, they can be called on to be socially responsible [18].

When asking other entrepreneurs of SMEs what the concept of socially responsible business means to them, payment of taxes came high on their list of social responsibilities. An owner of a food shop in Moscow said the following:

A contribution in society, this is a big task. We pay taxes, which then go into pensions, and in social programs [6].

The Director of an advertising company in Moscow also highlighted the importance of paying taxes.

Absolutely it is right. For example when people didn't pay taxes, our firm used to hide profits so the state knew nothing about this. This was profitable. This happened a sufficiently long time ago, in the 1990s. And now already after 2000, people have come to the idea about this that we need to live normally, honestly, we need to pay taxes in order that the state can develop [and] we need to help it. If you only put things in your pocket and not in society then nothing good would come to anybody from this [5].

That the payment of taxes would be high on the list of social responsibilities probably stems from media and political attention given to the problems that arise as a result of low tax revenues, such as capital flight and a lack of investment in the country (Gavrilenkov, 2005). Russian business has a poor track record of fulfilling its tax obligations and an estimated \$20 billion a year in capital flight leaves Russia. Over the first 12 years of the transformation this figure was estimated to total \$300 billion (Putin, 2001; Reuters, 2002). In an effort to address this, the government under Putin made it clear to business that the use of tax loopholes and tax optimisation schemes, which reduce tax revenues and have been associated with the problem of capital flight, would not be tolerated. However, the state's efforts to improve tax collection have involved overturning what had become established practice since the early 1990s. Indeed in some cases, state officials supported practices that contributed to poor tax collection. Consequently, state policies to improve tax collection, which only treat entrepreneurs as the problem, will have limited impact.

Practices and policies to reduce tax payments were developed during the 1990s when new tax and legal frameworks were being created. Because of the rapidity with which new institutions were being formed, it would be expected to find loopholes in

the tax system (Hendley, 1997). In addition to this, it was not unusual in the 1990s for the government to offer tax breaks to business as a way to meet political objectives (Boycko et. al., 1995). Offshore tax free zones created in the regions to ensure their loyalty to the central government, could be used by businesses operating in Russia (Freeland, 2000). Taking advantage of these tax free zones had the same effect as if money was sent abroad (Freeland, 2000). Technically however, taking advantage of tax breaks and loopholes in the system is not illegal, that is, not until Putin stated otherwise in 2003 (Syrov, 2003b).

Significantly, a clamp down on the use of tax optimisation schemes does not address why entrepreneurs avoid paying their taxes in the first place. As was discussed in chapter five, tax avoidance stems from the nature of the system, in which the tax burden is perceived to be excessive to the point that it stifles business development. Because entrepreneurs justify tax avoidance on the grounds of their survival as entrepreneurs, formal rules that declare the practice illegal are unlikely to coerce the behaviour that the state desires, and certainly at least, not immediately. This however points to a contradiction in the fieldwork data whereby entrepreneurs freely admit tax avoidance on the one hand; yet on the other hand they include the payment of taxes in their definition of social responsibility.

6.6 Plugging the Gap in Social Welfare

From the point of view of the state, it has been important to sell the concept to business because it represents a way for the state to resolve the crisis in the social sphere. Due to fiscal constraints, originating in the reforms of the early 1990s, the government has been unable to support adequate social welfare programs, which has contributed to the decline in social well-being in the country. Their inability to provide basic social welfare has been so severe that the state has absolved itself of some of its responsibility in the social sphere justified on the basis of liberal economic ideology, which highlights the faults of state paternalism (Williamson, 1991). To this end Putin said that:

Today, policies of universal state paternalism are economically impossible and politically pointless. Giving up these [policies] is dictated not only by the necessity of using financial resources more effectively, but also of striving to stimulate development, to liberate a person's potential, to make him responsible for himself (Putin, 2000).

While it was stated that the government would not be able to fulfil its obligations in the social sphere, the aim to create a quality social system remained. However these two objectives do not add up without some support coming from an outside source, and the business community seemed to be the obvious choice. Due to the business community's indebted position, entrepreneurs have been under pressure to satisfy the interests of the state. After all, the state has the authority to coerce certain behaviour from entrepreneurs to help fill the gaps in social welfare provision through its administrative and regulatory powers. Rather than face further harassment, making contributions to society would be preferable to entrepreneurs for a number of reasons. First, entrepreneurs might believe in the principles, as was suggested in the quotes above. In addition to this, contributing to society helps to enhance their image, which makes the running of business easier and more profitable. Finally, entrepreneurs might feel that the very act of giving to society serves as a kind of defence against further harassment from the state, or could be used down the line in the form of *blat*, to request assistance from state structures. In a sense, entrepreneurs seem to have been backed into a corner and to this end, the director of a construction materials firm in provincial Russia said that, 'amongst our entrepreneurs there is a great fear and sense of dependence on the state' [11]. It has been, at least partially, for these reasons that we would expect entrepreneurs to speak positively and accept their obligations in the social sphere. This might also go some way in explaining the contradiction in fieldwork data.

Entrepreneurs have not only been pushed into a corner by the state to help fill the gaps in social welfare provision, but pressure has also come from society in the way that it broadly supports the state in its initiatives to shift the burden of social welfare provision onto the business community. Entrepreneurs have been saddled with moral pressure to help fulfil the state's objective to improve social welfare provision under conditions of reduced state paternalism. A senior member of a regional branch of a Russian business association described the position of the business community in the following way saying that, 'business itself cannot develop without developing the social sphere and helping citizens. It is like a double-edged sword, one cannot exist without the other' [26]. This illustrates the way in which socially responsible business is tied up with both the state's and society's interests and the compliance of

entrepreneurs to these, represents the way in which relations between these three spheres have been undergoing reconfiguration. The director of a Moscow firm that produces sports and recreation apparatuses for children similarly described a situation in which the burden of social responsibility rests on the shoulders of entrepreneurs.

This is our duty, firstly. And secondly, any country can develop only when the general population, when the whole population lives on some kind of definite level, that is why it is important for us. Because we also do not live in isolation, our children don't live in isolation, we all live in one country, and we want to see it more successful...more successful in development, more stable, more wealthy [27].

For this entrepreneur, the concept of socially responsible business has been tied up with the rhetoric of SME development that supports the overall prosperity of the country. This illustrates the way in which rhetoric permeates the attitudes and ideas not just of state officials, but also entrepreneurs themselves. Of course it is also possible that entrepreneurs espouse this rhetoric and accept their obligations in the social sphere because it is good 'PR' for business, in which it is seen as a way to help them improve their reputation.

However, entrepreneurs and representatives of the business community do not all respond in such a complacent way, and actually resent the way in which entrepreneurs have been pushed into a corner with respect to supporting social welfare programs. The director of a regional branch of a Russian business association most emphatically expressed such resentment saying that:

The point is that today the state is trying to shift their problems on businessmen who already pay a large amount of taxes. In our country we have helped homeless children, pensioners. This is the state's problem, I paid taxes, it should resolve it! But if I want, and my shareholders want to do something more, we do it. And we, for example, our business association, are not wealthy...but we help children, schools...because we ourselves want to help, we understand but it is not necessary to force us. This must come from the soul, from the heart [33].

From the perspective of this director, the issue is not about whether business should play a role in the social sphere, as his main point is that business already supports society, but it is about the way in which the business community has been 'forced' to contribute to the social sphere. The sense of annoyance, which is discernible from this director's statement, stems from the lack of acknowledgement regarding the

efforts that many businesses have already been making in the social sphere. It would seem that if business has been portrayed as reluctantly giving to society and only because it has to, then its image is not really going to be improved; it only perpetuates an image of greed. While this was one of the more emotionally charged responses given, I think it reflects the tension that would result from a reconfiguration of relations between business, the state and society, in which the business community perceives itself as taking responsibility in the social sphere, but has yet to see its reputation dramatically enhanced.

6.7 A 'Civilised' Business Environment: Russian Style

Socially responsible business has however been about the priority to create a 'civilised' business environment and improving the reputation of business is one of a few by-products expected to result out of this process. Even while each of the state, business and society have an interest in there being a 'civilised' business environment, the state has taken a leading role because of its power to determine the rules governing the business environment. The move to establish a more 'civilised' business environment became most obvious following the election of president Putin in 2000. Since then, the priority of the state has been to establish law and order in society, which has been achieved by increasing the authority of security and law enforcement agencies. These agencies are responsible for regulating business activity, and (with respect to the economic sphere), they are specifically concerned with enforcing issues such as property rights and tax payments. From the perspective of the state, socially responsible business then is first and foremost about the observance of laws, particularly in the tax sphere (Nikanorova, 2002).

In pursuing the compliance with tax and legislation more generally, the state has the backing of society. The reason being that society has resented entrepreneurs for what has been interpreted as the acquisition of property through dishonest means and customarily evading the law, particularly in the tax sphere. For the state, having the backing of society is important not only for the opportunity to accentuate entrepreneurs' indebtedness to society, but it also gives state officials the authority to target entrepreneurs and treat them as a ready supply of resources. The fact that business has a negative reputation only helps the state in its pursuits.

The intention to make a clear break with the chaotic environment of the 1990s was made clear by Putin early on in his first presidency. During Putin's first State of the Nation address in July 2000 Putin stated that, '[a] period is now beginning in Russia in which the authorities are acquiring the *moral right*¹⁶ to demand compliance with norms established by the state' (Putin, 2000). By justifying their authority on 'moral' grounds, state officials have the scope to interpret the law on the basis of personal attitudes and values. In this respect the law then becomes malleable and state officials can apply the law in both an 'officialised' and 'personalised' capacity, as discussed in the previous chapter (Yurchak, 2002). However, given the scope of their authority, entrepreneurs are vulnerable to harassment, which becomes justified on the basis of their negative reputation. By being held to ransom by the state for the way in which business operated in the past (whether or not these entrepreneurs were actually involved), entrepreneurs are kept indebted to the state and society. Despite a clarification of legal frameworks governing business activity, it has been the attitudes and values, which shape people's views of what is considered acceptable, that matter most. This points to the fact that creating a 'civilised' business environment is more complex than just clarifying the rules – although this is important as well.

Despite the fact that state-led initiatives to 'civilise' the business environment pushes the interests of entrepreneurs to the peripheries, the idea that the business environment is becoming more civilised appears to be taking hold amongst entrepreneurs of SMEs. When individuals taking part in this study were asked about the kinds of changes that they have seen during the time they have been involved in business, many pointed to the idea that business has become more 'civilised'. The director of a recruitment company in a different region of Russia said the following about the changing Russian business climate:

In my view business has become more civilised in Russia. There is no longer such a wild market as there was earlier. The situation has become more stable, this is already evident [30].

An owner of a travel agency in provincial Russia drew similar conclusions highlighting both the role that the rule of law has played and changes in the behaviour of business people.

¹⁶ Author's emphasis.

All business has become more civilised. In the end there are already laws that operate, because in principle in the initial stages this was all in the shade, very clandestine. Business was controlled by all sorts of different bandit groups...and now those who control business and thus made their initial capital have become distinguished businessmen, who legalised their business. They are no longer bandits, but businessmen. That is why now in principle business has become more regulated, and more civilised [20]

The director of a book publishing company in Moscow also described the changes that have occurred in terms of a shift away from a 'bandit' environment to one that has become more transparent and clear:

The main change has been that more and more of the market operates 'in the white'; because before it was a black and grey market, and now it has become more and more white, more open, transparent, clear, not bandit-like. This has been the main change to happen during this time [the transformation period] [18].

Significantly each of these respondents comes from a different region of Russia, suggesting that there has been no regional difference in how entrepreneurs view the change in the business environment. The comments made by these respondent brings to mind the attitudes of Russian reformers in the early 1990s in which it was presumed that with time, the chaotic business environment would settle as new owners began to recognise the value of becoming 'decent administrators of property' (Freeland et. al., 1996) and so would eventually metamorphose from being 'bandits' to becoming 'distinguished' business people. Based on the responses of interviewees noted above, one might be persuaded to agree with the position of the reformers. Certainly the change that has occurred in the post-Soviet Russian business climate has had as much to do with improving conditions in legal and economic frameworks and strengthening the enforcement agencies, as it has been about changes in individuals themselves. People are a product of their environment and their actions reflect the conditions that they face. Thus, the ideas expressed by the reformers have not been as simple and straightforward as they appear. Creating a more civilised business environment in post-Soviet Russia has been a complex process that has involved both changes in the environment and changes in the attitudes towards entrepreneurs, as well as changes in entrepreneurs themselves. As such, improving the reputation of entrepreneurs is also a process that will require time and the efforts of more than just entrepreneurs. However as long as socially responsible business continues to be viewed by state officials as a way to treat

business as an endless supply of resources, improving the reputation of business will indeed be a long and slow process.

