

EXPERIENCING THE GLOBAL ECONOMIC RECESSION: THE CASE OF SMALL ENTREPRENEURSHIP IN UKRAINE

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Abstract

During the financial downturn of 2008 many of big and stable corporations were bailed out or failed. Small business, by contrast, seems to be much more vulnerable to the crises. In the post-socialist Ukrainian context, where small business has only started to re-emerge eighteen years ago, global recession could wipe out weaker companies more easily. This thesis answers the question of surviving of small business in Ukraine addressing the notions of informality, embeddedness, and trust. General argument of the thesis is based on the analysis of eight cases. At the same time, my work leads through detailed discussion of three of them, which present negative, neutral and beneficial influence of the downturn. Focusing on how the ideas about entrepreneurship transformed to real enterprises, I highlight the structure of small businesses, and, further, analyze the reasons of experienced influence.

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Introduction

The current financial crisis is claimed to be the most devastating since The Great Depression in the US (Elliott 2008). Such business giants as Leman Brothers, Bank of America, AIG and others, which were thought “too big and serious to fail,” were bailed out (BBC News 2009.). The turndown began from the credit crunch in the US and spread to the whole interlinked global economic system, manifesting itself in Ukraine as a crisis of bank liquidity, hitting the construction sector, causing a rise in energy prices, which led to general price hikes within the country and growth of inflation level (Doroshenko 2009). However, global crisis hit not only big international actors or exclusively certain industries. My study reveals how the smallest agents of economy, small entrepreneurs, are affected by the global economic recession, which started in summer-autumn 2008.

The puzzle about small business in global crisis is that, on the one hand, it could be considered as the most vulnerable actor of the economy as long as it is directly dependent on customers’ demand and bank credits. On the other hand, as a result of the crisis new possibilities and market segments emerge, which could be used by small firms as a potential source of growth (Bilousova 2009). Today, it is impossible to evaluate the impact of the crisis in quantitative terms. First, too little time has passed since the entrepreneurs started to feel the effect of the recession, second, statistics on the closed enterprises will be available only at the end of the year. Moreover, in the Ukrainian case, there is hardly any possibility to define actually functioning enterprises, which are producing some goods, and fictitious enterprises which form a part of different tax avoiding and other semi-legal schemes. Third, small business does not equal entrepreneurship (Wennekers and Thurik 1999). If certain occupational groups could be monitored by statistics, entrepreneurship in classical Schumpeterian terms is more about the way of conducting things than permanent state of

employment (Schumpeter 1975). For these reasons, my study presents a qualitative insight into the strategies of dealing with the crisis and emerging possibilities and constraints.

The main questions which the thesis addresses are: How are small entrepreneurs experiencing the crisis? What were the major factors which made this influence divergent? What are the most important structures of the environment which shaped the reaction? Do they use their social networks and in which way? What ideas of entrepreneurship lie underneath their response?

The peculiarity of Ukrainian case could be underscored not only in comparison with developed Western market societies, but also in comparison with its Central and Eastern European neighbors, which have also experienced socialist ideology and planned economy. While in CEE countries the New Economic Mechanism created vibrant second economy and played a crucial role in the emergence of entrepreneurship, legal changes in Ukraine aimed more on “fixing” of existing Soviet system rather than creating new market relations (Wynnyckyj 2003). In addition, after the collapse of the Soviet Union, in Ukraine the major points of attention were distribution of state assets (Åslund and Dąbrowski 2007) and discourse of nation building, while economic development was left predominantly on its own. In addition, years of planned economy created a desire to “get rid of the state control” (Kosals and Rybkina 2002). These all resulted in the emergence of the huge sector of informal economy, which was institutionalized during the 90s (Kosals and Rybkina 2002).

Informality in the thesis is perceived not only as semi-legal activities out of state control, but also as use of social networks in the arrangement of economic activity. It is argued that these two “faces” of informality are not transforming one into another, but rather exist simultaneously contributing to the coping with the crisis.

The pathways of overcoming the crisis are associated with the range of concepts from micro level questions of perception to macro level issues of foreign aid and crediting of small business. In the thesis, I endeavored to find the middle ground from which I could most conveniently see both ends of the micro-macro continuum. This middle ground is claimed to be established by network analysis (Granovetter 1985, Emirbayer and Goodwin 1994). However, to understand not only personal coping strategies but rather strategies of the business, I suggest analyzing the way business is structured. To my mind, it is the most effective tool to unravel how the perception of entrepreneurship shapes the organization of business. And further, how the response to the crisis was shaped by this structure. Consequently, in highlighting the organization of the enterprises in my cases I reveal the response to the crisis, which will reflect the personal ideas of the actors and objective constraints of the environment.

My cases differ not only in the organization of the business, but also in their response to the crisis. Discussing the stories of entrepreneurship and ideas, which lead to entrepreneurial activity, the thesis shows the relation of the informal economy to classical notions of entrepreneurship and explains how and why the social networks were used. As a result, I discuss three types of ideas which lead to the three types of structures: one has been heavily affected by the crisis, another did not experience any influence, and the last one benefited from the global recession.

The first section of the thesis deals with theoretical approaches to entrepreneurship, highlighting four dimensions to evaluate action as entrepreneurial. Next, the context of post-socialism is brought in by reviewing the notion and meaning of informality. Second chapter presents my methodology and description of the cases, including individual ways to entrepreneurship, the current structure of the business and influence of the crisis. In the third

chapter, I analyze three cases in detail, discussing emergence of their structure and additional aspects which should be added to understand their response. Finally, fourth chapter opens a broader discussion, based on all the cases, considering individual and state, global and local levels.

Chapter 1. Entrepreneurship: Classical Theory and Post-Socialist Context

1.1. What distinguishes entrepreneurial action? Classical approaches to the definition of entrepreneurship

Entrepreneurship was brought into the focus of academic debates during the 80-ties and had a connotation of the “secular decline” of the most industrialized economies (Hebert and Link 1989). Piore and Sabel (1984) argue that the emergence of the US industrial system is a response to mass-technology production. Furthermore, they emphasize that the crisis of mass production should result in a new type of market order based on small-batch, flexible production. Consequently, small entrepreneurs became the center of hopes for the increase in economic productivity (Hebert and Link 1989:40)

The reason for these hopes could be found in the functions which entrepreneurs were considered to accomplish. Tracing back to the debate about the definition of the concept, Hebert & Link (1982:109) have classified economic scholarship on the entrepreneur into a fourfold typology of theoretical traditions: a) the tradition of Cantillon (1755) and Frank Knight (2002) which stresses uncertainty bearing as the chief burden of the entrepreneur; b) the Schumpeterian tradition which downplays risk-bearing and emphasizes innovation; c) Casson (1982) who combines both risk-bearing and innovation with judgmental ability, and stresses the entrepreneur’s role as decision-maker as to the use of economic resources; d) Kirzner who fathered a view currently popular among US business-school scholars that de-emphasised ability, innovation, and risk-bearing, and focused instead on opportunity recognition as the entrepreneur’s prime function.

The concept of entrepreneur was introduced into economic theory by Cantillon in the beginning of the 18th century (Casson 1982). From the very beginning it was connected with

operating in an uncertain environment. Cantillon defines three groups of economic actors: financially independent landowners, hirelings with stable income, and entrepreneurs, who act in the market environment at their own risk in order to gain profit (Hebert and Link 1989:42). Later, risk and uncertainty were distinguished by Knight introducing the concept of calculation. He argues that risk is a measurable variable, whereas uncertainty could not be measured (2002:18-33). Measurement rests on the classification of all possible outcomes of situation and assigning certain probabilities to each of them. However, when an agent faces uncertainty there is no possibility of “exhaustive classification of cases” (Langlois and Cosgel 1993). So, the essence of uncertainty lies in partial knowledge, which the entrepreneur tries to reduce through the increase of access to information about the situation.

