

Institutions and Entrepreneurs:
Cultural Evolution in the 'De Novo' Market Sphere in Post-Soviet Ukraine

This dissertation is submitted for the degree of Doctor of Philosophy

Mychailo Wynnyckyj
Faculty of Social & Political Sciences

Sidney Sussex College
University of Cambridge
2003

Dissertation Abstract

This dissertation examines the social origins, values orientations, moral beliefs, and behavioural strategies of a small sample of successful post-Soviet ‘de novo’ firm founders, and argues that entrepreneurial individuals such as those who are the subjects of research, have effected a transformation of the informal institutional framework of Ukraine’s nascent market sphere. In contrast to the prevailing approach of the literature on post-Soviet transitions, instead of focusing exclusively on the effects of elite-led formal institutional change and reform policy implementation (or its lack), this dissertation presents an alternative ‘bottom-up’ perspective on Ukraine’s development during the past decade.

Framed within the paradigm of institutionalist sociology, analysis of the qualitative data - collected through a combination of in-depth interviewing and structured questionnaire inquiry - points to a need to re-evaluate the widely accepted portrayal of new firm start-ups as playing a largely peripheral role in the transition from state socialism. Firstly, the literature’s universal equation of ‘de novo’ with ‘small’ with respect to post-Soviet firms is found to be outdated in the Ukrainian case. Furthermore, instead of reflecting a ‘homo sovieticus’ or ‘neo-patrimonial’ mentality, the moral beliefs and resultant strategic postures of a significant number of the interviewed Ukrainian firm-owners are found to be focused on accumulation through reinvestment, and a goal-orientation that may legitimately be called ‘entrepreneurial’.

Secondly, the widely accepted contention regarding the ‘nomenklatura’ origins of successful post-Soviet business owners in the FSU is found to require refinement. Private enterprise owners appear to have initially followed path dependent behavioural strategies that were conditioned by their socialisation according to a particular normative system (including the ethic of ‘blat’), but as Ukraine’s transition progressed, ‘de novo’ entrepreneurs seem to have independently and successfully converted what were once believed to be informal institutional liabilities into assets that both facilitated their personal successes and resulted in an evolution of the cultural environment in which they are embedded.

On a meta-theoretical level, it is argued in this dissertation that in Ukraine, individual entrepreneurs have effected an evolutionary change in the informal institutional arrangements that govern behaviour in the country’s nascent market sphere. The result I contend, has been a morphogenetic re-evaluation of social conventions, moral beliefs, and norms of interaction ingrained during decades of Soviet rule.

Preface

Post-Soviet transition is a process of transformation moving from the Soviet system which was dominated by monopolistic (vertical) structures, towards so-called western market democracy, based on competitive (horizontal) structures. The success of this process depends on how fast old structures and old institutions are replaced by new structures and new institutions... While formal institutions (e.g. constitutions, laws, and regulations) have found some appreciation in the eyes of both East Europeans and Western experts, the informal institutions, for many years were left to the so-called academics. Policy-makers dealing with practical problems did not have time or interest to pay much attention to these issues. Yet, more and more economists have become convinced that these informal factors play a decisive role in the transition process. The fact that they are the most complex and the least researched does not mean that they should be ignored and left alone as uncontrollable. While it is true that there are 'more questions than answers', all these issues can be studied and should be studied

Douglass North¹

¹quoted by Szyrmer (2000:4)

Declaration

This dissertation is the result of my own work and includes nothing which is the outcome of work done in collaboration except where specifically indicated in the text.

This dissertation does not exceed 80,000 words including footnotes and appendices, but excluding bibliography.

Acknowledgements

Thanks are extended to each of the Ukrainian entrepreneurs who agreed to be interviewed for this research project but remain anonymous, and to the business association leaders who facilitated access to my respondents.

I owe particular debts of gratitude to my supervisor Dr. David Lane for his encouragement, constructive criticism, and input both during my Ph.D. research and previous work towards my M.Phil. degree; to Vlad Mykhnenko for his friendship and stimulating discussions both in Donetsk and while we both struggled to complete our work in Cambridge; to my parents and family both in Canada and in Ukraine for their suggestions and assistance; and finally to Marta for her constant encouragement, love, patience, and unwavering support, for which I am eternally grateful.

Table of Contents

1. Introduction	9
Theoretical Framework	11
Positioning within the Literature	14
Empirical Data	16
Plan of the Dissertation	17
2. The Ukrainian Transition	21
Shattered Illusions	22
Historical Timeline of Reforms	26
The Kravchuk Years.....	26
Stabilisation (1994-96)	30
Low-level Equilibrium (1996-2000)	33
‘Refolution’	37
Assessing Economic Decline	39
A Bifurcated Economy	43
3. Ukraine’s Market Sphere	48
Theoretical Significance	48
Soviet-era Origins	53
The Size of the Market Sphere	59
Alternative Estimates of Market Sphere Size	63
Hidden Growth Potential	66

4. Social Origins of ‘De Novo’ Business Owners	68
<i>Post-Soviet</i> Entrepreneurs	68
Late-Perestroika (pre-1991) Pioneers	72
Embedded Starters	73
Shadow (Parallel) Economy Traders	77
The Technocratic Intelligentsia	82
Post Collapse Market Entrants	85
Market Traders	86
Technical Innovators	89
Network Embeddedness in post-1991 Ukraine	92
The Exogenous Influence Path	96
Paths to Entrepreneurship	99
5. Entrepreneurial Behaviour	102
Defining Entrepreneurship	103
Venture Organisation	109
Investments	114
Employee Management	116
Strategic Choices	118
Firm Survival and Growth	120
Trade	120
Manufacturing	123
Services	127
Competitive Strategies	130
Path Dependency	132

6. Confronting Formal Institutions	137
Formal Institutional Context	137
Corruption and Firm Origin	143
Business Ethics	146
Locus of Control	155
Fate	157
Chance and Internality of Control	158
Powerful Others	162
Evaluating the Business Environment	169
7. Evolving Values	172
The Entrepreneurial Mentality	173
Motivations	177
Work Ethic	181
Social Responsibility	186
Acquisition vs. Accumulation	191
Investing in Legitimacy	195
A Negotiated Capitalism?	197
8. Evolutionary Transformation	202
A Latent ‘Homo Sovieticus’?	202
Ukraine’s Transition	207
Conclusion	211
9. Appendices	215
A - Statement of Potential Author Biases.....	215
B - Empirical Research Methods	216
C - English translation of the introductory statement that preceded interviews	230
D - Structured questionnaire as administered	232
E - English translation of the structured questionnaire	233
10. Bibliography	234

List of Abbreviations

CEE	Central and Eastern Europe
CPU	Communist Party of Ukraine
CMEA	Council of Mutual Economic Assistance
Derzhkomstat	State Statistics Committee of Ukraine
EBRD	European Bank for Reconstruction and Development
EU	European Union
FSU	Former Soviet Union
FIG	Financial Industrial Group
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
IFC	International Financial Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
NBU	National Bank of Ukraine
NEP	New Economic Policy
OECD	Organisation for Economic Cooperation and Development
PPP	Purchasing Power Parity
SCRPE	State Committee for Regulatory Policy and Entrepreneurship
SME	Small and Medium Enterprises
SOE	State-Owned Enterprise
SSR	Soviet Socialist Republic
UAH	Ukrainian Hryvnia (currency)
UMREP	Ukrainian Market Reforms Education Programme
UN	United Nations
US	United States
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax
WTO	World Trade Organisation

Introduction

In the years following Ukraine's declaration of independence in 1991, the former Soviet republic's economy essentially collapsed: during the early and mid-1990's officially recorded output declined precipitously, inflation reached record levels, and foreign debt skyrocketed. According to the EBRD (2000), Ukraine's official GDP in 1999 was 39% of its level a decade earlier.² At the turn of the millenium, however, the country's economy experienced a sudden and seemingly sustained turnaround: in 2000 official GDP grew by 5.9%, then 9.1% in 2001, and 4.5% in 2002.³ After an exceptionally prolonged and drastic "transition recession" (Kornai, 1990), the fact of such an abrupt reversal of the country's economic fortunes raises a series of questions that the literature has thus far not answered:

1. On a macro level, the national economic unit that experienced growth in 2000-2 was clearly qualitatively different from the economy of Ukraine a decade earlier.⁴ On a micro level however, was there a correspondence between the agents of Ukraine's recovery and the economic entities (firms, individuals) that had previously been in decline? What role did *new* entrants (i.e. 'de novo' companies) play in the country's economic turnaround?
2. Who were the individuals who embarked on private enterprise careers in Ukraine during the 1990's? Much of the early literature on Perestroika-era entrepreneurship suggests that prior to the collapse of the USSR, 'de novo' private enterprises (including cooperatives) were largely founded by members of the Soviet nomenklatura, but does such a claim remain valid from the perspective of time? What were the social origins of later *post-Soviet* firm-founders?
3. What types of business strategies do Ukraine's 'de novo' firm-founders follow? Does the literature's portrayal (and Ukrainian public's perception) of start-up business ownership in the FSU as being, at best, a means of survival in the face of dire economic conditions, or at worst, a mechanism of hiding illegal property acquisition schemes, stand up to

²This compares to a decline to 68% of pre-crisis levels in the US during the Depression, and to a level of 75% of 1942 GDP in the USSR after WWII (World Bank, 1996). However, as discussed further in Chapter 3, official statistics may in fact overstate Ukraine's actual economic decline.

³Statistics quoted from Ukraine's Ministry of the Economy web site: www.me.gov.ua.

⁴As discussed further in Chapter 1, centralised planning and the former command economy were mostly dismantled during the 1990's, and the majority of enterprises privatised (Paskhaver, 2000a).

empirical scrutiny? To what extent can the business strategies of Ukraine's 'de novo' company owner-managers be characterised as 'entrepreneurial'?

4. What moral beliefs guide the behaviour of Ukraine's start-up firm founders? With respect to their relations with the state, does the literature's portrayal of the incumbents of the 'de novo' sector in the former Soviet republic as tending towards a strategy of 'state capture' (or at least cooperation with state officials through corrupt practices) reflect reality? Do 'de novo' firm-founders believe themselves sufficiently empowered to succeed in business without soliciting the assistance of state bureaucrats?
5. To what extent has socialisation in an ideological environment that was hostile to private enterprise resulted in a latency of values among Ukraine's 'de novo' entrepreneurs? Is there evidence of a latent 'homo sovieticus' syndrome - often perceived as having been a major braking factor affecting the course and speed of the transition from state socialism - having affected the goal orientations of firm founders in Ukraine?
6. How has the introduction of a market economy to Ukraine, and the concomitant appearance of owner-managers of private enterprises, affected social relations on an interpersonal level in society? In other words, are entrepreneurs "causally significant" (Wilken, 1979) to Ukraine's cultural extrication from state socialism?

As inferred in the phrasing of the above research questions, my interest in post-Soviet Ukraine, and more specifically in its 'de novo' entrepreneurs, is precipitated by a sense of dissatisfaction with Western transition scholars' descriptive analyses of the social changes that have occurred in that country during the past decade.⁵ The need to generate practical policy recommendations has heavily influenced research in post-Soviet transitions (Kaminski & Kurczewska, 1995; Ovin, 2001; Szyrmer, 2000), and consequently the ongoing processes of socio-economic transformation throughout the FSU have been viewed almost exclusively from the perspective of governments. I do not question the validity of such a top-down approach - particularly with reference to the early post-Soviet period when transformation clearly was an elite-led process. However, I suggest that although the transition from state socialism may have been initiated by elites, understanding its development during the years following the USSR's collapse requires a 'bottom-up' perspective as well.

In this dissertation I investigate how the ‘bottom-up’ development of ‘de novo’ companies has led to the birth of a vibrant market sphere of economic activity where none existed before. My empirical research concentrates on *successful* Ukrainian entrepreneurs who founded companies as ‘de novo’ start-ups rather than through privatisation. I use qualitative methods to investigate the values and beliefs of such firm-founders, and describe the means by which they reported to have grown prosperous endogenous companies during the post-Soviet period - employing workers and producing wealth.

On a meta-theoretical level I examine how informal social rules and norms that were once hostile to private enterprise have been transformed by the actions of these new economic actors.⁶ I argue that a limited-scope institutional transformation has been effected in Ukraine by those ‘de novo’ entrepreneurs who challenged the boundaries of what was once considered legitimate behaviour, and thereby contributed to a process of cultural evolution. Thus, I contend, that the effects of the proliferation of ‘de novo’ companies in the former Soviet republic can be measured not only in terms of its economic consequences, but also in the degree to which the prevalent behavioural conventions, moral rules and social norms that define the *institutional framework* of Ukraine’s market sphere have changed over time.

Theoretical Framework

Institutions, according to the most widely accepted definition of the term, are “the rules of the game in a society, or more formally, the humanly devised constraints that shape human interaction” (North, 1990:3). *Formal* institutions are imposed on society through legislation or other codified means, and are enforced primarily by the state.⁷ *Informal* institutions consist of the uncodified rules, values and norms that regulate social interaction. They rely on distinctly informal enforcement mechanisms to ensure compliance. Among informal institutions one can distinguish: 1) *Social norms* that are enforced by means of interpersonal and group sanctions, and are often associated with elaborate symbolic systems (including linguistic expressions) that facilitate communication of the prevalent normative order; 2)

⁵I have spelled out possible personal biases that may have affected my research approach in Appendix A.

⁶The term “new actor” (Arzeni, 1996) does not suggest that post-Soviet entrepreneurs are new economic actors in the sense of never having participated in economic activities before. Indeed it will be argued that the Soviet-era shadow economy acted as an incubator for future post-Soviet firm-starters (Chapter 4).

⁷Organisations may also have their own formal rules that are enforced by a sanctioning body within the organisation (Douglas, 1987). For the purposes of present inquiry, these are deemed less important.

Moral rules for which symbols are also important vehicles of interpersonal transmission, but which are generally enforced through first party policing rather than through external sanction; 3) *Conventions* that condition actors' personal choices of goals and methods by activating the force of tradition and collective social experience. Conventions are self-policing, and therefore the first casualty of behavioural deviance, but among informal institutions they are most closely linked to culture: they depend on culturally transmitted collective experience for their determination, and themselves delimit the cultural environment of a society through actors' behavioural choices (Douglas, 1987). Table 1.1 summarises the distinctions between the various types of social institutions based on the respective enforcement mechanisms of each.⁸

Table 1.1: Taxonomy of institutions and their enforcement mechanisms:

	<u>Institution</u>	<u>Enforcement</u>
Formal	Legal Framework	Third Party - State
Informal	Conventions	Self-policing
	Moral Rules	First Party - Individual Self
	Social Norms	Third Party - Group

(Source: Mantzavinos, 2001:85; see also North, 1992)

Informal institutions are clearly products of cultural conditioning, and as such do not *determine* the action choices of individuals, but rather provide *incentives* (Mantzavinos, 2000; North, 1990). One may therefore speak of an identity between 'informal institutions' and the 'ideational' aspects of 'culture' - taken as meaning the *core collective subjectivity* of a society or group:

...the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other, as

⁸This threefold distinction also broadly corresponds to the rule-systems theory classification of Burns & Flam (1987) in which they distinguish between grammars (conventions), rule systems (moral rules), and rule regimes (social norms).

conditioning elements of further action (Kroeber & Kluckhohn, 1962:357 -
quoted in Jackson, 1989:17).⁹

The above definition references the dual nature of the relationship between culture and the individual: culture is both a product of agency and conditioning factor of action choices. Similarly, according to institutionalist theory, an individual's action choices are affected by past experience (e.g. socialisation), but actors are free to pursue goals that deviate from the institutionally imposed incentive structure (e.g. traditional norms), and therefore to change it (Scott, 1995). Furthermore, if accepted by the group in which the actor is embedded, such deviance may lead to the establishment of a new rule framework, and therefore to cultural-institutional transformation (Axelrod, 1986). In this dissertation, I argue that, since the collapse of state socialism, elements of Ukraine's informal institutional framework - including certain values, norms of behaviour, social conventions, and self-imposed codes of conduct - have been transformed among and by the country's 'de novo' business owners.

My argument is based on an expansion of Schumpeter's classical paradigm of 'creative destruction' whereby 'entrepreneurship' is defined in a broad sense: as a special kind of socio-cultural and economic action (Spinoza et. al., 1997). Without diminishing the importance of its strictly economic effects (e.g. the creation of new products and services, new methods or organisations), I contend that the essence of entrepreneurship in a post-Soviet context (i.e. where, for generations, the institutional environment was hostile to private enterprise activities) is *to test the boundaries of legitimate action as delineated by society's institutions*.¹⁰ Implied within such a definition is a connotation of behavioural deviance from established norms, rules, and conventions of behaviour.

Having proposed such a definition, it is important to emphasise two points. Firstly, as Cochrane (1971:97) pointed out: "while the unusual characters will always depart from the norms, in general invention and innovation will tend to be along lines congenial to the type of conditioning". For this reason, the entrepreneur's cultural role is to be an agent of *morphogenesis* (or 'creative destruction') rather than genesis 'ex nihilo' - appropriating elements of

⁹This definition deliberately omits the semiotic elements of many definitions of culture which are not dealt with in this dissertation. The quotation is extracted from Kroeber & Kluckhohn's (1962) study of scholarly publications dealing with culture in which they identified 164 separate definitions of the term.

past traditions (including both assets and nominal liabilities) into a new and continuously evolving institutional framework. Secondly, the morphogenetic agency of the entrepreneur is most direct at the micro-level of society - in the interpersonal interactions between individuals (Archer, 1988, 1995). These in turn can be aggregated into an observed common subjectivity (culture) and systemic social structure when analysing the 'macro-level':

This kind of cultural approach to entrepreneurship, I would suggest, is capable of showing how economic growth develops from the 'bottom up', not from the 'top-down'. This process is fuelled by the efforts of individuals and their groups to achieve a variety of goals among which economic profit and self-advancement compete with others. Moreover, in this fashion ordinary habits, practices and ideas, create the basis for other distinctly modern institutions to emerge that mediate between them and the distant, large-scale structures of society (Berger, 1991:22).

If one accepts that individual actions aggregate to produce macro-level effects as suggested above, the functional role of the entrepreneur in effecting social transformation may be seen as having two aspects: to question the legitimacy of tradition through action that deviates from the established rule framework (i.e. culture) of a society,¹¹ and to influence the establishment of new institutions (i.e. both formalized and informal 'rules of the game') that are logically consistent both with past traditions and with the new arrangements generated by deviance.

¹⁰Similar definitions can be extracted from Douglas (1987), North (1990), Mantzavinos (2001).

¹¹The functional equation of entrepreneurship with deviant action is somewhat problematic because it subsumes many different types of deviance (Drucker, 1985; Spinoza et. al., 1997). Indeed several investigators have used the entrepreneurship paradigm to research such socially deviant activities as fraud, extortion, and bribery (Jennings, et. al., 1994). Most notable for present purposes is the characterisation of racketeering by criminal organisations in the FSU as a form of "violent entrepreneurship" (Volkov, 2000). Clearly, given the size of Ukraine's shadow economy and concomitant rise in crime rates (see Chapter 3), the distinction between legal and illegal economic activities is somewhat blurred. Nevertheless, I believe that there exists a clear and objective difference between illegal business activities that involve, for example, contravening tax laws, and those that use or threaten the use of violence. Admittedly, such a distinction is somewhat arbitrary. In the context of this research, criminal entrepreneurship, together with economic activities that were completely embedded in the shadow economy (i.e. operating with no registered legal entity at all), were explicitly excluded from both empirical study and theoretical analysis.

Positioning within the Literature

However, applied to the post-Soviet case, such a functional equation of ‘entrepreneurship’ with institutional deviance may be seen as controversial. As several investigators have pointed out:

In any analysis of small business start-up in Eastern Europe it is necessary to make a conceptual distinction between entrepreneurial activity on the one hand and small-scale business proprietorship on the other. It is the latter that is expanding rapidly as increasing numbers of individuals strive to protect themselves from the uncertainties of the newly-emerging market economies... There is little evidence to suggest that small scale business start-up in Eastern Europe is associated with the psychological motives associated with long term capital accumulation... (Scase, 1997:14; see also Smallbone, 2001).

Analysis of the economic conditions in each of the countries of the FSU (and Ukraine specifically - see Chapter 2) provides ample ‘prima facie’ evidence for the position expressed above. Furthermore, ethnographic studies conducted in Russia (Barkhatova et. al., 2001; Burawoy et. al., 2000) seem to confirm the prevalent characterisation of ‘de novo’ business owners in the FSU as being primarily motivated by subsistence needs and a desire to increase consumptive capacity.

Indeed, from the perspective of orthodox social theory, new company start-ups in the FSU should not be oriented towards capital accumulation and growth. Social development is path dependent, and therefore affected by a non-economic factor of cultural latency (Stark, 1994; Stark & Bruszt, 1998). Because industrialisation was imposed on the societies of the FSU ‘from above’ by Communist elites, rather than emerging ‘from below’ as it did in the West, the cultural environment of these countries was developmentally skewed. State socialism encouraged plan realisation rather than innovation (Connor, 1991; Levine, 1983), and socialised individuals to seek occupational advancement through loyalty to a particular patron rather than through independent achievement (Farmer, 1992; Voslensky, 1984). During the early post-Soviet period, the symptomatic results of decades of socialisation under such a system were said to manifest themselves in the populations of the FSU countries as pervasive passivity, interpersonal suspicion, and prevalence for a specific type of creativity that

Sztompka (1993, 1995) characterised as “parasitic innovativeness” - referring to the ‘grab-it-and-run’ strategies that seemed to permeate all individual economic activities at the time.

There is little doubt that there was ample anecdotal evidence of the mass proliferation of such a “homo sovieticus syndrome” (Kovalevska, 2000; Morawska, 1999) in the Ukrainian population during the early 1990’s. However, culturally informed values and norms of interaction are not immutable (Axelrod, 1986; Inglehart, 1990). As will be argued further in this dissertation, the literature’s pessimism regarding the emergence of growth-oriented private entrepreneurship in the FSU may be more reflective of theoretical bias than solid empirical evidence. Firm-level empirical research in former state socialist economies has thus far focused primarily on the newly privatised sector (Earle & Estrin, 2000; Eyal et. al., 1998; Paskhaver 2000; Stark & Bruszt, 1998; UMREP, 1998) whereas ‘de novo’ companies, when researched at all, have been equated with “small businesses” (Brezinski & Fritsch, 1996; Isakova, 1997; Roberts & Tholen, 1998; Roberts & Zhou, 2000), and therefore have been relegated to a minimally significant status in terms of both economic weight and broader role in the transition process. Indeed, in the past, the literature’s position regarding ‘de novo’ firm founders in former state socialist economies seems to have been unequivocal:

...the new entrepreneurs of Eastern Europe are unlikely to bring about fundamental changes in the ideological and economic structures of these countries. As such, they cannot be regarded as a force for indigenous economic transformation... (Scase, 1997:14).

This dissertation challenges the above assertion. It is my thesis that during the past decade, ‘de novo’ entrepreneurs have (as individuals and as a group) exerted a considerable transformational effect on Ukrainian society. More specifically, I argue that the appearance of private entrepreneurship during the late-Perestroika period and since the USSR’s collapse has firstly, led to the ‘de novo’ creation of an autonomous and vibrant sphere of economic activity in which entrepreneurial firms have prospered (in contrast to the rest of Ukraine’s economy), and secondly, has led to the evolution of a new informal institutional framework of values, norms, and moral rules within this new market sphere.

Empirical Data

The field research period described in this dissertation spanned the months of December 2000 to July 2001 (see Appendix B for details). During this time, 53 firm-owners were interviewed in three specific regions of Ukraine: Kyiv, Donetsk, and the two western Ukrainian cities of Lviv and Ivano-Frankivsk. Only owner-managers of *officially registered* companies were interviewed, and the sample was restricted to those who established their enterprises ‘de novo’ rather than through privatisation. The sample was selected through a non-random ‘snowball’ method that relied heavily on ‘gatekeepers’, and therefore no claims are made as to its statistical representativeness.¹² Owner-managers of enterprises that were once owned by the state were expressly excluded from the target group,¹³ as was the rural agricultural sector as a whole.¹⁴ As a result, behavioural or firm-level performance comparisons between the ‘de novo’ and privatised sectors noted in the text are restricted to those made possible by secondary sources.

The overall scale of my research project was small. My approach to investigating the phenomenon of ‘de novo’ entrepreneurship in Ukraine, and the role of start-up business owners in the country’s post-Soviet socio-economic transformation, focused on theory-building using a combination of ethnographic and grounded theory methods (Creswell, 1998). My goal was not to test established hypotheses, but rather to highlight previously unresearched aspects of micro-level cultural phenomena associated with Ukraine’s transition to a market economy.

The focus on officially registered urban ‘de novo’ entrepreneurs should not be confused with research on owners of small and medium enterprises (SME) in Ukraine. Although several analysts (Brezinski & Fritsch, 1996; Isakova, 1997; Roberts & Tholen, 1998; Roberts & Zhou, 2000) have accepted as valid “the hypothesis that small enterprises can be taken as a

¹²This type of ‘snowball’ sampling has been extensively defended in the literature on qualitative research (Silverman, 2000). Nevertheless a significant degree of caution is warranted when drawing generalised conclusions regarding all Ukrainian business owners from this single study.

¹³It should be stressed that the research sample specifically excluded privatised enterprises, and “associate firms” (“dochirni pidpriemstva”) established during the early 1990’s by SOE directors as spin-offs from large industrial enterprises. Since 1996, the latter have largely disappeared as independent entities, or as argued in Chapter 3, have been subsumed under the monopolistic structures formed by conglomerates of privatised firms.

¹⁴This omission suggests an interesting avenue for further research on the Ukrainian ‘de novo’ firm sector. In 1999, there were 35 884 private farms registered in Ukraine (Derzhkomstat, 2000:114). Due to the way in which land reform was implemented during the past decade each of these farms represents a ‘de novo’ firm.

proxy for new enterprises” in the FSU (World Bank, 2002:51), a significant number of my interview respondents owned and managed multifaceted corporations that employed hundreds and even thousands of workers. Given that statistics on firm failure rates are notoriously unreliable in Ukraine (Liapin & Liapin, 2001), there is no way of knowing the extent to which the findings of a study limited to those who have *successfully* established firms, can be taken as typical for the Ukrainian ‘de novo’ sector as a whole. However, since it is likely that successful economic behaviour leads to “spill over effects” (Damjan & Knell, 2002), such an empirical limitation should not diminish the theoretical contributions of this dissertation to modelling the mechanisms by which entrepreneurs in Ukraine have affected informal institutional arrangements in their immediate social milieus.

Plan of the Dissertation

The dissertation begins (Chapter 2) with a periodisation of independent Ukraine’s past decade of economic transition. Although a thorough examination of the former Soviet republic’s history as an independent state is beyond the scope of this dissertation, the presented historical timeline will serve to contextualise the empirical material discussed in subsequent chapters. Furthermore, in this chapter, I outline the framework of my argument with respect to Ukraine’s macro-level development since independence. Specifically, I contend that the structure of Ukraine’s economy after a decade of transition can be best described as *‘bifurcated’*: on the one hand, there exists a legacy (state-centred and declining) sphere of SOE’s and newly privatised firms, and on the other hand, an independent and growing sector of ‘de novo’ companies.

Since the latter is the unit of analysis for the balance of the dissertation, Chapter 3 examines its origins and broader social significance. In the first part of the chapter I expand on my theoretical argument regarding the central role of ‘de novo’ entrepreneurs in effecting institutional changes in a post-Soviet transition context. I then turn to an examination of the historical roots of private enterprise as a social phenomenon in post-Soviet Ukraine. Finally, the third section of the chapter provides both official and survey-based estimates of the economic significance of the Ukrainian ‘de novo’ sector after 10 years of transition. Based on this analysis, I conclude that the literature’s relegation of the ‘de novo’ sector to a relatively minor role in Ukraine’s economic transformation (i.e. the equation of ‘de novo’ firms with SME’s - as noted above), is outdated.

In Chapter 4, I move from an examination of the secondary literature to the specific investigation of the ‘de novo’ firm founders interviewed in the course of this research project. The life-course paths of respondents leading up to their decision to establish a private business venture are traced, and a four-group typology of social origins is presented.

Within the context of the defined typology, Chapter 5 examines the firm-level organisation and growth strategies reported by the interviewed owner-managers from each identified group. In this context, I review the economic literature that scrutinises the typical behavioural distinctions of entrepreneurs, and then examine the degree to which the venture growth strategies employed by respondents in their business pursuits may be described as ‘entrepreneurial’. Analysis of interviewees’ investment patterns, competitive outlooks, and strategic postures suggests a micro-level dependent relationship between path to start-up and subsequent firm-owner behaviour. Furthermore, such path dependency points to variations in the mechanisms by which ‘de novo’ firm-founders effected changes in informal institutional arrangements in their respective social environments.

The twin issues of Ukraine’s formal institutional environment, and respondents’ reported reactions to it are turned to in Chapter 6. The analysis focuses firstly on interviewees’ conceptions of what constitutes ethical behaviour in a post-Soviet business context, and then turns to their beliefs in their own power to control their life-chances (i.e. locus of control) when confronted by environmental constraints. It is notable that in this context, respondents’ overall evaluations of Ukraine’s business environment were surprisingly positive.

Chapter 7 turns to an examination of interviewee motivations and goal orientations with respect to their positions as owner-managers of private firms. Based on empirical concepts taken from research in other countries, the prevalence of “classical” entrepreneurial values and beliefs among Ukraine’s ‘de novo’ business owners is explored, and the worldviews of the interviewed firm-owners are contrasted with the “post-communist syndrome” widely believed to permeate the cultures of all former state socialist societies (Klicperova, et. al., 1997; Sztompka, 1993, 1995; vanZon, 2001). Since accumulation (rather than acquisition and consumption) is seen as crucial to the development of functioning markets in Ukraine,

reported firm-level investment behaviour is examined, and a conceptual link between growth orientation and status perceptions in broader society is identified.

The twin issues of the agency of entrepreneurs as subjective institution enhancers, and the systemic development of Ukraine after the collapse of the USSR, are finally synthesised in Chapter 8. Mechanisms by which culturally informed conventions, moral rules, and social norms have actively been transformed in Ukraine during the past decade are identified, and an alternative ‘bottom-up’ approach to analysing the cultural and structural changes that have occurred in the former Soviet republic is presented. This approach contrasts sharply with the conventional ‘top-down’ paradigm that pervades the literature on the transitions from state socialism, but it derives its legitimacy from its grounding in the empirical findings of this dissertation.

Although it is generally agreed that such embedded 'grassroots' institutional development is essential for successful transition from an economic system of planning to one based on markets, the process by which it occurs has also been virtually unstudied:

The transition is predominantly of an institutional nature. This means that both formal and informal institutions must change. While the former can be relatively easily transformed... the role of informal institutions (perceptions, beliefs, values, etc.) does not seem to get sufficient attention and appreciation from transition leaders and therefore emerges as a major slowing factor (Szyrmer, 2000:7).

My ultimate goal in the following chapters will be to show that during the past decade a new and relatively vibrant market sphere of economic activity has been created in Ukraine since the collapse of state socialism - with new actors, new rules of interpersonal interaction, new status criteria, new values, a new institutional arrangement. Later, based on the empirical data collected in the course of field research the antecedents and developmental paths of this ‘de novo’ sphere on both a cultural and structural level will be traced. The questions I seek to answer are the following: who are the incumbents of this new market sphere?; what are their values?; do these values differ from those prevalent in Ukrainian society?; and if so, are entrepreneurs agents of change in Ukraine?