6.8 Conclusion

This chapter has explored the concept of socially responsible business and how it has been promoted to create a 'civilised' business environment in Russia. While contributions to society by entrepreneurs is not a new phenomenon, it has received greater attention in recent times to address a specific set of problems in Russia that emerged as a result of its 'wild' market in the early 1990s. In this, it has been the business community that has largely been held responsible for the shortfalls of Russia's socio-economic transformation, even though in some cases the state has colluded with it. Both because of the perceived role of entrepreneurs in the failures of the socio-economic transformation and because of the Soviet socio-cultural experience in which entrepreneurship was seen as immoral, business has acquired a negative reputation. Since this is generally bad for business and holds its development back, entrepreneurs have a personal interest in enhancing their reputation and the practice of socially responsible business appears to be an ideal solution to address it.

In fact, the negative image of business and the idea that it is indebted to both the state and society has been fundamental to the way in which the concept of socially responsible business has been harnessed to address the failures of Russia's socio-economic transformation. Because socially responsible business centres on moral obligations, there are no hard and fast rules to define how much is 'enough' social responsibility. As a consequence of their negative reputation and owing to their indebted position, entrepreneurs can perpetually be held to ransom by the state as long as the shortfalls of the socio-economic transformation are seen to remain. The problem however is that inequalities are inherent to capitalist systems, and in Russia the decline in social welfare has been particularly dramatic. In effect, while socially responsible business is meant to help entrepreneurs shed their negative reputation, it can also be used as a tool to continually make demands on them, whereby state officials can treat entrepreneurs as a ready source of cash.

All the while, socially responsible business has been promoted as a panacea to simultaneously reduce poverty, strengthen the socio-economic prosperity of the country and at the same time, improve the reputation of business in Russia. Each of these in turn, is to contribute to an enhanced business environment making it a more 'civilised' arena for economic, social and political activity. In this respect, the concept of socially responsible business appears to be a winner for each of the state, business and society. However the concept of socially responsible business has been part of a reinvention of rhetoric on the development of SMEs. As such, the state has manipulated the concept of socially responsible business to apparently fit the needs and interests of the country. The problem however remains that as long as entrepreneurs are treated as a ready source of cash to the extent that it continues to hold business development back, then a prosperous society will not emerge, especially if it is to depend on the existence of a robust SME sector as its source of well-being. In effect, the state has been 'biting the hand' that is supposed to feed society. Despite the corrosive effect that Russia's style of socially responsible business could potentially have, entrepreneurs taking part in this study indicated that in some respects the business environment has become more 'civilised' relative to the 1990s suggesting that efforts to improve the business environment have not totally failed. Still it seems unlikely that SMEs could, on their own, bring about the kind of 'civilised' environment envisaged because they have been caught in a downward spiral of indebtedness to the state and society, which has been reinforced by entrepreneurs negative reputation. Perhaps at worst, sentiments that the business environment is becoming more 'civilised' are in part a reflection of entrepreneurs becoming used to the harsh reality of doing business in Russia. As the previous chapters have shown, the problems for entrepreneurs do not end here and there is still substantial room for improvements to be made in the Russian business environment. Despite these attempts to cultivate a 'civilised' business environment, entrepreneurs of SMEs continue to be plagued by numerous obstacles in their day-to-day activities. In this, there has been little change from the early 1990s. Yet a key feature in this continuity has been the way in which entrepreneurs and state officials relate to one another. Another aspect of entrepreneurs' relationship with state officials will be explored in the following chapter seven in relation to the attempts of business associations to represent the SME sector.

Chapter 7

The Role of Business Associations: A Strategy for Entrepreneurial Success?

Business associations represent a unique opportunity to provide support to entrepreneurs and small business development. As a lobby platform positioned at the interface of private business and the state, business associations have the potential to affect positive change in the business community, providing it an opportunity to voice business interests to the state in a collective and civilised way. By uniting entrepreneurs in formal organisations, business associations should ‘civilise’ the forum of interest articulation away from the haphazard and personalised form of interest articulation that prevailed under Yeltsin. In fact according to Pyle (2006) from the late 1990s, and particularly since Putin became president, there has been an increase in business associations in Russia. On this basis it would seem that business associations have become more prominent. However an increase in the number of business associations does not necessarily mean that business associations have become more effective; the effect of more business associations could merely be superficial. Yet aside from this, due to their position between the state and business, they could be seen as something of a panacea mediating economic and political interests and improving the business climate for entrepreneurs. Thus, given this intermediary position, business associations are like a prism through which the redefinition of boundaries between the state and business can be observed.

However even while there is potential for business associations to have such a positive impact on entrepreneurs and small business development, their actual capacity to meet the needs and interests of entrepreneurs of SMEs has been limited. It has been argued in most of the literature on Russian business associations (which focuses primarily on organisations representing big business) and in contrast to Pyle’s findings, that business associations do not play an influential role in Russian society. Looking at the role of the Russian Union of Industrialists and Entrepreneurs (Rossiiskii Soiuz Promyshlennikov i Predprinimatelei, or RSPP) to explore the nature of state-business relations, Hanson and Teague have found that ‘fragmentation, informal links and particularistic treatment have once again become

salient in the state's dealings with the business world' (2005: 673). As a consequence, the business community does not lobby the state in the kind of 'civilised' manner envisioned above. Hanson and Teague have based their argument on the premise that the Russian system most closely resembles that of a state corporatist system in which 'the state unilaterally designates particular organisations as interlocutors and excludes others...it may still derive information useful for policy from these exchanges, but it sets the terms of the dialogue' (2005: 658). Hanson and Teague's view points to the limitations of business associations in Russia. Business associations do not mediate relations amongst equals, but rather filter information from the state down to the business community in which the power and influence of business has been subordinated to the authority of the state.

Frye has also focused on big business and, in exploring the link between state-business relations and business lobbying in Russia, he has considered the extent to which lobbying represents a form of state capture or elite exchange. In the case of state capture, 'powerful firms are said to have great sway over the state and bear little cost for their influence' (Frye, 2002: 1017). In the case of elite exchange, 'firms receive favourable treatment in return for providing benefits to state agents' (Frye, 2002: 1017). The idea that personal ties play an important role in business lobbying in Russia, whether it be through state capture or elite exchange, is implicit. Frye argues in favour of this second alternative in which business obtains influence in exchange for providing benefits to state officials. This idea of exchange between business and state organs in business lobbying has also been relevant to the role of business associations representing the SME sector. In the present study, the leadership of business associations appeared to sacrifice the priorities of the business community to gain influence with the state through which these organisations could then receive benefits that would help their membership. The establishment of relations at the elite level between directors of business associations representing SMEs and state organs has fostered the kind of particularistic treatment that Hanson and Teague (2005) demonstrate between the state and organisations representing big business.

Pyle (2006) however, offers an alternative view of business associations, suggesting that they provide a business support role to entrepreneurs, which in turn supports

market development. While Pyle presents rich survey data that provides insight into the activities of business associations and the nature of associations' membership, Pyle gives inadequate attention to the role that personal connections and informal networks play in the function of business associations and so misses an important point about how even the things that members find useful about business associations can be exclusionary and thus counter-beneficial to creating a 'civilised' platform for articulating business interests. That business associations do play a positive role for entrepreneurs of SMEs, albeit in a restrictive sense, is nonetheless important and this chapter will highlight that it has been through continued reliance on personal ties and networks formed both within and by business associations, that entrepreneurs have been able to extract some benefit from them.

According to fieldwork findings and drawing on the findings and frameworks of these studies, it has been found that informal networks, cliques and particularistic treatment pervades the work of business associations representing the interests of the SME sector. Consequently, many of the entrepreneurs taking part in this study have believed that business associations have played an inadequate role in representing their interests. However, it seems that a mismatch of expectations between entrepreneurs and the leaders of these organisations has been a source of mutual suspicion with regards to what the role of business associations should be. In Russia's unstable political and economic environment, what entrepreneurs of SMEs have wanted most has been practical help and advice. Business associations however, have had a different view of their role and have seen lobbying the government for legislative and policy change as their main task. In pursuing these objectives, business associations have given the impression that they have been oriented more towards the state than to the business community that they represent. In the course of lobbying the government, the leadership of business associations have appeared to give priority to 'keeping in with' politicians and in this way they have exchanged broad and genuine influence for the business community in favour of more direct, personal and informal influence with state organs. This in turn has fuelled suspicion amongst entrepreneurs, causing them to question the utility of these organisations. Even while the number of business associations might have increased, the entrepreneurs taking part in the present study drew away from and rejected the idea that business associations can play a positive role in enhancing the

business environment. Rather they indicated a preference for relying on personal networks to protect their business interests. So rather than ‘civilising’ the Russian business climate and perhaps contributing to the development of a vibrant civil society, localised networks and personalised business lobbying remain important ways of defending one’s business interests, even if this occurs under the cover of a business association.

This chapter will consider how the difference in expectations between entrepreneurs and business associations has led to mutual mistrust between them and how, as a consequence, the use of personal networks to access practical support persists. Following this, some of the reasons why the leaders of business associations appear to have been oriented towards the state will then be explored. However in order to address these issues fully, it will be necessary to first begin by examining the dynamic of intersecting interests of the state and business in the economic sphere. It will be argued that although state-business relations are characterised by interdependence, business interests have more recently been subordinated to those of the state making the role of business associations less significant. This helps to explain the contradiction between the rise in the number of business associations and the perception of entrepreneurs of SMEs that business associations have been inadequate in both meeting their needs and enhancing the business environment. Each of these factors will show that business associations have complemented, rather than substituted, the use of personal ties when lobbying the state. As a result, the scope for business associations to bring about fundamental change in ‘civilising’ the forum of interest articulation has been limited.

In examining the role of business associations, this chapter will draw on findings from field research in which entrepreneurs were asked about business associations and leaders of regional organisations were interviewed about their role and capacity to provide help to entrepreneurs of SMEs. This chapter will also focus on the activities of two recently created pan-Russian business associations that specifically represent SMEs: OPORA and Delovaia Rossiia¹⁷. In addition to this, because the

¹⁷ Both of these organisations were formed in 2001 with the direct support and endorsement of the state (Germanovich, 2001; Voronina and Proskurnina, 2003; Radaev, 2003: 126). OPORA is an umbrella organisation that has united pre-existing local and regional business associations to represent

literature on Russian business associations focuses primarily on big business, this literature will also be referred to by way of comparison and to highlight the role of business associations representing the interests of the SME sector. Looking at the role of business associations from all of these different angles will provide broad insight into their capacity to assist entrepreneurs.

7.1 State and Business Interests: The Critical Juncture

The intersection of state and business interests in the economic sphere represents a critical juncture because it defines the balance of power between these two spheres. The nature of this balance, in turn, affects the kind of role that business associations play. The relationship between the state and business has been framed by the socio-economic changes that have been occurring throughout the period of transformation in post-Soviet Russia. In a sense, political elites can be viewed as the ‘managers’ of economic reform on the basis that they have overseen the implementation of the economic reforms, which have led to the formation of a market. Entrepreneurs have been the agents of change in the way that they have responded to these reforms, and have thus also played a direct role in shaping the kind of market that has developed in post-Soviet Russia. The intersection of interests and objectives in the economic sphere has therefore been crucial to the relationship between the state and business and in turn has had an impact on the capacity of business associations to mediate between business and the state. It is this intersection of interests in the economic sphere that forms the basis of an interdependent relationship between them (Chirikova and Lapina, 2002: 171).

This interdependence has been dynamic, characterised by aspects of power and vulnerability for both political and administrative officials on the one hand and entrepreneurs on the other. The power of political and administrative officials primarily rests in their capacity to influence the economic environment through the legislative and executive powers that they wield. Importantly, this is achieved through both legal and semi-legal frameworks (Ledeneva, 2001: 32-35). The power

primarily the interests of small enterprises. OPORA is composed of a central branch with governing bodies in Moscow and regional branches located throughout Russia. The structure of Delovaia Rossiia is less complex as it is not an umbrella organisation. Delovaia Rossiia is made up of regional branches across the country as well as its central branch also located in Moscow. Delovaia Rossiia represents the interests of medium-sized enterprises focusing on so-called ‘non-oligarchic’ businesses involved in domestic production.

of entrepreneurs stems from their capacity to control resources of economic significance and extract wealth from them. Yet for both political and administrative officials and those involved in business, there is a reverse dimension to their respective positions of power. While political and administrative officials are able to coerce certain behaviour from entrepreneurs through legal and semi-legal frameworks, they are at the same time reliant on entrepreneurs to develop and support economic growth in the country. This expectation of entrepreneurs is important to political and administrative officials because it fits in with the wider objectives of post-Soviet Russia's socio-economic transformation.