Access to information becomes crucial in Casson’s definition of entrepreneurship, which underscores decision-making process. In his words, an entrepreneur is “someone who specializes in taking judgmental decisions about the coordination of scarce resources” (Casson 1982:23). The primary goal of his theoretical search was to overcome the gap in the literature between functional approach to entrepreneurship, which concentrates on the *role* of agents and functions they perform, and indicative approach, which stresses the features by which an entrepreneur could be recognized (legal status, contractual relations with others, absence of employer). Consequently, he ends up with a definition which takes up the Schumpeterian role of entrepreneur and emphasizes the individual nature of decision making process, which differs according to the individual characteristics of a person and the level of his/her access to information. The team, according to Casson, could shape the decisions of the entrepreneur, but never become one itself.

Schumpeter created the most popular image of the entrepreneur as innovator. He writes about him as the main actor of capitalism and engine of economic development. Moreover,

entrepreneurship is rather the way of conducting things than a distinct occupational group of people (Hebert and Link 1989:44). The primary function of entrepreneurial action in economy is innovation through “new combinations” and “creative destruction” of old economic structure opening new markets, introducing new products etc. (Schumpeter 1975:83).

Although Schumpeter is considered to be classical author his concept of creative destruction reflects the neoclassical understanding of market as perfect equilibrium. However, Kirzner defines entrepreneurship as alertness to the profit opportunities, based on a totally opposite understanding of the market. In contrast to neoclassical economists, Kirzner considers that “pure entrepreneurial profit” emerges out of ruptures between demand and supply. Therefore, entrepreneurs are those who could notice these market shortcomings and turn them into their profit. Comparing his own views with the Shumpeterian approach to entrepreneurship, Kirzner maintains that Schumpeter is valid and accurate for understanding the psychological profile of real-world entrepreneurs; however his definition relates to “equilibrative tendency of markets in general” (Kirzner 1999).

Due to almost 60 years of abolition of entrepreneurship and market economy in the Soviet Union, economic relations in post-soviet countries are rather different from the West European and the US economy, where classical theories of entrepreneurship emerged. Transitologists often underscore significance of path-dependency in former soviet countries, talking about building the capitalism not “on the ruins, but with the ruins of communism” (Stark 1998:117). So, to my mind, usage of four outlined classical “indicators” of entrepreneurship (uncertainty/risk-bearing; decision-making; innovation/recombination; opportunity recognition) help to evaluate actions I am discussing in the thesis as entrepreneurial, and, further, define their local peculiarities.

1.2. Entrepreneurship in post-soviet context

The decline of industrial production during the 80s was not only the problem of the United States. In the Soviet Union there was a legal acceptance of limited entrepreneurial activity at this time, which signified that large industrial machine of planned economy is close to the point of collapse. Transitology, which arises as a response to the collapse of the USSR, also placed entrepreneur under scrutiny as one of the main figures in the way to market economy.

There is a broad scope of literature, which analyses the specific of “transitions” in different post-socialist countries. For instance, uncertainty and risk are often associated not only with loosing possible profit or lack of information, as Knight and Casson argued, but also with violations of formal rules and laws. As Wynnyckyj contends in his work on emergence of new market sphere in Ukraine, the essence of entrepreneurship in the post-Soviet context is “to test the boundaries of legitimate action as delineated by society’s institutions” (Wynnyckyj 2003:15).

Opportunity recognition also could be of different quality. Shane and Eckhardt (2003) consider Schumpeterian opportunities, which result from disequilibrating situations, to be rare and innovative, involving the creation of new combinations. They include technological changes, political and regulatory changes and social and demographic change. Compared to this, Kirznerian opportunities are understood as being equilibrating, not requiring new information, less innovative, common and having a limited potential for discovery and innovation (Shane and Venkataraman 2000, Shane 2003).

In this context, as Smallbone underlines, during the first times of transition to market economy primary role plays destruction of old order, therefore entrepreneurs are facing more Schumpeterian-like opportunities. Kirzner’s type of opportunities would be more apparent

when markets become more mature and international experience becomes an important source of innovation for enterprises (Smallbone and Welter 2006).

However, to speak about complete destruction of previous rules and establishing of new ones in post soviet countries means to misunderstand the processes undergoing in that part of the world. I suppose that plenty of the “new” and “old” rules exist simultaneously due to the sphere of institutionalised informal relationships in economic sphere.

Informality could not be treated as one coherent concept. Initial meaning of informality is associated with research of informal income opportunities in urban suburbs of Ghana (Hart 1973). In this sense informal sector could be defined as “the sum total of income-earning activities with the exclusion of those that involve contractual and legally regulated employment (Portes 1987:31). For the socialist states it could mean all the activity outside the central planning (Rasanayagam 2003) or widespread blat or economy of favours (Ledeneva 1998). But economies of post-soviet countries are not ruled by central plan any more. In addition, hence the role of the state has reduced, blat does not mean the redistribution of state resources as it was during socialist era, but is more about business practices, work and distribution of information about law regulations and risk reducing (Ledeneva 1998). So, here emerges a question which way does the informality go? Does it decline, transforms or expands?

Based on the Sik’s exploration of the “network capital” in communist, post-communist, and capitalist states (1994), I assume that informality does not seem to vanish or diminish. The size of “network capital,” in general, is larger in communist country than in capitalist, however, the most widespread it becomes among postsocialist states (Sik 1994). Consequently, informality is expanding and transforming.

The meaning of expanding informality could also be captured by the notion of shadow economy. The institutionalization of “shadow” economy occurred by the end of the 90-ties and was marked by establishing stable characteristics in this sphere (Kosals and Rybkina 2002). In particular, four types of “shadow” entities were set up. That is, informal economic roles (racket man), certain norms of economic behavior (withdrawing cash due to fictitious contracts), permanent business relationships between particular economic subjects (“security” from national force agencies), and new types of organizations within and due to which the shadow transactions occur (special funds, firms which are specialists on “cash withdrawing” etc.). Interconnection between those four elements created a world of shadow economy which was converted into new institution within the system of economic relations (Kosals and Rybkina 2002).

Furthermore, there is no strict separation between formality and informality. The institutes of shadow economy became embedded into state and legal sphere and have a role of holding the whole socio-economic system together (Kosals and Rybkina 2002). Yurchak convinces that it is rewarding to understand formality and informality not as two strictly defined topographical spheres, but rather type of practices which can coincide and overlap (Yurchak 2001:287). This understanding reflects Yurchak’s definition of officialised and personalized public spheres in the late Soviet period. This decoupling emerge from the dual relation to the state. So, with the collapse of Soviet Union the officialized public sphere with its institutions, laws and ideologies experienced the main crises. Whereas “personalized public sphere did not collapse but rather re-adapted to new situation much better then was obvious at the time” (Yurchak 2001:311). Moreover, Yurchak comes to the similar with Sik’s conclusion that “the hybridity of the relations between individual and the state became perhaps even more omnipresent than was ever the case during socialism” (2001:311). So, taking into consideration the argument about re-adaptability of personalized public sphere, I can

hypothesize that current crisis is also related more to the official representations whereas informal sphere remained more stable. So, expansion of informality is the way of coping with the crisis.

So, my research tries to find out what role how the informality is manifested during the crisis and what role does it play for small business?