Chapter 2

The Ukrainian Transition

This chapter outlines the past decade of Ukraine's economic transformation, and assesses the effectiveness of the country's macro-level reform efforts. Although a thorough examination of the former Soviet republic's ten year history as an independent state is beyond the scope of this dissertation, the presented historical timeline will serve to contextualise the empirical material discussed in subsequent chapters. The rough periodisation provided here highlights the following: the 1991-93 years of 'wild capitalism'; the 1994-96 period of fiscal stabilisation; the 'reforms correction' that spanned 1996-2000; the 'refolution' of 2000-2001.

I argue that in each of these periods, rather than softening the ill-effects of transition, dirigiste policies implemented by the Ukrainian government (described by Pynzenyk (1998, 2000) as "imitating reform") resulted in the "disorganisation" of the economy (Blanchard & Kremer, 1997) during the early period, and to the "virtualization" (Gaddy & Ickes, 1998; Gregory, 2000) of the country's (largely privatised) heavy industrial and resource processing sectors in later years. However, I contend that the "disorganisation" and "virtual economy" theses tell only part of the story of what transpired in Ukraine during the past decade. I hypothesise - following Kennedy's (1997) analysis of Poland during the early 1990's - that during the years following the collapse of the USSR, the Ukrainian economic unit split into two largely independent spheres: a) a legacy sphere of state-owned and privatised enterprises in which state socialist norms of interaction (including non-market strategies of profit accumulation that relied on state-centred vertical network contacts) prevailed; and b) a sphere of 'de novo' firms that operated according to horizontal monetised market rules. After outlining the historical process of how such a bifurcation of the economy occurred, I argue (based on survey evidence, and in opposition to official statistical data), that during the decade that followed Ukraine's declaration of independence, the legacy sphere contracted to critical levels, while the market sphere of 'de novo' firms grew in both economic and broader social significance.

Shattered Illusions

During the months following the former Soviet republic's August 24, 1991 declaration of independence, optimists foreshadowed a prosperous economic future for the new state. Regardless of the fact that unlike its CEE neighbours, state socialist Ukraine experienced no attempts at implementing fundamental economic reform prior to the late 1980's,¹⁵ based on its size and geopolitical location, extensive industrialisation, and well developed transportation infrastructure,¹⁶ several analysts argued that the former Soviet republic's economic potential rivalled that of even the most prosperous European states (Dyczok, 2000; Nahaylo, 1999; Paskhaver, 2000b; Wilson, 1997).

Adding to Ukraine's apparent potential was its highly developed human capital stock. Notwithstanding the oppression of the Stalinist period, seven decades of Soviet rule had resulted in the country's population becoming highly educated (Kuzio, 1998b).¹⁷ Thus, according to western analysts' observations during the early post-Soviet period, Ukraine could achieve economic growth quickly and easily: it simply needed to release the creative potential of its population. Its government needed to liberalise trade, quickly privatise the wealth of capital assets located on its territory, institute a formal institutional framework that would protect private property, and permit private enterprise activities.¹⁸ According to such advice, prosperity would follow almost automatically.

¹⁵Pre-Perestroika reform in Ukraine was limited. In January 1985 the "Frunze" machine tool factory in Sumy (a city north of Kyiv) was one of the first enterprises in the USSR to undergo a "deepened economic experiment" according to which it was allowed to remit only 30% of its profits into the state budget, and to retain 70% in a workers' fund designed to improve employee motivation through monetary bonuses (Marples, 1991). Clearly when compared to the economic changes brought on by Perestroika, such reforms were minor.

¹⁶This infrastructure includes the main Soviet-era oil and gas pipelines to the EU (approximately 40% of all of Russia's oil exports transit Ukraine through the Druzhba pipeline (Tedstrom, 1998:208)), ports on the Black Sea, as well as road and rail networks linking its major centres to Central Europe and the EU.

¹⁷In 1990, 90% of ethnic Ukrainians completed some form of post-secondary schooling, compared to 2% in 1921 (Motyl, 1993).

¹⁸During the early 1990's IFI's working in CEE and FSU countries promoted a particular vision of economic transformation that came to be known as the "Washington Consensus" (Friedman, 1990; Kornai, 1990; Williamson, 1993). According to this doctrine, governments were told to follow the "three pillars of market reform" (Aslund, 2000): a) fiscal stabilisation, b) price and trade liberalisation, and c) privatisation. However, primary emphasis was without a doubt placed on the privatisation of legacy enterprises. For example, the radical reformer Chubais (the Russian darling of western policy experts), described his strategy of reform as 'reverse Marxism': "Just as the Bolsheviks had built communism by transferring the means of production from private owners to the state, so he believed that his central mission must be to undo that transformation, and return the property to private owners, in the quickest way he could." (Freeland, 2000:52).

However, an educated population did not automatically translate into a pro-market reform constituency in Ukraine. During the early years of independence, some predicted that the western region of the country (see map below), would act as a driving force towards marketisation. This region was annexed to the USSR in 1945, and there, individuals who had personal memories of pre-war private enterprise (Nestorovych, 1977) were still alive in 1991.¹⁹ Analysts' optimism, however, seemed to neglect the fact that the bulk of Ukraine's population (up to 75%) resides in the eastern and central regions of the country, where most of the country's resource extraction and heavy industrial manufacturing base is located, but where private enterprise activities were banned for several generations. After an initial period in which some individual reformers from western Ukraine were co-opted into the new Kyiv government (e.g. Pynzenyk - First Deputy Prime Minister in 1993), these central, eastern, and southern regions became the seedbed of the country's new elites (Pikhovshek, 1998).

Figure 1.1: Regional Map of Ukraine



Source: www.ukrmap.com.ua

¹⁹Ukraine is unique among Europe's post-Soviet states in that it is the only reform-oriented transition country to incorporate within its contiguous borders *both* a region that experienced the full historical extent of state socialism (three generations), and a 'Baltic-type' western region. Belarus also incorporates two such historically different regions, but market reform in that country has yet to be started (World Bank, 2002). Similarly it can be argued that the Kaliningrad region of Russia is such a 'Baltic-type' enclave, but it's territory is not contiguous with the rest of the country. Given the literature's identification of "market memory" as a significant variable that affects the speed of transition (de Melo et. al., 1997; World Bank, 2002:15), Ukraine with its regional variations, represents a unique and strangely understudied case of how differing historical experiences within a single country have affected the economic transformation of the whole.

Optimists' prognoses regarding Ukraine's economic revival after independence were largely based on misconceived perceptions of the goals of anti-Soviet protest movement that swept the country during the late-1980's and early 1990's. Although effectively mobilising Ukraine's masses in favour of political independence, the largely western-Ukrainian based "Rukh" (Popular Movement for Restructuring) did not call for radical *economic* reform (Kuzio & Wilson, 1994). On the contrary: in November 1990, when the CPU majority in the republic's Supreme Soviet proposed the "Conception of the Ukrainian SSR's transition to a market economy" - a document that specifically rejected the "shock therapy" strategy of reform in favour of a gradual approach - members of the "Rukh" opposition faction welcomed and supported it (Halchynskyj, 1999; Havrylyshyn, 1998). The "Rukh" leadership at the time seems to have been more concerned with issues relating to Ukraine's national self-determination than with radicalising the gradualist economic reform program of their CPU opponents (Banaian, 1999). In Ukraine, no grassroots movement for economic reform developed during the late-1980's (Kubicek, 1997; Ryabchuk, 1999), and consequently, during the years following the country's independence, no equivalent to Gaidar (Russia) or Balcerowycz (Poland) appeared on the political scene (Paskhaver, 2000b).

Difficult initial conditions do not excuse later policy blunders (de Milo, 1997; World Bank, 2002), but there is little doubt that Ukraine's position at the start of transition presented significant obstacles to economic growth in the early post-independence years (Halchynskyj, 1999; Lytvyn, 2000).²⁰ Decades of central planning may have led to a dramatic rise in education levels and to the country's rapid industrialisation, but, Soviet policies had focused on the development of the resource processing sector at the expense of light manufacturing and services (Sundakov, 2000:219, Winiecki, 1993). The Ukrainian SSR was tasked by the central planners with making producer-goods and components rather than finished products: less than 30% of output was devoted to the final assembly of consumer goods (Marples, 1991:2), and less than 18% of total production was actually consumed within the republic (Halchynskyj, 1999:43). Mammoth state-owned manufacturing conglomerates produced large quantities of lathes, industrial chemicals, steel pipes, and military spare parts,²¹ but

²⁰Havrylyshyn (1997:292) and Aslund (2002) have argued that the emphasis placed in public discourse on difficult initial conditions being the prime factor delaying reforms is the result of a confluence of interests between outright opponents of marketisation and those that derive personal benefit from a state of partial reform.

²¹Even with such a large proportion of the USSR's military-industrial complex located on Ukrainian territory, only 3% of military finished goods were assembled in the republic.

production of shoes, clothes, or building supplies was minimal (Motyl, 1993). When the latter were made, their quality was often shoddy even by CEE standards (World Bank, 1996).

Presumably some of the productive assets and capabilities of both the heavy industrial and military sectors of Ukraine's economy could have been rechannelled into consumer goods manufacturing if the post-independence transition had been properly managed. "Conversion" was in fact emphasised as a restructuring priority by the country's elites during the early 1990's, and singular examples may be cited where this was successfully accomplished.²² For the vast majority of the new state's manufacturing firms, however, restructuring for viability in a market environment was a near impossible task: Ukraine's industries had been created under a system of centralised planning, and were therefore dependent on subsidised inputs and markets formerly provided by an all-Union economy in which resource and transportation costs were not spared (Halchynskij, 1999:41). Furthermore, at the time of the USSR's collapse, the capital stock of the country's heavy industrial and military enterprises tended to be old, and too specialised to be re-tuned for alternative production (Hare, Ishaq, Estrin, 1998:182).²³ Thus, regardless of whether these legacy firms were privatised or continued to be state-owned, or whether or not favourable trade relations could be negotiated with alternative markets after the Union economy's demise, in the absence of a central planning authority whose agenda implicitly called for subsidies, such firms were simply not viable.

Ukraine's economic situation immediately after independence was not helped by external factors. Under pressure from the US, which (at first) openly opposed Ukraine's initiation of the break-up of the Soviet Union,²⁴ international financial institutions refused to provide aid until the new state renounced nuclear weapons (Kuzio, 1998a; Tedstrom, 1998:202). Foreign investors, attracted by perceived lucrative opportunities in the CEE states and Russia,

²²For example, a portion of the "Pivdenmash" rocket factory in Dnipropetrovsk was successfully converted into a trolley-bus manufacturing facility, while during the late 1990's the manufacturing capacity of the remainder of this SOE provided the basis for Ukraine's contribution to the international "Sea Launch" commercial orbital satellite delivery venture.

²³As Konigs & Welsh (1999) have shown, the amount of firm-level output contraction resulting from the break-up of long standing trade ties with suppliers was directly proportional to the age of the firm's capital stock inheritance from the planning system. Since the end of the 1970's, the investment priorities of Soviet central planners seem to have focused on the industrial and resource development of the Caucasus and the Ural region of the RSFSR. As a result by the 1990's, Ukraine's capital stock was almost universally out of date.

practically ignored Ukraine.²⁵ Most importantly, and as discussed further, Ukraine's elites seem to have had no concrete strategy for de-coupling the country economically from the now defunct USSR.

Historical Timeline of Reforms

Ukraine embarked on independence effectively as a "quasi-state" (Kuzio, 1998b). Its ministries and government agencies had for decades not been centres of policy-making, but rather acted as conduits for the implementation of directives supplied from Moscow (Koropecky, 1977; Motyl, 1998). As a result, the limited bureaucratic apparatus that existed in Kyiv in 1991 was under-trained, and woefully inadequate for the administration of a country of over 50 million people (Nordberg, 1998). Furthermore, in the minds of many within the population (particularly in the eastern regions), the republican status of the Ukrainian SSR had been a Soviet-era administrative formality, rather than reflecting the status of the Ukrainian people as a separate and mature nation (Kuzio & Wilson, 1994; Wilson, 1997, 2000). Thus, rightly or wrongly, Ukraine's post-independence reforms "had to begin with the nation and the state; constructing them was a logical possibility and a systemic priority" (Motyl, 1998:3). Reform of the formal institutions that regulate economic activities, including strengthening law enforcement and judicial agencies, was postponed in favour of national identity consolidation (Von Hirschhausen, 1998).²⁶

The Kravchuk Years (1992-1994)

With reference to economic changes, the first thirty months of Ukraine's post-Soviet history essentially can be characterised as a period of non-reform (Banaian, 1999; Havrylyshyn, 1997; Kubicek, 1997; Sundakov, 1999).²⁷ The administration of President Kravchuk,

²⁴Merely days before the abortive coup in Moscow, in what has come to be known as the August 1991 "Chicken Kyiv Speech," US President George Bush addressed the Ukrainian Parliament and expressly condemned the "suicidal nationalism" of those political factions that advocated independence for the republic (Kuzio, 1997b).

²⁵During the first 4 years of Ukraine's independence, FDI spiked at a level of \$200 million US in 1992, but later dropped to \$151 million per annum in 1994 and 1995 (i.e. approximately \$3 per capita). After 1996 it rose to just over \$500 million per year, but this figure remains low for a country of almost 50 million people (Ishaq, 1999).

²⁶There exists a significant literature on the antecedents and problems associated with post-Soviet nation-building in Ukraine. For a useful bibliography see Kuzio, 1998b.

²⁷Several investigators have pointed out that after Kravchuk's 1993 appointment of Leonid Kuchma to the post of Prime Minister, administrative control over prices were somewhat reduced (Havrylyshyn, 1997; Kuzio, 1998b; Pynzenyk, 2000). Despite minor changes however, complete liberalisation remained a distant reform dream throughout Kravchuk's Presidency.

confronted with perceived internal ethnic and regional cleavages, concentrated on implementing state-building policies rather than reforming the catastrophically declining economy.²⁸ During this period direct state subsidies to loss-making Soviet-era enterprises remained largely untouched - accounting for almost half of consolidated budget expenditures (Lunina & Vincentz, 1999); inflation soared to record levels (Pynzenyk, 1998); government spending accounted for over half of total GDP (EBRD, 1996:116); skyrocketing state debt was combated through corporate tax increases until these reached effective rates of 120% of enterprises profits (Nordberg, 1998). During the early 1990's, little was done by the Ukrainian government to improve the economy except react to radical reform measures implemented by the (initially) pro-market administration in Russia.

Over time, blaming Russia for the young state's economic woes seems to have become the primary policy instrument of the Kravchuk presidency (Havrylyshyn, 1997). Russia controlled virtually all of Ukraine's oil and gas supplies (which it periodically threatened to cut off if Ukraine refused to pay world prices),²⁹ and it had previously been the primary customer for Ukraine's manufactured goods (military equipment, machinery components, and processed resources) which it now was under no obligation to purchase. Most importantly, immediately after the USSR's collapse, control over Ukraine's currency remained in the hands of its northern neighbour.

In May 1991, the Supreme Soviet of the Ukrainian SSR, as part of its gradualist agenda for market reform (see 1990 "Conception of the Ukrainian SSR's Transition to a Market Economy" above), had introduced a temporary currency (the 'coupon' or 'karbovanets'), to be used in conjunction with the Soviet rouble when purchasing staple goods. The idea was to curb exports of shortage goods from the republic to the rest of the USSR, and simultaneously to gain greater economic autonomy for Ukraine while using the state's macro-economic

²⁸The Kravchuk administration's state-building program concentrated on four main points: a) gaining membership for Ukraine in a variety of international organisations; b) establishing and maintaining a loyal army and border patrol; c) constructing an administrative apparatus for the central government; d) avoiding disintegration of the country into its constituent regions (Motyl, 1998:8).

²⁹Like other countries in the region, Ukraine continues to be almost completely dependent on Russian supplies of natural gas. Approximately half of imports are channelled into fuel and domestic use (cooking), and the other half into thermal power generation (Boycun, 1999). The latter became an important source of electricity after development of nuclear power was effectively stopped following the Chernobyl disaster (Marples, 1991). Compounding Ukraine's energy supply problem is the exhaustion of the coal reserves of the Donbas where extraction costs more than can be fetched at world prices (Lovei, 1998c; von Hirschhausen, 1998).

levers to ease the shock of lifting administrative controls on prices (Halchynskyj, 1999:51-69). However, in January 1992, after the dissolution of the USSR, the plan collapsed: the Russian Central Bank refused to issue Ukraine with cash roubles. For cash transactions, the temporary ‘karbovanets’ was declared sole legal tender, and over time the rouble was squeezed out of domestic use. *Noncash* transactions between enterprises continued to be carried out in roubles - a fact that left the Russian Central Bank as the effective ‘clearing house’ for Ukraine’s inter-enterprise debt (Banaian, 1999).³⁰

Simultaneously, the Yeltsin administration in Russia implemented a radical policy of immediate price liberalisation. Given that the border between the two countries was as yet practically non-existent, the fledgling Ukrainian government was forced to follow suit. One month after independence, retail prices were raised by an average of 285% (von Hirschhausen, 1998), but this increase, unlike Russia’s, was not based on a policy of allowing market forces to drive prices to equilibrium. Instead the previous system of administrative control was maintained, and attempts were made to adjust to the reality of liberalised prices in neighbouring Russia by drastically increasing tariffs (Havrylyshyn, 1997:296).

Not surprisingly, smuggling and black market trading became a mass phenomenon with many thousands of former state-sector workers, released from their previously secure military-industrial complex and heavy industry jobs (or placed on extended unpaid leave),³¹ travelling to both neighbouring states and world-wide to trade in consumer goods. With the Iron Curtain dismantled a lucrative shuttle trade developed in western and Asian manufactured goods sourced from CEE, Turkey, the Arab states, and in some cases China and Vietnam, and resold in Ukraine’s numerous bazaars (Boycun, 1999). Given public perceptions of imports being universally of higher quality than domestically produced goods (World Bank, 1996), during the early 1990’s, such small scale import activities were highly profitable. As discussed in Chapter 4, my empirical research shows that in several cases, profits accumulated through

³⁰Noncash transactions represented approximately 80% of financial flows in the Soviet economy prior to Perestroika (Haitani, 1986:139). During the late 1980’s their relative weight is likely to have decreased, but nevertheless remained significant.

³¹Official unemployment statistics are notoriously unreliable in Ukraine because few workers bother to register for the meagre benefits that state welfare agencies provide. Officially the unemployment rate between 1991 and 1995 never rose above 1% (Ishaq, 1997), and in 1999 registered at 3.7%, or just over 1 million workers (Derzhkomstat, 1999). According to some estimates real unemployment is up to four times higher if one takes into account the practise, common among SOE’s, of placing employees on unpaid leave rather than dismissing them outright (Havrylyshyn, 1998).

this bazaar trade later constituted a major source of start-up capital for more formalised business ventures.

The growth of an illicit shuttle trade, although bringing minimal direct revenue into the state budget would not have been cause for particular alarm if it were not accompanied by a more comprehensive rise in crime rates. Between 1991 and 1994, the total number of reported crimes more than doubled (Derzhkomstat, 2000:531), and murder rates rose to record levels (Cherkaskyj, 2000). More worryingly, during this period the number of organised criminal groups in Ukraine is estimated to have grown from 275 to 1005 (Kuzio, 1997a).

Public perceptions linked this abrupt rise in criminality, and the general lawlessness that swept Ukraine (and other FSU states) during the early post-Soviet period, to the networks of powerful managers and former CPU apparatchiks inherited from the Soviet system (Volkov, 2000; Braguinsky & Yavlinsky, 2000). As discussed in Chapter 2, it is questionable whether this perceived link between the rise in criminal activity that characterised this ‘wild capitalist’ period of Ukraine’s history and the legacy nomenklatura was causal or contingent. There is little doubt, however, that the growth of organised crime in Ukraine coincided (at least temporally) with the amassment of significant fortunes by some members of the republic’s former Soviet elite, and that, as discussed below, at least some of this wealth was accumulated through the misappropriation of state subsidies (Kuzio, 1997b; Toritsyn, 2000).

A key factor that differentiated Ukraine from other areas of the FSU, was that its Kyiv-based political-economic elite did not change after the collapse of the USSR.³² The same Parliament (elected in March 1990), with its CPU majority of 240:450 originating in the “command-administrative class” (Arel, 1991),³³ continued to preside over both the legislative process and the executive branch until the elections of 1994. During this period, the political power of Ukraine’s Soviet-era SOE managers was virtually unchecked, and they argued that

³²In contrast to the situation in Moscow (Lane, 1996:131).

³³The 1990 elections to the Ukrainian Supreme Soviet took place less than 6 months after the republic’s long-standing ruler, Vladimir Shcherbitsky (a Brezhnevite protégé), retired in September 1989. Although a significant number of technocrats and non-party members of the “technical intelligentsia” were elected in this ballot, most of the CPU faction Parliamentarians rose to power under Shcherbitsky’s patronage, as did most of the executive branch under President Kravchuk and his Prime Minister Vitold Fokin - former head of the Ukrainian SSR’s central planning authority (Lytvyn, 2000).

privatisation,³⁴ and the imposition of hard budget constraints on the large and inefficient loss-making enterprises under their management, would inevitably lead to mass unemployment and social unrest. This new-old elite, therefore, lobbied hard for direct state intervention in the economy, and the government responded by providing both guaranteed bank loans, and budgetary subsidies (Havrylyshyn, 1997:297). Since neither could be supported by a tax base that was shrinking rapidly due to output contraction (Teriokhin, 2000), and with no other source of budget revenue, the government began printing money (Banaian, 1999:41-50).³⁵

Thus, unlike in CEE countries and in Russia, the “inflationary overhang” (World Bank, 2002) left over from the Soviet system of shortages was only one of the causes of Ukraine’s hyper-inflation (reaching 10 000% per annum in 1993). During the early years of independence, the massive devaluation of the country’s currency was actually enhanced by the actions of the Kravchuk administration (Pynzenyk, 1998). Instead of prompting the government into reducing subsidies to control the situation, fiscal chaos was met with increased administrative restrictions on foreign exchange, price controls, and tariffs. The result was the ‘dollarization’ of the economy, and a burgeoning shadow sector. With a largely underdeveloped bureaucracy and under-funded regulatory enforcement agencies, the nascent Ukrainian state was powerless to stop any and all forms of economic crime. Black market trading in goods whose prices were nominally controlled produced moderate profits, while access to budgetary subsidies, export licenses, credits, and foreign currency allocations generated astronomical incomes for those with connections within the executive branch.³⁶

Stabilisation (1994-96)

On 10 July 1994, Leonid Kuchma, the former director of “Pivdennyj” rocket factory in Dnipropetrovsk (and considered a representative of the SOE enterprise directors’ lobby), was elected President over the incumbent Kravchuk by a margin of 52% to 45%. In his first

³⁴Despite SOE directors’ formal opposition to privatisation, some shares in legacy enterprises were transferred into private ownership during this period. In 1994, private sector share in official GDP jumped to 40% from 15% in 1993 (EBRD, 1999:281).

³⁵The term ‘printing money’ is technically inaccurate: money was injected into the economy through currency emissions in the form of credits to “strategic” enterprises. Funds were channelled through the banking system in a noncash form, but the mechanism was less important than the result: severe spikes in monthly inflation rates accompanied by momentous currency devaluation.

³⁶During the Kravchuk years the illegal export of capital from Ukraine through preferential licenses (in which actual exports were underreported), and dubious state-guaranteed import contracts was estimated to have exceeded \$3 billion US per annum (Havrylyshyn, 1997:303; Kuzio, 1997b:153).

speech to Parliament on 11 October 1994, the new President surprised observers by outlining a programme of “radical economic reform” (Havrylyshyn, 1997:304; Kuzio, 1997b:138-141). Its main points were as follows:

- Financial stabilisation through a ban on currency emissions, and a system of cash flow management to control government expenditures. Specifically this involved the issuance of bonds to finance budget deficits, and an increase in the independent powers of the NBU to control monetary policy and interest rates.³⁷
- Exchange rate liberalisation to be followed by the introduction of a new currency
- Immediate price liberalisation with administrative control lifted over all prices except for coal, electricity, and food staples such as bread and milk.
- Relaxation of the foreign trade regime with protectionist measures limited to goods that were actually manufactured in Ukraine, instead of being used as a means of supporting administrative price controls.
- An accelerated program of privatisation that called for ownership of all small and medium sized firms to be quickly transferred to their managers and ‘worker collectives’. With minor exceptions, most large SOE’s were to be privatised through a voucher system with ownership in the first 5000 transferred within 2 years.

In early November 1994, Kuchma, together with his team of “young reformers” (Banaian, 1999:85) began implementing the most immediate aspects of his programme: both wholesale and retail prices were largely freed of administrative control (de Menil, 2000:58). Simultaneously, the list of goods subject to export quotas were greatly reduced (exports of grain, scrap and ferrous metal products, and military hardware remained controlled), and Ukraine’s customs regime was harmonised with the norms of GATT (Kuzio, 1997b:140). On November 2, the black market in foreign currency was eliminated when the requirement that commercial banks and exchange kiosks conform to exchange rates set by the NBU was lifted, and administrative limits on the amounts of cash karbovantsi in daily circulation removed (Shpek, 2000). Financial credits to state-owned industrial enterprises were halted or made

³⁷The system of “sequestration,” introduced in Ukraine as a prerequisite of the 1995 IMF stabilisation loan, may have been a necessity at the time, but Sundakov (1999:115) has argued that it has since created distortions in the

provisional on the presentation of a business plan and plan for restructuring; newly introduced promissory notes allowed for the later introduction of a bankruptcy mechanism (Kuzio, 1997b). VAT was reduced from 28% to 20%, and the maximum corporate income tax rate was reduced from 90% to 50% (Teriokhin, 2000).

In April 1995, Kuchma again addressed Parliament with a report on the state of the economy in the previous year. According to all statistical indicators Ukraine's economic decline had continued through the previous six months (and even accelerated), but most significantly, hyperinflation had been halted: during the first quarter of 1995, prices had risen an average of 10.8% per month, compared to a monthly average of 47% per month in 1993, and 14.4% per month in 1994 (Pynzenyk, 1998:12). Kuchma's speech urged economic reform measures to pass into their second stage: accelerated privatisation.

As a direct result of these new measures, more enterprises were privatised in Ukraine in 1995 than during the previous three years of independence combined (Shpek, 2000:35).³⁸ These were primarily in the SME sector, and by 1996 included virtually all firms engaged in retail trade and catering services. In the large firm sector, Kuchma instructed the State Property Fund to draw up annual lists of enterprises to be privatised, and ordered the issuance of "compensation certificates" which could be used to buy shares in state-owned firms through the newly created capital markets exchange.³⁹

Despite such bold moves, Kuchma's implementation of market reforms during his first two years in office did not fully live up to the "radical" designation named in his October 1994 programme. Although his administration's abolition of the erstwhile policy of allocating state credits to industry and agriculture on a mass scale had brought inflation under control (Pynzenyk, 1998), subsidies to loss-making enterprises were not eliminated completely. Majority state ownership in enterprises deemed "strategic" - including virtually all firms in the mining, resource processing, electricity (both distribution and generation) and gas sectors

management of the executive branch of government: "expenditure is determined not by policy programs, but by the availability of cash".

³⁸This despite a one year ban imposed in June 1994 on the privatisation of 6000 large enterprises deemed "strategic" by Parliament (Paskhaver, 2000a).

³⁹"Compensation certificates" were issued by Presidential Decree on 11 November 1994. Their formal role was to compensate the population for savings in state banks that had been lost due to inflation. Unlike the previously issued privatisation vouchers, these certificates could be openly traded and freely sold (Paskhaver, 2000a).

- was retained, and for these firms soft budget constraints remained in force. Such selective reform allowed for a consolidation of power by individuals who exercised effective control over input producing enterprises, and in the years after fiscal stabilisation had been achieved, I contend, effectively divided Ukraine's economy into two distinct spheres: 1) a nascent market economy that included some privatised SME's, and a growing number of 'de novo' firms, and 2) a state-connected ("oligarchic" - Aslund, 2002) economy that controlled the energy distribution and resource processing sectors, and whose actors relied heavily on their influence and proximity to the Presidential administration for the extraction of rents.⁴⁰

Low-level Equilibrium (1996-2000)

By 1996 the Ukrainian economy had achieved some level of stability: hyperinflation had been overcome, prices and trade largely liberalised, and a stable new currency (the "hryvnia") introduced. Proclaiming his desire to accelerate reform even further, on the night of June 26, Kuchma cajoled Parliament into adopting a new market-oriented Constitution that provided him with a three year window in which to issue decrees concerning economic matters without the need to consult the legislature (Ishaq, 1997:511).

The President's first decrees targeted the privatisation process: by 1998 ownership in over 61 thousand Ukrainian firms was transferred from the state into private hands (Paskhaver, 2000a:129).⁴¹ This number included virtually all SME's (usually taken over by 'worker collectives'), but also included over 10 thousand large industrial enterprises. Ownership in the latter was generally transferred through a system of vouchers and 'compensation certificates' that approximated the Russian model, and as was the case with Ukraine's north-eastern neighbour, often led to shadow schemes that involved the illegal transfer of assets to 'insiders' (the SOE managers themselves), and 'oligarchs' - those with political clout in the executive branch of government (Pivovarsky, 2001; World Bank, 2002).

⁴⁰Resource processing and energy distribution companies in Ukraine lobby heavily for special tax privileges and direct subsidies on the grounds that they are strategic but loss-making. Because they rarely officially declare profits, the taxes paid by such firms to the state budget are minimal, yet real profits in this sector are clearly substantial (Sych, 2001).

⁴¹50 000 enterprises were privatised during the 1995-98 "mass privatisation" period (Paskhaver, 2000a:127). An enterprise was officially considered 'privatised' in Ukraine if no more than 30% of its shares remained in state ownership (Pivovarsky, 2001).

Indeed, Kuchma's rise to power during the 1994 election campaign had been strongly and openly supported by such entrenched elites - particularly by groups representing the heavy industrial south-eastern regions of the country (Kubicek, 1997:114). Although their opposition to the macro-economic reform measures implemented during the early months of his administration was muted, by the second year of the President's mandate, the increasing power of vested interests inside the executive branch became manifest. In June 1995 Kuchma proclaimed a "correction of economic reform". Expressly rejecting "blind monetarist policy" he shifted his public pronouncements in favour of "state regulated transition to a social market economy" (Kuzio, 1997b:146). Henceforth, the government would be tasked with "guiding" the economic restructuring process, and would focus firstly on supporting domestic industries.

State support for domestic producers translated into subsidies. Although direct budgetary support of "strategic" sectors (e.g. agriculture, coal) and targeted subsidies to individual enterprises were reduced from a 1991 high of 14.98% of GDP to a 7.4% share in 1997, *indirect* subsidies in the form of tax write-offs and social insurance debt restructuring amounted to an *additional* 10.5% of GDP in that year (Lunina & Vincentz, 1999). Thus, after stabilisation, rather than reducing the fiscal burden of state support for unrestructured enterprises, the Kuchma government *increased* subsidies - but only to select firms (i.e. those whose managers were able to lobby a "strategic" designation for themselves), and hid this fact from the taxpaying public by using a smoke screen of veksel, mutual offsets, and tax debt cancellations (Zhylayev, 2000).