Yet it has remained important that political and administrative officials have the power to determine the 'rules' of practice for the business community. Political and administrative officials have been able to restrict the position of entrepreneurs through both the executive powers of the government, and the legal resources (particularly the security and law enforcement agencies) that they have under their control. Under these powers, entrepreneurs have been vulnerable to levels of high taxation, and their property rights have been opened to greater scrutiny from security and law enforcement agencies. Since Putin was elected President in 2000, this aspect of political and administrative officials' power has become more significant. Whereas in the early 1990s representatives of business had plenty of scope to assert their interests, this balance of power has shifted in favour of the state since 2000. Whilst the scope of business has been most visible at the elite level in which, as a result of political and economic weakness of the state in the 1990s a select few of the business elites had significant political influence and were able to acquire valuable natural resource assets through the loans-for-shares deal in 1996-7 (Hoffman, 2002; Freeland, 2000), features of this relationship have also been evident amongst entrepreneurs of SMEs and representatives of the local and regional administration.

Many entrepreneurs taking part in this study spoke of the early 1990s as a time of golden opportunity when they had the freedom to develop their business. Paradoxically it was the unregulated market, born out of the general chaos and upheaval of the early 1990s that provided a wealth of opportunities for entrepreneurs. An entrepreneur from provincial Russia described his experience in business in the early 1990s in the following way:

I believe that back then was a good time for the development of business... We didn't have high taxes and we could put all our profits into the expansion of our business. [11]

Another respondent, a businessman and politician from the same region, expressed a similar sentiment saying that,

In the beginning of the 1990s it was easier. It was possible to work – that is you could rely on [the prospect of] earning something. [10]

Both of these statements indicate that it was easier to create and expand one's business in the early 1990s, and also suggest that the situation has changed today. Private enterprise and entrepreneurial activities were not strictly regulated; the amount and pace of change made regulation of private enterprise extremely difficult. Instead, the priority of the state was to create new owners immediately – regardless of the consequences – on the expectation that things would sort themselves out later. One of Russia's key economic reformers, Anatolii Chubais even indicated as much in the early 1990s when he was head of the State Privatisation Committee by saying about entrepreneurs that, 'they are stealing absolutely everything and it is impossible to stop them...but let them steal and take their property. They will then become owners and decent administrators of this property' (Freeland *et. al.*, 1996: 17). The ability of entrepreneurs of SMEs to develop their business stemmed from a weak state that was unable to enforce its authority due to the nature and extent of economic, political and social transformations. This 'sorting out' of private enterprise activity has occurred as businesses have come under tighter regulation. Following mandates from the Putin administration to strengthen the authority of the state, security and law enforcement agencies have gained greater authority and have used this to regulate business activity. In the eyes of some entrepreneurs, this increased regulation has amounted to greater difficulties in business relative to the disorder of the early 1990s. Illustrating this point, one respondent said, 'it was easier then working in the grey economy than [working] legally today' [10]. The 'legalisation', or conducting enterprise activity in the 'white', points to processes of 'civilising' the business environment in Russia. For entrepreneurs of SMEs, the shift in the balance of state-business relations has come in the form of restricted freedoms as state agencies have increasingly enforced the numerous and often contradictory rules and regulations that govern business activity.

Business associations should theoretically protect the interests of entrepreneurs against overbearing and authoritative state agencies. The fact that business associations have become more prominent since the late 1990s (Pyle, 2006), might suggest there is a link between this and the shift in the balance of power between the state and business. The freedom that entrepreneurs experienced in the early 1990s, and particularly their capacity to exploit personal connections for economic and political gain, meant that there was less demand from entrepreneurs for business associations to play the kind of protective role that would interfere with their ability to take advantage of entrepreneurial opportunities. Under the priorities of the Putin administration, the usual avenues of articulating business interests to the state have been closed. This has been evident as far as business elites have not been able to establish close 'personal' relations with Putin, as some were able to do during the time that Yeltsin was President. Thus re-drawing the boundaries between the state and business was part of a drive to, at least superficially, de-personalise state-business relations, and membership in business associations give the impression of 'civilising' the forum of interest articulation.

At the elite level, a visible consequence of the re-drawing of boundaries between the state and business has been the membership of some of Russia's leading oligarchs in controlling organs of the RSPP. Where the state is able to communicate with business through such organisations, it is, in theory, able to address the interests of business within a single forum. At the same time, this also helps to keep representatives of business at a manageable distance from the state. However the suddenness with which these oligarchs became members of the RSPP, and given the influential positions that they immediately acquired, it is more likely that their membership represented the cooption of this organisation than a genuine process of 'civilising' state-business relations. Indeed the creation of OPORA and Delovaia Rossiia (the two pan-Russian business associations that represent the interests of the SME sector), which were formed with the direct support and endorsement of the state, has been linked to the cooption of the RSPP by the oligarchs (Germanovich, 2001; Voronina and Proskurnina, 2003; Radaev, 2003: 126). Prior to their creation, the RSPP dominated the business lobby sector and had been the only business association to gain direct access to the Kremlin (Granik, 2001a; Germanovich,

2001). By having additional organisations representing the interests of SMEs, OPORA and Delovaia Rossiia counter-balance the weight of the RSPP in the Kremlin. In this way also, trends occurring at the elite level to subordinate the influence of business to the state, are also visible at the level of the SME sector.

The subordination of businesses' to the political sphere has compelled the leaders of business associations to orient their activities in such a way as to attract the attention of the state. This has been evident from the outlook of directors of business associations representing the SME sector. A senior members of a regional branch of a prominent Russian business association placed value and emphasis on the opportunity for dialogue with the state saying that:

Once there is a wish between the president and business to meet, without a doubt a meaningful dialogue occurs and they find a point of contact, but this is not from a position of power. Once the dialogue starts, all problems are resolved...and when there is dialogue, there is a process of reviewing existing problems...you need to talk [26].

The outlook and orientation of directors of business associations representing the SME sector reflects the dependence of the business community to the power of state agencies. However some individuals, such as the Director of the regional branch of a pan-Russian business organisation, have expressed resentment over their subordination saying that, 'to a large extent, those in power want to be in charge of everything, to get involved in everything, but this is not their concern; they are not specialists in business' [33]. Yet it has remained the case that, in a climate in which civic organisations are viewed with suspicion by the state¹⁸, business associations require the tacit approval of it in order to be able to continue with their activities. This orientation however, undermines the idea that business associations are neutral, which has been visible both in the way that pan-Russian business associations have been formed and in the way that informal lobbying (between leaders, members of these organisations and the state) remains the preferred approach to articulating interests and addressing concerns, even while this might occur under the cover of a business association. Before moving on to consider the persistent use of informal

¹⁸ The laws that were recently passed concerning the activities of NGOs underscore the lack of trust that the state has for society. These laws (passed on January 2006) give the authorities extensive powers to monitor the activities and finances of NGOs, as well as suspend them if they are seen to be threatening the country's sovereignty or independence (www.news.bbc.co.uk 2006).

networks, some of the ways that business associations attempt to attract attention from the state in exchange for the opportunity to establish a link to it, from which informal lobbying can then occur, will first be considered.

7.2 Vehicles of State Interests

The orientation of business associations towards the state has been visible from the way in which they have been getting drawn into the political agenda of the government. Putin has highlighted the importance of realising *national* priorities and *national* projects. Areas of national significance indicated by Putin are in the field of education, health, housing and rural economic policies; most of which, it must be emphasized, do not lie in the domain of business activity. Yet despite this, organisations such as OPORA and Delovaia Rossiia have developed their activities to fit with these objectives of the state. OPORA recently announced in an article on its website that the national project on accessible housing demands the establishment of dialogue between the state and business (Press-sluzhba OPORA Rossii, 2006). Similarly, Delovaia Rossiia has developed a project on the health of the nation. In keeping with the themes raised by Putin, Delovaia Rossiia has also stated on its website that business should be patriotic and develop long-term programmes jointly with society (Obrashenie k predprinimateli..., 2004). Demonstrating its patriotism, Delovaia Rossiia has also organised a competition for Journalists in the regions of Russia titled, 'Made in Russia', which aims to promote the development of civil society and encourage business activity in the regions (proekty DR, 2005). Where the state has also called for charitable and philanthropic activities in the country, these business associations have strived to satisfy national priorities outlined by the government, incorporating them into the programs of business associations (Ustav OPORA, 2002; Programma "Delovoi Rossii", 2004).

While there is no denying the value of programmes in the sphere of education, health, housing and rural economic policies, it is clear from conversations with entrepreneurs that this is not necessarily the kind of assistance that they seeking. In fact, these priorities have nothing to do with assisting SMEs, rather they are about SMEs assisting society. In this way, it is about an exchange between the state and business associations to maintain stable and peaceful relations between the state and business. These kinds of expectations on SMEs are about the social responsibilities

of business, a concept that has received increased attention in recent years, and was discussed in chapter six. However, given the challenges that entrepreneurs face (discussed in chapter five), what is needed most from the perspective of individual entrepreneurs is immediate and tangible support in the way of credit and premises. Business associations generally (including the likes of OPORA and Delovaia Rossiia) do not provide this kind of support. In this respect, business associations are at variance with the needs of entrepreneurs and there is a mismatch between what entrepreneurs want and expect from business associations on the one hand to what business associations are willing or able to provide on the other. This mismatch in expectations fuels suspicion amongst entrepreneurs towards business associations, which will be addressed further in a section below. Thus while there might be very little in principle to criticise about Putin's social priorities, there is a disjuncture between the kinds of activities that business associations like OPORA and Delovaia Rossiia carry out and the kind of assistance that entrepreneurs of SMEs need most.

7.3 Talking the Talk of Power

An outlook that has focused on the state has been evident not only in the kinds of programs that business associations have implemented, but also in the way that leaders of these associations adopt language similar to that of the state about the SME sector. The kinds of statements made by representatives of OPORA and Delovaia Rossii (as well as other business associations) virtually mirror that of the state. During addresses to the nation, as well as in speeches to business associations, Putin has raised a number of recurring themes on the responsibilities of business in the social, economic and political sphere. Recent emphasis on the social responsibility of business stems from the priority of the state to improve the standard of living in the country. In the economic sphere, references have repeatedly been made by the state about the need for business to contribute to economic growth. One of the most significant statements made by Putin about this has been the goal to double the rate of GDP in ten years; and of course creating successful business will be crucial to achieving this goal (Putin, 2003). When Putin announced the goal to double GDP in ten years he said that,

[t]he most important thing we need to do here...is once again consolidation of political forces, of society, consolidation of all the authorities, of the best intellectual resources, and a joint search for the best ways to achieve what is

a strategic, a most vitally important and an historic objective for Russia (Putin, 2003).

Delovaia Rossiia has picked up on this theme of consolidation and in its message to entrepreneurs has said that, ‘only together, only by uniting all fundamental forces of the country, can we fulfil the task of transforming Russia into a leading and prosperous power’ (Obrashchenie k predprinimateliu Rossii, 2004). Here, the connection made between consolidation of social and economic forces and the prosperity of the nation is reminiscent of the language used by Putin in his state-of-the-nation address. Where Putin has warned businesses to stay out of the political sphere, these business associations have been quick to make known that they do not have any political ambitions; rather these associations recognise the importance of staying in favour with the Kremlin. Thus Delovaia Rossiia not only announced that it did not have any political ambitions, but also that ‘the main task of the association is to help the government’ (Granik, 2001a; Kornia, 2002). Perhaps to the dismay of its members, the leaders of Delovaia Rossiia did not say that their main task was to represent the interests of business. This is another instance where the SME sector has exchanged their interests for state priorities. This exchange appeals to the interests of the state and demonstrates that these associations are ‘on the same page’ as the state. By repeating the language used by the state, these organisations give the impression that they are simply ‘talking the talk’ of power. However establishing common goals helps to open doors for associations to make more direct appeals through informal means.