The cases I analyze in the thesis show the interaction between classical aspects of defining entrepreneurship, which I outlined above (uncertainty and risk-bearing; innovation (recombination); decision-making, and opportunity recognition) and the role of informality in surviving the crisis of 2008 in Ukraine.

Chapter 2: Justification of Methodology and Presentation of the Data

The starting point of development of my methodological approach is Granovetterian concept of embeddedness (Granovetter 1985). It has emerged in contradiction to the atomized human action, arguing that “individual action is embedded in concrete, ongoing systems of social relations” (Granovetter 85:487). In other words, understanding of human agency could not be separated from the surrounding social context. Moreover, social networks attract attention of researches because that is a place where the creation of trust, compliance, cooperation and domination are produced (Krippner 2004). Granovetter also underscores that in context of creating trust and order in economic life networks play bigger role than institutions or generalized moralities (2002).

The analysis of social networks is viewed as powerful direction in the study of social structure. Emirbayer suggest to view this direction not as strict theory but rather as broad strategy for the research, as paradigm (Emirbayer and Goodwin 1994). It implies the connection between micro and macro level of sociological research. Still, networks should be accomplished by larger context. In Granovetter’s words “networks are only interesting because they are where cooperation and trust and domination and compliance are actually produced” (Granovetter 2002).

Thus, networks approach is especially rewarding in explanation the behavior of entrepreneur as a person. Still, entrepreneur could not be equaled with the business he or she has, because often one person has several projects simultaneously. So, to focus specifically on the business, I suggest highlighting its structure. I suppose that in similar manner social networks shape individual behavior, organizational structure of the business shapes its possibilities to react to such critical situations as the current recession. Partly, this assumption is grounded on the position that extend of disorder, resulted from fraud and force, depends on way social network

is structured (Granovetter 1985:492). Continuing this line of argument, I contend that the effect of the crisis depended a lot not only on the level of embeddedness but on the way entrepreneurship is organized, that is on its structure.

I do not assert that structure is crucial element of determining the influence and response to crisis, but this is an angle from which I am going to show how some small businessmen in Ukraine are perceiving and overcoming current situation and why.

The thesis is based on 8 interviews, conducted with small entrepreneurs in Kyiv during March 2008. From the legal point of view small entrepreneur in Ukraine is either individual person or firm with no more than 50 employees and no more than €500 thousands turnover annually. There is also a category of micro entrepreneurs with less than 10 employed (Galan 2007:15). However, formal characteristics were not crucial in the method of selecting. The most important factor is entrepreneurial activity, no matter formal or not. By entrepreneurial activity I mean running a business, where a person is one or one of several decision makers.

Main source of information about the cases are semi-structured interviews. My guide included three broad sections: first, about the history of business emergence, second, about the environment and actors entrepreneur is dealing with, and at last, about the influence of the crisis and reaction to it (The guide of the interview is attached to the thesis in Appendix). Despite the detailed guide, the conversation with entrepreneurs was held in rather informal, friendly style and lasted for 30-90 minutes.

Six of the respondents were my acquaintances: previous colleagues, group mates, or friends. Only the owner of hair dressing saloons, I approached through the abrasives' trader. Also, I have a case of entrepreneur, which whom I did not conducted interview, but all the most important and interesting questions about his business were described by his daughter Ira (one of my informants).

The fact that I knew nearly all the informants before the interview and had previously established friendly relationships with them has its advantages and shortcomings. On the one hand, the trust was established from the first minutes of the talk which resulted in more “open” and honest conversation. In addition, I can accomplish information, obtained from the interviews, by my previous observations and knowledge about these people and their activity. Yet, previous knowledge could also result in more biased perception of the situation. In any case, I try to control possible biased moments of my further analysis.

I briefly describe each of the cases in the Table 1. Particularly, I outline the pathway to entrepreneurship, the type of present activity and the way it is structured and condensed explanation of the response to the crisis.

I would like to scrutinize three of the described cases. Despite they are different in the size, sector of economy, goals and products, the structure of their business reflect three types, which could not be divided by strict bold line, still it influenced adaptability to the crises. I call that the ideas of entrepreneurship, which underlie the organization of these businesses, “the search of the clients”, “the search of the scheme” and “the search of the need.” The structures I am talking about are demonstrated by the cases of Oleg, Adrian, and Ira.

Table 1. Presentation of the cases: way to entrepreneurship, activity and structure of the business, and response to the crisis

	Way to entrepreneurship	Activity and Structure of the business	Response to crisis
Yevgen Age: 23 Education: Bachelor in sociology	Student of university parallel with active member of youth organizations and movements (including oppositional political)=>assistant of parliament deputy=> HR assistant in a bank=>co-founder of HR agency in autumn 2008	Activity: Searching personnel for Ukrainian companies Searching a job abroad for Ukrainians 8 people, horizontal structure. TOV in Kyiv, branch offices in Kharkiv, Lviv, Sevastopol 4 co-owners. 1 of them obtained money abroad and invested into this project to have “a ground to come back”	The crisis started when they just started operating. Currently they have few requests from the network of acquaintances. The firm does not close because the interest of investor-co-owner. Currently has no profit.
Adrian Age: 35 Education: First: specialist in jewellery production Second: master of informational security of organization	1992 tries to get license for individual jewellery production => production and selling of coats => concerts organizing => Advertisement => TV and mass media projects, organization of radio station => since 2000 security and analytical activity	Activity: Structure of projects and directions with current domination of analytical activity and information security Legal form: 3 TOV 12-15 people with who operates every day. “Everybody, who is around me is either formally or informally somehow involved in my activity” Totally informal structure	Increased demand on analysis of current economic situation is currently bringing the profit.
Alina Age: 50 Education: hairdresser	30 years work as hairdresser in a salon => after the move of the salon in basement rented a flat and started own hairdressing business => 2003 first salon=> 2005 second one => 2006 network marketing Amway	Activity: Hairdressing salons and system of network marketing Each hairdresser is registered as individual entrepreneur; therefore, she only collects rent payment for the work place each week. Currently is building the structure in network marketing	The rent payment for the building increased. So, her profits reduced from 10 thousands UAH to 3-4 thousands. However, she received profit from her network marketing structure.
Oleg Age: 24 Education: engineer	University student => worked as an employee=> borrowed idea from friend and started business together with his classmate.	Activity: Abrasives trading. 2 partners and 2 informally employees	Engaged in the system of network marketing