During the initial post-independence period, these forms of barter had evolved at the inter-firm level as a result of the "disorganisation" phenomenon (Blanchard & Kramer, 1997). Enterprises with a limited number of suppliers and customers (as was the case under central planning) saw their product flows collapse - partly due to the break-up of the USSR, and partly due to a general shortage of available credit from which to pay for procured goods. Barter provided such firms with a means of maintaining relationships along their production chains as partner firms became cash starved - either because of their inability to access bank credit (hyperinflation had resulted in extremely high interest rates), or due to exorbitant tax pressures (Ledeneva, 2000). Barter also provided producers with a means of ensuring customer creditworthiness while reducing contract enforcement costs (Marin, et. al., 2000).

However, although the structural dislocations that accompanied the early transition period may have been the initial cause of firms switching to barter, the persistence and growth of the phenomenon after macro-economic stabilisation was achieved suggests that something other than ‘disorganisation’ was its later catalyst. According to survey data from the late 1990’s, barter, veksel, and mutual offsets were instruments of exchange more likely to be used by Ukraine’s large industrial enterprises as a means of inter-firm and tax debt settlements than by the service and trade sectors (Carlin et. al., 2000:242). More importantly, they also seemed to be more prevalent in the state-owned and privatised sectors than among ‘de novo’ firms (Konigs & Walsh, 1999).

Such empirical findings suggest firstly, that during the mid-1990’s, non-monetary mutual settlements were in effect, a non-market means of profit accumulation (or at least debt forgiveness) uniquely available to legacy sector actors with access to connections in the state bureaucracy (Commander & Mummsen, 2000; Dubrovsky, 2000b; Snelbecker, 2001). Secondly, during this period, the indirect subsidisation of unprofitable legacy enterprises seems to have been tacitly supported by the state as a whole, and actively promoted by highly placed government officials who facilitated the settlement of tax debts through non-monetary instruments. According to anecdotal evidence, Kuchma’s notorious Prime Minister Pavlo Lazarenko amassed a multi-million dollar fortune from bribes accepted in exchange for ‘arranging the legality’ of covert state subsidies and targeted tax forgiveness for specific enterprises.⁴² In 1997, the gross amount of the latter totalled UAH 5.4 billion or 5.8% of GDP (Zhylyayev, 2000:171). By January 1999 tax debts totalled 15% of GDP, and according to Pynzenyk & Lunina (2000:9), 60% of the total amount was owed by state-owned and recently privatised enterprises.⁴³

‘Soft budget’ support during this period was targeted at specific (privatised or partially privatised) companies operating primarily in the energy distribution, resource extraction, industrial chemical, and metals sectors of south-eastern Ukraine. Whereas the military-

⁴²Lazarenko was jailed in California in 1998 on money-laundering charges. His trial has been set for mid-2003.

⁴³One might argue that the high proportion of tax debt owed by SOE and recently-privatised firms was a function of their experiencing losses due to restructuring. However, given that after 1996 enterprises in Ukraine were taxed only if profitable, this data suggests that such enterprises deliberately delayed paying taxes in anticipation of their debts being forgiven.

industrial complex enterprises of the central and western regions of the country had practically all ceased operation by the mid-1990's, the primary industries of the south-east remained functioning. There, shadow privatisation schemes linked to the high-level corruption noted above, resulted in legacy assets being transferred to private ownership in large blocks, and therefore becoming concentrated not merely at the level of individual enterprises or sectors, but at the regional level in so-called Financial Industrial Groups or "clans" (Pikhovshek, 1998).⁴⁴ In Donetsk for example, in 1998, the regional FIG held a monopoly on gas distribution in the region, controlled several coal mines, owned 5 coke and 8 steel producing plants. In 2000 it acquired controlling ownership of the oblast's electricity distribution and generation companies (Teleshun & Kolpakov, 2002).

Ownership of multiple related industries clearly made hiding profits and stripping assets simpler for south-eastern Ukrainian FIG's, but it also resulted in them wielding immense political power in the Kyiv government. Because the rest of Ukraine's official economy had contracted so drastically, the relative contribution of this region's primary industry to national GDP actually increased during this period, as did their share of export revenues. Although, much of this wealth production may have been part of a "virtual economy" (Gaddy & Ickes, 1998; Gregory, 2000) that masked the true performance of enterprises behind a screen of tax arrears and barter, the political dividends of owning or controlling the country's major wealth producing industries were nevertheless substantial.⁴⁵

During the 1996-2000 period, Ukraine's economy seems to have settled into a classic low-level equilibrium state brought on by partial market reform (Ganev, 2001; Toritsyn, 2000; World Bank, 2002:xxii). On the one hand, the pressures of crime, taxation, and over-regulation that had previously stifled the nascent private sector were gradually reduced, but on the other hand, soft budget constraints continued to be applied to those Soviet-era SOE's that were able to secure sufficient political influence in Kyiv (e.g. energy, metals). The result

⁴⁴ According to Pikhovshek (1998:13), the anatomy of a "clan" consists of the following 1) a vertical network of economic actors whose goal is to increase the collective power of the group by placing its members in key positions in the national and regional executives, banking institutions, the mass media; 2) a public figurehead who controls the decision-making process within the organs of state power of a given region; 3) a barter arrangement between the politician and the region's network (FIG) that ensures that the provision of whatever state services (e.g. tax exemptions, monopoly rights, relaxed regulations) are required to maximise profits from the resource extracting (or processing) industries controlled by the FIG.

⁴⁵ In December 2002, Viktor Yanukovich, the main political figure within the Donetsk "clan" was appointed Prime Minister by President Kuchma.

was a highly uneven economic playing field that those in power had few incentives to change (Aslund, 2002). Significant growth was not achieved, but the danger of social unrest resulting from the previous drastic contraction of the economy was avoided.

'Refolution'

In December 1999, Viktor Yushchenko - the extremely popular former chief of the NBU, and the man widely believed to have been responsible both for bringing hyperinflation under control in 1994, and for limiting the scope of the devaluation of the hryvnia during the 1998 Russian financial crisis - was appointed Prime Minister by the newly re-elected President Kuchma.⁴⁶ During the brief tenure of the Yushchenko government,⁴⁷ Ukrainian society experienced a period of heightened political activism, and a real shift away from the low-level equilibrium in which the country's economy had become entrenched during previous years. Two factors were key to the 2000-2001 'refolution'.⁴⁸

Firstly, Yushchenko's First Deputy Premier Yulia Tymoshenko - the former chair of the United Energy Systems of Ukraine gas monopoly during the Premiership of Pavlo Lazarenko (June 1996 - July 1997) - implemented policies designed to reduce the pervasive use of barter schemes in the energy sector (RFE/RL, 20 June, 2000). The effect of imposing such discipline on powerful vested interest groups in Ukraine was most immediately felt in an increase in the collected revenues of the government, and this in turn allowed for the clearance of pension and wage arrears in the state sector. At the beginning of 2000 these amounted to over 6 billion UAH, with many teachers, civil servants, and SOE employees not receiving wages for up to six months at a time. By January 2001, aggregated wage debts in the budgetary sector had been reduced by over 50%, and simultaneously modest increases in pensions and state-sector salaries were introduced (Cabinet of Ministers, 2001). The effect of

⁴⁶Kuchma was re-elected on November 15, 1999 after a second round of voting in which he prevailed against CPU leader Petro Symonenko.

⁴⁷Yushchenko was removed from office by a Parliamentary vote of no-confidence in April 2001.

⁴⁸Claus Offe (1996) coined this term with respect to the events of 1989 in the CEE. He pointed out that the elites who initiated social changes in the region at the time were "distinctly atheoretical" and their actions were seldom ideologically justified. The parallel between with the programme of the Yushchenko government is striking: although Ukraine's 2000 reformist team introduced specific policies aimed at breaking the country out of its low-level equilibrium trap, few (if any) of its members articulated a specific vision of the future they sought to create, and none voiced a positive ideological justification for their actions.

such changes was almost immediate: a general feeling of optimism within the population was reflected in increased consumer confidence, and in the first post-collapse rise in official GDP.

The second factor that contributed to the Yushchenko government's economic successes seems to have been primarily political: the result of a scandal that broke in November 2000 following the release of audio tapes that, purportedly, were made in President Kuchma's office over a period of months by a secret service officer. The recordings implicated the President and his entourage of insider businessmen-politicians in shady economic activities, and possible complicity in the murder of an independent journalist.⁴⁹ Public demonstrations on the streets of Kyiv and other centres demanding Kuchma's resignation or impeachment lasted until the summer of 2001, and during this time the previously unified pro-Presidential parties in Parliament (each representing a particular business grouping) temporarily fell into disarray.

Increased public political activity, and a decrease in the effective power of Ukraine's entrenched business lobby groups as a result of the tape scandal, generated renewed public interest in the reform process - not seen in Ukraine since the August 1991 coup that eventually led to the collapse of the USSR. A period of 'extraordinary politics' ensued during which the low-level equilibrium in which Ukraine had been trapped since 1996 under a political regime that concentrated economic decision-making in the Presidential Administration, was undermined. Taking full advantage of this shifting political context, the Yushchenko government followed the advice of international policy advisors precisely:

A major challenge for the reformist team that comes to power during a period of extraordinary politics in countries with concentrated political regimes is to make clear the links between rents from partial reform and direct costs to society. Tax arrears, tax and duty exemptions for high-profile conglomerates, and non payments need to be linked in the public mind to delayed public sector wages and pensions and the poor provision of social services. The complex web of non transparent subsidies to powerful businesses needs to be uncovered, revealing that such subsidies tend to benefit incumbent managers rather than workers (World Bank, 2002:xxvii).

By chance, the time period in which the empirical research described in this dissertation was conducted coincided with this period of ‘extraordinary politics’. The fact that the ‘refolution’ involved both a concerted reform effort from above (i.e. the vested-interest breaking policies of the Yushchenko government), combined with the activation of a reform constituency from below, suggests that its seeds may have been sewn in earlier years. Given the tight coupling between the state and legacy firms (i.e. both SOE’s and newly privatised companies in the heavy industrial and resource sectors) described above, one is prompted to search for the roots of this ‘bottom-up’ reform movement somewhere other than in the legacy economy. It is my contention that these roots can be found in Ukraine’s nascent ‘de novo’ private enterprise sector - a sector that was established during the early post-Soviet years, and, as shown below, actually *prospered* (in relative terms) during the 1990’s while the legacy economy contracted.

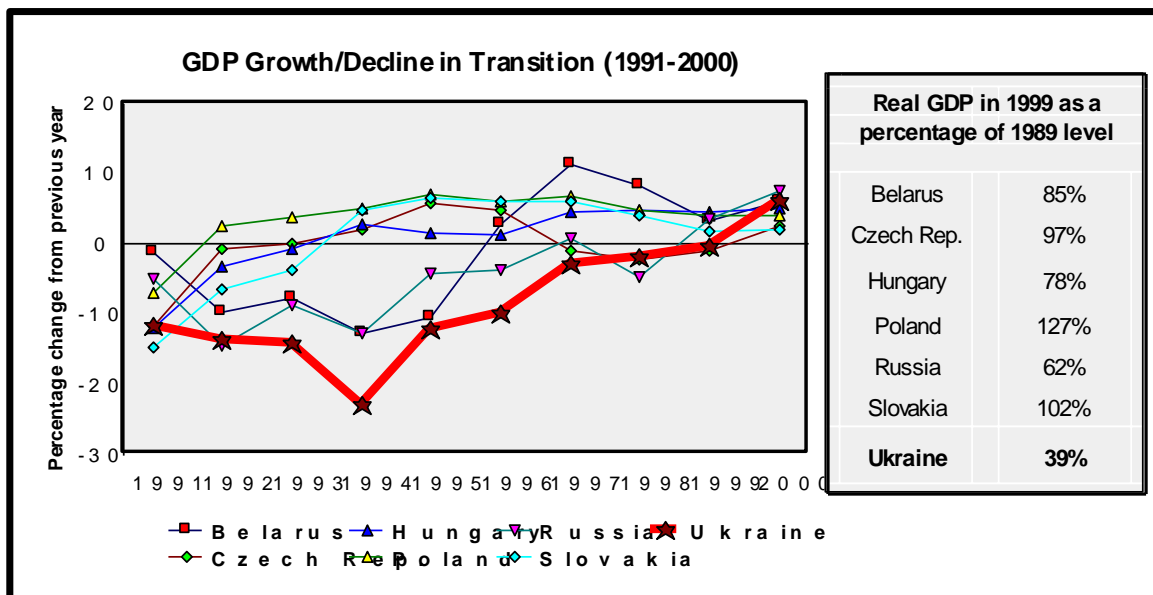
Assessing Economic Decline

According to official statistics, after the collapse of state socialism, Ukraine experienced nine successive years of GDP decline. As shown in Figure 1.1, the worst period of economic degeneration coincided with the ‘wild capitalist’ years of the Kravchuk administration. The increasing rates of annual GDP decline seemed to be halted under Kuchma, but growth was not restored until 2000. The end-result of this drawn-out process of incomplete reform was to make Ukraine’s transition recession the most severe of all of the former state socialist countries in Europe (World Bank, 2002)⁵⁰ - at least according to officially recorded indices.

⁴⁹For selected transcripts of these recordings see www.pravda.com.ua

⁵⁰The cited World Bank Report triumphantly states: “The transition recession is now over - Ukraine, the only country with 10 consecutive years of output decline, registered growth in 2000” (p. 4). That year Ukraine’s annual GDP grew by approximately 6%, and in 2001 this rate of growth increased to 9% (Hrebenchuk, 2002).

Figure 2.1: GDP Growth/Decline in Ukraine and neighbouring transition countries.



Data source: EBRD Annual Report 2000.

Although official statistics show dramatic output decline throughout the 1990's in Ukraine, it seems that such data do not necessarily reflect the actual material condition of the population. Survey studies conducted four years after the collapse of state socialism found that, although poverty levels did rise, few Ukrainian households were forced into destitution by the severe economic crisis engulfing the country (Rose, 1995). Statistics compiled by OECD (2001:37) show the number of passenger cars actually *increasing* between 1990 and 1998 from 68 per thousand inhabitants to 98, and the number of television sets during this period also rising from 328/1000 to 490/1000. Similarly, according to three surveys conducted by the Institute of Sociology of the Ukrainian Academy of Sciences, in 1982, 1994, and 2000, the standard of living in Ukraine (averaged throughout the population and measured by accumulated consumer goods) seems to have in fact *improved* during the early years of transition - compared to early-1980's levels - deteriorating slightly only in the latter half of the 1990's. Table 2.1 shows comparative data on how respondents in these three surveys answered the question "Which of the following does your family own?":

Table 2.1: Changes in Ukrainian families' material well-being based on survey data from 1982, 1994, 2000 (figures are percentages of total respondents).

Which of the following items does your family own?	1982	1994	2000
'Dacha' or land parcel	12.9%	43.2%	38.2%
Automobile	9.8%	19.9%	20.2%
Colour television set	12.9%	64.7%	71.9%
Stereo or hi-fi sound system	10.2%	9.9%	17.5%
Fashionable clothing ⁵¹	19.1%	25.1%	12.2%
	N=5000	N=1807	N=1810

(Source: Holovakha, 2001:38).

If one accepts that accumulated consumer goods are an accurate measure of the relative well-being of a population, based on the above data, one may question the degree to which Ukraine's official GDP statistics reflect the actual magnitude of economic decline resulting from transition. Living standards no doubt declined for the majority of the population after 1991 while income inequalities increased. However, as discussed below, the real extent of overall economic degeneration in Ukraine is questionable. Certainly, data showing Ukraine's transition recession as being the most severe of all European FSU states needs to be re-examined.

As Anders Aslund has pointed out (2002:121-140; 304-316), official statistics throughout the FSU seem to exaggerate both real aggregate output decline and standard of living deterioration since the dissolution of the USSR. In the Ukrainian case, if one relies exclusively on official GDP data, one is presented with a paradox. In 1998, Ukraine's official GDP per capita (at PPP) was approximately half of that of the Baltic states and Russia, and almost one third of those of the CEE countries. In accordance with this measure, Ukraine was grouped together with Russia and Moldova in the category of "transition laggards" by IFI's (EBRD, 1996; World Bank, 2002). However, as shown in the middle columns of Table 2.2 below, the level of impoverishment in Ukraine during the late 1990's, rather than approximating that of other "transition laggards," was more similar to the "advanced reformer" CEE and Baltic states.

⁵¹This item is highly subjective since the understanding of 'fashionable' during the 1980's are likely to have been drastically different from the definition of the term after the collapse of the Iron Curtain. Nevertheless, the

Table 2.2: Comparison of select transition states' poverty levels and per capita GDP

	% living on less than \$2.15/day	% living on less than \$4.30/day	1998 GDP per capita at 1996 PPP (US\$)
Moldova	55.4%	84.6%	\$1 995.00
Ukraine	3.0%	29.4%	\$3 130.00
Russia	18.8%	50.3%	\$6 186.00
Latvia	6.6%	34.8%	\$5 777.00
Lithuania	3.1%	22.5%	\$6 283.00
Poland	1.2%	18.4%	\$7 543.00
Hungary	1.3%	15.4%	\$9 832.00

(Source: World Bank, 2000:65)

The poverty figures cited above are drawn from a World Bank (2000) study that surveyed the incomes and expenditures of a representative sample of 9435 Ukrainian households in 1999. It found the number of individuals living in poverty and extreme poverty in Ukraine (defined as income at PPP of US\$4.30 and US\$2.15 per day respectively) to have been *significantly fewer* than the corresponding numbers for Russia, *somewhat fewer* than Latvian totals, and *comparable* to figures for Lithuania.⁵² Both of the latter countries are generally considered much more prosperous than Ukraine based on their official GDP per capita statistics.

Indeed, if one combines the data on poverty levels in Table 2.2 with those on official GDP per capita (right-hand column), the results clearly show that the contribution of the shadow economy to the average household's income during the later post-Soviet period was *more* significant in Ukraine than in other former state socialist countries. Aslund (2002) has suggested that declining officially reported incomes were compensated through shadow

relatively high prevalence of affirmative answers in 1994 (the year of extreme hyperinflation in Ukraine) is indicative of the negative effects of the transition recession perhaps being exaggerated.

⁵²Clearly, with almost a third (29.4%) of its population living on less than \$4.30/day, one cannot claim that Ukraine's poverty levels were low at the end of the 1990's, but conversely, according to the data in Table 1.2, the vast majority (97%) of the Ukrainian population was not destitute in 1999. With comparable poverty levels in evidence in Lithuania - a country that began its EU accession process less than one year after the cited study was undertaken - it seems unjust to label Ukraine a "transition laggard" based solely on its poverty levels.

economy gains throughout the FSU, but the data presented above show that this was *especially* true for Ukraine.

Private business activity at the micro (individual) level is flourishing in Ukraine: countless street merchants in every city and town, and vibrant markets overflowing with trade stalls attest to this fact. Although much of this economic activity is conducted on a cash basis, and therefore easily hidden from state authorities, it exists, and as reflected in the extraordinary divergence between official GDP per capita statistics and the cited survey data measuring actual living standards (i.e. consumption levels and/or consumer goods accumulation), this shadow economy represents a distinctively vibrant portion of the overall national economy.

According to authoritative estimates produced by Johnson & Kaufmann (2001), economic activities that were hidden from the state represented 45.7% and 48.9% of Ukraine's total official GDP figures for 1994 and 1995 respectively.⁵³ Subsequent studies found these approximations to have remained surprisingly robust throughout the late 1990's (Mel'ota, 2001; Mel'ota & Gregory, 2001; Sikora, 2000). Given such prodigious figures, perhaps one should not be surprised that at the end of Ukraine's first decade as an independent state, some Western observers noted: "Ukrainians are better off than residents of most other CIS countries, and of many Balkan countries" (Szyrmer & Sultan, 2000:7).

A Bifurcated Economy

Although from the perspective of state-led reform policy implementation it may be argued that Ukraine's transition lags behind, for example, that of the CEE and Baltic states, major structural changes have occurred in the former Soviet republic's economy that, I contend, have pre-empted those of several other FSU countries. For example, the service sector replaced industry as the major contributor to GDP in Ukraine during the early 1990's (World Bank, 2002:6), and this development makes Ukraine more comparable to Poland than to Russia where resource extraction continues to dominate the economy.⁵⁴ Thus, rather than

⁵³ Alternative methods of calculating the size of the shadow economy used by the EBRD produced similar figures in 1996 (Ishaq, 1999:108).

⁵⁴ The example used is illustrative of a single aspect of structural transformation, and does not imply other similarities or differences. A full-fledged comparison of the Polish, Russian and Ukrainian transitions is well beyond the scope of this dissertation.

mimicking its north-eastern neighbour, I argue that Ukraine's transition path is approximates that of Poland, but with a lag of approximately 5-6 years.

In Poland, according to Kennedy's (1997) empirical analysis, two distinct economies emerged during the mid-1990's. The first, centred in capital intensive legacy heavy industries (i.e. mining, metallurgy, chemicals, forestry) remained economically stagnant. It attracted few investments (domestic or foreign), and was dominated by large firms with strong political connections. The second, with a predominance of newly created firms and some privatised SME's, was primarily comprised of companies engaged in trade, but also included construction, food processing and light manufacturing enterprises. By the mid-1990's this Polish 'de novo' sphere had already experienced positive growth in productivity and employment levels (Kennedy, 1997), and during the latter part of the decade, led the revival of the country's overall economy.

I contend that at the turn of the millennium, the beginnings of a similar growth trend was observable among Ukraine's newly created companies - in contrast to the country's privatised legacy enterprises. For example, a year 2000 survey of 2158 Ukrainian companies that compared the performance of newly created Ukrainian companies versus their legacy counterparts found that only 29.6% of privatised firms (i.e. legacy Soviet-era enterprises) had achieved revenue increases during the previous year - compared to 47.6% of the 'de novo sample' (Yacoub, Senchuk, Tkachenko, 2001:30).⁵⁵ With respect to profitability, this same IFC-sponsored survey found 'de novo' companies to be significantly less likely to be losing money than their privatised counterparts: 75.8% were profitable in the 'start-up' sample versus 55.4% of the surveyed privatised firms. Furthermore, as shown in Table 2.3 below, 'de novo' enterprises were found to have experienced one third higher rates of real sales growth than privatised firms, over twice the value-added growth rates of state-owned enterprises (four times higher than privatised firms), higher rates of productivity growth compared to

⁵⁵This survey selected respondents according to a quotas established for firms engaged in manufacturing, construction, trade, public catering, transport, telecommunications and services. The sample included companies in each of Ukraine's 25 oblast capitals and the cities of Kyiv and Simferopol (Yacoub, Senchuk, Tkachenko, 2001: Annex 1 on sampling methodology).

firms of both other types, and were the only firms in the survey sample to increase their employment levels during the previous year.⁵⁶

Table 2.3: Changes in financial performance 1999-2000, based on firm origin.

	Real Sales Growth	Value Added Growth	Employment Growth	Productivity Growth	Number surveyed
1 State-owned enterprises ⁵⁷	17.1%	12.8%	- 4.5%	18.1%	309
Privatised enterprises	29.6%	6.3%	- 2.9%	9.5%	932
New start-up Enterprises	47.6%	26.5%	4.2%	21.4%	917
Average	27.7%	11.0%	- 3.1%	14.6%	Total: 2,158

(Source: Yacoub, Senchuk, Tkachenko, 2001:41.)

According to early 1990's "Washington Consensus" policy advice (Friedman, 1990; Kornai, 1990; Williamson, 1993), *privatisation*, combined with rapid trade liberalisation, and fiscal stabilisation, should have created the preconditions for a transition to markets and prosperity. In Ukraine this advice failed: privatisation did not lead to restructuring and growth. A 1998 survey of 451 directors of the country's largest industrial enterprises found that only 44% of them reported a positive growth outlook for their firms, and only 29% of the sample showed actual increases in revenues (UMREP, 1998). Although all were enterprises that had been privatised within the previous 3-4 years, the average tenure in office of their directors was 8 years - a finding that manifestly demonstrates a lack of top management circulation, and suggests that privatisation in Ukraine did not necessarily lead to restructuring.

If one combines these findings with the previously noted survey-based empirical evidence from the late 1990's that shows non-monetary forms of exchange (i.e. barter, veksel, and mutual debt cancellation) being largely confined to the privatised and state-owned sectors

⁵⁶These differences in performance do not seem to be confined to later periods of transition. A smaller survey of 300 firms conducted in 1997 found similar variance between the 'de novo' and privatised sectors in employment growth rate (positive only for 'de novo'), and capital investment (Konigs & Walsh, 1999). Similar performance differences were in evidence among Russian manufacturing firms surveyed in 1995 (Richter & Schaffer, 1996).

(Carlin et. al., 2000:245; Estrin & Rosevear, 1999), and rarely used by ‘de novo’ firms, one may begin to doubt that transferring productive assets from the state to private ownership was a sufficient condition for successful transition to an economic system based on monetised markets (Havrylyshyn & McGettigan, 1999; Johnson et. al., 1999a/b; Nellis, 1999). According to prevailing theories, privatisation should have led to management circulation and a restructuring of enterprise-level goal orientations, which in turn should have eliminated such non-market behaviour. In Ukraine, the opposite seems to have occurred - at least in the former state-owned sector.

The observed tight coupling between both SOE’s and newly privatised firms on the one hand, and the state executive on the other, has led to the descriptive model of “oligarchic capitalism” becoming widely accepted as accurate by scholarly analysts of Ukraine’s economic transition (Havrylyshyn, 1997; Snelbecker & Novoseletsky, 2000; Van Zon, 2000; Vozniak, 2001). According to such views, Ukraine is no different from Russia⁵⁸ where over 50% of the economy is said to be effectively controlled by “oligarchic clans” (Braguinsky and Yavlinsky, 2000:171; Hedlund, 1999) whose political power and economic wealth stems from their control over that country’s resource extracting and raw materials processing industries. In Ukraine however, with the notable exception of the largely depleted coal deposits of the Donbas, the natural resource sector is comparatively small - accounting for only 3.7% of GDP value-add in 1999 (Derzhkomstat, 2000).⁵⁹ As noted previously, this eastern region (centred in Donetsk), has spawned an FIG whose structure seems to approximate the “oligarchic capitalist” model. However, notwithstanding its possible applicability to the south-eastern region, I argue that, a decade after the collapse of the USSR, the Ukrainian economy *as a whole*, instead of approximating the “oligarchic capitalist” model, seems to have been more similar to that of Poland five years earlier. I contend that in Ukraine, as in Poland, the process of economic differentiation (i.e. the creation of an autonomous market sphere) had manifestly begun.

⁵⁷The state-owned group includes 215 nationally-owned and 94 municipally-owned firms.

⁵⁸Determining whether “oligarchic capitalism” accurately describes the Russian economic system is beyond the scope of this dissertation. There is little doubt however, that the term is widely used in public discourse.

⁵⁹Raw materials processing industries (i.e. chemical and steel production) are more significant, accounting for 9.7% of GDP value-add in 1999 (Derzhkomstat, 2000), but they are concentrated in four oblasts of south-eastern Ukraine (Dnipropetrovsk, Donetsk, Luhansk and Zaporizhzhia).

In light of the mounting empirical evidence that demonstrates the continued poor performance of former SOE's after privatisation, the very IFI's that once emphasised privatisation as an absolute prerequisite of marketisation seem to have recently begun to advocate a change of paradigm. For example, in its latest review of the state of post-Soviet transitions, the World Bank suggests that:

Policy needs to shift its emphasis from privatisation and restructuring of assets to creating wealth through new enterprises... New enterprises are important to promoting growth... countries that have returned to sustained growth have relied on a vibrant new sector to absorb labour and other resources by the down sizing of the old sector, and to provide a major share of employment and value added in the economy (World Bank, 2002:xxv).

Ukraine provides an excellent case for testing the validity of the above policy advice. In addition to a legacy sphere which continues to be closely connected to the state (as it was under state socialism), there seems to exist another, understudied, aspect of the Ukrainian economy that operates according to market rules (i.e. where the medium of exchange is money rather than bureaucratic connections). During the field research period, this nascent market sphere was found to be vibrant and growing in Ukraine. In the next chapter I attempt to estimate its size, and relative contribution to the overall Ukrainian economy, and review the literature's treatment of the origins of its incumbents. Subsequent chapters will focus on a micro-level examination of the owners of firms that operated in this 'de novo' market sphere at the turn of the millennium, focusing on their values, beliefs and economic behaviour.

Chapter 3

The Market Sphere

In the previous chapter, I hypothesised that during the years following Ukraine's independence, the former Soviet republic's economy effectively split into two largely autonomous spheres of activity: the often studied legacy sector of state-connected privatised firms and SOE's, and a poorly understood market sphere of 'de novo' companies. According to the survey data presented at the end of the chapter, companies in the legacy sector seemed to be declining, whereas the performance of firms in the market sphere seemed to be improving - despite the overall decline in country's economy.

My goals in this chapter will be, firstly, to examine the theoretical significance of the emergence of a vibrant market sphere in post-Soviet Ukraine. Secondly, I will scrutinise the literature's treatment of the historical antecedents of this market sphere (i.e. its roots in the cooperative movement of the late 1980's). Finally, I will attempt to gauge the overall contribution of 'de novo' start-up firms to the Ukrainian economy ten years after the collapse of state socialism.

Theoretical Significance

Before examining the empirical evidence for the existence of a vibrant market sphere in Ukraine at the beginning of the new millennium, it is worth noting that my characterisation of that country's economy as 'bifurcated' does not necessarily imply that its development during the past decade has been entirely regressive. As Braudel (1982:21-2) has pointed out, in any market-based society, there exist multiple spheres of economic activity - each with its own formal and informal rule systems. Braudel argues that at the root of the complex structure that has been given the name 'modern society' one finds the sphere of material life. This most basic sphere of economic activity, ultimately, is a 'non-economy' in which individuals satisfy only the needs of personal and family subsistence (i.e. consumption).

Above (this lowest layer), comes the favoured terrain of the market economy, with its many horizontal communications between different markets: here a degree of automatic coordination usually links supply, demand and prices. Then alongside, or rather above this layer, comes the zone of the anti-market,

where the great predators roam and the law of the jungle operates. This - today as in the past, before and after the industrial revolution - is the real home of capitalism (Braudel, 1982:229-30; quoted in Arrighi, 1994:10).

Such a distinction between the three levels of economic activity (material life, market, and anti-market) is useful in that it implies a distinct set of rules for each. For example, with respect to differentiating the market sphere from the sphere of material life, one may (following Weber) distinguish between 'profit-making' and 'householding' - a distinction that roughly corresponds to the Greek 'chrematistike' meaning art of money-making, and 'oekonomia' or art of household management (Swedberg, 1998:30). Prior to the start of Perestroika, the goal of all *personal* economic activity in Ukraine (including trade in the Soviet-era shadow economy - see Chapter 4), was limited to the householding sphere.⁶⁰ Collective ownership of the means of production not only monopolised property in the hands of the Soviet state, it also severely limited the scope of individual economic activity (Braguinsky & Yavlinsky, 2000).⁶¹

On the one hand, individual economic activity was limited to householding, and on the other hand, *collective* economic activity was monopolised by the state (Haitani, 1986). For a market system to thrive, individuals and firms need to pursue profit through accumulation, and be motivated by a desire to achieve *venture growth* rather than simply increasing personal consumptive capacity. Paradigmatically therefore, Ukraine's transition task after the collapse of state socialism could be defined simply: to create a vibrant and autonomous market sphere of economic activity, that was differentiated from both its householding counterpart (individual level), and from the polity (enterprise level).⁶²

⁶⁰ Although it could be argued that *illegal* private enterprises did exist in the USSR, their purpose was not accumulation, but rather increased consumption. Similarly, the primary motivation behind 'kolkhoz' market trade in the USSR seems to have been improved living conditions rather than profit accumulation. Both types of Soviet-era private enterprise are therefore conceptualised as an extension of the householding sphere, rather than a market.