This phenomenon was also evident amongst regional business associations that took part in this study. During interviews, respondents associated with business associations often adopted the state’s language, or made direct reference to things said by the state. The Director of a regional branch of a national business association referred to Putin’s 2004 state of the nation address, stating that everything the president had said about the need to increase the level of charitable and philanthropic activity was correct [25]. This Director then went on to describe the kinds of activities that his organisation encourages in the business community as well as that which his organisation has been involved in. The Director of a different national association talked about the theme of the most recent annual conference, which addressed the importance of cooperation between business and power [33];

demonstrating an interest in cultivating ‘cooperation’ with the state, which has been another of Putin’s favourite themes, has been aimed to appeal directly to the interests of the state and not those of business. Similarly, an entrepreneur who is actively involved in the activities of a regional branch of a pan-Russian organisation discussed a recent forum that had been organised by her association.

Recently we had a large economic forum, that brought together business and the authorities and we discussed questions like how to ensure a high rate of growth for our economy...we concluded an agreement about our intentions to cooperate. We will work together and see what happens [24].

These kinds of initiatives by business organisations mirror the objectives first set out by the state and signify the tendency of organisations to direct their attention towards the state. What is more, conducting a forum on how to ensure a high rate of economic growth and concluding an agreement with the state seems to provide the kind of vague objectives that entrepreneurs do not value highly, but to which the state often makes reference. Yet despite the apparent vagueness of their aims, conforming to the state’s objectives is a useful strategy that helps business associations to exchange support of state objectives for particularistic treatment behind the scenes. At the same time, this ‘copycat’ approach of business associations does disservice to the interests of the SME sector and as a consequence, to civil society in post-Soviet Russia. This points at best, to a unidirectional dialogue that occurs between the state and society in which business associations appear to be little more than minions of the state and at worst, from the perspective of members of the business community, this points to a dialogue between the state and business associations that exclude the very section of society these associations claim to represent.

This dialogue between the state and business associations however has, at least been effective for demonstrating an acute awareness of the problems that confront entrepreneurs of SMEs. Yet as was shown in chapter three, awareness of the problems that entrepreneurs face does not automatically translate into their resolution. In this particular case, among those involved in the dialogue, it matters whose agenda is being advanced. The subordination of business interests to those of the state suggest that the resolution of the business community’s problems will be approached according to terms set out by the state (which might, or might not be in

the best interests of business). The fact that conducting a dialogue does not constitute a resolution in itself, was even picked up by a co-chairwoman of OPORA, Dina Smekalova, who said that ‘there is an understanding in dialogue, but it has to be filled [with concrete measures]’ (Ostrovsky, 2001a). Clearly there is a gap between understanding in principle the issues that SMEs face, and understanding how to address them in practical terms. As a consequence, the problems faced by the business community, and the tendency to rely on informal networks to address their interests, means that the challenges and ways of dealing with them become entrenched practice, possibly making it more difficult to change these customs as time goes on. It is this disparity that leads to vague policy initiatives such as the signing of agreements between the state and the business community about their intentions to cooperate, as discussed above by the entrepreneur who is actively involved in a regional branch of a pan-Russian organisation. The consequence has been that entrepreneurs of SMEs have continued to face a number of complex problems, which persist despite the state’s apparent interest in improving the SME sector. This contributes to hesitancy amongst the business community about what can be achieved through membership in business associations, particularly with those organisations that place high value on having dialogue with the state.

7.4 The Persistent Use of Informal Networks within Business Associations

The leadership of business associations tends to be oriented towards the state because this opens up opportunities for conducting dialogue with it. This dialogue is used to extract benefits from the state that will help those included in the leadership’s network. While some will be positively affected, establishing informal networks with state organs is necessarily an exclusive process that benefits only a minority of individuals. By their very nature, these informal personal networks keep the playing field uneven for entrepreneurs and this is in fact why the use of them persists. At the same time however, their persistence is part of what undermines the capacity of business associations to encourage broad improvements amongst the business community and to genuinely ‘civilise’ the business environment.

Despite this, many of those involved with the work of business associations that took part in this study indicated that establishing links with the state has been an

important part of their work in the business community. A director of a regional business association explained why working with state organs has been important:

It has been very important that I work with many organs of power, with different organisations and this has provided a lot of information: what to do, where to go if such a problem arose. And this is very important and that is why especially in the early days of the organisation, members often came to talk to me about some problems, and many got to know each other. I periodically got everyone together once a month and they talked amongst themselves. I often invited someone from an organ of power or from a bank or the fund for the support of small business to find out where it is possible to get credit and how to get a license and such questions, they received a lot of information... The point is that very many problems in small business can be resolved only jointly with organs of power [35].

It is clear from this that by working directly with organs of power, the director of this organisation has been able to acquire important information about how entrepreneurs are to get certain things done. Certainly this seems to be a very democratic sharing of contacts and information. Although the information exchanged in this particular instance appears to be quite basic, crucially, this knowledge seems not to have been readily available to everyone at that point in time. By uniting members together, along with representatives of state agencies, the leader of this organisation has encouraged the formation of both horizontal and vertical links. While this director leaves no doubt about the importance of establishing relations with power, the business association acts like a filter, channelling information from the state to its members and one that Pyle (2006) suggests is a useful service. This is in fact a function of business associations that is valued by members. One female entrepreneur who is a member of a different organisation in a regional branch of a pan-Russian business organisation, said the following about this:

As a member of the organisation, there were some discounts, cheaper booths, and then there was information. We were first in line to get information about what interesting things were going on and where [32].

While Pyle suggests that the transmission of knowledge through business associations is one of its key roles that promotes market adapting behaviour of entrepreneurs, it is clear from this statement that the advantage also comes in being the first to acquire this new information. This corresponds with the practice of *blat*, which has been used to acquire pertinent information that is not readily available. Thus, this is something that is facilitated by networks formed within business

associations. Receiving information early, and before most people are aware of it, is a competitive advantage that help certain entrepreneurs succeed.

Although engaging with the state to filter information is a more inclusive approach to the membership body, the extent to which associations are then able to influence the policies of the state is unclear. However, according to the director of the regional association, it turns out that in order to influence the policies of the state, a personal link is an important source of power. This director explains the value of a direct and personal approach over indirect methods.

If we have some kind of problem that needs to be resolved at the regional level, we appeal to the regional legislative assembly, but it is simply not useful to write a letter to the legislative assembly. Even if we write from all of our associations this letter just gets lost. That is why we only work through certain deputies of the legislative assembly, because as practise shows, if we want to achieve something, for instance a change in the law of our region or at the federal level, you need to work with specific deputies and go through specific people. Last year, as a result of working for a very long time with our legislators in the [regional] assembly, we made a contribution as our assembly took the inquiry about the problem of inspections that organs of the administration of internal affairs and the police carry out, to the state Duma [35].

While the personal connections of this director were used for the greater good of her members, as well as entrepreneurs more generally, there is a risk that these connections will be exploited to the exclusion of the wider business community. A director of a regional pan-Russian business organisation explained how he has taken advantage of his position for the sake of the members of his organisation.

It helps a bit that I am also a deputy of the legislative assembly because this is also part of the structure of power and there are opportunities to put some money through the budget for conducting these events and for covering the expenses of the events that we organise...during a discussion of the budget, I can also say [about others making requests to deputies] 'let's give them a little less'. So when our representatives are also deputies, we have a very interesting connection with the administration [33].

Even while these kinds of tactics might be good for those directly involved in which certain individuals can exploit their 'dual' roles (see chapter six), it potentially has a detrimental impact on those excluded. However it would seem that in order to create value for the members of his organisation, it must be achieved at the expense of others. Even if unfair to the wider business community, this is the way in which leaders of business associations are forced to act. Even the director of this business

association hinted as much when he said that his members like that the organisation is involved with the administration because it gives businessmen an opportunity to network with officials during exhibitions. Thus the push for working through informal networks comes partly from the membership body itself. As long as personal connections are the name of the game, people like this director will be forced to play along if they want to maintain their position within the organization and close to state structures.

Yet because of the reliance on personal contact, lobby space is necessarily limited to those who establish trusting relations with people in power. A consequence then, is that it can lead to competition amongst business associations as they each struggle to get the attention of state officials in order to carve out their own lobby space and thus benefit from particularistic treatment by the state. This not only perpetuates the system of informal networking to gain particularistic treatment, but it can also then lead to a hierarchy amongst business associations, whereby those that fail to attract the attention of the state risk falling into obscurity. Such a hierarchy has emerged between OPORA and Delovaia Rossiia, in which Delovaia Rossiia has struggled to create a niche for itself (Voronina and Proskurnina, 2003). Even though OPORA represents small business, and Delovaia Rossiia represents medium sized business, the boundary between the two has not always been clear. Overlap between the representation of these organizations has forced Delovaia Rossiia to differentiate its activities by focusing on so-called 'non-oligarchic' business involved in domestic production. Even this points out how carving a niche can be problematic; Delovaia Rossiia, having been forced into the undesirable position of defining itself as neither one thing (big business), nor another (small business) and has consequently struggled to attract the attention of the state. The struggle to develop exclusive links with state organs perpetuates hierarchies and inequalities.

Those that have been able to tap into the networks established between the leadership of business associations and state organs are at an advantage relative to those excluded from these networks. Those that are included in these networks have opportunities to make their interests known, but members outside this network might not be opened up to these opportunities. While it could be argued that such opportunities are the reward for successful networking, the point is that these

organizations continue to operate along the lines of personal interest lobbying. An active member in a regional branch of a Russian business association discussed the importance of having personal contacts in the government to whom they lobby.

If we have questions for the deputy governor, we go to him or he comes to us at a session and we discuss it together because he already listens to the voice not only of our enterprise, but also the voice of the regional branch of this organisation. This helps to resolve problems. This is the most invaluable thing to have today, it is how colleagues resolve issues on these or any problems. Simply not every enterprise will find itself in this position, for instance I doubt I could force my way in. I need some kind of recommendation letter, or some kind of personal contact... This is a huge benefit [24].

It is clear from this quote that personal contact matters. This kind of personal business lobbying has also been known to occur within the central organs of the RSPP, one of Russia's most prominent business associations (Hanson and Teague, 2005). As discussed earlier in this chapter, some of Russia's most influential businessmen co-opted the organisation by acquiring membership in the union's presidium – the most powerful organ within the RSPP – in order that they could carry out a dialogue with the state. In both these cases, it is evident that even though such lobbying occurs under the cover of a formal organisation, it does not mean that business lobbying has been de-personalised.

The preference for lobbying on a personal level also relates to the issue of trust. In a low trust society, like that of Russia (Hanson and Teague, 2005: 669), smaller networks persist, within which trust is more easily cultivated on the basis of reputation and reciprocity (Putnam, 1993). This kind of trust is limited in so far as personal relations can be established between people. As far as this 'arms-length' trust does not cut across different groups, it cannot be transformed into broader levels of trust within society. Business associations, such as these discussed above, do not foster broader levels of trust in Russia.

Smaller and disconnected networks persist because they more effectively meet the immediate needs and interests of entrepreneurs. The preference to cooperate first and foremost with people with whom trust has been established came through in discussions and during interviews with entrepreneurs. An entrepreneur involved in

the construction industry in Moscow described the boundaries within which he meets with other business people.

Of course, there are some businessmen with whom I speak and whom I get together with, but this is all in the bounds of our 'halo' [people that are trusted]. In terms of the city of Moscow, this is a huge metropolis. I can't say much about other regions; there is not much contact. And with the administration, I speak with them only as far as it is necessary and so the basis of support is not proposed. It is better to spend this time for the benefit of the business [7].

It is clear from this statement that there are definite benefits to be derived from meeting with other businessmen, but the perception is that it is most effective when meetings are limited to one's inner circle of trusted friends and colleagues. Also, it is implied that efforts made beyond one's circle of colleagues and friends amounts to a waste of time for business. The entrepreneur involved in the publishing industry in Moscow also made this distinction between informal business networks and formal associations.

We are not part of an association as such, but simply some of us publishers get together in private, maybe you could say it is like a holding. And thanks to this we continually have sufficient credit in goods with each other. Thanks to this, we continue to function normally. This is not a kind of association, it is simply a few people with similar firms like myself, cooperating and we support each other by trading goods...this is on a friendly basis, but naturally there are financial interests here [18].

It seems from both of these comments that the value of these informal associations over that of formal organisations is that the individuals involved have a sense that they play a meaningful role in the network. These individuals have a voice in the network to articulate their interests. By keeping the network small, and including only those with whom trust has been established, the entrepreneurs have direct contact with each of the other members. It is probably also helpful that the people involved in the network share a common link, be it occupation or friendship, giving them a personal stake in making the association work for them.