<p>Sasha Age: 22 Education: master in sociology</p>	<p>University student=> employee in advertisement agency => summer 2006 together with 2 others (one worked previous 5 years in famous floristic salon and had large network of clients, the other had experience in organizing parties and “entrepreneurial spirit”) rented out the room and serves her first clients / engaged in managing of private plane as representative of one politician and re-registration of land near Kyiv => October 2006 won the TV show “Business Sharks” and opened a floristic salon in the center of the city => January 2008 the salon was closed because of the crisis=> friend suggested to be the director of internet advertising agency</p>	<p>Activity: Floristic salon 3 friends as co-founders. After the winning of the show, one of Ukrainian big businessmen whose main activity is in IT and communications became the owner of the business, so he got the power to decide on salons future. The founders started to receive 10% of profit and stable salary.</p>	<p>Sales rate decreased two times in October 2008. Investor decided to “optimize” the business; consequently, the founders fired 2 florists and a driver. Moreover, they did not received salary until the January 2008, when floristic salon was closed by the investor.</p>
<p>Olena Age: 50 Education: Analytical chemistry</p>	<p>Parental leave after children=>understood that chemistry has no perspectives in Ukraine=>used the knowledge she obtained during bringing up the children=> 1992-2000 worked as individual teacher, created own program of intellectual development => 2000 founded a firm Network of schools of early children development</p>	<p>Structure: 5 centers in Kyiv for children between 2 and 6 years old. 4 co-owners, however only she is devoting her time to business. Centers currently employ 70 people. Each center are attending 150-250 children</p>	<p>Dollar rate did not effect the business because all financial transactions were in national currency, hryvnia. As a result of the crisis 60 thousands hryvnias were blocked on one of bank accounts, however, this sum was not crucial for the functioning of enterprise. In reaction to increased rent payment for one of the buildings (the owner demanded to pay in dollars), she found another one, where the hryvnia payment was excepted for “twice cheaper and twice better place.”</p>
<p>Ira Age: 26 Education: Master in sociology</p>	<p>University student / employed in state authorities=> research department of TV channel=>marketing research company / legal status of entrepreneur => august 2008 interpretation agency for the research company => Autumn 2008 tax avoiding business for the research company</p>	<p>Activity: Currently employed in research agency Is registered as private entrepreneur and manages: 1. Network of interpretators for the company together with 1 partner 2. Network of 5 “fictitious” entrepreneurs as a part of tax avoiding scheme of the research company she is employed in</p>	<p>Benefited from the crisis. Her network of tax avoiding “entrepreneurs” brought her the same profit as the salary in research company. In addition, Ira works in political and social research department of the company. In connection with the presidential elections, which will be held in Ukraine in autumn 2009 or winter 2010, political research is currently in high demand. Some of the clients from President Secretariat are from the US and need English translations of the report. So, profits from interpretations also increased.</p>

Chapter 3: Discussion of the Findings: three ideas, three business structures, three responses

3.1. “In search of the clients”

“What are you doing when you come to the bus stop and bus just does not come? You are can only stand and wait”

Quote from the interview

The first case I would like to discuss is Oleg’s business of abrasives trading. He decided to start own business after several years working as an employee. It was not very hard to enter the market for him. First of all, his father had a wholesale nearby Kyiv¹, which he could use to store abrasives. Second, the idea came from the former classmate, present business partner who already head the network of suppliers. The starting capital for the business owes the institutionalized informal economy, Rybkina and Kosals talked about. “First earned money, as Oleg convinces, are not obtained by “honest work.” In fact, Oleg’s work as an employee presupposed buying some kind of materials for the enterprise where he benefited from the wide-spread system of so called “otkat.”²“I had money, I had an idea (the idea is just to copy the business of my friend), and the main thing, which I needed were clients.”

Current search for the clients is also deeply rooted in the informality. With the foundation of his own business, Oleg appeared to be on the other side of the “otkat” system. The market, according to him, is very competitive and the main factors of success on it are not good quality or good price, which are approximately the same, but the ability to negotiate with the person, who makes decision about the purchase of the materials.

¹ This father had auto spare parts business

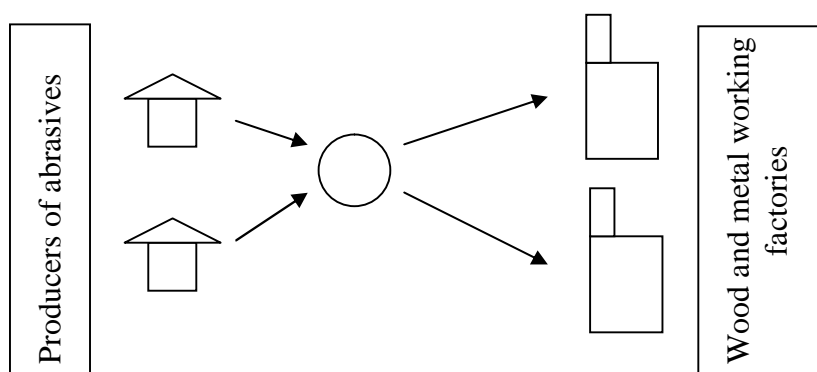
² “For example, you need to buy 100 chairs for the enterprise. And you have found 2 offers: from one benefits your enterprise, from the other (which is more expensive) benefit you. So, you chose the one profitable for you. Basically, it is cheat of the enterprise you work for” (from the interview with Oleg).

You should share with that person, but it should be done in appropriate way. Not just thrust the money into someone's pocket, but transfer to the card or through the third person, or to make some kind of favour. [...] Today, for example, I was convincing one girl from the firm to buy our materials, but did not seem to agree. Then my partner said: "She just has 5% "otkat". You should suggest more and that's it.

The fact that this scheme does not strike Oleg at all signifies about institutionalization of the practices. Moreover, when I asked what he thinks about fair competition, Oleg replied that this is, in fact, fair competition.

The main clients of Oleg's business today are woodworking and metal working enterprises, consequently, the business is totally dependent on the large-scale production. Suppliers are big Ukrainian wholesale traders or, if they don't have certain product, Oleg and his partner "smuggle it through the border with Poland or Russia." Then, they keep it in the wholesale near Kyiv, where they also have two informally employed workers, who bind the abrasive tapes and earn certain percent from the number of tapes they have produced.

Simplifying the structure of this business, it could be shown by the scheme on the picture 1.



Picture 1. Simplified structure of Oleg's abrasives trading business

So, the main problem, which Oleg faced during the crisis, was the stop of factory production. Oleg named exact period from December 2008 to February 2009, when “everything stopped, nothing was bought or sold.” This period could not be described with any kind of the reaction: “I phone and hear only silence – nobody is buying.” In fact, one of the chain in his business was blocked and only possible reaction for him was to wait.

This waiting came to an end with the first transfer of IMF credit to Ukraine. “Unless the IMF did not transfer the money to National Bank account nobody was working.” In fact, the first part of IMF credit (4,5 billion dollars) came to Ukraine in the beginning of October 2008, when the entrepreneurs were just starting to feel effects of the crisis. However, Oleg does not criticize the bureaucratic process of longish processes of transfers, but he rather considers international loans to be inappropriate tool to cope with the economic recession. He heavily criticizes national economic policy of using IMF loans. “Our country is making very big mistake in economic policy. It has printed hryvnias in the amount of that transfer, consequently devaluating national currency.”

Oleg’s predictions about the crisis are not optimistic. He expects 3 years of recession and 4 years of recovery. “We will have a long crisis, there will be racket and cutting of the light again. The 90-ties will return and could be even worst.” Furthermore, when I asked if he is ready for that he said that “whole country will be like that.” Once more, Oleg demonstrates that illegal and informal became so much embedded in social morality and everyday life that it seems to be “natural” and totally excepted.

Oleg described his role on the enterprise as “strategic thinker.” In spite of searching for new clients, he is often visiting different workshops and lectures dedicated to business development. In fact, he is following the strategy of his father, who also is very active and oriented towards personal improvement. Consequently, they are operating in the environment,

which is constantly looking for “right” worldview. One of those people is Alina, who is the owner of two hairdressing salons in Kyiv and simultaneously she is involved in the system of multi-level marketing (MLM) Amway.

The crisis is very convenient moment for the participants of MLM to convince people in the ineffectiveness of “traditional business.” I attended one of “seminars” dedicated to involvement of newcomers together with Oleg. He presented the scheme to me as a new, revolutionary system of business without intermediaries between producer and consumer. And the profits, which would have got intermediary, are paid to the direct buyer of production. The system has different levels and possibilities for people who want or do not want to build own structure, however I won’t go deep in the principles Amway works. What is important for my research is that why principles of MLM or network marketing are presented by Oleg as business of the future, why it people are shifting from traditional business and if there is any role of the crisis in that shift.