⁶¹ This contrasts sharply with the CEE states where a limited private enterprise sector existed, and even flourished under state socialism (Szelenyi, 1988).

⁶² As Jones & Moskoff (1991) noted, one of the main aims of Gorbachev's Perestroika policy seems to have been to de-politicise the economy through the reduction of the influence of the CPSU on day-to-day enterprise management.

However, the creation and legitimisation of an independent (from the polity) and differentiated (from the householding sphere) field of economic activity, although a necessary structural imperative of Ukraine's transition from state socialism, necessitated a *cultural* transformation.⁶³ Prevalent values, norms, and beliefs regarding the legitimacy of certain economic activities (including private entrepreneurship) needed to change after 1991. Two fundamental macro-level institutional novelties generated by the introduction of markets can be identified.

Firstly, the primary medium of exchange in a market sphere is money. Whereas under state socialism all goods and services were sold at a particular price (i.e. a monetary standard), money itself performed an unusual economic function. Because the Soviet economy was plagued by shortages, actual purchasing power (particularly with reference to consumer goods) was measured by one's level of access to personal favours and influence, rather than in monetary terms. This system of exchange based on personal favours had come to be known in Soviet-era folklore as 'blat', and some have argued that it left an indelible footprint on the post-collapse culture of the entire region (Dubrovskiy, 2000; Ledeneva, 2001).

In Soviet times the main role of blat was to obtain foodstuffs, consumer goods, and housing. It was the basis of life. If you had an acquaintance working in a shop, you were able to buy products in short supply. You paid the same price, but an acquaintance meant that you knew when to come, could buy more or even jump the queue (Ledeneva, 1998:28).⁶⁴

Because in such a system increased access to goods was not susceptible to monetary quantification, social status became a function of titular position within the Party and state administrative hierarchy (Voslensky, 1984), and the prestige of a particular profession was often linked to the degree of access to shortage goods that the job entailed. Once a transition to markets was commenced ('top down' by Gorbachev's Perestroika) such informal institutional arrangements had to change. Both plan bargaining at the inter-enterprise level

⁶³Sztompka (1995) referred to this requirement of a cultural transformation as a need for a "civilizational break".

⁶⁴As Ledeneva aptly observes from her research into the economy of favours in Russia: "The most conspicuous feature of all of the interviews was that the informal deals were called 'blat' when practised by others, but described in terms of friendship or mutual help in the case of personal involvement" (1998:6).

(discussed below), and the interpersonal exchange medium of 'blat' had to be replaced by money - both as a formal standard for economic exchange in inter-enterprise relations (the "hard budget constraint"), and as an informal measure of an individual's status and social influence. With the disappearance of shortages after state socialism's collapse, professional prestige, formerly linked to access, inevitably became linked to salary level (i.e. money).

A second paradigmatic feature of a market sphere of economic activity is that exchange relationships between its incumbent actors are horizontal (Toritsyn, 2000), and the sphere itself is largely autonomous (Braudel, 1985; Elster et. al., 1998). As such, under ideal theoretical conditions, external regulation of market sphere activities by the state is treated as an intrusion that disrupts the automatic co-ordination ("clearing" in economic terms) functions of market institutions. It was this paradigmatic belief in the reduction of the power of the state being a prerequisite of the introduction of market relations into former state socialist economies that informed "Washington Consensus" policy advisors during the early 1990's (Aslund, 2000; Kornai, 1990; Williamson, 1993). As noted in the previous chapter, they argued that a functioning market sphere, whose incumbents would form a class of responsible and motivated capital asset owners, could be created through the quick privatisation of enterprises, the liberalisation of foreign and domestic trade, and the establishment of a stable, self-regulating macro-economic (fiscal) environment with minimal state intrusions into economic affairs.⁶⁵

However, as "post Washington Consensus" scholars have pointed out, curtailing the regulatory power of the state did not necessarily further the spread of horizontal market relations in the former Soviet bloc (Chavance & Magnin, 1997; Eyal et. al., 1997; Kolodko, 1999, 2000a; Stark & Bruszt 1998; Szyrmer 2000). Instead of softening the previously tight coupling between the polity and economy, the removal of the state as a controlling factor in these countries often resulted in the extension of the monopoly power of legacy vertical networks whose actions had been previously restrained (at least in part) by the now-defunct Party system (Braguinsky & Yavlinsky, 2000; Huber & Worgotter, 1998). Consisting of SOE

⁶⁵Washington Consensus reformers clearly placed primary emphasis on the privatisation of legacy enterprises. For example, the radical reformer Chubais (the Russian darling of western policy experts), described his strategy of reform as 'reverse Marxism': "Just as the Bolsheviks had built communism by transferring the means of production from private owners to the state, so he believed that his central mission must be to undo that transformation, and return the property to private owners, in the quickest way he could." (Freeland, 2000:52).

managers, regional and ministerial bureaucrats, these powerful vertical networks were perhaps the most significant long-term legacy of state socialism inherited by independent Ukraine (Kubicek, 1997). Prior to 1991, they had promoted their interests within an all-Union framework, competing effectively with their counterparts in other republics of the USSR (Farmer, 1992; Willerton, 1992).⁶⁶ Notwithstanding the social changes brought on by Perestroika, they survived the collapse of state socialism with only the tops of their Moscow centred hierarchies cut off (Hare, Ishaq, Estrin, 1998:188), and after Ukraine's independence, with the disappearance of competition from counterpart networks in other Soviet regions, these groups quickly became extremely powerful in the new centre: the nascent Kyiv government. Eventually, as argued in the previous chapter, they would form the core of Ukraine's legacy sphere of economic activities.

During Ukraine's first post-Soviet decade, this legacy sphere, I contend, divorced itself from the emerging market sphere of 'de novo' firms, and perpetuated state socialist norms of interaction (particularly relative to the state) within its own 'anti-market'.⁶⁷ Under state socialism little regard had been given to the profits or losses of individual firms. Management success was measured by the achievement of *unit* production targets rather than by monetary criteria, and managerial skill involved negotiating access to inputs, subsidies, and relaxed plan targets rather than achieving profits (Levine, 1983). Whether preferential treatment from the planning authorities was secured depended on one's bargaining skills and position within the intricate system of vertical (patron-client) networks that characterised the relationships between enterprise managers, ministry officials, and the republican and central planning authorities (Hewett, 1988). At the end of the Soviet period, Ukraine's enterprise directors remained firmly embedded in the state-centred patronage networks through which they had built their careers. In subsequent years, I contend, they continued to operate according to the informal rules to which they had been socialised (Toritsyn, 2000). Specifically, one can identify promotion through patronage rather than achievement (Farmer, 1992; Willerton,

⁶⁶An example of the influence of the coal industry network of the Donbas can be seen in the fact that the USSR Ministry of Coal Industry was the only all-Union ministry not located in Moscow, but rather in Donetsk.

⁶⁷The contention that a trend towards 'bifurcation' exists among FSU firms is supported by the findings of a 1995 World Bank survey of manufacturing enterprises in Russia. There, state-owned and privatised firms were found to predominantly trade with other companies of the same ownership type. For 'de novo' firms: "other de novo enterprises represented a significantly greater share of sales than they did for privatised/state firms" (Richter & Schaffer, 1996).

1992), and an orientation towards subsidies rather than profits as two such behavioural distinctions of legacy sphere incumbents.

Viewed from a macro perspective, according to the criteria of monetisation and increased differentiation between the economy and polity, the results of the first decade of Ukraine's post-Soviet transformation were mixed. As argued in the previous chapter, on the one hand, inherited network structures with strong ties to the state continued to pervade surviving legacy Soviet-era enterprises (including privatised former SOE's), but on the other hand, a parallel, and largely autonomous monetised market sphere emerged both in the consumer sector and among newly created firms. It is my contention that this latter sphere operated according to its own newly developed rule systems (discussed in later chapters).

However, Ukraine's market sphere developed gradually - gaining economic weight over the course of the 1990's while the legacy economy contracted. By the turn of the millennium, I argue, it had grown to become a significant factor in the national economy, and was largely responsible for Ukraine's economic revival in 2000 and thereafter.

Soviet-era Origins

The historical roots of this gradual process can be traced, in the first instance, to Soviet President Gorbachev's Perestroika reforms, and more specifically to his government's introduction in May 1987 of the Law on Individual Labour Activities. Designed primarily to encourage pensioners, housewives, and those with spare time outside of their formal hours of employment to pursue small-scale ventures, this law represented a first step towards shifting the USSR economy to a market system.⁶⁸ For the first time since the NEP, the new legislation permitted individual "socially useful activity of citizens in the production of goods and the provision of paid services" outside of the established framework of Soviet manufacturing enterprises and state-controlled service agencies (Jones & Moskoff, 1991:4).

However, the sphere of permitted private enterprise remained tightly controlled in 1987-88: the use of hired labour by non-state enterprises remained banned, and any person seeking to engage in 'individual labour activity' was required to obtain permission to do so from local

⁶⁸Several researchers have argued that a form of entrepreneurship existed under state socialism (Levine, 1983; Rupp, 1983; Szelenyi, 1988), but in no way can this be equated with private firm ownership in a market context.

authorities. The latter provision was clearly a concession to ideological hardliners within the upper levels of the CPSU who believed that the expansion of private ownership of the means of production would inevitably lead to the dismantling of the socialist principles on which the USSR was founded (Jones & Moskoff, 1991:35, 54-57).

In parallel with the Law on Individual Labour Activities, the Gorbachev government also enacted an executive order that initially seemed relatively harmless to the principles of state socialism. On 25 July 1986, the CPSU Central Committee approved a proposal from the Komsomol (Communist Youth League) authorising the establishment of “Centres for Scientific and Technical Creativity of Youth” (TsNTTM), to aid in the organisation’s transformation from “a social organisation embracing the broad masses of progressive youth” to one that served “the advanced section of youth” in Soviet society.⁶⁹ Since this change of role for the Komsomol also coincided with a reduction in its share of state financing (Riordan, 1988:559), TsNTTM were authorised by a Cabinet of Ministers Decree to operate as for-profit ventures. Initially their numbers were limited, with only 60 such centres created throughout the USSR in 1987.

The scope of the new centres was extended considerably in 1988, allowing them to engage in the manufacture of consumer goods and to establish economic relations with foreign firms and organisations; they could set their own prices for the goods they imported from abroad, and were relieved of all customs duties (Krystanovskaya & White, 1996:716)

By mid-1988 the limited Komsomol-based experiment with private enterprise was reaping significant economic rewards. TsNTTM were being established throughout the USSR, and in most cases were providing much needed services to their local economies. The Gorbachev government proposed the expansion of such private economic venturing through new legislation, but was met with considerable resistance from entrenched local elites (Andrusz, 2002). As a result, the promulgation of the new Law on Co-operatives - drafted in May 1988, largely on the basis of the TsNTTM experience - was delayed until July 1989. Once adopted, the new legislation signalled a private enterprise revolution.

⁶⁹The quoted extracts reflect changes in the Komsomol’s rules (‘Ustav’) adopted at its 20th Congress on 15-19 April 1987 (Riordan, 1989:36).

The 1989 USSR Law on Cooperatives lifted the restrictions on the size of earnings derived from non-state sector economic activities, and removed the limits that had been in force under the Law on Individual Labour Activities with respect to both the number of individuals that could be involved in a given privately owned enterprise. Furthermore, it limited the discretionary powers of local soviets and Party committees with respect to deciding whether a co-operative's economic activities were “in the interests of local citizens” (Jones & Moskoff, 1991:12). Most importantly, co-operatives were allowed to hire contract labour and were given equal status to SOE’s as employers. This meant that all legal barriers to leaving a state sector job in favour of private sector employment were eliminated:

In principle therefore, someone could legally work full-time for his or her entire career in the private sector, a major break with the past. “Work” though, was the operative term. No one could receive income from a co-operative unless he or she actually worked in it, either as a part-owner or as a hired (contract) worker; there were to be no investors who were not also workers (Jones & Moskoff, 1991:13).

Co-operatives were to be organised based on a ‘collective’ ownership principle - a euphemism designed to mask their real private enterprise nature, and one which contributed to the early ‘shadowization’ of the activities of many co-operatives.⁷⁰ Because of the requirement that co-operative owners also be participants (employees), co-operative founders often hid their real ownership structure from the authorities when registering their firms, or formed companies that were nominal partnerships in which one owner actually exercised all managerial authority. Regardless of such ambiguities with respect to ownership issues however, the USSR Law on Co-operatives was revolutionary - its provisions legitimised private enterprise, and created the formal institutional basis for the formation of a market sphere of economic activities in the Soviet Union.

⁷⁰This prohibition against ‘capitalist exploitation’ by investors or non-managing owners was clearly a concession to ideological hard-liners, but in practise it was rarely followed. As discussed in Chapter 5, however, the early legislation’s implied condemnation of *individual* ownership seems to have left a footprint on the later management and growth strategies adopted by Ukrainian Perestroika-era private enterprise founders.

However, although clearly representing a departure from the principle of universal collective ownership of the means of production, the new legislation seems to have been targeted primarily at increasing the efficiency of the existing Soviet planning system rather than replacing it with one based on the market. For example Article 27.4 of the legislation stated: “A co-operative is authorised to buy, barter, lease, and hire from the State, co-operative and other public enterprises (organisations) and citizens, unused buildings, installations, machines, equipment, transportation facilities, raw materials and other materials” (Jones & Moskoff, 1991:36). Since ownership of such capital assets and materials by parties other than the state was minimal, this article seems to have envisioned a ‘symbiotic’ relationship between privately owned co-operatives and the state-sector economy.

There is a serious question, therefore, as to whether there was a real shift from state, planned production to private enterprise or whether many, if not most, co-operatives were merely fronts for state enterprises. Because the old economic system strictly limited the prerogatives of the state enterprise, the co-operative may have become the way for enterprise directors to circumvent the fetters that bound them. Indeed, while there is no direct evidence, it may well be that enterprise managers deliberately created co-operatives in their enterprises because co-operatives were not shackled by the obligations of the state plan. If this was the case, co-operatives of this subspecies were not spontaneously created private enterprises (Jones & Moskoff, 1991:20).

‘Spin-off’ companies attached to Soviet SOE’s (“dochirni pidpryjemstva”) clearly were created during the late 1980’s under the auspices of the cooperative movement. The revenues of such ‘spin-off’ cooperatives often were drawn either from supplying the SOE ‘parent’ with inputs procured in the shadow economy, or from the sale of its outputs on the black market (Paskhaver, 2000a:126). It may therefore legitimately be argued that ‘spin-off’ co-operatives actually *strengthened* the second economy shortage goods distribution networks on which the Soviet economic system had relied for years (Nove, 1986), rather than dismantling them. Instead of formalising the entrance of new actors into the emerging private sector on the one hand, and stimulating enterprise-level restructuring in the SOE sector on the other, ‘spin-off’ co-operatives, in many cases, seem to have been used simply as a mechanism for asset stripping by SOE directors and managers - i.e. the Soviet industrial elite.

During the late-Perestroika period in the USSR, the sudden and visible enrichment of this Soviet industrial elite led to the development of a stereotype according to which the *entire* co-operative movement was painted as nothing more than a means by which the nomenklatura⁷¹ converted its “institutionalised social capital” (Eyal, Szelenyi, Townsley, 1997) into lavish wealth and economic power in the new order (Braguinsky & Yavlinsky, 2000; Chepurensko, 1996:64; Gustafson, 1999:111; Krystanovskaya & White, 1996; Radaev, 1993; Zhukov & Vorobyov, 1991). Codagnone (1996) aptly named this stereotype the “nomenklatura-entrepreneurship hypothesis” and criticised its proponents for their broad brush portrayal of *all* co-operatives formed during the terminal Soviet period as non-productive vehicles for stealing state-owned property. Asset-stripping by the Soviet industrial elite certainly did occur through co-operatives, but I agree with Codagnone’s suggestion that such activities tell only part of the story of this Perestroika-era form of private enterprise.

Estimates place the total number of co-operatives in operation in the USSR in early 1990 at between 193 and 210 thousand. Of these, Jones & Moskoff (1991:16-17, 40) estimate that approximately 80% were either physically located within the grounds of an SOE, or operated under the umbrella of one. Undoubtedly a large proportion of such SOE ‘spin-offs’ were established as mechanisms for the illegal (or ‘semi-legal’⁷²) personal enrichment of their well-connected owners through asset stripping and black market trade. Volkov (1999) and others (Andrusz, 2002; Braguinsky & Yavlinsky, 2000) have suggested that many such firms formed short term strategic alliances with criminal elements in Soviet society,⁷³ and if in fact this was the case, it seems difficult to view such industrial cooperatives as having provided significant benefits to the broader economy.

⁷¹Individuals who occupied high titular positions within the CPSU and Soviet industrial hierarchies controlled the capital assets used to produce both official goods (accounted for under enterprise plans) and the unofficial excesses of planned production. Control over the nexus at which these two systems of goods production joined provided significant opportunities for wealth accumulation available uniquely to nomenklatura members through ‘spin-off’ co-operatives (Kryshantovskaya & White, 1996).

⁷²By ‘semi-legal’ I mean, neither specifically prohibited by the letter of the law, nor permitted by its spirit.

⁷³The association between co-operatives and “criminals engaged in bribery, extortion, drugs, protection, and robbery” (Andrusz, 2002:4) seems to have been a marriage of convenience stemming from a contract “enforcement partnership” (Volkov, 1999).

However, the wholesale condemnation of the co-operative movement by proponents of the ‘nomenklatura-entrepreneurship hypothesis’ leaves no conceptual space for differentiating between co-operatives sponsored by industrial SOE managers and those formed either by other organisations, or by groups of private individuals.⁷⁴ Krystanovskaya & White (1996), in their description of the origins of what they call the “Komsomol economy”, argue that its roots can be traced to the system of privileges, expressly and *equally* enjoyed by members of the Soviet elite under Perestroika.⁷⁵ In fact, access to nomenklatura privileges was not uniform during the late 1980’s. It is certainly plausible that private enterprise ventures (cooperatives) established by members of the Soviet *industrial* elite were established as mechanisms for the stripping of assets and/or facilitation of shadow economy sales of SOE-produced industrial and consumer goods. However, *Komsomol-sponsored* co-operatives (TsNTTM) marketed technical and financial *services*. They neither benefitted from direct access to state assets, nor engaged in sectors where such access would be beneficial.⁷⁶

Therefore, whereas ‘nomenklatura-entrepreneurs’ may have formed ‘spin-off’ cooperatives during the late-Perestroika period, and later may have been the main engines of ‘insider privatisation’ (Aslund, 2002), a fraction of the overall Soviet-era co-operative movement was different. Based on the estimates of Jones & Moskoff (1991) of an 80/20 split between cooperatives that were formed as SOE ‘spin-offs’ and those that had few connections with the SOE sector (noted above), I suggest that the fraction of cooperatives that spawned the nascent *pre-independence* market sphere in Ukraine represented approximately one fifth of all cooperatives in existence in the republic at the end of the Soviet period.⁷⁷ These independent

⁷⁴Un-sponsored founding was permitted by a decree of the USSR Council of Ministers in November 1990.

⁷⁵They point out that in addition to access to shortage goods for consumption (Voslensky, 1984; Rigby, 1990) Perestroika-era nomenklatura privileges also included the ability to secure low-interest bank loans, preferential foreign exchange rates, and gain access to the most lucrative state-owned real estate in major cities (initially for occupancy, and later for privatisation). Furthermore, members of the Soviet elite who formed cooperatives were provided with exclusive rights to engage in foreign trade during the late 1980’s - allowing such firms to profit from the difference between state and world prices when exporting Soviet goods (Aslund, 2002). Finally, the TsNTTM (which were under the exclusive domain of the Komsomol) were granted a monopoly on the conversion of interbank credits into cash (Krystanovskaya & White, 1996).

⁷⁶As will be shown in Chapter 4, several of the interviewed Ukrainian TsNTTM participants did indeed profit from access to state-sponsored contracts for the provision of services to SOE’s, but the connection between such Komsomol cooperators and the vertical networks of industrial managers and Soviet ministry apparatchiks (i.e. the industrial ‘nomenklatura’), seems to have been remote.

⁷⁷One fifth of all cooperatives may not seem significant, but as noted in the previous chapter, much of the initial decline of the legacy industrial sector in Ukraine after 1991 was due to obsolete capital stock that left most of the country’s inherited industries not viable in a market environment. Accordingly, the opportunities for asset

cooperatives, I argue, enabled the legitimisation of private enterprise as an economic pursuit after the collapse of state socialism, and formed the core of what eventually (a decade later) became a vibrant *post-Soviet* ‘do novo’ market sphere.

The Size of the Market Sphere

After the collapse of state socialism Ukraine experienced an explosion of private enterprise activities. As shown in Table 3.1, during this first five year post-Soviet period, at least 96 thousand new ‘small firms’ were created in the country. Conversely, during this period, the number of operating firms that had been started as Soviet-era co-operatives decreased substantially - declining from a 1991 high of 27 486 to 3 268 by 1996.⁷⁸

Table 3.1: Dynamics of co-operative decline and small firm growth in Ukraine during 1991-1996

	1991	1992	1993	1994	1995	1996
Number of small firms	19,598	50,496	75,003	79,827	91,601	96,270
Number of co-operatives	27,484	17,243	9,777	5,972	4,418	3,268
1000’s employed small firms	637	910	1,038	986	1,042	1,125
1000’s employed in coops	812	337	194	118	82	50

(Source: Varnaliy, 1997:49 - based on Derzhkomstat data).

It is notable that the above Derzhkomstat statistics count only *operating* registered companies, and therefore any enterprise that failed after start-up is excluded from aggregate firm totals (Liapin & Liapin, 2001). Clearly, taking into account firm failures, more *new* privately owned companies were created during the early post-independence period than the

stripping by ‘spin-off’ co-operatives that relied on their parent SOE’s for survival are likely also to have been drastically reduced after independence. On this basis one can speculate that ‘nomenklatura-entrepreneurship’ was a transient phenomenon that peaked approximately at the time of the USSR’s collapse.

⁷⁸No doubt proponents of the ‘nomenklatura-entrepreneurship’ hypothesis (e.g. Chepurenko (1996), Radaev (1993)), would point out that in 1991, the Ukrainian Parliament passed a new Law on Entrepreneurship that provided substantial short term tax incentives to start-up companies, and clarified previously ambiguous ownership issues. Since the new legislation also made it unnecessary to declare the origins of start-up capital when registering a private enterprise, many co-operative owners simply reregistered their existing concerns as nominally ‘new’ firms. Technically this was not legal, but it certainly did occur. However, even if one postulates that each SOE ‘spin-off’ co-operative spawned up to three post-collapse private firms (an arbitrary and extraordinarily high estimate), this would explain the mechanism by which approximately 81 thousand companies were formed in Ukraine during the 1991-96 period - leaving 15 thousand unaccounted for.

number shown by official statistics - a fact that makes the official data showing the growth rate of the small firm sector all the more impressive.

As shown in Table 3.2, by 2000 the number of operating ‘small firms’ (i.e. companies that had survived start-up) had increased to almost 218 thousand (SCRPE, 2001). Officially, at the turn of the millennium, this sector employed 8.6% of Ukraine’s working population.

Table 3.2: Longitudinal growth in operating small firms and their contribution to employment in Ukraine.

	1995	1996	1997	1998	1999	2000
Number of small firms	96,019	96,270	136,238	173,404	197,127	217,930
Small firms per 1000 pop.	1.9	1.9	2.7	3.4	4	4.5
1000’s employed small	1,125	1,178	1,395	1,560	1,677	1,833
% of total employed	4.6%	5.0%	6.2%	7%	7.7%	8.6%

(Sources: Derzhkomstat, 2000; ICS, 2001; SCRPE, 2001).

According to Derzhkomstat, in nine out of ten cases new enterprise creation during 1996-2000 occurred ‘de novo’ (Holovko, 1999). For example, of the over 37 000 net new company registrations in 1998 (i.e. survivals less failures), only 6.9% were the result of companies splitting into multiple entities, and only 0.2% of these firms were created through mergers. Derzhkomstat therefore feels justified in treating the statistics in Table 3.2 as a proxy for new business growth (ICS, 2001).

I contend that this method of counting firm start-up rates (i.e. equating ‘small firm’ with ‘de novo’ company) is manifestly flawed. In addition to neglecting the number of businesses that fail, Derzhkomstat’s method ignores the fact that ventures that were established ‘de novo’ may have grown since start-up to employ more than the arbitrarily defined maximum for consideration as ‘small firms’.⁷⁹ Such companies are likely to have been included in early

⁷⁹Unlike OECD, which defines a small firm as any company employing fewer than 50 employees, Ukraine’s Derzhkomstat follows the Russian example (Szabo, 2002), and employs sector-based criteria. Accordingly what is considered ‘small’ in Ukraine varies. The specific criteria (established by Order 399 issued on 01/12/98) are: < 50 employees for industrial manufacturing and farming enterprises; < 40 employees for food processing and construction; < 30 employees for firms engaged in housing maintenance; < 25 employees for companies that remodel existing buildings (both industrial and residential); < 20 employees for the printing, transport,

statistics, but would have been dropped in later years. As discussed in later chapters, qualitative evidence suggests that such growth has indeed occurred among Ukrainian ‘de novo’ firms during the past decade, but it remains unrecognised statistically.

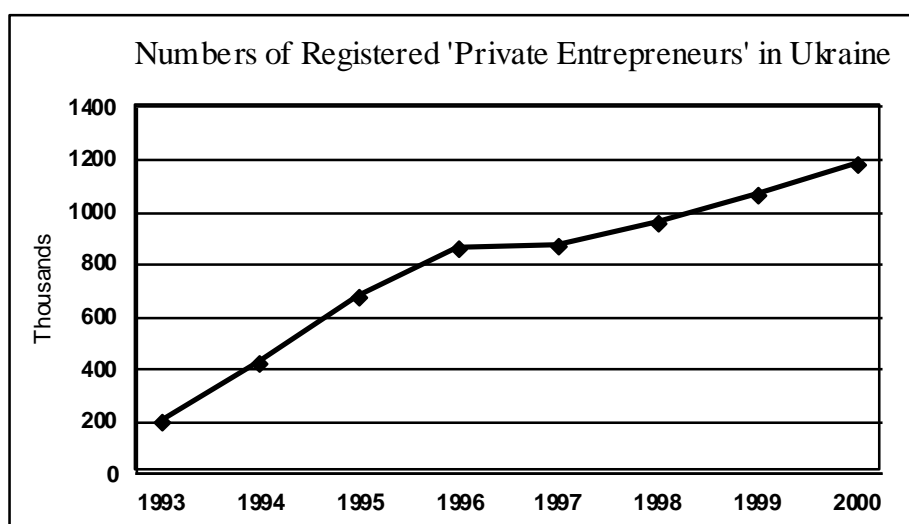
If one bases estimates *exclusively* on official statistics, as a minimum, it is safe to assume that in 1999, there were 129 enterprises in Ukraine that had been established ‘de novo’, and had grown since start-up beyond the level considered ‘small’ by Derzhkomstat. This number represents 1.5% of the 8961 privately owned *industrial* firms in existence in 1999 (Osaulenko, 2000:316), and is exceptionally low firstly because it encompasses neither the service nor the wholesale/retail trade sectors, and secondly because the reported number includes only firms owned by a single person - i.e. those labelled “privately owned”. Partnerships are considered ‘collective’ ownership by Derzhkomstat, and since privatisation in Ukraine was effected almost without exception through the mechanism of joint-stock company creation (Paskhaver, 1998), there is no way of distinguishing between a privatised former SOE with multiple shareholders, and a ‘de novo’ partnership. It is therefore very likely that a considerable number of firms within the non-state “collective” ownership category (i.e. 8832 medium and large industrial firms in 1999 - Osaulenko, 2000), were in fact ‘de novo’ companies. Conversely, because of this same privatisation history which led to diffuse ownership in the industrial sector, it is highly unlikely that any of the noted 129 single owner industrial firms were spawned through any process other than ‘de novo’ start-up.

In addition to being inaccurate with respect to large firms, Derzhkomstat’s method of measuring the size of the ‘de novo’ sector also underestimates the significance of micro-enterprises. During the mid-1990’s the Ukrainian government introduced the ‘private entrepreneur’ designation as a measure aimed at gaining some control over the growing number of individuals who engaged in commercial activities without paying taxes (e.g. bazaar traders). The ‘private entrepreneur’ designation approximates the ‘sole proprietorship’ form of registration used in western countries, but unlike the latter, it does not involve the incorporation of a legal entity whose liability is separated from the individual person. In

communications, scientific, research and design, and light manufacturing sectors; < 15 employees for wholesale and retail trade; < 10 employees for all other sectors including hotels, medical services, education, culture, management and consulting, forestry, and fisheries (www.stat.donetsk.ua/#UP).

Ukraine, this status subsumes eligibility for simplified tax procedures,⁸⁰ and therefore since its inception, many more Ukrainians than just those involved in the bazaar trade have registered as ‘private entrepreneurs’.⁸¹ Nevertheless, the explosive growth of the numbers of ‘private entrepreneurs’ (reaching almost 1.2 million persons in 2000) suggests that relying exclusively on the ‘small firm’ designation as a measure of the significance of the ‘de novo’ sector likely understates the sector’s real weight in the national economy.

Figure 3.2: Dynamics of the number of registered ‘private entrepreneurs’ in Ukraine:



Compiled based on Derzhkomstat data; Varnaliy (1997:49); SCRPE (2001)

Since most start-ups in Ukraine generally begin either as small firms or sole proprietorships (KMIS, 2001), one is tempted to gauge the longitudinal growth of the number of ‘de novo’ companies simply by combining the statistics on ‘small firm’ and ‘private entrepreneur’ registrations, and then estimating some level of error due to firm growth. However, just as Derzhkomstat’s methods likely underestimate the number of ‘de novo’ firms, combining the two types of official statistics is likely to lead to an *overestimation* of the size of the country’s

⁸⁰Under the ‘unified tax’ regime instituted by Presidential decree in 1998, a ‘private entrepreneur’ pays a set sum, ranging from 20 to 200 UAH per month (exact amounts determined by rayon-level authorities depending on the activity one engages in), and is relieved of all other forms of taxation including, VAT, personal income tax, or tax on profits (Bereslavsky & Seheda, 2002; Nemickas, Senchuk, Babanin, 2002:94). In order to qualify private entrepreneurs’ revenues cannot exceed 500 000 UAH per annum (i.e. just under US \$100 thousand), nor can they employ more than 10 workers (including family members).

⁸¹This form of registration has become widely used both by small business people who are not necessarily involved in market commerce, and also by nominally independent contract workers who by western standards would be considered employees (e.g. consultants, part-time lecturers, salespeople).

market sphere. Ukraine's implementation of bankruptcy procedures is in its infancy, and therefore the total number of both small enterprises and private entrepreneurs reported by statistics is likely to include entities that are no longer active in business, though still formally registered (Gray & Whiston, 1999; Liapin & Liapin, 2001).