This contrasts sharply with the experience of entrepreneurs at the founding conference of OPORA. One of the entrepreneurs participating in this conference complained about the lack of consultation between members and leaders of the organisation with regards to selecting candidates to sit in the presidium (a central

controlling organ) of the organisation (Germanovich, 2001). The refusal to allow individuals participating in the conference to be included in the list of candidates demonstrates that the vast majority of members were excluded from playing an active role in an organisation that claims to represent its interests. This inability to have a voice and play an active role is part of what contributes to individuals' preference for smaller, informal and personalised networks.

Nonetheless, despite the gains that come from this kind of informal business network, by their very nature they will be unable to fundamentally change the conditions within which entrepreneurs of SMEs work, such as for instance in the legislative and tax spheres. Of course, most informal business networks do not aspire to achieve these kinds of goals, but instead focus on satisfying their own immediate needs. The reliance on smaller networks to advance one's interests thus represents a common feature between formal and informal business networks. On this basis, one can see that entrepreneurs of SMEs might be left with the feeling that membership in formal business associations serves little purpose. However, one important difference is that formal business organisations show a capacity to establish links to state structures, which likely places members of this network in a better position for receiving valuable information that benefits their business. For those excluded from reaping the benefits of these networks, a feeling of resentment towards business associations emerges. Thus it is now appropriate to consider entrepreneurs' perceptions of business associations and the factors that shape them.

7.5 Business Associations: Empty Words or Reliable Support?

Time and again, when entrepreneurs were asked about the possible role that business associations could play in helping them out, the response was negative and they expressed uncertainty over what these organisations could offer them. One entrepreneur from Moscow who runs a publishing house perhaps best captured the general sentiment of entrepreneurs who took part in this study that business associations provide little use to the average entrepreneur when he rhetorically asked, 'in what sense can they support business?' [18].

The emphasis that business associations have placed on having a dialogue with the state has perhaps created the impression that the leaders of these organisations

collude with representatives of state organs thereby contributing to entrepreneurs' negative view of business associations. As a consequence of not being a part of these networks, the perception amongst entrepreneurs was often that they have been excluded from accessing the resources of business associations, which in turn has contributed to the idea that business associations do not meet the needs of entrepreneurs. Entrepreneurs taking part in this study indicated that what they needed most was immediate practical support and advice; and despite attempts to access it, many felt they were unable to get to it. As one might expect, negative views of business associations were expressed most strongly by entrepreneurs who were not members of any business association, but this was not exclusively the case. In some instances, members of associations expressed uncertainty about the usefulness of their membership to their entrepreneurial endeavours. This however raises an important point about the expectations of what the role of business associations should be. While entrepreneurs tend to expect that business association should provide practical help in the form of finding premises and accessing credit, leaders of business associations see their role less as providing individual support and more as improving the business environment for which they view lobbying to the state as important. Thus there is a clear mismatch in expectations between entrepreneurs on the one hand, and the leaders of business associations on the other over what role business associations should fulfil.

Such a mismatch in expectations has been evident in other studies in Russia on women's organisations as well as organisations concerned with issues of migration (Kay, 2000; Flynn, 2004). Both of these studies found a mismatch of expectations between the leaders of these organisations and its membership in which each side felt suspicious towards the other. Where members accused the organisations of being self-serving and felt that the organisations were not meeting their needs, the leaders of the organisations were equally cautious of members who seemed to simply expect to get something from them, thus fuelling feelings of mutual suspicion between the two sides. While in this study entrepreneurs' suspicion of business associations was particularly obvious, this feeling was less perceptible (though not completely lacking) from the leadership of business associations. While the relationship between these organisations and the community that it represents might not be identical to those of other studies, there is sufficient overlap to suggest that

this is a pattern that cuts across different social and economic groups in Russia. Even still, the mismatch in expectations over the role of business associations has been a source of tension between its leaders and the business community. Looking first at the role of business associations from the point of view of entrepreneurs, the point of view of leaders of business associations will then be considered to show the way in which this mismatch of expectations has taken shape.

Many of the entrepreneurs that took part in this study felt that the mandates and programmes of business associations offered nothing more than empty words. As a consequence, the feeling was that these kinds of organisations were best avoided. When asked about meeting with different businessmen, an entrepreneur from Moscow said the following:

Sometimes, yes we meet with other businessmen, but we don't visit those kind of business centres...they say that all their activities provide support for small business, this is all just talk. In actual fact, everything that is thought up for small business is applied to big business; under the screen of small business they receive privileges and what have you [1].

What is interesting is that while this entrepreneur did not reject the idea of meeting other business people entirely, he was specific in his rejection of formal business associations suggesting that it is not so much the reliance on informal networks that is the problem, but rather the idea of being excluded from them. Although it is not possible to confirm whether in fact the support offered to small business is actually applied to big business (as suggested in the quote above), that this person strongly believes business associations are not there to help the average small businessperson is important; people are not going to join organisations, if they do not believe in the integrity of the organisation. Also interesting is that underneath his conviction about business associations is the idea that small business has somehow been less valued or less important than big business. The business partner of this entrepreneur shared similar views about the failure of business associations to provide the support that they claim to offer.

Wherever you need to go to get help, they don't lend you support there. They have these structures, the department for the support of small business created by the government of Moscow, but it doesn't give the support that it speaks of, which they advertise etc, which is supposedly to create business-centres and provide premises. Right now we have three million square metres of premises apportioned for small business, but in actual fact these premises aren't available. It is difficult [2].

Both of these entrepreneurs express suspicion over the kinds of programs that have been developed specifically for entrepreneurs of SMEs. It is quite possible that these entrepreneurs would be much less critical of business associations' insular approach had they been able to access the support that they perceive is available and on offer from these organisations. Cynical attitudes about the role of business associations thus stemmed from the perception that such support was indeed available, but only to those who had the 'right' connections. This lack of trust in the support offered to entrepreneurs was evident elsewhere and in places outside of Moscow. One woman from a provincial centre who used to run a few cafes in a small town outside the major urban centre made virtually the same points about SME support programs saying that,

I don't know how it is there in Moscow, but here, this is just words. No one helps anyone...we have some kind of organisation in the city and money is earmarked for the support of small business, but we don't see it. No one knows where the money goes. I believe that this needs to be investigated, where the money went...It's all spent by their own and for their own people. It's more words and less action. You need to have connections [8].

Like the two entrepreneurs in Moscow, the sense of distrust towards centres providing business support is made clear. While it is relevant to point out that none of these entrepreneurs are members of a business association, their negative perceptions of business associations stem from their personal experience of trying to get support from them. According to Pyle's (2006) findings in his study of Russian business associations, it was rarely the case that entrepreneurs chose not to join business associations out of ignorance. Indeed one of the entrepreneurs from Moscow explained how he had tried to access the support that is supposedly available to small businesses:

For instance we went to the department to resolve some problems, to register and we wanted to get a subsidy. But everywhere you go all you get is a refusal. We wanted to get some space at a trade centre, which was picked out in Moscow for improving the infrastructure of business in the city. But there weren't any premises; this was all just numbers for show. That is on paper they exist, but in reality they don't [1].

Similarly, a female entrepreneur who runs a small grocery store in Moscow said the following about her experience with business associations,

I was at the Central House of Entrepreneurs for one year. I even joined as a member, but they didn't help me. This was only to pay fees and there was nothing more to it [6].

The point is that these people have not simply got carried away having a tirade about the futility of business associations; these views stem from the fact that they have genuinely tried to access the support which they believe has been made available to certain people who have established the 'right' connections. On this basis, it would be natural for entrepreneurs to respond negatively to the role of business associations. A further example that highlights the efforts of entrepreneurs trying to access support from business associations comes from the head of a firm that supplies automotive parts in Moscow.

There is this internet site [www.mbm.ru] for the support of small business...sometimes we read it just to familiarise ourselves with things. It is possible to ask for help. They have a special program of support. Here they have written that they have spent 608 million roubles on the development of SMEs. But where this money goes is not clear. They have given 500 leases to enterprises. In principle I can explain how these 500 leases were given, and I can explain where the 3 million square metres of non-residential space has gone: it all goes to their own, to those who sit there beside them, to their family, to their friends [1].

The website mentioned is oriented towards small business in Moscow and is organised as a 'social-expert council for small business under the mayor and government of Moscow'; in other words, it is a government organised association, not dissimilar to the organisation of OPORA and Delovaia Rossiia all of which have close links to the state apparatus. The website provides information to entrepreneurs of SMEs and also provides details of the structure of this organisation and its programs. What is interesting is that despite this individual's general dissatisfaction with business associations, he still relies on them to some extent and is ready to acknowledge instances when they are useful. Also interesting is that OPORA offers a similar service of information and advice to entrepreneurs through their website. This service is free and appears to be available to anyone who has access to the internet. Where having access to information is always valuable for entrepreneurs, this is a useful service. At the same time however, advice provided via the internet can only go so far in helping entrepreneurs of SMEs overcome the challenges of the Russian business environment. However in this regard, business associations have

been able to make small steps towards improving the business environment for entrepreneurs.

Another part of this statement, which was also highlighted by the woman who ran cafes in a provincial town, is the belief that informal personal networks and even cronyism determine how support from such business associations is accessed. Even though we are dealing with people's assessment of the situation, the idea that having personal connections to those in charge of the business associations are vital to accessing this support indicates why entrepreneurs have been suspicious and sceptical of them. And once again, while it might not be accurate to say, on the basis of these responses that cronyism pervades the efforts of business associations, it has been shown in previous sections of this chapter that the leaders of business associations value highly their links to state organs, which could be interpreted as collusive ties used to favour their own members. Such perceptions on the part of entrepreneurs might indeed raise expectations over the kind of support they feel business associations should provide. Based on some of the statements made by the leaders of business associations, considered earlier, their preference for dealing directly with the state gives the impression that business associations are most effective when they facilitate personal contact with the state and amongst members. Entrepreneurs thus form the opinion that the kind of help they need is available, it is just not available for them. It is for this reason also that these kinds of entrepreneurs have rejected the utility of formal business associations, in favour of forming their own informal business network that is concerned primarily with meeting their immediate individual needs. There is clearly a vicious cycle in which business associations do not seem to be able to move beyond personalised networks to establish a more transparent system of interest articulation as envisaged in the beginning of this chapter.

The expectation that business associations should provide practical help to entrepreneurs on an individual basis has placed the leaders of business associations in a difficult position. From their perspective, they must strike a balance between satisfying the demands of entrepreneurs and fulfilling their objective of improving the business the business climate in the best way that they know how; which involves establishing personal ties with representatives of state organs. A director of

a regional business association in a provincial town brought to light the crux of this mismatch in expectations whilst discussing some of the association's initiatives.

Our initiative was successful. In this particular case the work of the organisation brought probably the most tangible success; although members probably didn't notice it. Because in essence members of the organisation want personal help and not help to all entrepreneurs at once. That is why they don't always appreciate the work of entrepreneurial associations. But probably we need to do more to explain this [35].

The leaders of business associations clearly face a dilemma in trying to satisfy the interests of entrepreneurs generally, and at the same time address the immediate needs of specific entrepreneurs. As this director also recognised, a lack of reporting to the business community about the success of the organisation can undermine their efforts and lessen their appeal to members of the business community. In fact, one of the members of this director's organisation even struggled to explain the benefit of joining an association. Interestingly however, as she gave further consideration to her experiences of being a member of a business association¹⁹, it seemed that her uncertainty over the benefits of membership stemmed in part from the kinds of things she expected to get from the organisation.

I can't say that [being a member of an organisation] has many benefits... It seems that you don't get anything from it, but in actual fact now I have thought about it, I am reminded that I got a lot from it. But now I don't need all of this [32].

After having considered what was helpful and beneficial to being a member of a business organisation, this woman identified intangible aspects of support that she had received.

It was an exchange of experience, you see people like yourself, listen to others, learn. People there are experienced and knowledgeable and they prompt and teach you and simply whatever you hear remains with you and that is why this is useful in the beginning stages [32].

Based on the experience of this entrepreneur, it seems that she derived benefits by going out and making the most of what was available. In this way, it is clear to see how expectations, particularly high expectations, can shape people's perceptions of the kind of role business associations should play.

¹⁹ In fact this entrepreneur indicated that she was a member of three different organisations.

Business associations' relation to state organs has been another area over which entrepreneurs and the leaders of these organisations (sometimes) disagree. Where it has been the view of entrepreneurs that business associations collude with representatives of state organs, the leaders of these organisations would argue that their efforts have been directed with the interests of entrepreneurs in mind. One of the leaders of a regional branch of a Russia-wide business association explained how she believed having a dialogue with the state was fundamental to helping entrepreneurs.

Only through dialogue [with the state], to explain what hinders the development of business, will we come to an agreement about how we will eliminate the problems and establish a time period and carry out these processes. Our hope is on the governor that he himself came from business and understands these processes very well ... If these problems are resolved, if these barriers are eliminated, this is the way to success [26].