In my opinion, if to talk about the crisis not only in the economical terms, but also to look on the values of people, the crisis brought more-long term values into attention. According to the Roper Report Worldwide, the inhabitants of cities are much more worried about inflation, economic recession and unemployment than about their own enough level of well-being and having enough money not to borrow from others. In addition, such traditional values as believe in God and respecting the ancestors became more significant as well as responsibility, order in society, modesty (Roper Report 2009). So, to answer the question why MLM could be the answer to the crisis it is necessary to have a broader look at the system of values it provides.

Amway is not only a business, it is a system of philosophy or religion. It has its own commandments, system of hierarchy, prophets (those who achieved success and now are

teaching others), permanent gatherings (seminars), where they discuss why their worldview is correct and what to do in order to achieve the next level. As in religious studies, it is very hard to interview people, because they try to convince that their worldview is right. The central ideal of the system is residual profit, which means that people should develop only those businesses which will free from the work in the future. If the business does not work without founder, then it is “wrong” business.

However, here emerges the problem of that to do when you have already built effective network. The solution proposed by the adherent of the network marketing is that before starting a business one has to have “a dream”. Dream, not always but usually, symbolizes some material good like cars, houses or investing in new business. In fact, network marketing is presented on their seminars as a tool to realize the dream; however, it does not help to find it. On the one hand, one should build the business and let it work without you, on the other one also should have a dream or activity to which you will dedicate yourself after you have built this network. It is very hard for person who seeks for calling or “Beruf” in Weberian terms to start network marketing.

The system of network marketing seems to really give profits to the people, who managed to succeed. Due to the structure of “pyramid” each participant is highly interested in the success of the people below him because they are the major source of profit. So, competition between individuals changes to cooperation. As a result, this system totally changes the worldview of participants. Alina underscored “Sooner or later, people who come to the company are becoming “positive,” “negative” people do not survive here.”

In the time of the crisis, as Oleg does, people start turning to long-term values and review the principles on which whole system is built. Turning from the abrasives trading to the network marketing is particular example, not only of the profit seeking, but also of searching for

optimal business structure and business principles. However, values and principles are not the single explanation as long as his father was previously involved in that system. So, all the “rational” arguments were complemented with the factor of embeddedness into social ties.

After engagement to MLM arises the question, whether Oleg managed to find “totally new business.” The person, who starts building own structure of sales, is called an “individual entrepreneur.” However, that is hardly the “entrepreneurship” meant by the classic authors of this topic. In fact, MLM leaves its participant only with one dimension among four: uncertainty. Innovation, decision-making, and opportunity recognition are reduced to minimum. The products, the techniques of sales, even the ways of looking for new clients are already defined. The only uncertain thing is whether you will succeed. In fact, the person engages in the work of sales department, the main purpose of which is to find the clients for the company. In that sense, the goal of Oleg’s business did not shift a lot. He took ready structure once more (this time not from his friend but from established company) and narrowed the job predominantly to the search of the clients.

Turning back to the theoretical dimensions of entrepreneurship, I consider Oleg’s case to be predominantly about uncertainty bearing. His business became an uncertainty reduction of his life. In 1993 he read about forthcoming crisis and got the idea about instability of being employed because cyclical crisis in capitalistic system of production. At the same time, he realises that “many people, who are looking for better future, are going into entrepreneurship and plenty of them fail because they could not properly organize external flows.”

Using Knight’s distinction of risk and uncertainty, entrepreneurship is risky whereas employment uncertain. For Oleg traditional lifepath of employment – retirement (paid by state) does not seem certain at all. In entrepreneurship there is a risk to fail, however under state employment the life, in Oleg’s eyes, becomes even more uncertain. The image of the

state could be summarized as “uncertain state.” “State guarantees are not guarantees, in any country of the world. The state gives promises and takes them back very easily.”

In addition, this image of the state is intertwined with post-socialist and Ukrainian context. After the collapse of Soviet Union and his strong system of centralisation and planning, there was a wish to “get rid of the state” (Kosals and Rybkina 2002). If the generation of the 60-ties wanted to built “normal life” together with state, during the 90-ties many of small business owners would like to do it independently or in spite of the state (Yurchak 2001:314).

After the Orange revolution of 2004 there was much hope among population on the state and “new team” of politicians. However, after first steps of these team resulted in the general disappointment, consequently, today the level of trust to the president does not exceed 4%.³ With that level of trust to the state, it could not be the source of any certainty. If during the 90-ties entrepreneurship could be viewed as strategy of avoiding downward mobility (Cucu 2008), Oleg’s case show that it is consciousness choice to avoid uncertainty of capitalist system and the state.

	Uncertainty	Decision	Recombination	Opportunity recognition
Abrasives	++	+	+	-
MLM	++	0	0	+

Cassonian emphasis on individual decision-making and access to information could be accomplished by the channels through which this information is received. Oleg does not trust TV, therefore all the information he gets comes through social networks and workshops he visits. During our talk, he underscored the necessity of the filtration of the received information.

³ According to the rating of GfK Ukraine.

Schumpeter, perhaps, would relate Oleg's business to managerial type of action rather than entrepreneurial. As long as he took ready schemes and was trying to implement them. That also reflects Smallbones interpretation of the opportunities, when it reduces not to creating new ventures but to recognising which already existing venture could be profitable.

Notion of informality in the case of Oleg's businesses shifts from semi-legality to usage of his social networks. If abrasive's trading was operated in the duality between formal and informal economy, the base of MLM is social networks of each participant. This perception of informality could be related to the Eastern and Western perception of this concept. MLM as creation of the West brings its implementation of informality, which contrasts with post-socialist semi-legality. However, "independent entrepreneur" does not get formal registration of any kind of employment and, from this point of view, could be considered as informal worker in the sense of informality, described by Keith Hart.

3.2. "In search of the scheme"

"I see the crisis as opportunity for myself"

"All my activity mirrors my life"

Quotes from the interview

My second case deals with interconnected businesses of Adrian. He started the business since 1992 when he had an education of jeweler, great interest in this craft and desire to create hand-made jewellery at home. He said that during those period everybody was occupied with some kind of business." But getting the license for such kind of production was impossible. "You just heat the gold – and in fact you are a criminal. Today it is more or less possible, however, still very problematic." For jewellery that was a "dead end," so Adrian switched to another types of business.

He describes his motives as following: “Appeared the question of age, freedom and environment. I wanted to make my environment optimal. And I had a lot of ideas.” The first project which emerged “out of his environment” was dedicated to leather coats and shoes. “Out the environment” does not mean that he copied or took somebody’s idea as in Oleg’s case:

I just had a great desire to do this and begin to convince people. Simultaneously I wanted to organize concerts. So I started these two projects simultaneously. Tried to form a team, everything failed apart from time to time, and I started from the beginning. [...]. It was huge experience, because there was no place to learn all the things. I was experimenting on my own risk. I understood that if we will produce certain amount of coats, and will turn the cash through concerts, it will be rational scheme. But it couldn’t be so because of economical and technological factors. For example, the ticket for the concert could not cost more than a dollar and the cost for its organizing was the same as today [...] So, we balanced on the margins of profitability.”

The resources he get for the start-up came through social networks, however, it will be more appropriate to say that he created them rather than received. “Acquaintances are not crucial. If you want something, you start search for acquaintances you need, ask and at least you get a response.”

At first, the projects did not bring profit, “the circle does not connect,” so Adrian has started the advertising activity, bringing one of the water brands on the market. Money from the advertising have gone to the concerts, but “the circle still does not connect.” Next, he engaged in TV and radio production simultaneously solving the questions of security on the concerts and creating security schemes. The last point, which made the circle connect, was radio station. The radio station was a point at which all the blocks of the scheme connected. The suggestion has come from one of the acquaintances:

the opportunities are always looking for money, and money are looking for opportunities. I was a person who connected them. And I also had a responsibility. I had to give a guarantee that money would not be lost. At that time radio gave 3,5 thousands dollars losses monthly. I had a great responsibility before the people. I gathered superstitious team – no ballast, very intelligent and smart people. It could have been the greatest radio ever. So, I had to make it work and I found the scheme to overcome this 3,5 thousands of losses.