Alternative Estimates of Market Sphere Size

From the above discussion of official statistics, one can only conclude that firm registry data provide highly unreliable estimates of the real size of the 'de novo' sector in Ukraine. A method of surmounting this problem (suggested by Johnson et. al., 1997) involves collecting data on the contribution to overall GDP of privatised former SOE's, and subtracting these from total private sector share of GDP; the remainder represents the contribution of 'de novo' firms. As the authors themselves point out, however, this method of gauging the relative economic weight of the 'de novo' sector ignores the fact that many new firms in Ukraine seem to operate in the shadow economy. Nevertheless, their results for 1995 show a contribution that is surprisingly high: 30 percent.⁸²

In 1999, USAID sponsored a comprehensive survey study that sought to overcome the difficulties of relying either on official firm registries, or on GDP statistics that do not include unregistered economic activities. The investigators pursued three main goals: a) to determine the total number of firms operating in Ukraine (including both the unofficial and official economies), b) to estimate the relative contribution to national employment of firms of various sizes, and c) to survey company owners and managers as to their perceptions of the constraints on firm growth in Ukraine at that time (Gray & Whiston, 1999).⁸³

In order to contact firms, the authors initially used registry data provided by Derzhkomstat. Having found that this was unreliable (particularly for small firms), they conducted a household survey of 4002 Ukrainian families using a representative sample drawn from 200 randomly selected postal code districts. Respondents were asked whether they were self-employed or employed, and if the latter, the size of the company that they worked for. By extrapolating the results of this household survey to the entire employed population, and then

⁸²The authors used GDP estimates provided by the EBRD, and not those of Derzhkomstat, which does not publish statistics on privatised enterprises' contribution to GDP.

⁸³This survey is often referred to as the "baseline survey of businesses" by IFI's operating in Ukraine.

comparing the data to that of the official registry, the authors were able to project the number of firms in each size category (including the percentage of firms that were unregistered), and the number of workers they employed.⁸⁴ As shown in Table 3.3 below, the results clearly demonstrated that official statistics grossly underestimate the numbers of operating small firms and self-employed sole proprietors:

Table 3.3: Firm number, size and employment projections - 1999 data:

Employment Size Class	Projected Number of Firms	Projected Employment	Estimated % of firms in size class that are registered
Zero ⁸⁵	2,651,435	2,651,435	24.6%
1-5	148,976	516,957	37.6%
6-10	104,608	850,460	94.1%
11-50	123,757	3,189,226	99.5%
51-250	33,169	4,206,444	99.5%
250 or more	10,851	9,822,542	99.4%
Totals:	3,073,244	21,237,054 - 52% of population aged 15+	

Source: Gray & Whiston (1999:xi)

The household survey identified 646 individuals who either owned firms or were self-employed. An additional 3904 enterprise managers were contacted from the official registry lists, and the combined sample was surveyed (response rate = 89%). Among other questions, respondents were asked how their firm originated. Percentage data from the collected responses are shown in Table 3.4:

⁸⁴ An excellent description of both the sampling and statistical projection methodologies is provided in Appendix D of the Gray & Whiston (1999) report - see www.usaid.kiev.ua

⁸⁵ The zero employment class comprised market traders and 'private entrepreneurs' with no hired labour.

Table 3.4: Firm origin in 1999 in percentages sorted by employment class:

Enterprise was:	Zero	1-5	6-10	11-50	51-250	251 or more	Avg
Newly created	99.0%	88.2%	73.1%	53.9%	26.9%	16.7%	58.5%
Separated from SOE	0.5%	3.3%	6.9%	13.1%	15.9%	10.9%	9.2%
Privatised as a unit	0.5%	4.9%	14.3%	25.6%	51.1%	68.7%	29.6%
Separated from private firm	0.0%	3.6%	5.7%	7.4%	6.1%	3.7%	4.7%
Total reporting:	589	608	490	907	788	671	4,053

Source: survey data - Gray & Whiston (1999:15)

If one multiplies the overall firm numbers and employee data for each class shown in Table 3.3, with the percentages of firms that Table 3.4 shows as having been ‘newly created’, the following estimate of the relative weight of the ‘de novo’ sector in the Ukrainian economy may be extrapolated:⁸⁶

Table 3.5: Estimated number of ‘de novo’ firms in Ukraine in 1999 and their employee catchment:

Employee size class	Projected number of ‘de novo’ firms	Percentage of total firms in size class that are ‘de novo’	Employee catchment of ‘de novo’ sector
Zero	2,624,918	99.0%	2,624,918
1-5	131,397	88.2%	455,948
6-10	76,468	73.1%	621,682
11-50	66,705	53.9%	1,718,992
51-250	8,922	26.9%	1,131,475
250 or more	1,812	16.7%	1,640,258
Total:	2,910,222	94.7%	8,193,273

Source: my calculations based on data from Gray & Whiston (1999)

⁸⁶It may be argued that multiplying the data in the two tables to produce an accurate projection of the number of ‘de novo’ firms is dubious because the percentages shown in Table 3.4 represent firm origin averages for the sample, and not projections for the entire firm population of Ukraine. I recognize the problems inherent in the method used to calculate the data in Table 3.5, but my purpose in performing this calculation was not to produce

According to the above calculations, the vast majority of firms projected to be operating in Ukraine in 1999 (including those not officially registered) were newly formed companies. The fact that the data shows a very large proportion of the 'de novo' sector being comprised of micro-enterprises and small firms is not surprising. However, contrary to the expectations of those who would equate 'small' with 'de novo', the above data also show that more than a third of all workers employed in the 'de novo' sector (i.e. 13% of the total employed population) seem to have been working in start-up companies with *more than 50* employees. One may conclude that, by 1999, in addition to a majority of small firms and micro-enterprises, the Ukrainian 'de novo' sector also included a significant number of larger companies. These firms were clearly not included in Derzhkomstat's firm registries: they avoided detection by the authorities by operating either fully or partially in the shadow economy.

Hidden Growth Potential

Unfortunately, as the above discussion of both official and survey data manifestly demonstrates, after a decade of transition, a significant amount of the economic activity of Ukraine's newly established market sphere remains underground.⁸⁷ This fact makes it exceedingly difficult to produce an accurate estimate of the size of the country's 'de novo' sector. Conversely, as noted in the discussion of monetisation and differentiation at the start of this chapter, the vibrancy of a market sphere depends not only on the number of new business organisations formed, but also on the extent to which new informal rules governing interpersonal interaction between the incumbents of this sphere have become institutionalised.

In the following chapters I empirically examine the extent to which 'de novo' entrepreneurs have been successful at instituting new informal rules within their immediate social contexts. First I expand on this chapter's analysis of the origins of Ukraine's private enterprise owner-managers, and further refute the 'nomenklatura-entrepreneurship hypothesis' using qualitative data collected from my sample of 'de novo' firm founders. Subsequently, the new

an accurate estimate of the size of the country's 'de novo' sector, but rather to illustrate the extent to which official statistics are likely to underestimate its weight. Regardless of error factors, this has been accomplished.

⁸⁷As noted in Chapter 2, throughout the second half of the 1990's, the shadow economy's share of total Ukrainian GDP was estimated to have been approximately one half of officially reported figures - i.e. about 1/3 of the overall economy.

institutional arrangements that these genuinely *new* market sphere actors created in Ukraine during the past decade, are outlined.

Chapter 4

Social Origins of 'De Novo' Business Owners

In this dissertation I argue that from an economic reform perspective, the primary (unarticulated) goal of Ukraine's transition from state socialism was to establish a distinct and vibrant market sphere where none existed before. Furthermore, it was noted that in addition to structural changes, the task of creating a differentiated market sphere also subsumes a transformation of the values, norms, and rules of interaction (i.e. informal institutions) that govern economic relations among economic actors. Accordingly, in the previous chapter, the size and employee catchment of this sphere, and its significance to the broader national economy were proposed as partial (structural) gauges of the success of market transformation. Fundamentally, however, the task of informal institutional transformation cannot be implemented through 'top-down' policy. It requires a 'bottom-up' agency: a critical mass of individuals whose everyday actions deviate from accepted (traditional) behavioural norms, are successful in achieving their aims, and thereby generate a demonstration effect for others.

With a view towards identifying the roots of such deviance, in this chapter, I investigate the social origins of the incumbents of Ukraine's newly created market sphere. After a very brief review of the literature's treatment of the antecedents of *post*-Soviet private enterprise in the FSU (leaving aside the cooperative movement discussed in Chapter 3), I turn to the empirical material collected as part of my field research, and examine the life-course histories of my sample of 'de novo' firm owner interviewees.

Post-Soviet Entrepreneurs

The question of the social origins of the individuals who chose to enter into private enterprise after the collapse of the USSR is one that fits squarely into the larger debate in the literature concerning who were the economic 'winners' and 'losers' of the early transition from state socialism. Investigators have variously identified the greatest beneficiaries as including a) the former Soviet power elite or 'nomenklatura' (Krystanovskaya & White, 1996); b) former SOE directors and industrial managers (Eyal, Szelenyi, Townsley, 1997, 1998); c) former 'criminals' and Soviet-era shadow economy actors (Chepureenko, 1996; Braguinsky & Yavlinsky, 2000). More sophisticated analyses suggest that members of each of these three groups were certainly transition 'winners', but that other actors were also key beneficiaries of

economic change in the FSU during the initial post-Soviet period. Among the latter one may name students and youth (Riordan, 1988, 1989), ethnic minorities (particularly Jews - Shulus, 1996), and highly educated former employees of Soviet-era industrial enterprises, research and design (R&D) institutes, and academic institutions (Codagnone, 1996).

The final group is the most controversial. According to Lane (1996), the rise of an incipient educated professional intelligentsia class, members of which sought to better their life-chances by replacing the state socialist administrative (titular) status hierarchy with one based on material wealth and achievement, was one of the key endogenous factors leading to the collapse of the USSR. Presumably when allowed the freedom to market their intellectual assets, at least some members of this acquisition class should have chosen self-employment and/or private enterprise establishment as strategies by which to improve their material conditions vis-a-vis the Soviet nomenklatura.⁸⁸

However, during the late-Perestroika years, neither the Soviet intelligentsia, nor the entrenched administrative 'class' were monolithic groups. The former included dissident writers, academics, and highly trained specialists employed in 'non-political' technical fields. The latter was composed of individuals with many of the same types of educational backgrounds, but employed within the Soviet administrative hierarchy:

Many from the administrative stratum... would potentially be able to benefit from a market system, if it were available. This defines their ambiguous class location... It is important to emphasise too that the 'intelligentsia'... were not a unitary class, but contained layers with varying degrees of identity and commitment to the political class (Lane, 1996:167).

As will be argued further in this chapter (based on empirical data), in the years immediately following the collapse of the USSR, the establishment of a private enterprise seems to have been viewed as a legitimate career option primarily by the educated 'intelligentsia'. However,

⁸⁸Lane's (1996) assertion regarding the existence of an ascendant class in the USSR, with fundamentally *acquisitive* values, is supported by Balzer (1998), and Millar (1988). During the terminal Perestroika, its incumbents included educated professionals (both enterprise technocrats and academics) who could potentially have gained material benefits from a market system due to their possession of educational credentials and skills. Marketing one's skills and knowledge clearly does not universally, nor necessarily entail establishing one's own business. In some cases however, it may, and this is the argument advanced here.

as the above quotation points out, far from representing a single monolithic class, individuals originating from the ‘intelligentsia’ status group enjoyed differing degrees of opportunity (access to material resources) due to their varying levels of embeddedness in inter-personal networks. Furthermore, in the years following the collapse of state socialism, I contend, one’s ability to capitalise on such network contacts was more a function of resource organising skills (a form of ‘entrepreneurship’ - see Chapter 5) than a simple matter of nomenklatura membership. In fact, membership in the top levels of the Soviet elite may have been a hindrance rather than an aid to successful ‘de novo’ private enterprise founding after 1991.⁸⁹

Such a contention directly contradicts the view which maintains that successful post-Soviet private business owner-managers throughout the FSU originated almost exclusively from the former Soviet elite. As noted in the previous chapter, during the early 1990’s, this ‘nomenklatura-entrepreneurship’ hypothesis was deeply rooted in popular stereotypes, and may therefore have become proliferated despite contradictory empirical evidence. As one of the few empirically-based studies of the social origins of early post-Soviet business owners noted, in the Russian case:

Most big businessmen came from what could be called the Soviet middle and upper middle class: highly educated individuals who occupied junior and middle level positions of managerial authority in scientific institutions, state enterprises, and state administrative structures. Rare are the cases of businessmen whose previous job could be included in high level nomenklatura lists. In the same way there are few who can be defined as real outsiders with respect to the mainstream of Soviet society (Codagnone, 1995:70).

The findings of my research, echo those reported above, and it is therefore my contention that this characterisation of post-Soviet company owner-managers as originating from the Soviet ‘middle class’ is as applicable to Ukraine as to Russia.⁹⁰ In this chapter, I will seek to justify this claim by tracing the social origins of respondents in my sample of Ukrainian ‘de novo’

⁸⁹The top levels of the Soviet nomenklatura were likely to be approaching retirement age in 1991 - not a time that individuals generally consider beginning entrepreneurial careers.

⁹⁰Balzer (1998) has effectively argued that a ‘proto’ middle class existed in the USSR (at times referred to as the ‘mass intelligentsia’), and that after the collapse of state socialism, it formed the basis of a broader professional class in Russia that included (but was not limited to) private enterprise owners.

firm founders. However, before beginning this examination, I should caution the reader as to the extent to which this analysis of the life-course histories of interviewees in my limited sample may be extrapolated to all Ukrainian firm-founders.⁹¹ As noted in the introductory chapter, I did not contact respondents through a random procedure. Gatekeepers (i.e. NGO business association leaders and personal acquaintances) were asked to arrange interviews with “more successful” business owners who had established their firms ‘de novo’ (“z nulia” in Ukrainian) rather than through privatisation. The specific definition of what the term “successful” meant was left to the gatekeepers to decide, but stipulations were made that selected firms were to employ a minimum of three employees, and to have been officially registered for a minimum of three years.⁹² The regional and firm-size breakdown of the resultant sample of respondents is shown in Table 4.1

Table 4.1 - Regional and Firm-size Profile of Interviewees:

Region	3-10 employees	11-50 employees	51-250 employees	250+ employees	Totals:
Eastern Ukraine:	1	6	5	4	16
Western Ukraine:	2	4	4	3	13
Kyiv:	7	9	5	3	24
Totals:	10	19	14	10	53

In the following text, data collected from the above respondent sample is divided into two groups based on interviewees’ period of entry into business (i.e. pre-independence and post-

⁹¹ It should be noted that the starting point from which I trace my respondents’ social origins is arbitrary. This dissertation is not a study of economic history in the Weberian sense (Swedberg, 1998, 1999). I seek to contribute to an understanding of the Ukraine’s *post*-Soviet transformation, and therefore causally dependent behavioural paths are traced either to state socialist legacies (both positive and negative), or to the transformation process itself. From the perspective of analysing Ukraine’s regional historical differences, the former should not necessarily be treated as given. It could be argued that Western Ukraine’s post-Soviet business owners are continuing pre-World War II developmental trends in trade and small-scale manufacturing (Nestorovych, 1977). Alternatively, in the style of Hagen (1971), the ‘spirit of Cossack individualism’ could be seen as defining the “Ukrainian mentality” (Starovoyt, 1995) in the eastern regions, manifesting itself in the current environment as entrepreneurship. Conversely, the work of Van Zon (2000, 2001) suggests that historical development of Ukrainian society since the 18th century has resulted in a “neo-patrimonial” state that is antithetical to entrepreneurship. Such approaches are interesting, but given the weight of specifically state socialist legacies in Ukraine, I argue that their plausibility (and usefulness) is questionable.

collapse). In the first section, the social origins of the initial (pre-1991) wave of ‘de novo’ firm founders (i.e. those who began their private enterprise careers through the co-operative movement) are traced.⁹³ Based on this analysis, three alternative life-course paths to ‘de novo’ business start-up are identified for these market sphere pioneers. Each path originates in a distinct Soviet-era organisational structure that, I contend, acted as an effective incubator for future firm founders by providing them with both a supportive interpersonal network, and access to differential opportunities unavailable to less ‘connected’ members of the population.

After the collapse of state socialism these incubator organisations disappeared, and structural embeddedness as a factor conditioning occupational choice seems to have become less pronounced. However, as will be shown in the second empirical analysis section, the same established life-course paths to business start-up largely continued to be followed by new market entrants after 1991. In addition, the maturing of Ukraine’s nascent market sphere led to entrepreneurship becoming a more broadly accepted occupational path (not limited to the educated intelligentsia), and an increase in exogenous influences on Ukraine’s population from the West gradually led to the appearance of a fourth path to business ownership.

In the final section of this chapter, the four identified paths to firm start-up are synthesised into a four-group typology of ‘de novo’ business owners. This typology echoes the ideal-typical descriptions of entrepreneurial behaviour discussed in the literature, and will form the basis of the subsequent chapter’s discussion of differing survival and growth strategies employed by respondents in the interview sample..

Late-Perestroika (pre-1991) Pioneers

Contrary to the ‘nomenklatura-entrepreneurship hypothesis’ (discussed in the previous chapter), analysis of the life-course paths followed by pre-1991 starters in my interview sample suggests that, in the years immediately preceding and following the collapse of the USSR, formal employment position within or outside the state and Party administrative

⁹²The latter stipulation meant that the sample was effectively limited to those who established their firms prior to 1998, and who had survived to 2000-2001. For more information on my research methods, see Appendix B.

⁹³The firms actually established prior to 1991 by these individuals may not have survived as legal entities to the present. However each of these respondents began their careers as business owners under Perestroika and have continued as entrepreneurs since.

apparat was less of a determinant of post-collapse economic status than education and demonstrable resource organising ability. Indeed, none of the interviewed respondents included in my sample of pre-1991 ‘de novo’ firm founders held formal nomenklatura (i.e. high-level CPSU and/or industrial elite) posts prior to establishing their business ventures.

Embedded Starters

A dearth of respondents with formal nomenklatura membership, does not mean that all interviewees reported being outsiders of the Soviet administrative system prior to the collapse of state socialism. Two formerly held low-level nomenklatura posts within the Soviet administrative hierarchy (IF2, IF3), and four others clearly benefited from access to opportunities provided by their positions as activists within new commercial structures (TsNNTM) created during the late 1980’s under the auspices of the Soviet Komsomol (Riordan, 1989). During this period, the Komsomol certainly continued, nominally, to be part of the Soviet administrative hierarchy, but as respondents themselves noted (see below), the organization’s real function in late-Perestroika society had changed from being the starting point of a career path in the CPSU, to being a broad-based *horizontal* organisation that attracted ambitious young people who aspired to try new things. Many specifically rejected the patron-client relationships that characterised the *vertical* structure of a traditional career in the CPSU and Soviet state structures.

The sole member of the pre-1991 start-up interview sample who may be considered an “administrative class” (Lane, 1996) insider was a businessman who, during the Brezhnev regime, worked in the Cabinet of Ministers of the Ukrainian SSR (K7). In the early 1980’s he was singled out to attend the prestigious and highly selective All-Union Academy of Foreign Trade, and was later assigned to a joint Soviet-German enterprise in East Berlin. Upon returning to Kyiv in 1988 he was placed in a top position in the state goods distribution agency (Derzhpostach)⁹⁴ where he formed his first co-operative enterprise trading primarily in imported goods under a special state license. At the time of the interview he was managing his own successful 150 employee tea and coffee distribution company in Kyiv.

It is noteworthy that within my interview sample, this type of ‘administrative class’ path to ‘de novo’ entrepreneurship was the exception rather than the rule. As shown in the Table 4.1,

⁹⁴“Derzhpostach” is better known in the western literature by its Russian name “Gos-snab”.

accounts involving business careers that started by way of the ‘embedded’ path more typically began in the co-operative movement attached to the Soviet Komsomol.

Table 4.1: Pre-1991 “Embedded” interviewee paths to firm start-up:

Int. No.	Age⁹⁵	Education	Path to firm start-up	Activity⁹¹	No. of workers⁹¹
D9	38	Post-Grad. Electronics Engineering	Graduate student => Komsomol TsNTTM computer centre manager --> Hired manager in US-Soviet Joint-Venture --> SME start-up trading in computers --> self employed stock broker --> consultant	Business consult.	20
Dn1	40	Univ. Grad. Electronics Engineer	R&D Institute programmer => Komsomol TsNTTM computer centre director => start-up SME computer components trade => wholesale trade w/ 5 partners for 3 yrs => settle on auto parts w/ 1 partner => large investment in former collective farm	Auto & tractor parts distr. & agri-bus.	2,000
IF2	40	Univ. Grad. Oil & Gas Engineer	Komsomol employee => Komsomol coop installing TV equip. in hotels => start-up as trade & services coop (organise beauty contest, trade in computers, food) => invest in bakery	Bakery, Meat process. plant	380
IF3	43	Univ. Grad. Speciality unknown	Pioneer Palace director => organised trade exhibitions => start-up regional TV station => failure => tourism operator	Tourism	8
K1	35	Univ Grad Electronic Engineer	Student => Employee of Komsomol coop in computer components trade => bankruptcy 1994 => hired as private firm manager in Hungary => return 1999 w/ capital for Internet & network equip provider start-up	Internet provider and computer reseller	250
K6	40	Univ. Grad. Finance	Graduate student => Komsomol construction coop => start-up loan => barter trade (mfg equip. for tyres) => export/import mfg equip & chemicals w/ Central Asia & Russia => wide ranging investments: meat processing, mining, retail stores	Oil & gas mining, trade in chemicals & mfg. equip.	1,000
K7	49	Post-Grad International Economics	GDR-Soviet Joint Venture (Berlin) accountant => Moved to Kyiv => Legal consultant for new Western J-V Companies => Derzhpostach (Gos-snab) coop manager of import/export trade => settle on speciality	Coffee & tea distr.	150
K15	36	Univ. Grad. Economics	Undergrad student => Komsomol coop consulting for new western J-V companies => import western goods (start-up in own apartment)	Spirits & food products distr.	200

⁹⁵“Age,” “Activity” and “Number of Workers” - here and in subsequent tables - indicate data provided at time of interview (November 2000 - July 2001).

As noted in Chapter 3, the 1987 USSR Council of Ministers directive that allowed local Komsomol committees to sponsor the creation of TsNTTM, later proved to be more revolutionary than even the follow-up Law on Co-operatives. Within 15 years of the original executive order that spawned them, former activists of this late-Perestroika Komsomol-based private enterprise movement became by far the most successful and growth oriented entrepreneurs in Ukraine.⁹⁶ Typically, their private enterprise activities began early in life:

I graduated from the economics faculty at Kyiv University, and when I was in my fifth year, my friends encouraged me - “let’s try it.” There was this Komsomol then, and in the Komsomol there was a committee responsible for youth organisations, and this was our first attempt. The most active young people gathered there (and) we started a little company... helping to form joint-ventures. Later it happened that almost all of those involved ended up owning their own companies. This was the start (K15).

The “little company” started by this respondent and his young friends later became one of Ukraine’s largest distributors of such well known western consumer brands as Wrigley, Orbit, Gillette, Guinness, Stella Artois, and Remi Martin. The ‘spin-off’ businesses that started later, but whose founders were employees or partners of the original firm, today include a successful Internet Service Provider (K1), and several companies that market foreign-made consumer goods and specialist manufacturing equipment in Ukraine (see www.nf.org.ua). All of them were founded by young entrepreneurs who had been ‘incubated’ in the Komsomol. Another example illustrates the organisation's role:

We started in business at the end of the 1980’s... There was this youth movement attached to the Komsomol. We had just graduated from our various institutes... I didn’t have a place to live, and I needed to build a home. At that time permission was granted to start these youth-based construction companies

⁹⁶This claim is based on a comparison of firm sizes in my interview sample using the criterion of employee number - see tables in this chapter. Given the non-representative nature of the sampling procedure, this claim may be considered somewhat tenuous. However, the identification of Komsomol-incubated firm-founders with successful business people is certainly supported by public discourse in Ukraine. As noted in Chapter 2, the literature tends to treat the Komsomol and the Soviet industrial elite as a single ‘nomenklatura’ - thereby providing an alternative justification to mine for their relative success in the post-Soviet period.

- building for yourself and for youth... We formed a large firm - we had over 2000 people. We were all young then, creative, full of enthusiasm (K6).

Youthful enthusiasm was clearly important, but the Komsomol also provided several key structural resources to Perestroika-era start-ups. Firstly, as noted in Chapter 3, prior to the adoption of the July 1989 Law on Cooperatives, an enterprise founded under the auspices of the Komsomol was one of the few legally entitled to produce goods and trade essentially independently of the existing state sector (Krystanovskaya & White, 1996).

Secondly, even during the late-Perestroika period (i.e. 1989-91) the state financed all activities targeted at youth (e.g. housing construction) through the Komsomol (Riordan, 1989). This meant that Komsomol-sponsored private firms were provided access to potentially lucrative state-financed contracts servicing the established Soviet SOE sector. However, contrary to the view implied by the 'nomenklatura-entrepreneurship hypothesis', none of the business ventures established by Komsomol-incubated respondents in the current sample seem to have been directed towards extracting rents from the resources of the state. On the contrary, a key element of all such projects was to encourage young people to apply their initiative and organisational skills to the production of some new good or service. For example, Respondent IF2 - an erstwhile Komsomol functionary who gave up his Party candidate status in 1990 - reported starting his business career by organising a highly profitable Komsomol co-operative that installed cable television outlets in local state-owned hotels (a service not available through the existing SOE sector). From this venture, he was able to generate enough profit to invest in a food processing plant, and since then has successfully pursued a variety of private ventures, finally ending up owning and managing a large bakery and meat processing concern employing 380 workers.

None of the interviewed respondents were able to define precisely how they benefited from their Komsomol experiences, but it seems clear that this organisation was key to teaching them the resource organisation and leadership skills that would later become key convertible assets in their business pursuits. Furthermore, unlike other groups of firm-owning pioneers discussed below, those who made their start using the resources provided by the Komsomol seem to have benefited from inclusion in a close-knit horizontal network. Unlike the vertically integrated and paternalistic CPSU proper, the Soviet Komsomol was not organised

hierarchically. Its role was to be the “cadre foundry” of the Soviet system: a mechanism by which young future leaders were selected by potential patrons within the Party for later inclusion within their own hierarchical patronage networks (Willerton, 1992). Komsomol members were exposed to the vertically integrated economic model of the state socialist system, but having not entered it yet, their interpersonal network contacts were largely horizontal. As will be argued further (Chapter 5), the experience of such horizontal networks, and furthermore a *lack* of experience of the CPSU’s verticality, seem to have left a distinct behavioural footprint on company owners originating from their midst.

What is less clear however, is whether firm-founders who made their career starts in the Komsomol co-operative movement were truly ideologically enthused by Communist ideals, or whether they viewed their positions from a strictly pragmatic perspective. By the late 1980’s, the Komsomol had become widely viewed with disdain in Soviet society as an ideologically discredited organisation (Riordan, 1989), yet it still seems to have attracted some of the most talented potential social leaders from among Soviet Ukraine’s youth. In retrospect their ideological affiliation at the time may be less significant than the fact that unwittingly, rather than preparing these educated young people for Party membership and leadership roles in the Soviet administrative apparatus, the late-Perestroika Komsomol seems to have ‘incubated’ many of them into becoming successful private entrepreneurs.

Shadow (Parallel) Economy Traders

According to the interview data, a similar Perestroika-era training ground for future firm owners was provided by the unofficial (shadow) goods distribution sector which the Soviet economic system had relied on heavily throughout the post-war years to maintain some level of allocative efficiency (Hewett, 1988).⁹⁷ Experienced shadow economy actors were among the first to take advantage of Gorbachev’s Perestroika reforms, legitimising themselves as businesspeople by establishing legal firms (Shulus, 1994). For this group, the unofficial networks that they had developed over years of trading in shortage goods became key determinants of later success in Ukraine’s nascent market sphere. Table 4.2 outlines the paths to pre-1991 private enterprise start-up followed by former shadow economy respondents:

⁹⁷Jones & Moskoff (1991:xii) estimated that 10-12% of Soviet citizens’ personal incomes originated in the shadow economy during the 1970’s. Johnson & Kaufmann (2001) calculated a 12% share for Ukraine in 1989.

Table 4.2: Pre-1991 “Shadow Economy” interviewee paths to firm start-up:

Int. No.	Age	Education	Path to firm start-up	Activity	No. of workers
D1	45	Univ Grad Mining Engineer	Mining engineer => Shadow Economy photographer => picture frame mfg => registered as legal SME => Travel => import posters from West => Cafe afterthought	Picture frame mfg and cafe	60
D11	43	Univ. Grad. Mining Engineer	Engineer in coal mine => Mine coop mfg consumer goods packaging => trade in consumer goods, pharmaceuticals => import trade => specialise imported build. materials	Building supplies retailer	60
Dep1	40	College Grad. Railway Institute	Construction tech. Simferopil => Shadow Economy jewellery mfg & bazaar trade => coop trading in building supplies, women’s shoes, telephone substation installation => first elected 1994	Parl. Deputy - Simferopil	500
Dep2	39	Univ. Grad. Economics	R&D Institute specialist => Shadow Economy industrial products trade => kiosks trading consumer goods => failed mayoral election => invest in ice rinks & retail gold market => elected 1998	Parl. Deputy - Dnipropetrovsk	2,000
L1	55	Univ. Grad. Electronics Engineer	Construction brigade director => Shadow Economy trade (building materials) => coop mfg seat covers for local bus mfg SOE => Travel => simple electronics mfg SME => move to Moscow, trade in electronics, metal, lumber => Travel => idea of hotel	Hotel and casino	300

Significantly, unlike firm owners who made their start through the Komsomol, interviewed former shadow economy actors who founded legal enterprises during the late-Perestroika years eschewed co-operative forms of ownership. The transformation of their activities from the shadow to legal sectors almost universally involved founding business ventures that were *individually* owned. During the late-1980’s this presented certain problems because, as noted in Chapter 3, Perestroika-era policies were primarily targeted at encouraging the formation of productive co-operatives, rather than individual business venturing. As a result, much of the economic activity of newly legitimised former shadow economy traders remained ‘unofficial’ even after being nominally legalised.

Nevertheless, the legitimisation of individual trade as a ‘bona fide’ occupation represented a major shift within Soviet society. To some observers this decriminalisation of what was once considered to be an illicit underworld of private trade represented a process of legitimisation of Soviet-era criminals under the new order (Chepurensko, 1996). The term “criminal”, however, implies that their activities were not only *illegal*, but according to lay perceptions,

to some extent *immoral*. From the perspective of time, such an indictment is difficult to justify. Examples of ‘criminal’ pre-Perestroika economic activities that interviewees in the present sample admitted to participating in included: supplementing one’s income as a university lecturer by raising minks at a parent’s village home and selling their furs to shadow economy hat manufacturers;⁹⁸ manufacturing wooden “souvenirs” in a home workshop in the Carpathian mountains for sale to tourists while simultaneously studying at a local institute (IF2); buying blue jeans at a street market in western Ukraine and reselling them at a profit in the east (D9). All such private economic activity was banned as “speculation” under Article 154 of the Soviet criminal code, but whether it can be referred to as “criminal” in a market context is questionable at best. As one interviewee recounted, certain individuals even under state socialism, simply had “entrepreneurship in their blood”:

I was working at a mine as an engineer, and by accident was shown one of the few ways in which not small sums of money could be made at that time in the Soviet Union. I was shown the job, strange as it may sound, of photographer... On my day off at the mine... I was taken to do some rounds of the apartments in the area. The idea was to show a sample, take a photograph and get an order, money was paid later. Well, when I collected 20 or 30 such orders, the people who showed me this business couldn’t believe that I had collected them all myself! Because profit from one order was 10 roubles - that I remember. That meant that in one day I could make 200-300 roubles, while at the best mine the monthly pay was 470... Well I left the mine and started to do photography.⁹⁹ Two or three months later I bought a Zhyguli (car). At that time that was quite an accomplishment - not everyone could buy a car. That’s what I did for about a year or two. Then I started doing photography more seriously. The process was like this - you make a trip to a district village school, and you speak to... the school’s director. You promise him 10% of the total takings. That was an awful crime! That was bribery - another article of the Criminal Code! But this is how it worked: he gathers the teachers, and in

⁹⁸This account originates from an individual who continues to be employed as a university lecturer in Lviv. He is not part of the current formal interview sample.