This quote also highlights the difference between what entrepreneurs and leaders of associations see as the primary role of business organisations; whereas entrepreneurs see it as being the provision of practical support, leaders of associations see it as lobbying the state. While there may indeed be merit in explaining what hinders the development of business to the state, it also appears that business associations can only be as effective as the authorities allow them to be. This is clear in this instance, from the way in which hopes were pinned on the governor having a favourable attitude towards business.

Even where entrepreneurs could see the value of such dialogue between the state and representatives of business organisations, the fact that this does not provide concrete results for entrepreneurs was highlighted as a significant shortfall making business associations not that relevant to entrepreneurs.

These meetings in any case must always occur more often, they are needed. It seems to me, well in principle, that they are needed on both sides, for working out simply, or some kind of general line or direction, in this sense there is some kind of use. But all the same this includes sufficiently long-term perspectives, and in business I need things now, here and concretely [18].

In this regard, the expectations mismatch appears virtually impassable. The director of a regional organisation explained that some of the efforts of her organisation,

which although they involved representatives of state organs, were guided by an interest to help entrepreneurs.

I come into contact with our members only when we conduct round tables. This is when I need the authorities to see first hand how the problem affects the entrepreneurs that are directly confronted with it. In other words, to show the authorities that we didn't think up this problem that this problem actually exists today. That is why these joint round tables with the authorities, with representatives of state organs, they are carried out on the one hand for resolving problems, to show the authorities that entrepreneurs of small enterprises are people too, that they work very hard. It seems to the authorities that entrepreneurs of SMEs churn out lots of money, that they are all very wealthy, that is why the only sin is to not take money from them. That is why the aim of these meetings is to show, face to face, these general problems and to try to jointly resolve them at the regional level [35].

This statement not only demonstrates the efforts of this director to improve conditions for entrepreneurs, but it also points to the challenges that stand in the way of overcoming them. In this instance, suspicious attitudes of the authorities towards the business community have been identified as standing in the way of achieving concrete results. This is in fact a complex issue and one that cannot be overcome through the efforts of business associations alone, although this director has certainly tried. A lack of trust seems to pervade all aspects of society in political, business and social spheres. The state is suspicious of business and their capacity to accumulate wealth; business is suspicious of the authorities and their ability to arbitrarily harass entrepreneurs and obstruct their business; the state is also suspicious of civic institutions, of which business associations are apart. Business is suspicious of business associations for their perceived collusive ties with the state; and finally business associations, to some extent, regard entrepreneurs that expect them to solve all their problems with caution. The pervasiveness of this mistrust underlies the challenges to business associations to mediate between the interests of business on the one hand, and those of the state on the other while at the same time they strive to remain relevant organisations for society. This state of affairs indicates why the preference is to work informally through personal ties and networks. The smaller scale of these networks mean that people have a better view of what is going on and have a more direct role in determining how their affairs are managed. Where the use of personal networks persists, business associations function like 'shell' organisations; in principle they appear to be appropriate vehicles to articulate

business interests to the state, but in practice they lack the substance that would make them genuinely valued in society.

7.6 Conclusion

As a strategy for success, business associations have a limited capacity to improve conditions for entrepreneurs of SMEs and ‘civilise’ the forum of interest articulation away from personalised, informal networking to something more transparent and formalised. This chapter began by looking at the changing relations between business and the state and how this has affected the kind of role that business associations play. It was shown that although the number of business associations has increased in recent years (Pyle, 2006), which might suggest they have become more relevant to the business community, the power of business has been subordinated to that of the state to such a degree that even under Putin’s ‘law and order’ system, the pattern of relying on personalised networks and particularistic treatment of those with connections to state organs have remained features of interest articulation in Russia. Despite the increase in business associations, this suggests that the business community cannot broadly use them as tools to influence the behaviour of the state. Where they are useful has been in simply channelling information from the state to business and in fostering informal networks with state organs and amongst their members so as to ensure they receive favourable treatment from the state. In some ways, providing favoured treatment to their members is necessary in order that they can attract and keep members, which is of course essential to the existence of business associations in Russia (as it would be elsewhere in other countries). It would seem that in Russia however, this favoured treatment comes at the cost of defending the interests of the wider business community from the grassroots level and upwards.

The perception amongst entrepreneurs taking part in this study, that business associations have played an inadequate role in representing their interests stems partly from a mismatch of expectations between them and the leadership of business organisations as to what role they should play. While entrepreneurs have expected to find practical help and advice from business associations, the leaders of these organisations have seen their main role as lobbying the state. Amidst this mismatch of expectations, business associations have been pushed and pulled by the interests

of their members and those of the state. They have been caught in a sort of tug-of-war that makes it difficult for business associations to operate in the expected, even if idealised, way. Even while business associations have been able to provide some valuable functions, their position between business and the state has meant that these benefits have been limited to those included in what are, exclusive networks. This has contributed to entrepreneurs' sceptical view regarding the utility of business associations. Many of the entrepreneurs taking part in this study expressed negative attitudes towards the role of business associations in representing their interests. Rather, many saw business associations as being more interested in 'keeping in with' politicians and 'helping their own' than making an effort to improve the business environment.

In their rejection of business associations, entrepreneurs of SMEs have come to rely on their own informal, personal networks to protect their interests and obtain practical support. As a consequence, the process of business interest articulation continues to be characterised by smaller, personalised, but disconnected networks, which reflect a low level of trust in Russian society. That these kinds of networks persist is, in some ways ironic because many entrepreneurs of SMEs in the business community face very similar problems, which in this study has been evident across different regions and sectors of the economy. It does however highlight the significant impact that low levels of social trust can have both on the articulation of business interests and on small business development. As such, the way in which business associations function in Russia give some indication about the way in which this society operates. Entrepreneurs of SMEs appear to be caught in a cycle in which each success and achievement has been based on the careful navigation of an overly complex and irrational formal system, thus threatening to undermine the progress that entrepreneurs have made. This is a much too fragile and vulnerable existence for a section of society that has struggled substantially, while carrying out some of the primary objectives of socio-economic transformation. This chapter virtually takes us back to the beginning – the support expected and what should in theory be there, is lacking, leaving entrepreneurs of SMEs to rely on their own devices to protect their interests and survive in business. In this, the obstacles to developing the small business sector into a robust element of the economy appear to be impassable. It has therefore been quite remarkable that entrepreneurs have been

able to make a success of things to some degree. In spite of the challenges that they have faced, the majority of entrepreneurs taking part in this study have been able to establish themselves in business.

Conclusion

All those who open new firms and new businesses, register new enterprises – all of them deserve a medal for courage. (Putin, 2005)

This thesis has looked at the patterns and problems of entrepreneurial development in Russia and it has been shown that entrepreneurship is a complex activity. The context of a transforming socio-economic environment has thrown up particular challenges and entrepreneurs of SMEs have had to develop strategies to deal with these. This has obviously not provided the ideal milieu for entrepreneurship to develop. Rather, entrepreneurial development has been shaped by persistent flaws in the formal system. What is more, the strategies that entrepreneurs have developed in response to these flaws have further subverted the integrity of the formal system. Consequently, entrepreneurship has not developed in the idealised way that was expected at the onset of the period of socio-economic transformation and a prominent gap in the rhetoric and reality of small firm development in Russia has been apparent.

This gap between the rhetoric and the reality of SME development was highlighted in chapter three and the various ways in which entrepreneurial development has been conceptualised in the Russian literature has been considered. On the one hand it was shown that there has been a vast amount of literature on SME development, but much of this has focused on policy. As a consequence, these literatures have failed to critically engage in discussions about why problems have emerged and continue to persist in the SME sector. In addition to this, there is also a large volume of literature that considers the SME sector from a quantitative, statistical point of view. While this kind of information is useful for indicating patterns of entrepreneurial development, this kind of data does not have the capacity to explain why the trends have occurred without further qualitative, background information. On the other hand, it was evident that discussions have been occurring in academic spheres and in the media on the impact of policy on the SME sector and how this, in turn, has influenced patterns of development at the micro level in the SME sector, as well as at the macroeconomic level. These debates have been significant for highlighting that attitudes and relationships shape patterns of behaviour and thus these factors are

relevant to understanding the particular patterns of entrepreneurial development in Russia.

Use of qualitative ethnographic research methods in this study played an important role in uncovering these complexities in the SME sector in a more comprehensive way. Through this approach it was possible to get a grasp of the underlying attitudes, values and perceptions of individuals involved in activities in the SME sector. This has been significant because these factors play a crucial role in shaping patterns of behaviour in entrepreneurship. What is more, because of the rich data that emerges from doing ethnographic research, the attitudes, values and patterns of behaviours can be placed in the social, cultural and economic context of post-Soviet Russia. One of the principle arguments of this thesis has been that in order to understand the development of entrepreneurship in the small business sector, it has been important that the intricacies of individuals' attitudes, actions and relationships be revealed. Other research methodologies, particularly quantitative approaches but also some qualitative methods such as survey-based questionnaires, are limited in the extent to which they can capture the complexities of social phenomena. This thesis therefore presents entrepreneurship in Russia in a new way and one that is complementary to other studies that have approached the topic from different research methodologies.

For entrepreneurs of SMEs, the entrepreneurial process has been a complex mix of successes and frustrations. Their strategies to deal with the complexities of the system have reflected their ability to overcome obstacles in the face of adversity. Despite the gaps in the rhetoric and reality of small firm development as well as the constraints that they face, it was clear from the discussion in chapter four that certain people have been able to find success in entrepreneurship. This has been down to a combination of personal attributes and social situations in which certain individuals have been well-placed to take advantage of entrepreneurial opportunities.

Entrepreneurs taking part in this research project indicated that their ambition, initiative, optimism, perseverance and tenacity have played an important role in enabling them to deal with and overcome the challenges of the Russian business environment. Indeed informal observation suggests that character traits would play an important role in who becomes an entrepreneur and the findings of this thesis has

been backed up by those of other studies into this aspect of entrepreneurship. In addition, social differences between individuals have meant that certain individuals have been better placed than others to exploit entrepreneurial opportunities. Such things as previous experience, employment background and links to the state structures influence one's ability to develop a successful enterprise. Both these social differences and personal characteristics keep the playing field uneven.

Significantly, maintaining this uneven playing field has been one of the strategies that entrepreneurs have used to enhance their success in business. In particular, entrepreneurs have developed personal networks and *blat* to access scarce resources. This not only restricts others from entering the field of entrepreneurship and thus reduces the level of competition that they face, but it also ensures that those within a network have priority access to the scarce resources they require. By restricting others from entering this field, the network serves to protect the position of entrepreneurs. Personal networks and *blat* are therefore simultaneously used in an exclusive and inclusive way. This is significant because most of the existing literature treats networks as either a positive or negative phenomenon. Looking at networks in this way helps to clarify the complex pattern of entrepreneurial development in Russia. Entrepreneurs' behaviour should not be seen in an essentialist dichotomy of good / bad, or positive / negative. Rather it needs to be placed within its context whereby entrepreneurs are seen to be responding to complicated circumstances.

Even once one 'becomes' an entrepreneur, the challenges that individuals face in this pursuit continue to grow. Entrepreneurs have been forced to operate in a system, which has been undergoing transformation and this has posed a unique set of challenges for them. In chapter five it was shown how entrepreneurs have had to navigate around what has often been a confusing, unfamiliar and even illogical system of rules governing the formal economy. These obstacles are inter-related and have been evident in issues such as accessing credit, finding premises, dealing with a heavy tax burden, and negotiating a host of administrative barriers. It often seems that entrepreneurs no sooner navigate one obstacle, before they are confronted with another one. As a strategy to get around the problems that they face, entrepreneurs weave their way between the formal and informal systems. In this way, their very

reliance on these strategies is a source of frustration. They hold entrepreneurs back from operating their business activities in a 'normal' way. This not only justifies a negative public opinion of entrepreneurs, but it also provides fertile ground for the harassment of entrepreneurs by state officials and criminal racket groups. As a consequence, entrepreneurs occupy the awkward position in which they must tread carefully between the formal and informal systems. This thesis challenges this negative image of entrepreneurs and suggests that their behaviour needs to be considered against the constraints that they face. When viewed from this perspective, the rationality of entrepreneurs' behaviour comes through.