Due to this experience, Adrian came to understanding how to made whole system work:

I was in a position when nobody intervened into my work. I had an investor and “krysha” and was responsible only before them. I grew to the professional level of understanding of these processes. I could professionally speak about advertisement and about TV production. And then the crisis came and the radio got sold. The scheme was not implemented. Because there was a choice to do as I say and there is a possibility to fail or to sell the radio and get the money immediately.

Consequently, all the documents for the radio were sold and the team never started working. Adrian had to deal with the already paid rent for the building the bunch of other technical things which he managed to overcome and the lessons of “the need for diversification” and analysis:

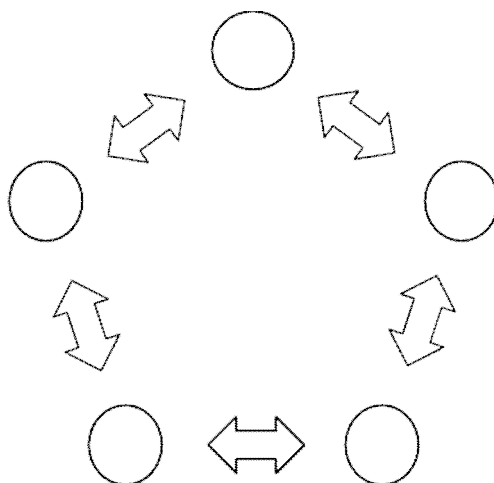
So, I came to conclusion that there is a need to analyze on the global level. I was searching for this schemes and I learned to create them professionally. So, I grew to higher level of strategic management and understood that it should be formalized and brought to some kind of technology. Analysis is the most important. I had enough of “playing” with all those projects and saw the necessity in analytical work.

The next direction of Adrian’s interests were schemas of informational influence for media. He tries to find the way of making the magazine profitable: “There is bunch of technological problems I was obsessed with. I like to find some stupid problem and search for a solution. That is the way how the approach to analytics was formed.”

In 2000 the analytics was formed as separate direction of activity. Adrian felt his own strength in this field after visiting the conference dedicated to information security and information wars, after which he decided “to make a step back” and enter the university. After the graduation he thought about post-graduate studies (“aspirantura”), however the institution he is eager to enter demands signature of one of the higher state officials, which is hard to get. And entering another university means not only doing the research but also implies “having a couple of idiots on the “back.”

In general Adrian describes his activity as “an experiment of realization of his theoretical position.” The final product he currently sees as a scheme, something like big benchmarking network. “The level of Google, perhaps.” “New type of media, of library, of connection”

The structure of Adrian’s business could be simplified to the image on picture 2.



Picture 2. Simplified structure of Adrian’s business.

Today the scheme he had found is very diversified and interconnected, but, at the same time, responsive to new opportunities. He could build in nearly any initiative he would find attractive or close those which became uninteresting without ruin all the business. During the

crisis, the demand on the “analytical product” about current economical situation increased, which keeps bringing the profit. Moreover, he views the crisis as an opportunity for himself. I assume, that the crisis for him means not only the economic recession, but the crush of profit-making philosophy, because he thinks that optimization of the business for the profit leads to the total degradation of the structure. The crisis is a possibility for people to rethink principles of their work, which means for Adrian to turn to the principles he preaches. In a closely embedded, trustworthy environment, which Adrian created and continues to create for himself, traditional market profit-oriented philosophy starts to play secondary role. .

Uncertainty	Decision	Recombination	Opportunity recognition
++	+	+++	++

Adrian’s business is most about innovation/recombination. Recombination of knowledge into own intellectual scheme and of social ties into new ventures. The crisis, to some extend, could be viewed as “creative destruction” of old order, consequently seen as step forward in Schumpeterian terms.

In contrast to Oleg, who viewed his business as reduction of uncertainty of unemployment, Adrian seems to be in constant creation of additional uncertainties for himself. His numerous rise and falls demonstrate that uncertainty gives him additional push to activity.

There is also a shift from illegal connotation of informality to usage of social ties. His first activity was not implemented because illegality was too anxious. In fact, illegal sphere limits the possibility to use social networks and develop the business in case of small entrepreneurship. Therefore, he shifted to another type of activity with institutionalized informality, where he could use his ties without danger of jail.

Similar situation demonstrates Yevgen. His HR firm just started operating, however he reported that crucial role in his business belongs to “network factors.” As long as currently the firm does not bring profit, he switched to the political projects and is developing one politician on the local level. Therefore, all his projects are also highly diversified and connected, however not formalized.

3.3. “In search of the need”

“Small entrepreneur is like a small bird which cleans the teeth of the hippopotamus. It exists until the hippopotamus is alive and needs it”

Quote from the interview

This case demonstrates the cooperation of big firm with small entrepreneurs, the intersection of formality and “shadowization,” using legal ambiguity to extract profits, and ineradicable entrepreneurial spirit. The combination resulted in two times increase of her profits.

Main character of that story is Ira, who works for the rather big research firm with international brand. However, she always dreamt of creating her own business, have written plenty of business plans, but neither of them was ever realized.

She was formally registered as an entrepreneur when she has come to the research company. “Formally my entrepreneurship has begun when I was suggested to receive bigger salary through the registration as entrepreneur.” For this company it was common practice to register their employees as entrepreneurs to pay fewer taxes to the government. Nevertheless, neither of them are “true” entrepreneurs, which are operating under conditions of the uncertainty, because they have official holidays and medical insurance from the company.

The real venture opportunity is connected to my friend Sasha, whom she invited to work to her department. Previously he was occupied with mobilizing people for different political

action, demonstrations, promo actions and other things, which needed mass involvement of the people. In the summer of 2008 the company was searching for the interpretative agency and conducted the tender among them, however none of them satisfied the demand for qualitative interpretations. So, the head of the Ira's department offered Sasha to organize the network of translators for the company. As long as Ira also had many acquaintances among translators, demanded to join this venture. So, now "Sasha is financial and organizational director and I am the president," which means that he assigns the tasks to the people and she controls the quality of translation.

Her next business venture directly relates to the crisis and is part of the strategy used by the research company she works for to survive the crisis. Before the autumn 2008, the company was going to convert the staff, which was registered as entrepreneurs, to permanent members of staff,

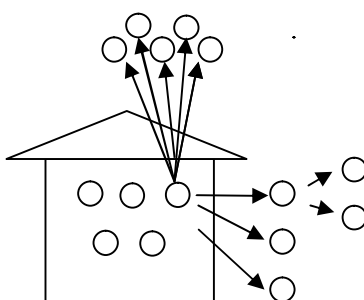
because if the company is in good position on the market, it is easier to pay the taxes then to spend the money on those small accountancies and have a risk to be closed by tax authorities.