⁹⁹According to the Soviet Criminal Code it was illegal not to be officially employed within a state enterprise. How this individual managed to avoid sanction for leaving his job was not made clear during the interview.

the school there's lets say 800 people, and he says: "Tomorrow we're taking photographs. Everyone should be dressed in their best whites, with nice red kerchiefs. Each teacher is to collect the money - five roubles each child." 800 children at five roubles each - that's 4000 roubles!... I had barely enough time to press the button! Then I would give the films to some underground laboratory workers, who spent their days as engineers at an institute, and at night would shut themselves in a lab and would earn as much as they would in a month at the institute - from me! (D1).

It is interesting to note that of the five pre-1991 private firm pioneers in the interview sample who reported making their start by providing such shadow economy services and through trade in shortage goods, four were Jewish (D1, D11, Dep1, L1).¹⁰⁰ Shulus (1996) suggests that this can be explained by the fact that Jews were "outsiders" in Soviet society, and that processes analogous to those experienced by oppressed minorities in other societies can account for their entrepreneurial successes. According to such theories, status withdrawal and lack of relative centrality leads to the formation of a cohesive ethnic community - a 'bounded solidarity' that provides economic and social support for budding entrepreneurs (Hagen, 1971; Young, 1971). However, although several Jewish respondents identified Soviet-era anti-Semitism as a factor that had socialised them to be "survivors" (Dep1, D1, D9), when queried as to whether the Jewish community in Ukraine had provided them with any sort of support either at start-up or later in their business careers, respondents universally replied that they had little experience of a Jewish community 'per se'. Instead, they suggested that Jews had traditionally been the 'pushers' ("talkachi") of the Soviet economy - those who negotiated the supply of shortage goods both within the organisational structures of the planning system, and in the parallel economy (Hewett, 1988).

The account of an ethnically Jewish former shadow economy 'pusher' - turned post-Soviet hotel owner (L1), illustrates this point. Having been a long-standing manager of a state construction "brigade" in Lviv, during the late 1980's he had numerous friends who were directors of the city's large SOE's. Over the years he had gained a reputation for getting things done: he knew where to buy materials and gain access to equipment on the black

¹⁰⁰Interviewees D6 and D9 were also Jewish, but they did not report making a start through shadow economy trading.

market. More importantly, he knew which factory had been allocated money by the state for construction and new product development, and who to approach in order to be awarded such contracts. At one point during the Perestroika years he approached the director of the large local bus manufacturing SOE with an offer to organise the sewing of seat covers (material for these was in short supply at the time). Later he was able to persuade the local housing authorities to install time delay light switches manufactured by his private workshop (“tsekh”) in the staircases of the city’s apartment blocs.¹⁰¹ This arrangement was so profitable (300-400% net) that he proposed it to the central housing authorities in Moscow, and then having moved to the Soviet capital, established several hard currency retail stores (a project that required numerous layers of state approval). In Moscow he became involved in the lucrative lumber and metals trade, and after making a substantial sum of money, began travelling to the West in the early 1990’s - which is how the idea of building a casino and hotel transpired:

You know, I think I have never had so much money as then (1990-91). Maybe because, well there was never a need (before). And in those days who thought of building hotels or some such thing?... There was so much money that its difficult to imagine - suitcases, bags... (L1).

The widespread goods shortages that plagued the Soviet economy during its terminal years clearly provided extremely lucrative opportunities for private profit-making. However, whether an individual was able to capitalise on such opportunities depended on his/her embeddedness in the appropriate shadow economy networks. Prior to Perestroika, access to parallel economy goods often depended on a system of contacts and favours that effectively operated as an exchangeable currency (‘blat’), and as Ledeneva (1996) has pointed out, shadow economy actors were particularly skilled at accumulating, and investing ‘blat’.¹⁰² The major change that occurred as a result of Perestroika-era liberalisation was that the goal of such ‘investments’ ceased to be limited to increasing one’s ability to consume. An increase in

¹⁰¹ Recounting both of these deals in the interview, he alluded to paying bribes to individuals in positions of power in order to “avoid problems”. However, he avoided mentioning an unpleasant incident described in print by Anne Applebaum (1994:218) that occurred during the early 1990’s, and involved an American who had invested in his new hotel venture. While away in the US, the investor had appointed one of her Ukrainian family members to mind her interests, and this individual had mysteriously been shot in the street in front of the hotel after a conflict with the interviewee.

¹⁰² Ledeneva (1996) refers to such individuals as “blatmeisters”.

the use of money as the universal currency of exchange (replacing 'blat') led to former shadow economy actors expanding the scope of their ventures from simple householding to financial accumulation, and eventually to capital investment of a scope that was impossible with 'blat'. As discussed in Chapter 3, it was this shift from shadow trading activity based on contacts, to legal trade with money that was key to spawning Ukraine's nascent pre-collapse market sphere.

The Technocratic Intelligentsia

Not all individuals who started their independent business careers prior to the collapse of state socialism in Ukraine did so with the help of contacts within the official or parallel Soviet economic systems. Unlike Komsomol and shadow economy actors, employees of Soviet R&D and academic institutions who made the decision to establish a new business venture during the late 1980's, generally did not enjoy the advantages of embeddedness in a supportive interpersonal network. On the contrary, most respondents from this group reported that their decision to start an independent business was a form of protest against the Soviet hierarchical system - an outright rejection of the milieu in which they had been previously employed.

Their starts as independent firm owners were facilitated by the Gorbachev government's 1989 decision to allow employees of the USSR's numerous academic and research institutions to form for-profit co-operatives. In rare cases, such Perestroika-era knowledge co-operatives were able to survive and prosper for some time as semi-autonomous organisations (e.g. K8's firm). More typically, respondents who managed to create profitable autonomous structures under the auspices of such state-sector academic institutions found that success led to personal conflicts within the organisation:

I was a lecturer at the polytechnic institute at the end of the 1980's. And at that time there were all sorts of methods of conducting business - creative co-operatives, research-technical youth associations... Well honestly and legally, I earned a decent sum, and from this sum I paid a decent amount to the institute. This sum turned out to be so big that the director decided to personally get rid of me... It's very difficult to work in an environment that aggressively smothers any kind of personal initiative... Your superior is stupid, and you're

supposed to subordinate yourself while he chokes and limits you... I brought in a good deal of money into the institute, and then in order to buy a pen, I had to write a request: "please allow me to use my money to buy a pen." Permission could be granted or it could be denied. It got to a point of such stupidity that I decided that I had enough (D8).

The design group that had worked together with this respondent at the institute eventually broke away and joined the private firm that he had established. Eventually his firm grew to employ 50 engineers designing hydromechanical pumps for the Donbas coal mining industry.

The issue of conflict with superiors was a recurring theme among the interviewed firm founders who, prior to 1991, left their prestigious employment positions in military-industrial complex SOE's and Soviet R&D and academic institutions in order to establish independent business ventures.¹⁰³ Their paths to firm start-up are shown in Table 4.3:

¹⁰³With reference to their motivations for starting a business, respondents within this group most closely approximated small business owners in developed countries. Thus, as Scase & Goffee (1980:33) reported based on their study of British SME owners: "for many of the people we interviewed, the reason for starting a business was not out of a desire ultimately to become a successful entrepreneur, but as a rejection of working for somebody else."

Table 4.3: Pre-1991 “Technocrat/Academic” interviewee paths to firm start-up

Int. No.	Age	Education	Path to firm start-up	Activity	No. of workers
K8	42	Univ. Grad Electronics Engineer	R&D Institute specialist => Institute division specialising in military software installs first Internet link in Ukraine => conflict w/ directors over profits => division employees start independent firm	Internet service provider	100
K12	54	Univ. Grad Electronics Engineer	SOE design engineer => Frustrated w/ SOE directors => employee of elec. Design centre at TsNTTM => Travel => attempt to export design services => partnered w/ investor => automobile imports	Car Distr.	30
K24	42	Univ Grad Aero. Engineer	SOE middle manager => Conflict w/ SOE directors => start trade firm w/ 2 partners => start-up as indep consultant => start-up Ukr. Consultants Assoc. w/ 150 members	Business consultant and lobbyist	8
D5	48	Univ Grad Electronics Engineer	R&D Institute specialist => Institute electronics design section spun-off as coop => conflict w/ partners => SME trading lacquers & plastics mfg => partnered w/ shadow econ. Trader => switch to metals	Metal plating and fabrication	12
D6	43	Univ. Grad Electronics Engineer	SOE Design engineer => Start-up coop in partnership w/ brother trading in electronic equip. => conflict w/ brother => own SME trading in computers and components	computer assembly & netwrk install	350
D8	45	Post-Grad. Electronics Engineer	Academic institute lecturer => Founded institute’s electronic pump design coop => conflict w/ institute director over profits => coop separated from institute & reregistered as own SME	Hydraulic Pump design for mines	50

Universally for entrepreneurs from this group, desire for independence was reported to have been a prime motivating factor in the decision to start their own firms. One respondent described attempting to improve the stifling environment of the military-industrial complex SOE where he worked by introducing new ideas to his superiors, but he quickly became frustrated with their intransigence and left to start a trading co-operative (K24). Similar accounts were provided by former academics who realised that knowledge and analytical thinking produce useful results only when creativity is not stifled by one’s work environment (D5, D8, K8). Whatever the risk in leaving one’s prestigious employment position, establishing an independent business concern guaranteed them creative freedom:

The question at the beginning I think was not ‘your own business or not your own business.’ At the beginning the question was I guess, that there were

constraints there (in the SOE), organisational in the first place - what to do, how to do it. Your chances to do it, as they say “my way” (were limited). I guess in the first place this element of freedom of choice played a role at the beginning (D6).

As the above excerpt illustrates, the prospect of wealth and material accumulation were clearly not primary motivations for venturing into private business for respondents from this group. As discussed further in Chapter 7, downplaying the importance of the profit motive was typical of technocratic firm founders, and may be one reason why respondents from this group were found to eschew economic activities that centred exclusively on trade. Instead, they spawned businesses that engaged in knowledge-based services (e.g. design, consulting), and small-scale manufacturing. The entry of these individuals into the nascent Ukrainian market sphere was therefore highly significant for the country’s post-Soviet transformation. It represented a mobilisation of Ukraine’s innovative human capital potential which under state socialism, had been severely repressed by the centralised system of bureaucratic planning (Levine, 1988).

Post-Collapse Market Entrants

According to the above categorisation of respondents’ start-up accounts, it seems that by the time of the collapse of the USSR, three distinct paths to entrepreneurship had been established in Ukraine:

- a) the *embedded* path - established by former Komsomol co-operative movement activists who capitalised on their membership in horizontal social networks and access to material resources to create new organisations.
- b) the *market trade* path - established by former shadow economy actors who expanded their previously illegal shortage goods and services provision activities into the newly legitimised market trade and distribution sectors.
- c) the *technical innovation* path - established by former employees of Soviet R&D and academic institutions, and SOE design bureaux, who left their previous prestigious positions largely due to frustration with perceived bureaucratic impediments to their creativity, and founded pioneering ventures in Ukraine’s new knowledge-based services and innovative manufacturing sectors.

By mid-1991, the Komsomol had ceased to exist as an incubator for potential firm-owners in Ukraine. Similarly, the goods shortages that underpinned the Soviet-era shadow economy gradually became less pervasive due to both price liberalisation (domestic and Russian), and the opening of Ukraine's borders to imported western goods. Simultaneously, the newly independent state's economy sank into a deep and long-term transition recession characterised by hyperinflation, and a catastrophic drop in industrial production. However, as argued below, despite such significant changes, the three distinct paths to firm ownership established prior to the USSR's collapse seem to have continued to be followed by many new market entrants.

Market Traders

Whereas prior to 1991, those who embarked on independent business careers in the FSU (even in the shadow economy) generally did so of their own volition, in the transition recession years of the early 1990's, trade in consumer goods (primarily imported) became a forced phenomenon (Burawoy, et. al., 2000; Hanley, 2000). Thus, rather than reflecting a thoughtful determination to pursue private enterprise as a career, the decision to enter the bazaar trade, according to several observers, was frequently motivated by a lack of occupational alternatives in the face of dismal economic conditions (Barkhatova, et. al., 2001; Hanley, 2000; Roberts & Tholen, 1998; Roberts & Zhou, 2000; Scase, 1997; Smallbone, 2001). According to these views, faced with mass unemployment, delayed wage payments, and a collapsed social safety net, many former state-sector employees 'chose' market trade because it was their only available means of elementary survival. Indeed within the current sample, respondents K5 and K18 clearly represent cases of this type of involuntary entrepreneurship: both were highly educated former researchers at the Academy of Sciences, and each had registered several patents for their scientific discoveries made during the Soviet period. In the early 1990's when research funding was effectively cut off, both were forced to find other means by which to feed their families.¹⁰⁴ During their respective interviews each of them complained of barely eaking out a living from revenues generated from their bazaar stalls. The reasons such individuals chose market trade as a strategy for improving their

¹⁰⁴While travelling to Germany for an academic conference Respondent K5 met socially with the owner of a light fixtures manufacturer, and struck a deal to distribute the German's products in Ukraine; K18 found his supplier while on a shuttle trading visit to Poland. Similar stories were forthcoming from K20 and L10.

material conditions are clearly traceable to the economic crisis that engulfed Ukraine after the collapse of state socialism.

Notwithstanding these examples however, and given the literature's overwhelming stance regarding the forced conditions under which post-1991 market traders established their business concerns, it is interesting to note that several interview respondents in the current sample reported purely economic reasons to have been secondary considerations affecting their start-up decisions. Seemingly more important was the example of business success established by acquaintances who had started firms based on shadow economy connections prior to 1991:

Where did the idea come from? We were sitting having supper with our friends, and they started convincing us: "Do it! Start your own firm! Why should we work with you as a state firm? We know you as good workers; we know you are well, of a certain kind of people. Start your own firm, and we'll work with you!" In some ways they helped us a bit... nudged us (K4).

Such behavioural mimicking of shadow economy predecessors by later market entrants points to a degree of continuity in the path to start-up established prior to the collapse of the USSR involving trade in consumer goods. However, unlike pre-1991 shadow economy goods traders who could benefit from their embeddedness in a vast network of 'blat' contacts, a key characteristic of market trade path entrants in the post-independence period was their *lack* of membership in a similar 'closed club'. Commerce as a means of improving one's material conditions may have become legitimised, but rather than entering the trade sector with network assets, most interviewed post-1991 market trader respondents began their independent business careers as atomised independent actors.¹⁰⁵ Table 4.4 summarises their paths to firm ownership:

Table 4.4: Post-1991 “market trader” paths to firm start-up.

Int. No.	Age	Education	Path to firm start-up	Activity	No. of workers
D2	36	Univ Grad Law	Graduate Student => Trade in metals, industrial products, real estate => formal start-up as importer of food prods from East Europe => invest in ice cream mfg plant => shift to distr. locally made food prods.	Ice cream mfg & food prods distr.	200
D7	35	Univ Grad Electronic Engineer	SOE Specialist Worker => Left stable job in large industrial SOE => foreign guest work => start-up capital family loan => start-up w/ partners making potato crisps => barter trade in mfg machinery => mfg own ovens	Spirits Distr. & Bread Oven Mfg	67
D12	42	Military Academy Graduate	11 yrs as Soviet Army officer => discharged 1989 => difficult adjustment to civilian life => self-employed photographer => petty trade => settle on milk prods => register SME => invest in cheese mfg plant	Cheese mfg & milk prods distr.	150
K2	40	Univ Grad Civil Engineer	Construction Engineer => redundancy => employed in coop selling crafts in kiosks => employed in SME renting videos => conflict over profits => commodity trader in Moscow => return to Kyiv => start-up in gas trade	Oil and gas trade	25
K4	42	Univ Grad Food Processing	Trade Union official => Deputy Director of union’s foreign trade coop => start-up SME servicing soda machines in large SOE’s => export farm implements to E. Europe => export pre-packed food to US & CEE	Pre-packed food export	12
K5	45	Post Grad Electrical Engineer	Researcher in Acad. of Sciences => Invited to Germany on academic exchange => German researcher loans start-up capital => import industrial lighting equip.	Lighting distr.	5
K11	30	Univ Grad Applied Math	Commodity trader in Moscow => start-up capital invested in real estate => used profits to buy clothing for resale => distribute to local stores	Real estate & clothing distr.	4
K18	48	Post Grad Electronic Engineer	Academic Researcher => Forced into market trading to survive => sells lighting equipment while employed in Academy of Sciences	Retail Lighting Sales	3
K20	53	Univ Grad Medicine	Medical Doctor => redundancy => street trade in own artwork => failed attempt to start-up cafe => Soros Fund grant => gallery	Art gallery	4
L10	34	Univ Grad Electronic Engineer	R&D Institute Programmer => street trade in computer parts => start-up by renting space in established retail store => financing from former criminal gang	Comp. reseller	3

¹⁰⁵ As discussed further in Chapter 5, lack of network support seems to have been one factor that led many respondents from this group to change specialities (e.g. product lines, market niches) several times after initially embarking on their business careers.

One of the more successful interviewees from the post-1991 market trade group, was respondent D12 who, until 1989, had been a senior officer in the Soviet Army serving in the GDR. After being discharged he returned to his native Ukraine, and by his own admission had considerable difficulty adjusting to civilian life. He began his career in business in petty commerce together with his partner (another army officer), earning some money, losing some, and earning some more. Eventually they settled on milk products distribution, and by 2001 their successful cheese manufacturing and distribution enterprise in Donetsk had 150 employees. When queried as to whether his army contacts had helped him in any way during his business career, this respondent answered with an emphatic “no”. The Red Army had been a “school of manhood” - a place where one was taught honour and honesty towards one’s partners, but beyond having a positive influence on his character, his army past had not given him any structural advantages over others (i.e. contacts or access to resources).¹⁰⁶ He stressed vehemently that his company had been built through honest hard work, and that he would continue its expansion despite (or perhaps in spite of) the “immoral” business environment of Ukraine (D12).

Technical Innovators

Interviewee labelling of the post-Soviet environment as “immoral” was not limited to voiced condemnations of the widespread corruption that permeates the regulatory institutions of the Ukrainian state (see Chapter 6). Criticism of the state was much more comprehensive. This was particularly true with respect to post-1991 firm founders who were once employed as academics and SOE technical specialists. For example, bitterness at the lack of state funding for potentially useful scientific research permeated the interview with a 43 year old biotechnology expert from western Ukraine (L9). His prime motivation for start-up as an independent business owner was reportedly to prove to agricultural ministry bureaucrats that his research had practical applications. He seemed to have accomplished his goal since, at the time of the interview, his 150 employee poultry farm produced twice as many eggs per head as its competitors, and was expanding rapidly thanks to profits from selling genetically engineered hens and feed to other farmers. Similar private sector innovations (e.g. experimental surgery under the auspices of a private veterinary clinic leading to published articles in academic journals - K21) were reported by several highly educated former

¹⁰⁶This view was echoed by another respondent (not included in the formal interview sample) - a former Soviet naval officer from Belarus, who now owns a 16 employee motor oil distribution firm in Kyiv.

academics who had ventured into private business after Ukraine's declaration of independence. Table 4.5 summarises the paths to firm ownership of such respondents:

Table 4.5: Post-1991 "Technocrat/Academic" paths to firm start-up.

Int. No.	Age	Education	Path to firm start-up	Activity	No. of workers
D10	38	Univ Grad Software Programming	Programmer for Commercial Bank => Bank software division spun-off as private co. => partner emigrates to Canada => ownership transferred in full	Custom Banking software	25
K14	57	Post Grad Vet. Medicine	Veterinary Institute Lecturer => Occasional shadow economy vet => Olympic equestrian team vet => conflict w/ dep't chair => opened clinic in apartment	Private Vet. Clinic	4
K19	42	Univ Grad Aero Engineer	SOE Design engineer => quit because of boredom => Employee in private company => small planes hobby => design winning model for int'l air show => start-up	Aero-plane mfg	15
K21	48	Univ Grad Medicine	Medical Doctor => redundancy => move to Kyiv => start-up vet. emergency service from home => start-up clinic	Vet. clinic	35
K22	28	Univ Grad Veterinary Medicine	University Student => no work for vets after graduation => start-up using street flyers to advertise services => work from home => start-up clinic	Vet. Clinic	13
K23	39	Univ Grad Aero Engineer	SOE Design Engineer => forced to quit due to wage payment crisis => employee in private company => shadow economy market trade => registers own SME => receives order from Israel for epoxy helmets => import & mfg	Epoxy distr. and hang glider mfg	26
K25	42	Post Grad Econ.	University Lecturer => quit for more money => employee in import/export firm as customs facilitator (former students are customs agents) => bankruptcy when shortage market disappears => own start-up	Enzyme mfg & environmental cleanup	4
L7	34	Post Grad Poligraph Institute	Graduate Student & Lecturer => Low pay at institute => trade TV for printing press => start-up w/ 3 partners	Printing & Publish	20
L8	35	Univ Grad Materials Engineer	Poligraphical Institute specialist => father is printer - contacts help to find suppliers => bank loan => start-up	Printing	30
L9	43	Post Grad Biotech Engineer	R&D Institute Researcher => Institute biotech division coop selling chicken feed => farmers run up debts => invest in own poultry farm => accept payment for biotech feed in chickens: 12K hens first year	Poultry farm & biotech. feed mfg	150

On par with many academic professions as long as the USSR existed, Soviet military-industrial complex specialists and engineers enjoyed high social prestige and above-average

salaries (Lane, 1982:54-103). During the early 1990's however, state support for both academia and SOE-sponsored technical research fell considerably. Furthermore, as noted in Chapter 2, military hardware orders disappeared immediately after Ukraine's independence, and retooling the plants for civilian production after the USSR's collapse was a near impossible task. Some respondents who remained employed by post-independence military SOE's reported simply being fed up with having nothing to do:

By our standards the pay was not bad. In 1996 for example, I sat and spat at the ceiling and was paid about \$100 (monthly). And my entire function consisted of regularly arriving at work, reading the newspaper, and listening to the radio. And it was like this year after year - two years or three (K19).

The above description is excerpted from an interview with a former engineer at the Antonov aircraft design bureau. Frustrated by boredom, he and his co-workers designed a small two-seater light aircraft that could take off and land from virtually anywhere, and was ideal for spraying pesticides on farmers' fields. When they presented this design to Antonov managers, the SOE's accountants declared that it would cost the corporation several million dollars to build the first prototype. Exasperated, this respondent left to establish his own small company and within his first four years produced ten such aeroplanes - even winning an award for his design at a pan-European air show.

However, not all innovators of this type chose firm ownership of their own volition. Unlike their pre-1991 predecessors, some interviewed respondents from the post-independence technocratic/academic firm-founders group recounted being forced into the private sector simply in order to survive (L7, K23). Seeking to avoid the stigma of being forced into petty trade, some found creative ways of converting their skills into small business ventures immediately - without the need to raise capital at the bazaar. Their methods are quite comical in retrospect:

We all started as academics (in the poligraphical institute). Each was writing his dissertation. Then Perestroika started - no money. We needed to think of something; somehow we had to get out of this situation. There were no jobs - the kind that would pay decently... We started simply - we each put in 50

dollars and bought a television set. Then we traded it for a small offset machine. In other words someone had a small offset printing machine for A4 format but didn't have a TV. So I found some money and we traded. We got that machine, set it up at a friend's apartment... We were supposed to have become PhD's, lecturers, professors and so on... Well we became printers - hands covered in ink (L7 - one of 3 partners in a 20 employee printing firm).

Network Embeddedness in post-1991 Ukraine

A characteristic feature of the start-up paths of both post-1991 market traders and technocratic innovators was their lack of embeddedness in a supportive social network. Although often highly educated and experienced in their specialty areas, unlike their predecessors in these paths, both groups started ventures as essentially self-reliant independent actors with minimal contacts within the newly established Ukrainian market sphere, and virtually no access to the resource legacy of the USSR (with the exception of their own human capital).

However, such atomisation was not found to have been a universal characteristic of all interviewed post-independence firm founders. Although the Komsomol and Communist Party were banned in Ukraine immediately after the failure of the August 1991 coup attempt in Moscow,¹⁰⁷ many of the interpersonal networks that they had spawned survived the collapse of state socialism, and in the years immediately following, such legacy network contacts were often key assets for new market entrants. Indeed, according to the literature, drawing on administrative system social network resources that survived the collapse of the USSR was a relatively common phenomenon among latecomers to business throughout the FSU (Huber & Wurgotter, 1998; Neace, 1999).

1 In the heavily industrialised Donbas region of eastern Ukraine, a powerful economic network centred around the ISD gas-trading conglomerate, and known as the Donetsk 'clan' was formed during the mid-1990's. Following the example of the former Soviet centralised Party and industrial-ministry hierarchical system, and with the help of leveraged human

¹⁰⁷The legal ban on the CPU and affiliated organisations remained in force in Ukraine until 1993 when a new CPU was registered. It too established a Komsomol, but neither organisation has the benefit of exclusive state support, and none of the respondents in the current sample reported being a member.

resources (connections) within the state, the ISD network is widely believed to have gained control over most lucrative market niches in the region. As a monopolist group it combined the in-post legacy political elites with new local-level economic actors, and thereby gained control over virtually all of the region's natural resource extraction and processing industries.¹⁰⁸ Four interviewed respondents may be considered 'fringe' members of this Donetsk-based 'clan'. Their paths to post-1991 firm start-up are summarised in Table 4.6:

Table 4.6: Post-1991 "clan-embedded" Donetsk start-ups

Int. No.	Age	Education	Path to firm start-up	Activity	No. of workers
D3	34	Univ Grad. Conservatory	Music student => trade in consumer goods => start-up as natural gas retailer for Donetsk gas monopoly => take-over of large bankrupt greenhouse farm	Greenhouse farming	470
D4	27	Incompl. College Diploma	Father is powerful clan actor => Student => lived in UK & Spain for 6 yrs => return to Ukraine => start-up w/ father's capital	Printer Cartridge Re-mfg	40
D14	25	High School Grad	High School student => trade in food prods => kiosks & retail store => food prods mfg => partnered w/ large customers in region => invest in large industrial enterprises	Industrial & mine clothing mfg	no data
D15	32	Univ Grad. Finances (compl part time after start-up)	Univ. student => Currency kiosks => trade industrial machinery, chemicals, appliances, clothing => failed attempt at mfg => settle on sales of equip. to coal mines, regional railway, industrial enterprises	Equip. supplier to SOE's	25

Surprisingly, in contrast to the backgrounds of other respondents in the embedded path group, post-Soviet 'clan' membership seems to have attracted individuals with comparatively limited formal education. Whereas respondents from other groups all had completed university level degrees, and often some form of post-graduate training, 'clan-embedded' interviewees were distinguished by their relatively low level of education.

In fact, firm owners in the sample whose enterprises were part of ISD's vertical structure often seemed to be completely unqualified for their positions: one 25 year old respondent

¹⁰⁸ Although it is difficult to determine this concretely, anecdotal evidence suggests that the economic head of the Donetsk 'clan' is Renat Akhmetov, the President of the Donetsk Shakhtar football club, and Chairman of the Industrial Union of Donbas (ISD) (Yar, 2001). According to media reports, Akhmetov and Donetsk governor V. Yanukovych (the 'clan's' political head and as of December 2002, Ukraine's Prime Minister), prior to becoming regional economic and political kingpins were both violent criminals, and both served some months in prison. For an excellent historical analysis of ISD and of the role of this FIG in the Donbas regional economy, see www.ukraine.ru/catalog/groups/donbass.html

with no higher education, reported starting his business activities in 1993 (at the age of 18) producing worker coveralls for ISD-controlled mines and steel mills; during the interview, despite admitting to having a limited understanding of finances, production, marketing, or management issues, he claimed to chair the board of a holding company whose “several mines and metallurgical factories” employed over 5000 workers (D14).¹⁰⁹ The key prerequisites for such a lofty position within the ‘clan’ seem to consist of a Mafia-like secrecy regarding the organisation’s internal affairs, and loyalty to the patrons who head up its hierarchical structure. Striking parallels may be drawn between this system and that of Soviet state socialism in which all aspects of both the economy and polity were linked and controlled by a single monopolistic hierarchical Party whose membership (particularly in the Brezhnev years) did not necessarily reflect the most talented representatives of the Soviet population (Hewett, 1988; Rigby, 1990) .

The Donetsk group’s hierarchy reportedly controls not only the resource sector, but also several other lucrative market niches in the region.¹¹⁰ Although its control was reported not to be universal (skilled manufacturing and knowledge-based service provision were described as “uninteresting” to the ‘clan’ by non-embedded Donetsk-based respondents - D6, D8, D10), the advantages of membership in the “proper” regional network was universally emphasised by ‘clan’ embedded respondents. As one interviewee noted: “You can have financial backing, whatever sectoral advantages, but if the market is occupied, you will not be able to enter it. If the niche is occupied... it’s simply occupied” (D15). Clearly the “violent entrepreneurship” (Volkov, 2000) of ISD and its associates during the mid-1990’s frightened many new market entrants into submission,¹¹¹ but it also presented opportunities for individuals who would

¹⁰⁹ A similar lack of qualifications was exhibited by respondent D3 who is without a doubt a Donetsk ‘clan’ participant, but is not included in the post-1991 group because he established his firm prior to Ukraine’s independence. His business career began with the establishment of a natural gas retail distribution firm (a proxy SME of the ISD monopoly). Having originally graduated as a musician from the conservatory, this 34 year old now manages a 15 hectare green house farm employing 470 workers and producing 4000 tons of vegetables per year. He acquired this large agribusiness after it declared bankruptcy owing ISD over \$1 million for gas. By his own admission he knows nothing about green house farming (nor is he particularly interested in learning), but he does know that “once one reaches a certain level, working with the right people... problems get solved” (D3).

¹¹⁰ As noted in Chapter 2, during the late 1990’s, the Donetsk FIG’s vertically integrated management structure subordinated virtually all suppliers and customers within the coal mining, coke and steel production, and natural gas and electrical power distribution sectors in the Donbas region.

¹¹¹ The historical process leading up to the monopolistic consolidation of ISD during the early 1990’s involved rival business groupings (each covertly supported by a particular political actor) actively and violently seeking regional supremacy in the Donbas through assassinations, and the maiming of competitors and their families (Lavrov, 1999). By the latter half of the 1990’s, such competitive violence seemed to have subsided, but the

normally lack qualifications as business people to embed themselves within its vertical network structure and thereby achieve some level of personal success.