The relationship between entrepreneurs and state officials, in particular, provides insight into how this occurs. Many of the problems that entrepreneurs face stem from the fact that they have interests, which intersect with those of state officials in the economic sphere. While this idea has been touched upon in the literature concerned with representatives of big business and political-administrative elites, very little attention has been given to these relationships at the local level between the small business sector and municipal/regional state officials and political deputies. The primary objective of entrepreneurs is to conduct their business in such a way as to extract the greatest amount of profits that will enable them to survive and prosper. For state officials, a key objective is to regulate, and in many cases restrict, the activities of entrepreneurs. Given these, it is obvious that the interests of entrepreneurs and state officials will, at times, be at odds with one another. At these points in time, it has often been necessary for entrepreneurs to circumvent the formal system in order that they can avoid what is perceived to be over-zealous, or unnecessary 'regulation' of their activities. While in one respect this is a strategy that helps entrepreneurs to get on with things, in another respect, it leaves entrepreneurs vulnerable to harassment by criminal racket groups and even further harassment from state officials, as well as damages the public image of entrepreneurs. Of course the lack of law and order and effective regulatory systems also exacerbates the vulnerabilities of entrepreneurs. Given these consequences, the fact that entrepreneurs continue to circumvent the formal system is significant. It reflects the extent to which entrepreneurs do not have a lot of viable options in front of them, and that these strategies are used because they are seen to be important to their survival.

At the same time, entrepreneurs and state officials are interdependent because they often rely on each other in the process of circumventing the formal system. State officials recognise the cumbersome nature of the formal system and so they are often willing to turn a blind eye to entrepreneurs who break the formal rules in exchange for a bribe or some kind of favour. Collusion between entrepreneurs and state officials can, in a sense, be seen as them working together. Certainly from the point of view of entrepreneurs, this kind of negotiation with state officials is often seen as a more straightforward solution than following the letter of the law. In fact both entrepreneurs and state officials gain in the short term by colluding, but in the long term, their behaviour subverts the integrity of the formal system. Since these practices are seen to be an easier and more effective way of getting things done, these practices continue to be used until eventually, they become entrenched. As this has occurred, it has become very difficult to overturn these patterns of behaviour. Indeed as long as this remains a more effective way of doing things, there is not enough incentive for entrepreneurs to conduct all their activities in the formal sphere. As a result, there is not a lot of opportunity for the formal system to develop in the ways that it was supposed to. This is why a gap remains in the rhetoric and reality of small firm development. While the persistent use of informal practices by individual entrepreneurs to address the challenges they confront in their day-to-day activities represents a continuous stumbling block to the development of a formal system that could support entrepreneurship, in the way that has been expected, these practices represent a key strategy of entrepreneurs' survival in the Russian business environment. This is why an understanding of entrepreneurs' behaviour and the impact of their relationship with state officials are important to an overall understanding of the patterns and problems of entrepreneurial development in Russia. These patterns of behaviour bring to the forefront the complexities of the entrepreneurial process.

Due to the negative consequences that these strategies have on the image and position of entrepreneurs, they have had to develop additional strategies which aim to improve their position on a broader front as entrepreneurs in general. This thesis explored two ways that entrepreneurs have attempted to do this. One way has been for entrepreneurs to take on and adapt the official rhetoric concerning socially

responsible business, which was explored in chapter six. The impetus behind this strategy is that demonstrating social responsibility will help to create a more 'civilised' business environment. This in turn, is supposed to make it easier for entrepreneurs to act in a 'normal' way. A further positive outcome to occur as a result of this is that the public image of entrepreneurs is to be improved. All of these things are supposed to contribute to a robust entrepreneurial sector.

This thesis challenges the prevailing rhetoric and shows that this strategy does not play out as neatly in reality as this logic suggests. This strategy runs the risk of holding entrepreneurs in a trap where they are continually held responsible for the injustices of Russia's 'wild' and 'uncivilised' market. When entrepreneurs are in this position, it provides a basis on which state officials can hold entrepreneurs to ransom. The problem is that under such circumstances, the line between the harassment of entrepreneurs and justified demands on them to contribute to society becomes blurred. What is more is that as long as state officials treat entrepreneurs like they can be held to ransom for the failures of socio-economic transformation, the negative image of entrepreneurs will be perpetuated. The irony is despite the good intentions contained within socially responsible business practices, they can have these adverse effects on the position of entrepreneurs. This is because the public attitudes to entrepreneurs and the treatment of them by state officials remain such that entrepreneurs are viewed in a negative light. They are often treated as something that deserves to be punished, rather than treated as a group that needs to be supported. These views and perspectives are embedded in the socio-cultural context and legacy of the socio-economic transformation in the early 1990s in Russia. At the same time this thesis also shows that even despite the adverse effects that the concept of socially responsible business can have on entrepreneurs, the idea that the Russian business environment has become more 'civilised' appears to be taking root. To this end, some of the efforts of the Putin administration to clarify and strengthen the rule of law have been effective. Again however, there is a fine line between strengthening the rule of law and using the law to restrict and inhibit the activities of entrepreneurs.

This is why entrepreneurs have come up with yet another strategy to improve their position on a broader front, which was discussed in chapter seven. Business

associations have the potential to help entrepreneurs overcome the challenges they face by defending their collective interests to the state. Business associations appear to be ideally suited to do this firstly, because they are situated at the interface of the state and business. In this position, business associations have the potential to balance out the tensions between state officials on the one hand, and entrepreneurs on the other. Secondly, by easing tensions, business associations carry with them the prospect that they can ‘civilise’ the forum of interest articulation away from the haphazard and personalised form of interest articulation that has prevailed. This process is then supposed to have a positive effect on the business environment more generally. On these bases the state has endorsed business associations on account that they can be part of a wider ‘civil society’ and create a more ‘civilised’ business environment. Yet because entrepreneurship is, by its very nature elitist, business associations have not been able to contribute to ‘civil society’ and even out the playing field for business in the way that has been envisioned. In fact, rather than depersonalise networks, entrepreneurs view business associations as a way to develop and enhance their networks, so as to better address their needs and interests. While these issues have been discussed at the level of big business, much less attention has been given to SMEs. This thesis addresses how these issues affect entrepreneurs of SMEs and illustrates that the situation for representatives of big business and small business are not that different. In this respect, this thesis adds something new to the existing body of literature.

However even as a strategy to develop and enhance their networks, business associations do not provide a straightforward solution. This comes back to the idea that networks are used in an exclusive way to restrict others outside the network from accessing scarce resources and instead these are shared only with those who are included within the network. Even if entrepreneurs became members of a business association, there was no guarantee that they would become part of the informal networks. This is why many of the entrepreneurs taking part in this study expressed scepticism over what business associations could do for them. The idea that business associations are more interested in ‘keeping in with’ the state than helping their own members (as well as the wider business community) who they are meant to represent was repeated a number of times by respondents. What was particularly interesting from this was how the entrepreneurs expressing these views responded.

The findings from this research project showed very clearly that the reaction of entrepreneurs was to establish and rely upon their own tight-knit, exclusive networks. What this pattern of behaviour implies is that tight-knit, exclusive networks are seen as a particularly effective way for entrepreneurs to protect their interests. At the same time, it also indicates issues of mistrust and a sense of embattlement in the entrepreneurial community. Thus what this suggests is that business associations have a limited capacity to transform and 'civilise' the business forum away from the haphazard and personalised forum of interest articulation.

The restrictions of each of the strategies that entrepreneurs have developed contribute to problems for the development of entrepreneurship on broader levels. This thesis has shown how the strategies that entrepreneurs have adopted, while rational, reflect their position in which they are forced to consider their immediate survival above all else. The irony is that some of these strategies, such as buying into the rhetoric of socially responsible business and membership in business associations strive to adapt this tendency. Such attempts however fail to have the intended effect because they do not fit with the contours of the Russian business environment. Entrepreneurs thus modify these ideal frameworks to fit with their needs and interests. In the process, the strategies that emerge are somewhat different than the 'ideal type' and this in turn has an impact on the development of entrepreneurship in Russia. The effect is that the entrepreneurial process appears to function effectively on some levels, but on other levels it does not. This has been evident as far as entrepreneurs taking part in this study have been able to establish their enterprises but still continue to confront significant obstacles in the sphere of tax, legislation, and a host of administrative barriers, which in turn carry with them a number of problems with respect to entrepreneurs' image and a hostile cultural environment. On these bases, it therefore appears that the growth and potential of entrepreneurship is being held back. The formal system does not support the development of entrepreneurship in the way that it should, but the very strategies that entrepreneurs rely on for their survival also restrict their potential to develop in a 'normal' way.

Since the SME sector has been portrayed as significant to the overall success of the socio-economic transformation, entrepreneurs have been easy targets to which blame

for the shortfalls in the development of entrepreneurship can be attached. It has been straightforward to brand entrepreneurs with a bad reputation. Russian and Western media have portrayed entrepreneurs as being 'wild cowboys' corrupt and willing to cheat in order to make a quick profit irrespective of the consequences this might have on the social and economic development of the country. This image assumes that entrepreneurs represent a group that is unlike the rest of Russian society. This thesis has challenged this stereotype and has attempted to show that this image of entrepreneurs is undeserved. This research project, which has endeavoured to give entrepreneurs a voice, has enabled them to tell the stories that they believe need to be told. These stories suggest that entrepreneurs in fact are not that different from other social groups in Russia. Like other groups, entrepreneurs of SMEs have been affected in tremendous ways by the transformations going on around them. Similarly as with other groups in Russian society, entrepreneurs have been driven by a sense of survival as they have adapted to the socio-economic transformation. Entrepreneurs of SMEs have been responding to their particular set of circumstances, so the idea that entrepreneurs in Russia are 'wild cowboys' who do not care about the consequences of their behaviour is not exactly accurate. Rather this thesis has attempted to develop a new way of understanding the behaviour of entrepreneurs. Their behaviour needs to be seen from the point of view of entrepreneurs in which they have tried to exploit the opportunities around them in order to enhance their chances of survival and even success. The fact that entrepreneurship has not developed in the way that was expected, or as has been portrayed in the official rhetoric is an immense disappointment for entrepreneurs themselves, perhaps more than for anyone else. They are the ones who have experienced first hand the frustration and disappointment that comes with not being able to achieve the things that are supposed to be straightforward in a market economy. That entrepreneurs have been able to make a go of things despite all the complex challenges that they have come up against is a testament to their strength and character. In this, Putin is correct in saying that entrepreneurs should be applauded for their tremendous efforts. It would however be particularly meaningful if, this time around, the recognition given to entrepreneurs would be genuine and more than mere rhetoric.

8.1 Policy Implications and Recommendations

In the discussion in chapter three in which federal and regional policies to support the SME sector were explored, it was shown that there was a critical gap between what these aimed to achieve and what was actually happening on the ground. Both this and other studies have shown that policies often have not corresponded to the needs of entrepreneurs. This thesis examined the nature of state-business relations and found that these were related to the way that policies and formal infrastructures have supported entrepreneurship. The implication is that if the relationship between entrepreneurs and state officials is characterised by tension and suspicion, then the policies designed to support the development of entrepreneurship will have a limited effect. This also suggests that the way in which entrepreneurs and state officials relate to one another needs to be understood, and this is something that this thesis has endeavoured to bring to the forefront of processes of entrepreneurial development. Indeed it would seem that understanding the relationship between entrepreneurs and state officials is a crucial step before a healthier relationship built on mutual understanding can be fostered. In terms of actual policies aimed at the development of the small and medium sized enterprise sector, it would seem that all parties would benefit from greater interaction through frank discussions that acknowledge why individuals choose particular strategies and to consider how these decisions reflect values and attitudes and thus ultimately, influence patterns of behaviour. Activities such as roundtables and workshops, which bring state officials and entrepreneurs of SMEs together to have these kinds of conversations, would be beneficial. This is important because even while the findings of this and other studies indicate that the problems of entrepreneurship are widely known, less consideration is given to the impact of informal strategies on patterns of entrepreneurial development. In particular, the way in which relationships between state officials and entrepreneurs at the grassroots level impact upon broader patterns of entrepreneurial development has not been adequately acknowledged. Such forums provide the opportunity for individuals to step outside their everyday lives and enable them to consider the situation as an outsider looking in. Individuals are thus able to consider the situation from another person's perspective, which in turn lays the foundation for greater mutual understanding between entrepreneurs and state officials. These kinds of forums already exist. The governor of Kaluga has established a committee to facilitate dialogue between the regional administration

and representatives of big business in the region. A similar kind of arrangement that includes representatives of the SME sector would be equally beneficial. In fact one of the directors of a business association who took part in this study indicated that she had organised similar forums for entrepreneurs and local officials to sit down together and discuss the problems of business. This director explained that this kind of dialogue made people more aware of the patterns and problems of entrepreneurial development by turning their attention to the daily lives of the individuals with whom they interact in business related activities. These dialogues help to make the connection between what is occurring at the macro and micro levels.