However, along with the crisis emerged a decision even to broad the network of fictitious entrepreneurs of "tax avoiding team." Consequently, Ira was suggested to receive 25 thousand hryvnias on her account from which she left 1000UAH (100Euro) for herself and the rest was returned to the company in cash. She thought that this venture could also be the source of even bigger additional profit if she manages to find such "entrepreneurs" from her acquaintances and receive a percent from each of them. As a result, she registered her mother, their common friend, and grandmother, who has also found two willing friends in the village. All of them are receiving money only for taking risk of being called and interrogated by tax authorities. Nevertheless, for the deal appeared to be not so simple as Ira thought:

In the end of the month, when money come to accounts, I should sign the contracts and write what the person have done, based on our real projects. As long as the projects are different each month, fictitious contract also should be rewritten accordingly to them. For instance, I have a research project on climate change. One of my “entrepreneurs” is preparing the proposal, another one constitutes the questionnaire, the third makes report in Ukrainian, the fourth translates it into English, and Larysa makes everything up for the printing. That is how I distribute one research on five entities. Then, the contracts are sent by regular mail, because our accountant department demands original signature.

General logic of Ira’s entrepreneurship, as she described, is “to find the need” of the bigger company and get profit out of satisfying it. According to the philosophy which Ira represents the main “engine” of entrepreneurship is eagerness to earn more money, “it does not even matter what for.” Today she earns more than she needs to spent, however, the “eagerness” is self fulfilling entity. Nevertheless, concrete implemented ventures depend on the opportunities given by the environment and types of the networks agent is embedded in.

So, the outlook of her business could be simplified to the scheme on picture 3.



Picture 3. Simplified structure of Ira’s entrepreneurship

This scheme “enterprise” brings Ira second salary, that is same amount of money as she gets for conducting real research for the company.

Uncertainty	Decision	Recombination	Opportunity recognition
-	+	+	+++

Both Ira's enterprises emerged predominantly due to recognition of profit opportunity in the company she works for. In contrast to Adrian, her ventures are more about responding then creating opportunities. In fact, she has been an answer to "eternal business question": outsourcing or staff employees. I would describe these ventures as "outsourcing with local connotation" where connotation is given by the local needs and implemented through informality.

Embeddedness in this case appears not through the density of the network, but rather in the form of knowing right people. "How can you start a small business? If you know one big "hippopotamus" you can just start serving him. It is convenient for him too, because as a rule he is not eager to look among huge quantity of small unknown firms. It's much more convenient to have "home-made bird." Weak ties which gives new information and possibilities.

This scheme of tax avoiding is typical for Ukrainian business. The government through to spot it, however, it is very difficult to do it in practice:

The government wanted to stop it long ago, but nobody knows how. It is hard to do it because they ruin structures of many enterprises. People won't pay high taxes, consequently more enterprises will go "in the shadow." Today, it is "half-shadow," and government gets at least something out of it. In spite of that, we should remember that there are plenty of real entrepreneurs who can't pay more than 200 UAH (20 Euro) a month.

Ira's case shows simultaneous existence of informality in the form of semi-legal enterprise and in the form of using informal social networks to satisfy certain need of the enterprise.

The example of simultaneous existence of these two spheres is also explicit in the case of her father, which has approximately the same structure of entrepreneurship, however he is not employed and much more diversified. His “hippopotamus” is “big and respected” construction firm, which he supplies with personnel and construction materials. Simultaneously, he has smaller projects of foam plastic sales. He finds the best producers in sense of quality/price balance of the foam plastic and sells it to construction firms and individual clients with 5% of profit. However, his clients are not only buying the plastic. The foam according state standards of construction is divided into different types of solidity, moreover, the margins are quite big: for example 15-25 are considered to be 25. The factory produces 14,5 and sells it as 15. The difference could not be seen by the eye, but all the people involved in the transaction know what they are buying and selling. Contract is signed as if they sell plastic with 25 solidity, consequently in reality they are paying the price of 12-15 category and the rest of money are cashed out.

That kind of scheme could not be implemented without certain level of trust between actors, because the sellers from the factory will not deal with people whom they are not confident in.

According to Ira’s words, there is whole market of “cheaters” who afford different level of fraud. In this case all involved know what know what they are buying and selling. But some of these traders do not reveal to their client what the real quality of material is. In that sense it is significant to find “honest cheaters.”

Chapter 4: Broader evaluation of small entrepreneurship during the crisis in Ukraine

Entrepreneurship studies argue that the field is difficult to unite under overarching framework because entrepreneur deals, in fact, within all layers and institutions of the society. Consequently, I argue, that general description of the entrepreneurship in crisis should be done considering the interaction of individual and state, global and local levels.

On a global level effect of the crisis, firstly, could be connected to general development of economic sectors. Macrosociologist maintained that the era of informational, knowledge society is coming. Indeed, more and more people are involving in services whereas number of people, involved in production is decreasing. Ukrainian economy is far from being “information,” there are 10% of people involved in agriculture, and near 27,7% in production and only 8% in “transportation and communication” and 10% in education⁴. Despite this, the cases I have analyzed confirm, or at least do not deny, the hypothesis that enterprises involved in production of information suffered the least. In the interview, which I did not discussed in this paper, entrepreneur said that he is not heavily affected by the crisis because the demand on the “economic analysis” has grown. Similarly, education centers and research company did not feel strong destroying effect.

In contrast, Oleg, who is involved in trading, however, firmly connected with production factories feels that his business has no perspectives. His story could also be viewed from the perspective of the crisis of mass production. This topic was largely discussed in the 80s, when the recession of the industrial production resulted in hopes towards development of small-scale, flexible production or “flexible specialization” (Piore and Sabel 1984). However, the mass production and large industrial companies still exist. In context of current crisis, there is a question weather “strong” will become stronger whereas weaker and smaller extinct; or

⁴ According to National Statistics Committee in 2005.

smaller companies will gain power, for example due to spread of outsourcing and diminishing of vertical integration of large companies.

The aspect which helps surviving the crisis is informality. However, based on the cases, I maintain that informality, which is largely discussed in literature on post-socialism, should be understood at least in three different dimensions. In the first meaning, it has strong connotation of illegality. For instance, in Oleg's case it was home-made jewellery. He could have engaged in this business if it was acceptable for him. Second meaning could be called institutionalized informality in a sense of four types of informal institutions, Kosals and Rybkina (2002) write about. Despite of the benefits of dual institutionalization, there is always a risk to be closed by tax authorities if they would like to do it. "If you want to work you should avoid the law, and if you are avoiding you could be caught and closed at any moment." Nevertheless, there are certain informal rules not to be caught (for example, certain sums of money which could be on one account). So, the system allows to calculate and reduce the risk and profitability of "shadowization." The third meaning of informality has nothing to do with legal restrictions and implies usage of personal social networks and ties.

Talking about the role of informality during the crisis, I imply that embeddedness into large system of social ties helps to find necessary solutions and accumulate resources for surviving the crisis. However, embeddedness itself does not necessarily mean trust, which is, in Ira's words, "the base of illegal or semi-legal business." For example, in Sasha's networks of political mobilization the cheatings are common thing, that is why it is hard to work with him, because "he always expects fraud even when there is no reason for it." Hence, trust intertwined with social networks and shifting between formal and informal institutions creates stable base for Ukrainian entrepreneurship, which helps not to fail in the crisis.

In, Ira owes her additional profits during the crisis to this system. However, her case also demonstrates individual agency and behavioral aspect of the entrepreneurship. The theorist, who emphasize on defining entrepreneurship as “opportunity seeking” would eagerly use her case to demonstrate the concept. Despite she is an employee in a larger firm, she has two more own enterprises, which are connected to his firm. As it was already mentioned, approximately half of the employees in her department are registered as entrepreneurs in order to pay smaller taxes. But, she is the only one who implemented this formal opportunity of entrepreneurship.

In the classical Schumpeterian conception of entrepreneurship, it is considered the main force of economic development. Do small enterprises play such a role during current crisis?