A very different embedded entrepreneurial strategy was observed in the resource-poor region of western Ukraine. Three respondents described having been incubated as firm founders during the early 1990's by a new social network that developed in Lviv - independently of the legacies of both the state socialist administrative system and the Soviet shadow economy. This network centred around the city's anti-Communist alternative civic organisations (e.g. "Tovarystvo Leva" and "Studentske Bratstvo") which mobilised youth during the years immediately prior to independence through cultural events such as folkloric concerts, mass street protests, and student strikes (Kuzio & Wilson, 1994). Like the Komsomol, these western Ukrainian student and cultural associations seem to have taught many future post-Soviet entrepreneurs organisational and leadership skills. Table 4.7 summarises the paths to post-1991 firm start-up taken by such Lviv-based "parallel network" embedded respondents:

Table 4.7 - post-1991 western Ukrainian "parallel network" embedded start-ups

Int. No.	Age	Education	Path to firm start-up	Activity	No. of workers
L2	33	Univ Grad Econ.	Head of Lviv based "Studentske Bratstvo" opposition org. => organised workshop sewing clothes for UK client => conflict w/ western partner => new UK partner invests \$250 000	Women's clothing mfg	1,700
L4	38	Univ Grad Furniture Design	Founder of opposition "Tovarystvo Leva" => need print materials for exhibits & concerts => failed attempt to secure EBRD loan => start-up loan of \$51 000 from local bank	Printing & publish	100
L5	40	Univ Grad no data on speciality	City Komsomol Secretary => organised youth concerts for "Tovarystvo Leva" => market trade in food prods => bank loan => import photocopiers	Printing equipment dealer	15
L6	33	Univ Grad Econ.	Student Opposition movement activist => Advisor to Rukh politicians => PR organiser for election campaign => partnership with foreign investor => ad agency	Adverts. agency	50

The alternative youth associations that were established in western Ukraine during the late 1980's were part of the anti-Soviet national patriotic movement that swept the region at the

perception that organised crime remained a pervasive problem in the region persisted at the turn of the millennium. According to popular wisdom, if a particular business concern in the region grew large enough to be

time, and therefore operated outside of the official structures of the state. As voluntary civic organisations whose activities were largely co-operative and fuelled by youthful enthusiasm, their legacies are observable in the form of broad horizontal networks of former members. Although perhaps more romanticised, these networks seem to be similar to those inherited by former Komsomol activists.¹¹²

When asked to compare his start-up path with that of Komsomol-incubated businessmen however, the most successful among the former Lviv student organisation leaders, whose firm employed 1700 seamstresses in three women's clothing manufacturing plants, emphasised: "the Komsomol taught people to organise and be productive using the resources at their disposal. We didn't have any money. Everything we did, and what we have today came from nothing" (L2). Yet, this claim is only partially true. This respondent's firm may indeed have started from "nothing" in 1992, but within two years of its founding it was able to attract the interest of a foreign investor who provided \$250 000 US in growth capital. Former student and cultural organisation leaders in western Ukraine may not have enjoyed the same level of access to endogenous material resources as their Komsomol-incubated predecessors, but the support their anti-Communist protest movement received from the Ukrainian Diaspora during the terminal Perestroika years (Kuzio & Wilson, 1994) provided them with privileged access to the limited exogenous capital that began trickling into Ukraine after independence.

The Exogenous Influence Path

The overall amounts of such FDI in Ukraine have been minute. Cumulative 1991-2000 FDI totalled a mere \$3.5 billion US (Datsyshyn et. al., 2000:35), compared to 1991-98 totals of \$8.4 billion for Poland and \$15 billion for Hungary (World Bank, 1999:39). On a per capita basis, Ukraine's FDI lags behind that of Russia as well.¹¹³

Despite not being reflected in investment figures, there is little doubt that compared to Soviet times, Ukraine's contacts with the West have increased dramatically, and this new openness

noticed by the Donetsk 'clan', political patronage and/or clandestine payments to an FIG-affiliated organisation became essential for the maintenance of one's property and even health (D9, D12).

¹¹²In the case of Respondent L5, the two networks actually intertwined: he was both a City Komsomol Secretary in the late 1980's and a "Tovarystvo Leva" leader.

has had an effect on firm founding rates. In western Ukraine, most families have relatives somewhere in the Ukrainian western Diaspora (concentrated primarily in North America, Australia, and to a lesser extent in the EU). Many have either travelled to these countries, and/or have had their relatives visit them in Ukraine, and each visit inevitably involves an inward flow of financial support. In the eastern and central parts of the country such familial contacts have been more limited because members of the Diaspora tend to have historical roots in the western region (Kuzio & Wilson, 1994). Nevertheless, exogenous influences in Kyiv have been significant: most multinational corporations that establish Ukrainian branch offices do so in the capital, and all foreign diplomatic missions and donor organisations are located there.¹¹⁴ Furthermore, since the late 1980's, the Ukrainian population as a whole has been exposed to formerly banned western media images, including both romanticised approximations of life in the West (e.g. soap operas, Hollywood films), and more accurate representations portrayed in news programs and on the Internet. According to interview respondents, these images had an important demonstration effect that prompted several of them to venture into private enterprise careers.

Within the current interview sample, six firms (in addition to those created by former western Ukrainian student and cultural organisation leaders mentioned above) may be identified as having been established as a direct result of Ukraine's new openness to the West.¹¹⁵ The paths to start-up of their founders are summarised in Table 4.8:

¹¹³ Most FDI in Russia is in the oil and gas sectors. If one were to remove these figures, the per capita statistics would likely be approximately equal for the two countries.

¹¹⁴ Almost one half of all FDI in Ukraine by July 2000 was channelled into Kyiv-city and Kyiv-oblast (Datsyshyn, et. al., 2000:35).

¹¹⁵ It should be noted that in the course of generating the current sample of firm owners, I specifically tried to avoid interviewing those whose companies had benefited from foreign investment, as I was trying to gather a sample of endogenous entrepreneurs.

Table 4.8: Post-1991 “Western Influence” interviewee paths to firm start-up:

Int. No.	Age	Education	Path to firm start-up	Activity	No. of workers
D13	29	Univ Grad Electronic Engineer	University student => part-time work as co-ordinator of foreign donor program => start-up selling PC parts => consignment sales => computer assembly	Second Hand Comp. Reseller	9
IF1	32	Univ Grad Mech. Engineer	University Lecturer => Part-time business consultant => guest worker in Poland => Polish friends encourage start-up => attempt restaurant start-up => impressed Polish investor => start-up in furniture mfg	Furniture mfg and retail sales	58
L3	39	Post Grad Ecological Engineer	University Lecturer => Conflict w/ director => Extended visit to family in Canada => search for investor => start-up with foreign capital	Garbage collection	77
K9	26	Univ Grad Internat'l Relations	University Student => part-time work in foreign co. selling hunting weapons => hired by joint-venture firm => made partner when company spun off from parent	Furniture Distrib.	50
K17	24	Univ Grad Software Programming	Computers are life hobby => University Student => start-up SME with student friends => foreign investor => contract work for foreign companies	Custom software design	18
K26	42	Univ Grad Mech. Engineer	SOE Engineer => Organised children's camp in Odesa for SOE => father state retail store director: “borrowed” start-up capital => market trade children's clothing	Clothing mfg & girls school	120

Perhaps the most noticeable beneficial effect of Ukraine's exposure to the West was the apparent prompting of previously inert members of society to become socially mobile. An excellent example of this phenomenon was provided by a woman entrepreneur who worked for 10 years as a low level technician in a large Soviet military factory on the outskirts of Kyiv (K26). When interviewed, she operated a multifaceted 120 employee women's clothing manufacturing and textile distribution operation. Her path to firm ownership began during the late 1980's when she was asked by her SOE director to organise a summer sports camp for the children of the enterprise's workers. The camp took place near Odesa, and while there she was given access to a video cassette player and a library of classic Hollywood movies. According to her account, she became enamoured both with the idea of working with children, and with the image of a “western lady” portrayed in the films. She resolved to establish a private school for girls where children would be taught etiquette, dance, and liberal arts in what she referred to as “the English tradition”. Such a venture obviously required significant start-up capital, so she left her job at the factory, and started trading in

childrens' shoes and clothing, later establishing a small manufacturing venture sewing jumpers and school uniforms for young girls. In 1997 she established her girls' school, and within three years had 360 pupils. She claimed to invest all of the profits from her multiple trading and manufacturing ventures into the school, and professed that if it hadn't been for her Hollywood-inspired dream, she never would have ventured into private business.

A less romanticised and more direct example of the 'demonstration effect' that the above account depicts, was provided by respondent L3, whose 77 employee rubbish collection company in Lviv was started in the aftermath of a visit to Canada. In the early 1990's, this former lecturer in the local agri-technical college spent two years working illegally in his relatives' art gallery in Niagara Falls. While there he was impressed with the cleanliness of the city's streets, and made an effort to research the technology used to maintain them. Upon returning home he actively sought out any and all potential investors, and happened upon a group of Austrians who were prepared to bet on his word.

The path to firm ownership represented by such accounts seems to stand apart from those described previously. Its origins are traceable neither to the social network structure of state socialist society, nor to opportunities left over from the Soviet era. What is clear however, is that the individual-level influence of exposure to western values and business practices seems to have led to the inclusion of a qualitatively new sector of Ukrainian society into economic life: unlike the technocratic path followers to which they seem most similar, respondents from the western-influenced group were generally *low*-ranking professionals before venturing into business, and rarely followed their educational specialities after start-up. As will be argued further in the subsequent chapter, their unique skill in being able to adapt western management practices to Ukrainian reality further differentiates their behaviour as business owner managers from the rest of the respondents in the sample.

Paths to Entrepreneurship

Prior to the collapse of state socialism, Ukraine's late-Perestroika business pioneers were drawn from three distinct social milieus: a) the Komsomol and to a lesser extent the low ranking administrative stratum, b) the shadow (parallel) economy, c) the disaffected technocratic intelligentsia.

The decision of members of each of these groups to enter into independent business rather than to follow a traditional career path was significant for Ukraine's post-Soviet development for several reasons. Firstly, the new market sphere engaged many of the Soviet republic's most highly educated and active youth - thereby withdrawing them from the established titular system of career advancement within the CPSU that started with the Komsomol (Riordan, 1989). Secondly, Soviet-era parallel economy actors whose status position under state socialism was (at least officially) subaltern, seized the opportunity to expand their activities, and thereby legitimised both themselves as a status group, and trade for personal profit as an occupation. Thirdly, the liberalisation of the formal institutional framework that previously stifled individual initiative (Levine, 1983) allowed highly trained engineers and technical specialists who were dissatisfied with the bureaucratic management structure of Soviet industrial and research establishments to gain a degree of occupational independence.

The collapse of state socialism clearly resulted in significant changes in Ukraine: the Komsomol effectively ceased to exist; the widespread shortages that had fuelled the Soviet shadow economy gradually disappeared; SOE technocrats' and state-sector academics' frustration with bureaucratic impediments to their creative freedom was replaced with more mundane concerns over wages and basic survival. Nevertheless, as shown by the preceding analysis, the life-course paths to entrepreneurship established by Perestroika-era pioneers seem to have carried forward into the post-collapse period. Post-Soviet alternatives (i.e. civic organisations and regional 'clans') replaced the Komsomol as incubators of firm-founders who drew on network resources at start-up. Trade, legitimised by the example of successful shadow economy actors, became a mass phenomenon. The knowledge-based services and small scale manufacturing sectors spawned by disgruntled Soviet academics and SOE technocrats continued to attract new entrepreneurs from Ukraine's skilled intelligentsia. Finally, in addition to these three paths, Ukraine's new openness to the West allowed for some minimal amounts of new capital to be injected into the economy, and more importantly, led some individuals to mimic the exogenous example of business ownership in more mature market economies. Interestingly, this fourth path to entrepreneurship seems to have generally attracted the marginal outsiders (nonconformists) of Ukrainian society who, despite their subaltern social status, seem to have successfully adapted western business practices to Ukraine's post-Soviet reality.

I do not wish to claim that the four life-course paths to entrepreneurship identified in this chapter represent discrete categories. Some overlap was found between them, particularly with respect to the western-influence path. Exogenous cultural and investment influences on Ukraine's 'de novo' firm owners (and the population as a whole) have been pervasive since the collapse of the USSR, and several respondents from the purportedly 'endogenous' groups (embedded, technocratic, traders) reported travelling extensively to western Europe, North America, and to other parts of the world during the past decade. Numerous incidences of such travel influencing worldviews, managerial behaviour and business strategies were reported (D1, Dn1, D9, IF2, K12, L2), but unlike the cases falling within the 'western-influence path' as defined above, such exogenous effects on entrepreneurs' behaviour occurred *after* the respondents had already established their firms, and sometimes after they already had become quite successful financially.¹¹⁶

As discussed in the next chapter, similar cases of conceptual crossover between the identified groupings was found with reference to the economic activities that firm-owners engaged in. Sweeping generalisations that would suggest, for example, that individuals who established their ventures through market trade were found to engage exclusively in commerce at the time of the interviews were not supported by the data. Neither were former technocrats' firms found to be universally engaged in manufacturing or in the provision of knowledge-based services.

However a lack of discreteness in the identified categories does not necessarily invalidate them. This chapter sought to identify *trends* with reference to the life-course paths of Ukraine's 'de novo' private enterprise founders rather than definitive patterns. The trends now need to be substantiated, and this will be the task of the next chapter, where the four identified paths to entrepreneurship will be shown to reflect not only life-courses leading to private enterprise establishment, but also to reverberate in the survival and growth strategies pursued by Ukraine's entrepreneurs in the years following start-up.

¹¹⁶It is likely that some similarity between the values of respondents from the 'western influenced' group and those of Diaspora Ukrainians (like myself) who have committed to living in Ukraine since 1991 may be found. The latter group is manifestly small however, and such comparison is well beyond the scope of this dissertation.

Chapter 5

Entrepreneurial Behaviour

The previous chapter's analysis of respondent accounts of the factors leading them to establish private enterprises yielded four distinct paths to business ownership:

- (a) the embedded path
- (b) the trade path
- (c) the technical innovation path
- (d) the western-influenced path

The names given to each of the above life-course paths illustrate the four identified mechanisms by which the interviewed Ukrainian 'de novo' firm-founders transformed network resources, human capital assets, and access to opportunities accumulated in varying degrees during the late state socialist and early post-Soviet periods, into structural resources for business start-up. As will be argued in this chapter, each of these micro-level paths to business ownership resulted in a distinguishable behavioural profile, and each of these may be described as 'entrepreneurial' in its own way.

Given the ambiguity of the designation 'entrepreneur',¹ I open this chapter with a brief review of the various ways the term has been defined within the economic literature. Next, I turn to a more detailed description of the 'entrepreneurial' strategies adopted by the firm-owners in my interview sample. Since most of these interviewees were *successful* businesspeople,² my empirical examination focuses on describing how respondents reported having achieved their relative levels of success. Specifically, the process by which they chose a particular speciality for their respective ventures, and the resultant firm-level organisational schemes they employed (i.e. investment targets and owner-managers' assigned roles), are specified. My goal in this second section of the chapter is to demonstrate that the four identified distinct paths to business ownership yielded four discrete strategies of venture organisation and growth - i.e. four distinct types of 'entrepreneurship'.

¹In an often cited essay on entrepreneurship, Peter Kilby (1971) likened the search for a consensual definition of entrepreneurship to a hunt for the 'Heffalump' - a mysterious creature described in the Winnie the Pooh stories, that many claim to have seen, but no one has ever captured.

²At least they were considered such by 'gatekeepers' - see Appendix B.

In the third section of the chapter, the interview sample is divided into the three broad sectors that respondents' firms engaged in (i.e. services, commerce, and manufacturing), and the relationship between path to start-up and subsequent firm-level growth strategy within each sector is scrutinised. Finally, the analysis of strategies used in establishing a venture, and those used as a means of survival and growth are synthesised in order to specify the varying mechanisms by which respondents affected the evolution of behavioural conventions in their respective social environments: the organisational microcosms of their firms (Scott, 1995:57).

Defining Entrepreneurship

Thus far I have employed the designation 'entrepreneur' in this dissertation as a synonym for 'firm-founding owner-manager'. Such usage conforms to the lay definition of the term (MacRae, 1980; Marshall, 1998:195), but hides existing scholarly debates as to its more technical meaning (Kilby, 1971).

Hebert & Link (1982:109) have classified economic scholarship on the entrepreneur³ into a fourfold typology of theoretical traditions: a) the tradition of Cantillon (1755) and Frank Knight (1885-1972) which stresses uncertainty bearing as the chief burden of the entrepreneur; b) the Schumpeterian tradition which downplays risk-bearing and emphasises innovation; c) Casson (1995) who, following the work of Baudeau (1730-1792), Say (1845), and Mangoldt (1855), 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 (1973, 1979, 1980) who fathered a view currently popular among US business-school scholars⁴ that de-emphasised ability, innovation, and risk-bearing, and focused instead on opportunity recognition as the entrepreneur's prime function.

Within economic scholarship, the most influential of these traditions has been that of Schumpeter (see also Bull & Willard, 1995; Chell et. al., 1991; Codagnone, 1995;

³Mainstream political economy and sociology (with the exception of Weber's contributions) have largely downplayed the significance of entrepreneurship. During the 1980's "flexible specialisation" and "post-Fordist" paradigms revived interest in the entrepreneur (Burrows & Curran, 1991:14-17; Lane, 1995:101), but even these have relegated him to the status of a peripheral actor within the global capitalist system whose centre is the multinational corporation.

⁴For example Baumol (1995). See also "Frontiers of Entrepreneurship Research" - www.babson.edu/entrep/fer

DeVecchi, 1995; Green et. al., 1996; Lydall, 1992; Kilby, 1971; Radaev, 1993; Stewart et. al., 1998). According to this paradigm entrepreneurship is synonymous with innovation, and involves the realisation of one of five momentary acts: the introduction of a new good or quality of good into the market; the introduction of a new method of production or handling (not necessarily scientifically new); the discovery or opening of a new market; the conquest of a new source of supply; the creation of a new organisation (Schumpeter, 1971:47).⁵

Schumpeter's equation of entrepreneurship with innovation was grounded in his more fundamental paradigmatic claims regarding the economy as a whole - which he conceived of as a circular flow system with a tendency to equilibrium. Criticising neo-classical economic theory for being "a static analysis... unable to predict the consequences of discontinuous changes in the traditional way of doing things" he claimed that it could "neither explain the occurrence of productive revolutions, nor the phenomena which accompany them" (Schumpeter, 1971:44).⁶ His solution was to introduce the entrepreneur as a central figure within the capitalist economic system, responsible for "creative destruction."

I will expand upon the Schumpeterian "creative destruction" paradigm later in this chapter, since I contend that it is applicable not only to the entrepreneur's strictly economic function, but also to his broader social role as an agent of institutional transformation (evolution). It should be noted, however, that the theoretical conception of the industrial-capitalist economy as essentially tending to equilibrium (within which Schumpeter placed his innovative entrepreneur) is by no means universal. Kirzner (1973, 1979, 1980) in fact, saw the normal state of the economy as disequilibrium:

⁵Any one of these acts will cause a discontinuous change in the system, and therefore an innovation. It is notable that viewed in this way, entrepreneurship is not limited to owner-managers or to firm founders: the 'carrying out of new combinations' can be the function of any economic actor, whether employed or self-employed. Accordingly, the 'director' function of the firm is not entrepreneurial at all, but rather "mere work like any other, comparable to the service of tending a machine" (Schumpeter, 1971:62). In the literature, this claim has spawned a series of studies on the fostering of "intrapreneurship" among salaried managers in large firms (Bull & Willard, 1995; Casson, 1995; Chell et. al., 1991; Drucker, 1985; Jennings et al., 1995).

⁶Traditional institutionalists, following Veblen (1904), also criticise neo-classical economic theory for relying on static equilibrium analysis (Hodgson, 1988, 1994).

Kirzner distinguishes his views from those of Schumpeter by saying that while Schumpeter's entrepreneur breaks into a state of equilibrium, creating temporary disequilibrium, his entrepreneur is constantly moving the economy towards equilibrium. Kirzner's entrepreneur creates nothing 'ex nihilo,' but merely responds to existing opportunities (Lydall, 1992:70).

Thus, according to the Kirznerian view, entrepreneurship is defined as action that results from a certain "alertness to opportunities" that are obscured but inherent in any functioning market system (Bygrave, 1995; Hills & Shrader, 1998; Minniti & Bygrave, 1999; Stevenson & Sahlman, 1989). However, not all individuals notice opportunities equally: "What is noticed by the one is not what is noticed by the other. The difference will not merely be one of chance. It is a difference that can be ascribed, in part, to the interests of the two individuals. Each tends to notice that which is of interest to him" (Kirzner, 1980:16). Accordingly, the economic context of the entrepreneur is seen by Kirzner as one where profit opportunities abound.⁷ Perceptive ability, followed by exploitative action (i.e. entrepreneurship), provides the economic system with the equilibrium it inherently lacks.

Whichever theoretical posture one adopts with reference to the economy's tendency to equilibrium, both Schumpeter's and Kirzner's conceptions of the entrepreneur rest on his performing a function that is related to the level of knowledge available to actors within a given systemic context (Lydall, 1992:73). Schumpeter's entrepreneur is a supplier of innovation into an economic context lacking technological or methodological knowledge, whereas for Kirzner, entrepreneurship involves differential perceptions of market opportunities. In either case, entrepreneurship involves action in the face of unknown outcomes and therefore involves risk.

Consequently, risk-bearing is often seen as the 'differentia specifica' of entrepreneurship. Following the work of Frank Knight (1921) and Alfred Marshall (1961), Lydall defines the entrepreneur as the risk-bearer and therefore controller of a

⁷Kirzner emphasizes (1992:16) that "human beings notice 'opportunities' rather than 'situations'... it is the circumstance that these events offer the promise of pure *gain* - broadly understood to include fame, power, prestige, even the opportunity to serve a cause or help other individuals..." that will result in the opportunity being pursued.

productive enterprise:⁸“The person who makes the ultimate decisions, which inevitably include putting capital at risk, carries the responsibility for the outcome of those decisions; and for that reason can logically insist on the right of control” (Lydall, 1992:74 - see also Simon, et. al., 1999). According to this view, the economic function of the entrepreneur is to organise resources for a productive enterprise, and his reward for bearing the risk involved in such organisational decision making is the enterprise’s profit.

Similarly, since a corollary of risk-bearing is judgmental decision-making, Casson (1995) has proposed “one whose judgement differs from the norm” as the basis for his influential definition of entrepreneurship (see also Drucker, 1985; Hebert & Link, 1982; Jennings, et. al., 1994; Stevenson & Sahlman, 1989). According to this approach, entrepreneurship is an extension of the modern economic phenomenon of the division of labour: just as some individuals specialise in a particular task or craft, entrepreneurs specialise in judgmental decision-making or venture management - *epiphenomena* of which are initiative and risk-bearing.

Economic theorists have thus provided several competing views of what entrepreneurship involves: innovation, alertness to opportunity, risk-bearing, and judgmental decision-making. Each function is grounded in a competing theoretical view of the role of entrepreneurs within a market economic system. *Collectively*, they suggest a portrait of entrepreneurship that may include all of these roles: an entrepreneur is innovative, opportunistic, not averse to risk, and independently decisive.

Clearly, a behavioural profile rooted in individual subjectivity (psychology) is implied. Innovation, judgement, risk-perception and opportunity-recognition all involve more than mere mathematical calculation, and entail skills that are by no means universal (Brockhaus & Horwitz, 1986). I will return to the literature that expands on entrepreneurial psychology and its possible sources later (Chapters 7 and

⁸This definition is in direct contradiction to that of Schumpeter who saw risk-bearing as the function of the creditor - either the banker or the capitalist - who loans money to the innovative entrepreneur in order to make the venture possible (DeVecchi 1995; Schumpeter, 1971). Profit and the specification of what theoretical status entrepreneurial rewards rightly have, has been a corollary of the debate over the definition of the entrepreneur: as owner-manager, manager, capitalist, innovator, etc.

8). At this point one additional point derived from economists' functional accounts of entrepreneurship deserves note.

The conception of market-based society universally adopted by economic theorists is systemic. Economists agree that the market (and society) is dynamic - a fluid system of interchange on which entrepreneurs exert a "semi-exogenous"⁹ (reactive or causal) influence. Differences arise with respect to the degree to which entrepreneurship is seen as "causally significant" (Wilken, 1979) to the operation of this system. One view presents the market as inherently disorganised (sub-optimal), and the role of the entrepreneur as one who injects equilibrium into the system by taking advantage of opportunities inherent in its disorganisation (Kirzner), or by assuming responsibility for decisions involving the allocation of scarce resources (Casson). The other perspective sees entrepreneurship as creative destruction of circular flow equilibrium through innovation (Schumpeter) or risk assumption (Lydall). If one accepts the view of entrepreneurship as 'creative-destruction' or 'risk-bearing' then the role of the entrepreneur is to initiate systemic change. Conversely, opportunity recognition and 'judgmental decision-making' are reactive functions within a system that is inherently in a constant state of flux (Hebert & Link, 1982:113).

Thus, notwithstanding basic conceptual agreement with respect to descriptions of the economic system as a whole, significant variance exists between economists' views of what constitutes ideal-typical entrepreneurial behaviour. As shown in Table 5.1, these differences affect more general notions of the entrepreneur's function within an economic system, and his relation to systemic change:

⁹I refer to this influence as 'semi-exogenous' because from the point of view of society, the entrepreneur is a participant, but if the economy is conceived of as an autonomous enclosed system, then entrepreneurial activity that modifies the system's flow is exogenous to it.

Table 5.1: Taxonomy of ideal-typical entrepreneurial behaviours, economic functions, and relations to social change.

Author	Behavioural Distinction	Function	Relation to Social Change
Schumpeter	innovation	creative destruction	causal
Kirzner	opportunity recognition	system equilibration	reactive
Lydall/Knight	risk-bearing	organisation, leadership	causal
Casson	decision-making	venture management	reactive

Applying the above taxonomy of ideal-typical entrepreneurial behaviours to the firm founders interviewed as part of this research project, leads to the following characterisations:

- (i) individuals whose path to start-up was associated with their embeddedness in a supportive organisational network (Komsomol or post-1991 variants) were found to be first and foremost leaders and organisers (risk-bearers) of the type described by Lydall and Knight;
- (ii) traders - both those who expanded and legitimised their previous Soviet-era shadow economy activities and later market entrants - were found to be closely approximate Kirznerian opportunity recognisers;
- (iii) former SOE engineers and academics who established technically innovative firms seemed to conform to the Schumpeterian ideal-typical innovative entrepreneur;
- (iv) those whose start-up path was aided or influenced by western exogenous influences tended to distinguish themselves as decision-makers and managers.

More broadly, analysis of the studied respondents' business strategies yielded two distinct behavioural patterns. Facing a changing business environment, Kirznerian market traders and western-influenced managers seemed to adopt conservative (i.e. reactive) postures both with respect to internal venture organisation and with reference to the scope of their firms' competitive activities. Conversely, both Schumpeterian technocrats and embedded organisers seemed to be more proactive (although each in his/her own way) with respect to firm organisation and growth

strategies, thereby endeavouring to *shape* their business's respective micro-environments rather than react to exogenous change.

The empirical evidence for such comprehensive generalisations will be examined below. Since each of the interviewed entrepreneurs began his/her venture 'de novo', we begin our investigation of respondents' strategic postures by examining the decision-making process associated with their having founded firms, and the structures of the organisations they established in the years following initial start-up.

Venture Organisation

During the late-Perestroika and early post-collapse years, the Ukrainian market - plagued for decades by consumer goods shortages - became filled with opportunities for private enterprise profit-making. However, although lucrative, the nascent market sphere was remarkably unfocussed:

Well it was a shortage market, so anything that you brought in, everything sold like 'hurrah!'... We sold everything... shampoo, cosmetics, clothes, cars - 500 cars we sold, Citroens... in about 2 years - computers, well everything... (But) I have some level of education in the field of external economic relations, and theories of transition are not foreign to me. In other words the parameters of this process I understand somewhat - indeed Poland, they are ahead of us, the Czechs, Hungarians... I understood - well by say 1993 - that I need to choose my business specialisation... (K7).¹⁰

Thus, as consumer goods shortages dried up, and the 'wild capitalism' that characterised the early years of Ukraine's independence gradually disappeared, firm-owners seem to have realised the need to focus their ventures in a particular area:

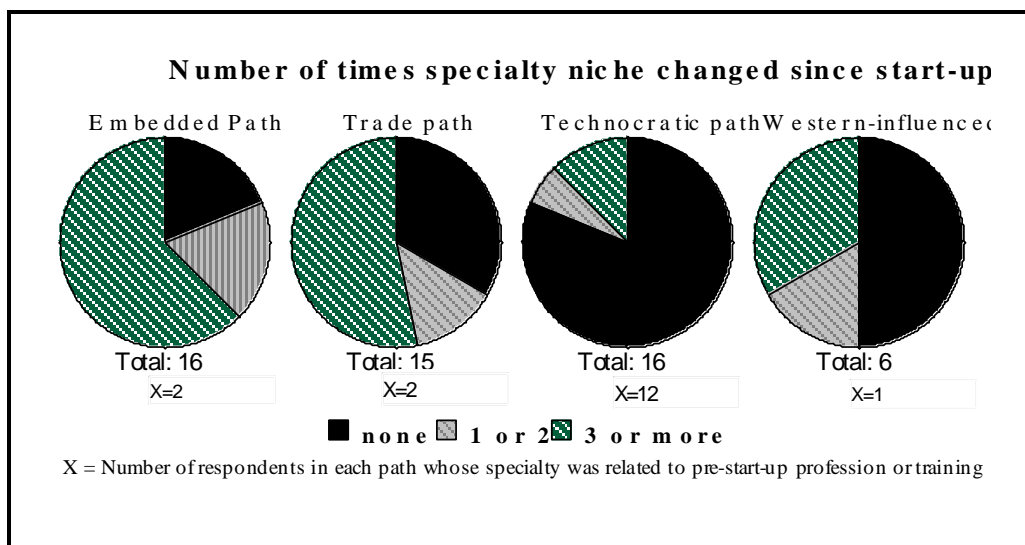
When we were starting out, we had several alternatives: to get into produce - as a seller, to sell ready garments, and then completely by

¹⁰The criteria that this respondent reportedly used to select a speciality product line were as follows: a) the product had to always be in demand - regardless of reductions in consumer purchasing power, and b) it had to be immune to tariff restrictions. He chose to import and distribute tea and coffee (K7).

chance we ended up in building supplies. An awful lot of people had their businesses die because they grasped at everything (D11).

Gradually realising that a degree of product or market niche specialisation was essential for business success in the post-independence economic environment seems to have been a universal phenomenon among Ukrainian ‘de novo’ firm-founders during the early 1990’s. However, although finding one’s niche was reported to have been an imperative by virtually all respondents, only in the case of former SOE technocrats and academics (technical innovation path) did educational qualifications and/or professional backgrounds seem to have acted as determinants of speciality area. Figure 5.1 highlights the relationship between educational background and chosen niche for each of the identified paths to start-up. It also shows the number of times respondents from each of the identified groups reported having changed their specialities *after* initially making the decision to venture into private business.

Figure 5.1: Education and respondents’ decision-making process regarding business speciality as related to path to start-up.