Related to this, policies that require regular training workshops designed to improve attitudes of state officials towards entrepreneurs and to educate them on entrepreneurs' value to local economies would also improve state-business relations as well as contribute to more favourable working conditions in the SME sector. In a conversation, a director of a business association accurately pointed out that the system of local government is not set-up in such a way that every official has an interest in the development of entrepreneurship in their locality [35]. Such workshops that emphasise the harm that results from using their administrative powers in an over-zealous manner to obstruct the efforts of entrepreneurs would be of mutual benefit to entrepreneurs, state officials and the local economy.

A further fundamental area that has held the development of entrepreneurship back has been a lack of financial resources. The predominance of short-term credit offered at a high rate of interest and where a substantial deposit is also often required has made getting credit through formal structures unattractive. The logical response of entrepreneurs has been to obtain credit through informal means from family and friends. This however has unsatisfactory repercussions on lenders (since they actually lose out on profit-making opportunities by not lending money out to investors) and there is uncertainty for entrepreneurs over the sustainability of their credit sources. Legislation to support more flexible terms of loans, such as leasing arrangements, might certainly encourage lenders to provide credit and entice entrepreneurs to organise credit through these formal structures. Such types of policies, which address the informal characteristics of entrepreneurs' strategies, are fundamental to improving the integrity of the economic system.

Perhaps more could be done to increase the appeal and profile of business associations. It was suggested in chapter seven that business associations, because of their position at the interface of enterprises and the state, have the capacity to improve the business environment. However it was found that one of the obstacles to achieving this was the persistence of informal personal networks, which restrict their power to have broader impacts on the business environment. If business associations appeared to represent the interests of entrepreneurs in the SME sector more broadly and sought to appeal to the practical day-to-day needs of entrepreneurs, then these organisations might be better placed to attract greater membership amongst the entrepreneurial community. Business associations might achieve this by playing an impartial role in mediating dialogues between the state and business as well as conducting the kinds of training workshops discussed above. Making business associations more attractive to entrepreneurs of SMEs might also contribute to a more united and cohesive community that could develop greater influence in advocating their interests to the state and businesses more generally.

What this thesis was able to show, as a result of adopting a qualitative ethnographic approach, was that these personal interactions shape, for better or for worse, the behaviours of entrepreneurs and state officials. Entrepreneurs taking part in this study indicated that, even where informal strategies were relied upon to navigate around any particular barrier, having a good relationship with state officials helped to simplify processes and make it easier for them to achieve their objectives. Perhaps if these relationships were harnessed in such a way that encouraged mutual understanding and acknowledged the impact that individual actions have on broader processes of entrepreneurial development, then the principle to support entrepreneurs in the SME sector might have a greater chance of being realised. Thus, by using the findings of this thesis as a basis for understanding the relationship between state officials and entrepreneurs of SMEs and the informal strategies that have been developed, policies that will have greater impact at the grassroots level can be developed.

8.2 Issues for Further Research

This thesis has demonstrated the significance of the ‘human’ dimension to understanding the patterns and problems of the development of entrepreneurship in Russia. While this has shed light on some of the complexities of entrepreneurship, new avenues for further research arose and became apparent during the period of research. Future research on the topic of entrepreneurship in Russia that stems from the findings of this thesis could be carried out along various lines. New research could use the same qualitative and ethnographic methodological approach to explore various aspects of the present study in greater depth. Another option could be to build on some of the key themes developed in this thesis. Both these lines of approach would use the present research project as its springboard and would advance the existing literature by looking at the topic in a new and more in-depth way.

In the second chapter of this thesis on methodology, it was suggested that future research could develop the present study further by expanding it to increase the number of participants, and/or by looking at different regions in Russia. Increasing the number of participants would enrich the evidence already found. Including more regions in the study might help to verify the extent to which the patterns and problems of entrepreneurship discussed in this research project vary across Russia. An alternative to expanding the present research project in these ways might be to focus the study on fewer regions for a more in-depth study. While the capacity to make broader generalisations about the pattern of entrepreneurial development would be limited with this approach, it might provide a more direct cross-regional comparison than was possible in this thesis. Further studies that approach the research in this way will provide additional insight into the significance of the human dimension on the development of entrepreneurship. As this thesis has demonstrated, the human aspect of entrepreneurship is constantly evolving. Thus future studies of this kind will provide new and updated snapshots of entrepreneurship in Russia, which will make it possible to trace the impact of these factors on the socio-economic development of Russia over time.

One way that some of the key themes addressed in this thesis could be developed further could be to explore the nature of big business and how this compares with the

experiences and patterns of behaviour of entrepreneurs of SMEs. While this thesis found an important degree of similarity between patterns of behaviour and problems faced by entrepreneurs, there remains a gap in the literature for more direct comparisons to be made in a study that focuses on comparisons between big business and SMEs. Such a study might shed light on the extent to which the patterns and problems of entrepreneurship occur across different levels of business. This in turn might provide insight into how the particular links and relationships (or lack thereof) between different sizes of business have impacted on the development of the post-Soviet Russian economy. This kind of study would develop the ideas of this thesis, in that the human dimension of entrepreneurship would be recognised as important, and it would also take it in a new direction by considering entrepreneurship from different levels.

This thesis has explored the patterns and problems of entrepreneurship in Russia. It has provided insight into how attitudes, behaviours, perceptions and relationships have affected the development of entrepreneurship. In the process it has been shown that entrepreneurship is a complex mixture of successes and frustrations. An attempt has been made to show that entrepreneurs, like other social groups, have been trying to make sense of the changes going on around them and deal with them in the best way they know how. As the economy has strengthened in recent years, certain things have become easier for entrepreneurs. While there is still much room for improvement to be made in the business environment and in the infrastructures that are to support entrepreneurship, entrepreneurs of SMEs have still managed to persevere and make a go of things and for this, entrepreneurs should be applauded.

Appendix 1

List of Respondents

Respondent	Gender	Age	Region	Education	Professional background	Position	Size of SME	Financial 'health' & Future Prospects of SME *	Scope of SME **	Years in Business	Age of Current Enterprise ∞
1	M	27	Moscow	Higher	Building/construction	Entrepreneur, Automotive supply parts firm	11-25	Strong	Local	4	1.5
2	M	28	Moscow	Higher	Engineer	Entrepreneur, Automotive supply parts firm	11-25	Strong	Local	5	1.5
3	M	68	Moscow	Unfinished higher	Watch master	Entrepreneur, Watch repair store	1-10	Weak	Local	18	18
4	M	36	Moscow	Higher	Pedagogue, Sports	Director, Sports Organisation	1-10	Weak	Local	9	9
5	M	31	Moscow	Secondary		Director, Advertising Agency	50-100	Strong	Inter-national	10	4
6	F	55	Moscow	Secondary	Accounting	Entrepreneur, Grocery store	1-10	Stable	Local	9	9
7	M	44	Moscow	Higher	Economics	Entrepreneur, Construction firm	11-25	Strong	Regional	12	10
8	F	32	Prov. Russia	Secondary – specialist		Entrepreneur; former owner of cafes	1-10	Weak	Local	7	NA, business failed

Respondent	Gender	Age	Region	Education	Professional background	Position	Size of SME	Financial 'health' & Future Prospects of SME *	Scope of SME **	Years in Business	Age of Current Enterprise ∞
9	F	24	Prov. Russia	Higher	Law	Lawyer in NGO; Advises entrepreneurs on social and economic rights	NA	NA	NA	NA	NA
10	M	35	Prov. Russia	Higher	Economics, construction	Entrepreneur; Politician	11-25	Strong	Regional	9	5
11	M	50	Prov. Russia	Agricultural school		Entrepreneur, building materials firm Social Activist, Director of NGO	1-10	Strong	Regional	16	5
12	M	48	Moscow	Higher, kandidat texyicheskikh nauk	Engineer	Director, Engineering firm; Entrepreneur; Deputy in local administration	11-25	Strong	Cross-Regional	5	1.5
13	F	30	Moscow	Higher	Accounting	Director, Accounting firm; Deputy in local administration	1-10	Stable	Local	6	3
14	F	50	Moscow	Higher	Law	Lawyer in textile firm	250-500	Strong	International	7	7
15	F	47	Moscow	Secondary – specialist in arts		Manager, Publishing firm	26-50	Stable	Cross-Regional	20	4

Respondent	Gender	Age	Region	Education	Professional background	Position	Size of SME	Financial 'health' & Future Prospects of SME *	Scope of SME **	Years in Business	Age of Current Enterprise ∞
16	F	66	Moscow	Higher, technical	Radio engineer	Director, Housing Association	1-10	Stable	Local	15	4
17	M	53	Moscow	Higher	Law	Lawyer	NA	NA	NA	NA	NA
18	M	45	Moscow	Higher	Mathematician	Director, Publishing firm	26-50	Stable	Cross-Regional	7	5
19	F	56	Provincial Russia	Higher	Economics, law, pharmacology	Director, Pharmacy chain; Deputy in local administration	250-500	Strong	Regional	20	12
20	F	39	Provincial Russia	Higher	Teacher	Director, Travel Agency	1-10	Strong	Local	10	2
21	M	28	Provincial Russia	Higher	Economics	Director, Electrical Engineering Consulting Firm	11-25	Strong	Local	4	4
22	M	38	Provincial Russia	Higher	Medicine, cardiologist	Director of Pharmacy; Surgeon	250-500	Stable	Local	10	7
23	M	35	Provincial Russia	Higher	Law	Entrepreneur, Property Development Firm; lawyer	1-10	Strong	Regional	13	5
24	F	49	Provincial Russia	Higher	Economics	Director, Flour Processing Factory	250-500+	Strong	Cross-Regional	13	13

Respondent	Gender	Age	Region	Education	Professional background	Position	Size of SME	Financial 'health' & Future Prospects of SME *	Scope of SME **	Years in Business	Age of Current Enterprise ∞
25	M	60	Provincial Russia	Higher	Geophysics, engineer	Director of pan-Russian Business Association	NA	NA	NA	NA	NA
26	F	49	Provincial Russia	Higher	Law	Director of pan-Russian Business Association	NA	NA	NA	NA	NA
27	F	47	Moscow	Higher	Engineer	Director of Firm making Sports and Recreation Apparatuses	250-500	Strong	Cross-Regional	8	8
28	M	49	Moscow	Higher	Electrical engineer	Entrepreneur, Printing Firm	11-25	Stable	Local	10	10
29	F	47	Provincial Russia	Higher	Economics	Entrepreneur, Accounting firm	26-50	Stable	Local	11	11
30	F	45	Provincial Russia	Higher	Engineer, geologist	Entrepreneur, Recruitment Agency	11-25	Strong	Local	5	5
31	F	45	Provincial Russia	Higher	Engineer, mechanic	Director, Pool Installation Firm	11-25	Strong	Regional	6	6
32	F	50	Provincial Russia	Higher, technical	Engineer, welding	Director, Furniture making company	50-100	Strong	Cross-Regional	10	10

Respondent	Gender	Age	Region	Education	Professional background	Position	Size of SME	Financial 'health' & Future Prospects of SME *	Scope of SME **	Years in Business	Age of Current Enterprise ∞
33	M	50	Provincial Russia	Higher	Engineer	Director, pan-Russian Business Association; Deputy in local administration	NA	NA	NA	NA	NA
34	M	29	Provincial Russia	Higher	Law	Civil Servant in the Department for the Development of Small Business	NA	NA	NA	NA	NA
35	F	48	Provincial Russia	Higher	Engineer	Director of Regional Business Association	NA	NA	NA	NA	NA
36	F	40	Moscow	Higher	Psychology	Deputy in local administration; Manager, Firm making Sports and Recreation Apparatuses	250-500	Strong	Cross-Regional	6	8
37	F	33	Provincial Russia	Higher		Vice President of pan-Russian Business Association	NA	NA	NA	NA	NA

Notes to Appendix	
†	Due to the qualitative nature of the study and aims of the study, as well as the problems associated with verifiability, hard financial data was not collected.
*	Financial 'health' and further prospects of SME refers to the qualitative appraisal by the author regarding the status of the respondent's business. The indicators used: strong, weak, stable, are relative to each other and to other respondents. Thus the indicator selected for any particular entrepreneur is to reflect their relative position within the group of respondents in the study.
**	Scope of Business refers to the extent and 'reach' of the business and whether activity is confined to the local city/town, region, occurs across regions, or is international in scope.
∞	As of August 2004

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