First of all, I would like to emphasize that this crisis is not only about structure of production, financial markets, but has a broader scope of trustworthiness of market ideology. Therefore, small entrepreneurs are not those market actors, who are capable of changing general rules of the game. They rarely relate their activity to economic development, but rather concentrate on specific market sector or just on individual profit. Broader look should belong to the state, however, in Ukrainian situation, the state is captured by oligarchs. Bruzst have argued that FSU countries have no other way then “liberating the state” (2000). However, it does not seem to happen in Ukraine. Bruzst argument was centered on the point that “right policies could not work unless right institutions are implemented” (2000). However, institutions were established, but they belong to informal sector. So, speaking about economy development in Ukraine one should keep in mind its dual structure.

The crisis serves as a discouragement for entrepreneurs to show their profits in order benefit state economy. Consequently, during current moment in Ukraine, small business could not be used as one of the solutions to crisis. Still, it can be used as individual coping strategy.

Concluding Remarks

In the present study I have explored the influence and response to the global economic crisis by small entrepreneurs in Ukraine. Particularly, I have focused on three cases, which demonstrated the complexity and diversity of the possible responses. The starting point of my analysis, which appeared to be especially interesting, was to observe how ideas and motives of entrepreneurship shape the structure of the business and how it further affects the influence recession has.

In each of the cases I have discussed in the thesis, the entrepreneur had an idea of what the business is and where the profit should come from. I called Oleg's case "in search of the clients" because he considered that clients are the most important dimension of the business. I maintain that this idea together with dependence on large production factories brought him to a "dead end" in his business of abrasives trading when he faced a sudden decrease in sales. This pushed him to the search for new opportunities, which he sees in network marketing. Thus, presenting it as totally different principle of business, he, in fact, is preoccupied with the same problem, search for clients, which is, in his eyes, the main source of profit. It is hard to conclude today whether network marketing was a successful decision to overcome the crisis for him. Nevertheless, it signifies that the rhetoric of "new principles of organization" works especially effectively in the crisis times.

Adrian, on the contrary, asserts that optimization for the profit destroys the whole structure of business. His main point of attention is the scheme which allows the system of interconnected businesses to work. So his perception of business could be called "the search for the scheme." He experienced plenty of ups and downs, but from the beginning he looked for the "right" principles of organization. As a result, his largely diversified system appeared to be stable during the crisis and brought additional profit due to demand for his analytical activity.

I described Ira's image of business as "search for the need". Her attempts to find the niche in the market at first resulted in numerous business ideas during her student years. She was looking for "a need" which is not yet satisfied in the market. However, none of her plans was implemented in a "free market environment" predominantly because she had lack of money. Finally, she found "the need" which could be the source of business and profit for her, working for an international research company. Starting from a "translation agency," she created the tax-avoiding team of "entrepreneurs," and now is thinking about recruiting personnel for the call center for the same company. The crisis, in her case, brings her profits because she satisfies the tax avoiding needs of the company.

My fieldwork revealed many local peculiarities of entrepreneurship in Ukraine. To unfold the essence of Ukrainian small business, I challenged four classical approaches to entrepreneurship. I conclude that, from the individual perspective, Knight's risk and uncertainty bearing are not exclusive characteristics of the entrepreneurship as the current crisis highlighted the risks associated with employment. In Ukraine, job insecurity is strengthened by the uncertain state, which can not provide the well-being of its citizens. Further, I consider that Casson's emphasis on individual decision-making and access to information, in the case of small entrepreneurship, should be accomplished by the embeddedness of the individual into social ties and networks through which this information predominantly comes from. I saw also that the Shumpeterian ideas about innovation and "creative destruction" manifest themselves more as a recombination of knowledge, resources and ideas, which allow enterprises to survive.

In the theoretical perspective of the Austrian school, entrepreneurship is considered to be about opportunity recognition, which emerges from the disequilibrium of the market supply and demand. Based on my study, I can assume that in the post-socialist context opportunities

come not only from “market disequilibrium,” but also from the ruptures between the formal and informal economy. Supporting the idea of dual economy, my cases demonstrate that informality is deeply embedded in economical transactions and became, in fact, the ABC of Ukrainian business. Even people engaged in network marketing are more socially blamed than semi-legal transactions of the informal sphere.

My hypothesis that informality transforms from its Soviet meaning, manifested through illegality and semi-legality, to the Western understanding of it, in more Granovetterian terms of usage of social networks, finds partial support in my work. I argue that illegal activities tend to decline whereas dual institutionalization and spread of social networks exist simultaneously. Moreover, I assume that the decline of illegality is not so much connected with the shortage of certain activities, but rather with the enlargement of the legal sphere.

Thus, the answer to the continuous operation of small enterprises during the crisis lies not only in the general vulnerability of the economic sector, but also in the notions of embeddedness into social networks and institutionalized informal economy. Embeddedness brings clients, investors, new knowledge, and a sense of security in operation on the market. Informal economy allows optimizing the cost of the enterprise without radical changes in the price or personnel reduction. It plays an especially valuable role for the small enterprises which do not have many employees.

The study does not represent the whole variety of economic sectors, which could be a significant variable in the explanation of the response to crisis. Nevertheless, it has succeeded in capturing different influences and making a contribution to the explanation of experiencing the global recession on local and individual levels. Furthermore, the crisis has not come to an end yet, so the present research lays the ground for further longitudinal observations of the discussed cases. For instance, whether network marketing could be sufficient decision for the

entrepreneur from “traditional business,” as in Oleg’s case? Further, how long will Ira’s “tax avoiding team” be the solution for the crisis, which means at which point informality reduces being profitable?

Appendix. Interview Guide

Hello (good afternoon),

I am currently studying on master program in Budapest and researching the topic of small entrepreneurship in Ukraine. In particular, what are the ways of coping the current economic crisis.

If to talk briefly about the reasons of the interest to this topic, they are connected with desire to develop own business during the last year of university in Ukraine and simultaneously with willingness to try the studying abroad. In fact, these two reasons formed the topic of my academic interest – small entrepreneurship.

In order to understand the difficulties which emerge in your business today, I would like to pose questions, first, about the history of development of the business, second, about the environment and actors you are dealing with, and at last, about the influence of the crisis and your reaction to it.

Do you mind recording our talk on the mobile phone? I would like to emphasize that your name and the name of your enterprise would not be mentioned anywhere. You could be sure about confidentiality.

So, can we begin?

(Further questions served rather as a “map” then strict rules for me. I tried to get answers to all of them, however, not of them were relevant to each person I spoke to. The sequence might be different in each case).

1. Please, tell me briefly, when and how emerged the idea of your business? What was the main motivation for you?

What resources were essential for the start-up (acquaintances, knowledge, money)? How did you obtain them?

In what year did the business emerge?

Did you change the sphere of activity? How many times?

2. And now let us speak about current structure of the business. Do you have any employees? How much? How would you describe relationship with them (formal, close)? Are the relatives, friends involved?

What is the legal organization of the business?

3. OK. As I have noticed, the decisions entrepreneurs make are often dependent on whom they deal with, I mean, partners, investors, state. So, I would like to know the institutions and market actors you deal with. To begin with, who are you competitors?

Suppliers? Clients?

How would you characterize your relationships with the state? With tax authorities?

Is the problem of raiders and “krysha” relevant for you?

Did you engage foreign capital?

Which relation are the most important for you? Who has the most power in your environment?

Which relations are formal and which are more informal?

4. So, the last sections are connected to the influence of the crisis.

When did you feel its effect? What was your first reaction?

Did the informal connection played any role?

What was the role of the state?

Is your activity now profitable?

5. In order to understand and to compare the peculiarities of small business? I would like to talk to the person who went bankrupt during the crisis. Could you recommend me someone?

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