Within the current interview sample, only technocrats and firm founders who followed the western-influenced path seem to have adhered to a single speciality after initially embarking on their private enterprise careers.¹¹ Despite differing reasons for

¹¹The even split among western-influence path followers (i.e. between those that specialised immediately at start-up and those that changed their area of activity once established in business), reflects the fact that several respondents within this group employed start-up capital that originated from foreign sources (IF1, L3, K9). In these three cases, start-up capital was provided for a specific

choosing a particular sector or niche, in general once established in business, representatives of these two groups showed a common tendency to stick to their chosen speciality. Technocrats reported having specialised immediately at start-up - establishing companies whose activities coincided with their own educational qualifications. Changing specialities after start-up only seemed to occur in cases where the initial venture proved unsuccessful (e.g. D5, K12, K24).

In contrast, followers of the market trade path in the interview sample typically pursued a number of business activities over the course of the early 1990's, choosing a final product speciality or niche only after some years in business. Ten of fifteen respondents from this group changed business niches 2 or more times after start-up, and rarely (2 of 15 cases) did their final choice of speciality coincide with their formal educational training. Instead, for traders, specialisation seems to have occurred through 'evolution': respondents spoke of having focused on one particular product or niche at a time, and then having solidified their final speciality as the market matured and supply chains formalised.¹² For example, during the early 1990's respondents D2 (educated as a lawyer) and D12 (former army officer) traded in a wide range of imported food products - eventually they settled on ice cream and cheese as their respective product niches; respondents K2 (civil engineer) and K11 (applied mathematics graduate) both started their private enterprise careers as independent traders on the Moscow commodity exchange, and later having returned to Ukraine, chose to specialise in petrol distribution and clothing sales respectively. In each case, the process of choosing a final speciality could be traced to a sequential chain that

targeted purpose, and in turn, this purpose determined the respondent's particular business speciality. The three others in the western-influenced group established their firms exclusively as a result of a 'demonstration effect' (D13, K17, K26). In each case, they spoke of their decision to enter into private enterprise as having had an ulterior motive - i.e. a motive beyond the business itself (e.g. establishing a school for girls - K26). For them, choosing a particular speciality was reportedly less important than insuring their achievement of this 'other' goal. As a result, they changed specialities more frequently as they searched for the most profitable niches.

¹²A point of differentiation for trade-path interviewees (including both Soviet-era shadow economy actors and post-1991 entrants), was that in contrast to entrepreneurs from other paths, these respondents tended to attribute their business successes (and failures) to the vagaries of the Ukrainian market. For example, several cited Soviet-era shortages and post-Soviet hyper-inflation as key factors that had enabled capital accumulation at the start of their private enterprise careers (D1, D2, L1); they were the most vocal in their complaints regarding the constraints placed on their business activities by the state through the introduction of import and export regulations (D7, K4, L10); several described having suffered severe losses during the currency devaluation of 1998 (K2, K11). Thus, for trade-path interviewees, the fact that their firms' specialisation had been achieved through an evolutionary process was a natural reaction to changes that had occurred during the past decade in Ukraine's business environment.

involved a Kirznerian strategy of pursuing an opportunity inherent in one area of the market and later having that opportunity lead them to another.

The reports of trade path interviewees contrast sharply with those of embedded firm founders. Whereas the former chose their eventual speciality niches through an evolutionary process, the latter can be characterised as ‘switchers’. Analysis of their business histories shows a tendency to pursue multiple business specialities simultaneously, and/or to switch product focus drastically and frequently over the course of a business career. Examples of such ‘switching’ of speciality areas by members of this group include respondent D9 who claimed to have “made his first million”¹³ on custom software programming, and his second on commodity trading. At the time of the interview his primary venture involved management consulting. Similarly, respondent IF3 started his professional career as the director of a local Palace of Pioneers where he organised commercial trade exhibitions. In the mid-1990’s he attempted a private enterprise venture in television production, but was unsuccessful. By the time of the interview he had recovered some of his losses, and had established a small tourism company in western Ukraine. This type of ‘switching’ seems to have been typical for ‘embedded-path’ entrepreneurs in the sample:

What things did we *not* do in business - we organised foreign language courses... then there was a computer business, then a classical venture in trading food products, industrial products, wholesale trade. Then I also had some retail operations: kiosks, a store - I had 6 outlets. Then, when we had made a little money, we started investing in a bakery; then built a meat processing plant... This is a typical story of searching for oneself in business, and it is not over yet. Today we are still buying this business, selling that one... And it’s this kind of thing that I like the most: building a company, bringing it up to a certain level, and then selling it (IF2).

Such examples clearly support the characterisation of embedded-path founders as proactive ‘organisers’ with a low aversion to risk. However, whereas most pre-1991 embedded path firm founders reported *initiating* the formation of a multitude of new

¹³The currency was not specified.

organisations during the course of their private enterprise careers, several of those who established firms while embedded in a *post*-collapse interpersonal network (e.g. the Donetsk-based ‘clan’ or Lviv-based alternative civic organisation networks), seem to have had their organisations created for them by their respective networks. For these embedded-path latecomers to business, ‘switching’ was not always entirely voluntary.

For example, respondent D3, a music conservatory graduate, first ventured into private enterprise as a gas reseller, supplying Donetsk-based SOE’s with fuel purchased from the regional monopolist ISD. He became part-owner and manager of a 15 hectare greenhouse farm with 470 employees when the property was taken over in a debt settlement. Another respondent (D4), who never completed his secondary education, had his firm (specialising in re-manufacturing used printer cartridges) established for him by his clan-embedded father. A former “Tovarystvo Leva” organiser from Lviv (L4) graduated as a furniture designer - he was interviewed in the office of his 100 employee publishing firm that was established because the cultural organisation that he had led needed printing facilities. In each of the above cases, micro-level organisational ability was clearly an important factor that led to the eventual success of the respondents’ businesses, but the particular niches that their firms occupied seem to have been less the result of individual proactive choice than a consequence of changes in the requirements of their respective networks. One may therefore speak of a convergence between the ‘evolution’ of the market sphere in the post-independence period in Ukraine, and embedded-path latecomers’ penchant towards multiple venture ‘switching’.

Regardless of whether a particular speciality was chosen through ‘switching’ (as seems generally to have been the case with embedded entrepreneurs), or through evolution (as with traders), analysis of the business activities of both groups shows a distinct lack of correlation between educational background and venture speciality. If one considers that traders and embedded-path firm owners on average were the most successful entrepreneurs in the interview sample (measured by employee number), this suggests that formal educational qualifications may have been less important as prerequisites for business success during the post-Soviet period, than other factors.

Indeed, when asked to identify what they saw as the most important characteristic that differentiated them from less successful business owners, respondents from the embedded and trade groups universally named leadership, opportunity recognition, and organisational skills rather than formal specialist training. One former leader of a Lviv student organisation who was interviewed in his 1700 employee women's clothing manufacturing plant provided a good example of the perceived importance of such informal skills. When asked whether he knows anything about sewing or textiles, he answered that he doesn't need to: "one of the things I learned in the student movement was to organise people who know how to perform required tasks. My job is to be their leader" (L2). Similarly, and consistent with the overall worldview of this group, embedded-path firm owners who denied being successful (L5, IF3), attributed their business failures (or at least lack of relative success), to personal shortcomings as organisers and leaders.

Investments

A notable corollary of placing emphasis on leadership and organisational skills over specialist training seems to have been a tendency to remove oneself from the routine operations of an owned business by respondents from the embedded path (consisting of former Komsomol and western Ukrainian student movement leaders). Entrepreneurs from this group all reported being involved in multiple profit-making ventures, and to have delegated much of the day-to-day management of their concerns to hired employees. Not only were these 'arms-length' businesses most often unrelated to their owners' educational backgrounds, the individual ventures seemed to be unrelated to each other. For example, two embedded-path respondents described having established restaurants and cafes, and later having invested in large former collective farms as peripheral ventures to their primary businesses - clothing manufacturing (L2) and tractor parts distribution (Dn1) respectively. Similarly, in addition to investing in food production, another respondent (K6) described his business activities as ranging from oil and gas extraction, to the ownership and management of filling stations, restaurants and retail building supplies stores.

On the other hand, although universally naming organisational ability as their 'differentia specifica', not all embedded-path respondents reported structuring their businesses according to such a non-integrationist 'holding-company' model. Whereas

former anti-Communist youth organisation leaders from western Ukraine reported mimicking the broad multiple venture strategies of the Komsomol subgroup, those involved in eastern Ukraine's 'clans' instead seemed to strongly favour vertical integration. Their strategies involved investing in firms that were in some way related to the parent, and in this way subordinating both suppliers and customers under a single integrated management structure (D3, D14, D15).

Much of the capital invested by embedded-path entrepreneurs (regardless of subgroup - i.e. Komsomol, 'clan', or western Ukrainian) seems to have been accumulated during the 'wild capitalist' years that immediately followed Ukraine's independence. Initially, a significant proportion of this capital was exported to offshore bank accounts in Switzerland and to the tax haven countries of the Mediterranean and Caribbean. After a decade of independence some of this money seems to have begun slowly trickling back into Ukraine. One respondent winked when he boasted of recently establishing several "Cypriot-Ukrainian joint venture companies",¹⁴ one of which is a luxury hotel in the Carpathian mountains (IF3). He is not alone: according to official statistics, since 1992, almost 15% (\$476 million US) of Ukraine's FDI has originated from such tax havens as Cyprus and the British Virgin Islands (Derzhkomstat, 2000:307).¹⁵

The significance of such capital repatriation trends is twofold. Firstly, economic actors who accumulated and exported significant sums of money from Ukraine during the 'wild capitalist' period of the early 1990's seem to have realised that the wealth producing opportunities that existed while the economy was characterised initially by shortages, and later by hyper-inflation,¹⁶ have dried up, but that other (more long-term) opportunities have replaced those of the early transition period. Seeing Ukraine's macro-economic climate stabilise, and its market sphere mature somewhat, former capital exporters seem to have begun reinvesting their money back into the

¹⁴The respondent's hand gestures denote the quotation marks.

¹⁵Investors from the British Virgin Islands seem to particularly be fond of Donetsk oblast: over one third of its FDI since Ukraine's independence (over \$115 million) has originated from there (KP, 19/7/2001:29S).

¹⁶As respondent D5 recounted, hyperinflation provided extremely lucrative opportunities for risk-taking entrepreneurs: "That time was good! You know inflation is a wonderful thing: you buy something cheaply, wait a little (then sell it). Its a kind of wild business, but in principle it brought in decent profits."

country. From a developmental perspective such a trend points to a high level of confidence in the long-term profit-generating potential of the Ukrainian economy.

Secondly, the fact that embedded-path firm-founders have made such investments with little regard to the inter-relatedness of individual ventures may point to the existence of a more comprehensive developmental trend in Ukraine's market sphere. Seeing themselves as capital organisers and leaders of people, embedded-path entrepreneurs seem to approximate capitalist owners (in the classical Marxist sense) rather than petty bourgeois owner-managers. Their possible ascendancy to such elite status will be discussed further in Chapter 8, but for the moment the tentative observation is worth noting: the self-perceptions and investment behaviour of embedded-path founders may be suggestive of early signs of the ascendant position of this group within Ukraine's social structure.

Employee Management

The tentative suggestion that venture organisation (including investment behaviour) may be linked to status perceptions is supported by the contrast between the strategic postures of embedded-path entrepreneurs, and those of both trade-path respondents and their western-influenced counterparts. The latter two groups reported building organisations that were specialised and strictly hierarchical. Traders described their firms as vertical structures based on a rigorous chain of command. Although some employee freedom was observed in cases where western influences had led to the formalization of job descriptions for hired managers (K9, D2), most respondents whose enterprises engaged in trading - regardless of size, and in stark contrast to those of embedded-path firm-owners - seemed to prefer authoritarian micro-management, placing little trust in their subordinates, and relying heavily on 'hands-on' methods.

Respondent D1 (pre-1991 trade path) epitomised the authoritarian strategy adopted by this group with respect to relations with employees. My interview with him was held in his cafe where he offered me lunch. When the waitress was late, he aggressively chastised her (resulting in her breaking down in tears), and then loudly scolded another worker for not having followed established procedures in the kitchen. He admitted that his was not the most efficient strategy for managing people, but he saw no alternative:

I have always been on my own and I have kept to - I'll admit - authoritarian methods of management. I can be a very strict person. But this has another side to it: when initiative is punished, nobody shows it. This is a problem for me and there are no concrete solutions here. It would be good to work on myself, to improve myself. But for the moment I try to regiment every move, institute rules, write down orders, and require their unquestioning fulfilment... I don't trust anyone... business is not the place for trust (D1).

One could argue that such authoritarian practises are a latent feature of state socialist industrial organisation (Levine, 1983) that has survived under new market conditions. However such a conclusion is belied both by the diversified management structures of Komsomol-incubated founders,¹⁷ and by the fact that individuals who founded firms after spending their formative years in Soviet academia and SOE's were found to employ entirely different management tactics.

The companies of the latter group were generally organised as co-operative, team-oriented ventures, reminiscent of the 'working collective' venerated in Soviet propaganda.¹⁸ In contrast to embedded organisers, technocrats did not generally report being able to remove themselves from the day-to-day management of their enterprises, but few communicated having any desire to do so. In many cases they characterised themselves as social loaners with few acquaintances besides family outside of the workplace.¹⁹ For this reason their relations with employees were described as close and familial. They reported feeling extraordinarily fortunate in being able to have their "hobbies" earn them a living.

¹⁷For example, respondent K1 proudly declared that his employees operated under a system that was the antithesis of Soviet-style specialisation: each was expected to have a broad-based knowledge of his/her responsibilities, and to be able to act as a short-term substitute for any colleague if required.

¹⁸The management structures of technocrat founded SME's seem to approximate those of SME's in western Europe. As Scase & Goffee (1982) reported in their study of small firms in Britain, many small employers feel torn between their identities as productive workers (craftsman, engineer, salesman), and their role as employers. As a solution to such identity tension, many choose to adopt a 'fraternal' management styles, working alongside their employees, as 'one of the men.' Their firms take on the quality of an extended family: "an organic partnership in a co-operative enterprise" (Scase & Goffee, 1982:117).

¹⁹All of the respondents within this group are aged 40-50 except two who are in their mid-30's.

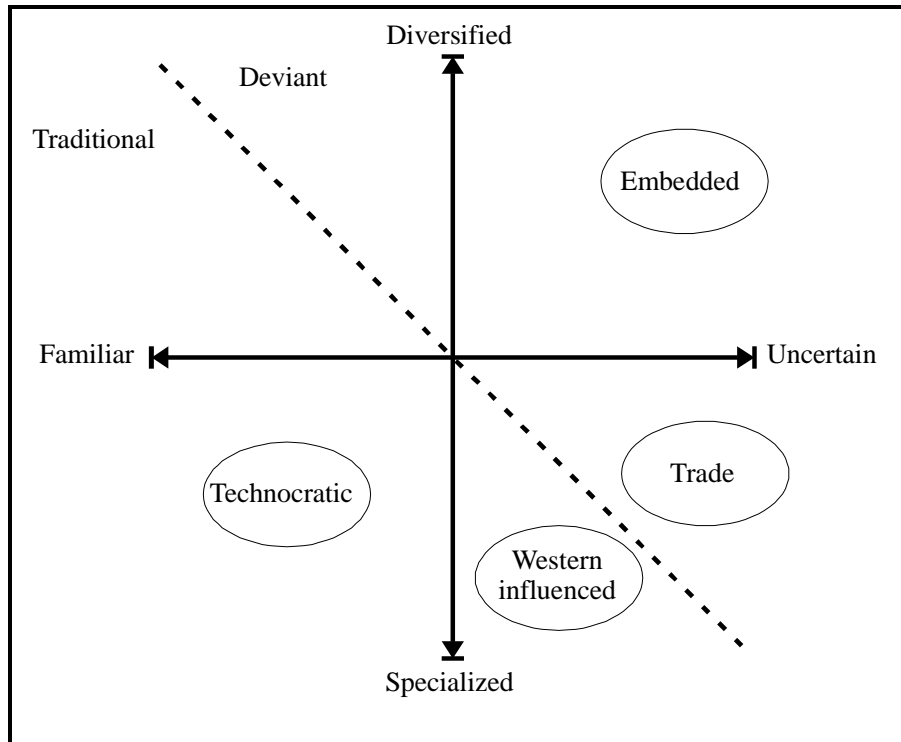
This view of one's business as an enjoyable hobby is perhaps the most significant distinguishing feature of technical innovation path respondents. Unlike the previously described groups, these interviewees were almost universally engaged in manufacturing or the provision of knowledge-based services.²⁰ The products produced by their companies were directly related to their formal training and/or past work experience, and in almost every case represented an achievement in technical innovation. Examples included small aeroplanes and hang-gliders (produced by former Antonov engineers - K19, K23), custom software (former military programmer - K8), genetically engineered chicken feed (former bio-technology academic - L9).

Strategic Choices

The above descriptions of the strategies employed by interviewed 'de novo' entrepreneurs show significant variations in patterns of venture organisation between the four identified groups of interviewees. These differences reflect a divergence between each of the groups with respect to the criteria used in choosing a particular course of action, and can be characterised along two axes: X = disposition towards uncertainty/familiarity when choosing a niche for one's business, and Y = specialisation/diversification of company structure and investments after start-up. Figure 5.2 locates the positions of the four identified groups with reference to these two axes.

Figure 5.2: Variations in venture organisation strategies.

²⁰A breakdown of the entire interview sample according to the primary sectors in which respondents' firms engaged is provided in Chapter 6.



Among interviewed respondents, only technocratic founders seemed to use the criterion of familiarity (i.e. correspondence with their educational or professional backgrounds), to select their speciality or niche. For entrepreneurs in each of the other groups, the decision to embark on a private enterprise career represented a (more or less) significant departure from their previous occupational life-courses.

Furthermore, of the occupational life-course deviants, only embedded actors pursued strategies of diversification once established in business. Although this pattern may be explained by the fact that members of this group seem to have accumulated the most resources during the ‘wild capitalist’ years of independent Ukraine’s history, the observation is nevertheless significant. In the USSR, the conventional occupational life-course began with specialist training, and continued specialisation throughout one’s career (Sheremeta, 1999). Thus, the occupational decisions of embedded respondents (at start-up and immediately thereafter), represent the largest deviation from established Soviet-era conventions of occupational specialisation.

Path to start-up clearly affected the venture organisation strategies of respondents in the early period after firm start-up. However, as discussed below, although the placement of each of the groups on the above plot may reflect their relative level of

deviance from traditional norms with respect to early venture organisation, it does not necessarily correspond to their later willingness to deviate from established conventions when selecting a subsequent strategy for their firms' survival and growth. In other words, 'unfamiliar' and 'diversified' may adequately describe the dimensions of the choices made by entrepreneurs who deviated from established behavioural conventions during the early years of a private enterprise career, but they do not necessarily account for variations in strategic posture between the interviewee groups (and concomitant differences in levels of business success) once their firms had become established.

Firm Survival and Growth

In the following section, the more mature, *post* start-up business strategies of the interviewed respondents are examined. In order to facilitate analysis of the relationship between path to start-up and proclivity towards a particular type of deviant unconventional (entrepreneurial) behaviour, the sample is divided into three groups based on the sectors (i.e. services, commerce, and manufacturing), in which each of the respondents' ventures operated at the time of the interviews.

Trade

Eighteen of the respondents in the sample owned firms whose primary activity involved the buying and selling of commercial goods. As shown in Table 5.2, the vast majority of these interviewees hailed from the market trade and embedded paths. Only one of the firms whose primary activity involved trade and commerce was owned by a technical innovation path firm-founder (K12),²¹ and only one interviewee in this group followed the western-influenced path to start-up (K9). Six of the remaining trade sector companies were established by embedded actors, while the majority (i.e. 10 of the 18 firms in this sector grouping) were owned by individuals who started their private enterprise careers through the trade path.

Table 5.2: Profile of interviewees whose firms engaged exclusively in trade and commerce:

ID	Path to start-up	Primary Activity	No. of employees
D15	Embedded	Manufacturing equipment distributor	25
Dn1	"	Tractor and auto parts distributor	2,000
K1	"	Computer reseller	250
K7	"	Tea and coffee importer and distributor	150
K15	"	Beer and liquor importer and distributor	200
L5	"	Printing equipment distributor	15
D7	Trade	Liquor distrib. & bakery equipment reseller	67
D11	"	Building supplies retailer	60
Dep1	"	Building supplies & shoes (elected MP 1994)	500
Dep2	"	Retail kiosks & jewellery (elected MP 1998)	2,000
K2	"	Petrol distributor	25
K4	"	Food products exporter	12
K5	"	Lighting equipment distributor	5
K11	"	Clothing distributor	4
K18	"	Lighting equipment retailer	3
L10	"	Computer reseller	3
K12	Technocratic	Automobile reseller	30
K9	Western	Furniture distributor	50

The fact that the owners of firms engaged in trade and commerce predominantly hailed from the trade path is not surprising in itself, but a within-group distinction should be made to accurately represent the membership of this group of interviewees. Half of the trade-path respondents whose firms engaged in the resale of commercial goods reported to have chosen this sector voluntarily - as a means of building a long-term business (D7, D11, Dep1, Dep2, K2, K4). For the rest, trade did not constitute a 'profession', but rather a means of survival that was not freely chosen.²² This distinction is important because it suggests an explanation for the observed variations in the strategic postures adopted by trade sector interviewees.

The product portfolios of respondents whose trading activities primarily represented a means of subsistence tended to be limited to goods that were either domestically manufactured or represented the low-end of the quality spectrum of imports. Sales

²¹This former SOE engineer originally started his business career by establishing a co-operative that provided design services to military-industrial complex electronics factories. Later he switched to automobile distribution when the market for his services collapsed.

²²These non-professional (subsistence) traders all employed fewer than 10 workers. They seemed to represent the post-Soviet 'proprietor' firm founders that Scase (1996) distinguished from 'entrepreneurs' (Chapter 1).

strategies for this sub- group most often were limited to (or focused on) offering a lower price than a competitor:

We don't try to sell quality computers - we sell everyday requirements, yesterday's technology. We could sell things that are of a 'normal' level, but they accordingly cost more. Ukrainians aren't ready for this as yet... (L10).

In contrast to the above, those trade path followers who engaged in commerce as a *profession* reported having graduated from such bazaar tactics long ago. Indeed, although many of them seemed to sell similar products to those available at the various street markets scattered throughout Ukraine, they catered their firms' marketing activities to an upmarket clientele:

The mentality of the consumer evolves the same way as the mentality of the whole country... a doctor won't come to a cheap store where he can buy the same suit as in an expensive store. There's a word for this: 'mentality'. That's the first thing. And secondly, the service at the bazaar is not like it is here. Thirdly, we have a system of delivery, a system of discounts. So now there's a circle of customers who out of principle don't go to bazaars (D11).

Despite differences in marketing strategies however, all trade-path respondents, regardless of size and approach to business (i.e. professional or as a means of subsistence) seemed to concentrate either on sales of commodity products (e.g. petrol - K2; spirits - D7), or non-branded consumer goods (e.g. clothing - K11; packaged foodstuffs - K4). Competitive strategies based on providing differentiated (branded) products seemed to be confined to individuals who established their firms as a result of western influence (an observation that is not confined to the trade sector - see below). Whether such an upmarket focus can be definitively attributed to exogenous ideological influence, or whether it is the result of greater access to foreign sources of supply and finance is debatable, and cannot be determined based on the very limited number of western-influenced respondents in the current sample. However, this tentative finding suggests that perhaps inadvertently, foreign support for new firm

development in Ukraine²³ has led to aid recipients pursuing business strategies focused on trade in imported goods targetted at a wealthy (primarily western expatriate) niche clientele. Such aid does not seem to have improved the marketing methods (e.g. brand differentiation strategies) used by firms that cater to mass markets.

Within the trade and commerce sector, only embedded path respondents seemed to pursue structured marketing strategies that involved mass advertising and branding campaigns. Four of the six respondents from this subgroup (Dn1, K1, K7, K15), owned large commercial operations with multiple retail outlets. Their companies carried out extensive marketing programs aimed at both product sales and corporate image promotion, and their firms expended significant efforts and expenses to create brand identities - even for low-cost consumer items. Given the previously noted tentative observation regarding the class ascendancy of the embedded-path group, it is debatable whether such activities were motivated exclusively by a quest for increased revenues and profits, or whether they represented mechanisms by which owners of large firms in Ukraine sought to gain social recognition. Regardless of motive however, the fact remains that mass market promotions such as sponsoring moto-cross tournaments (Dn1), television advertising (K7), and billboard advertising (K15), were observed as being strategies uniquely employed by trade sector firms owned by embedded-path founders.

Manufacturing

Within the interview sample, 14 respondents may be identified as owning companies whose primary activity involved manufacturing and/or resource extraction. In contrast to the trade sector described above, all four identified life-course paths was represented among manufacturing firms in approximate proportion to the weight of each path grouping in the overall interview sample. Manufacturing firms, and their sizes as measured by employee number, are summarised in Table 5.3:

²³During the 1990's international donor organisations expended considerable resources on SME support in Ukraine. USAID sponsored the creation of regional consulting centres through the NewBiznet and BizPro programs, providing general small business support. More targeted programs included the Ukrainian Market Reform Education Programme (UMREP), agricultural sector restructuring grants (ACDI-VOCA), and legislative reform in areas that affected the business environment in Ukraine (ARD-Chechi).

Table 5.3: Profile of manufacturing/production companies within the interview sample.

ID	Path to start-up	Primary Activity	No. of employees
D3	Embedded	Greenhouse food production	470
D14	"	Clothing mfg for coal miners	No data
IF2	"	Bakery and meat processing plant	380
K6	"	Oil & gas extraction (also food processing plant)	1,000
L2	"	Women's clothing manufacturer	1,700
D1	Trade	Picture frame mfg (also owns cafe)	60
D2	"	Ice cream production and distribution	200
D5	"	Galvanotechnics and metal fabrication	12
D12	"	Cheese production and distribution	150
D5	Technocratic	Metals plating and fabrication	12
D8	"	Design & mfg hydraulic pumps for coal mines	50
K19	"	Mfg small aeroplanes	15
K23	"	Mfg hang-gliders and fibreglass rigging	26
K25	"	Mfg enzymes for environmental cleanup	4
L9	"	Poultry farm & mfg bio-engineered chicken feed	150
IF1	Western	Mfg office and home furniture	58
K26	"	Mfg childrens' & womens' clothing	120

Production - whether heavy industrial or light manufacturing - clearly requires equipment assets to a greater degree than trade or services. It is therefore interesting to note the varying origins of equipment used in the activities of the above respondents' firms, and more importantly, the relation between capital asset origin and path to start-up. In general, whereas technical innovators and western-influence path followers reported preferring to invest in *new* equipment (if resources permitted), embedded actors and trade-path respondents operating in the manufacturing sector disclosed that their firms used *legacy* assets inherited from the Soviet-era.²⁴

For embedded path respondents, contacts within interpersonal networks were clearly important facilitators of access to legacy capital assets for their manufacturing ventures (D3, D14, IF2). Although only one respondent openly admitted this (L2), anecdotal evidence suggests that access to much of the manufacturing equipment used by embedded path followers engaged in manufacturing was facilitated by connections in the lower levels of Ukraine's state bureaucracy. In other words, such assets were

²⁴Richter & Schaffer (1996:259) found that the 'de novo' firms surveyed as part of their study of manufacturing enterprises in Russia owned capital stock that was significantly younger than the equipment owned by state and privatised companies.

often obtained through less than transparent methods - often at prices below market value. Regardless of the means by which their equipment was acquired however, the figures on employee numbers clearly show that a decade after independence, manufacturing enterprises owned by embedded-path founders were among the most successful in the interview sample. One may therefore conclude that in some cases 'asset-stripping' - commonly seen as a negative side-effect of the early transition (see Chapter 3) - actually led to a revival of unused (or under-utilised) production capacities.

Within the current sample, embedded-path founders who engaged in manufacturing employed growth strategies that involved the mobilisation of capital assets on a grand scale. Several respondents from this group reported owning multiple production facilities (D14, IF2, L2, K6), and/or had invested in plants located considerable distances from their head offices (IF2, K6, L2). Two reported generating a significant proportion of their firms' overall revenues through exports (K6, L2).

In contrast, interviewed trade-path entrepreneurs whose firms engaged in production were much more modest in their scope. In several cases, their investments in manufacturing capacity seem to have been made as 'afterthoughts' that occurred to them while they searched for their firms' niches (D5, D12). As the legacy enterprises that had previously supplied them with products to sell gradually weakened, opportunities to gain ownership over productive assets appeared and were seized. The case of a Donetsk-based distributor of juices and milk products (established in 1993) seems to have been typical of this evolutionary process:

Our company started thinking about having our own ice cream manufacturing capability in 1997. We started manufacturing in an existing state enterprise by placing orders on it. Gradually that enterprise became completely dependent on us, and gradually we bought out the machinery (D2).

Such piecemeal take-over strategies involving the buy-out of legacy capital assets differed significantly from those employed by technical innovation and western-influence path founders within the manufacturing sector. Instead of attempting to gain

control over existing equipment, members of this group seemed to be content to wait until funds became available for the purchase of *new* equipment. For example, respondents K19 and K25, when queried as to their reasons for not seeking to purchase or obtain available Soviet-era equipment for their small plants, dismissed such machinery as being substandard and therefore undesirable.²⁵ At the same time, they complained of having to rely on manual labour (i.e. piece workers) because of the high cost of investing in new equipment.

The firms that technical innovation path respondents founded were rarely well financed at start-up,²⁶ and generally remained small once established.²⁷ Surprisingly however, access to financial resources was not noted as the primary growth constraint by respondents from this group. Instead, they saw their problem as one of access to markets. When asked about their sales strategies, they frequently admitted to lacking even basic business skills - particularly in price setting and marketing methods. Although their companies may have produced highly innovative products, several reported being at a loss as to how to sell them (e.g. K19, K23). They recognised the need to emphasise quality and service when presenting their goods to customers, but described being frustrated by disloyal clients who constantly sought out competitors who offered lower prices (D5, K25). None reported marketing their goods nationally, and few had even considered export possibilities. Most sought to serve a very narrow niche of customers rather than attempting to access a mass market within their region.

Two former academics - those who represented the most successful technical innovation path firm-owners within the manufacturing group - showed signs of being somewhat more aggressive in their company growth strategies than their peers. Recognising that their competitive advantage lay in their know-how rather than in the actual production of their firms' products, they outsourced their manufacturing to

²⁵Respondent D5 (technical innovation path) was an exception, having actually purchased *legacy* equipment for his metal fabrication enterprise, but he spent considerable time during the interview (unprompted) justifying this decision. He argued that in metal plating, technology had not advanced significantly over the past decade, and that his machinery was almost an exact copy of a western model.

²⁶Most technical innovation path founders relied on their own limited resources for start-up capital. The exception was respondent K8, who just prior to being interviewed, had sold controlling ownership in his Internet Service Provider company to a French investor.

²⁷12 of the 15 firms in the interview sample that were established by technical innovators employed fewer than 50 employees

other firms (D8, L9). In this way, they avoided capital ownership costs while nevertheless maintaining control over product quality and innovation:

I am not the factory. I only design. There is a factory that makes my pumps and I sell them... The factory is owned by a bank... They are in no condition to organise a sales structure because we have all the contacts in the coal ministry; every mine knows us, every mechanic. And to sell a pump, you need to know how to set it up, what characteristics to recommend, and all that. They (the factory) doesn't have the skills to do this - no time, no money, no desire to take care of this side of the business. It's great that we found one another (D8).

At first glance, such a symbiotic relationship between small technically innovative design firms and large legacy manufacturing enterprises points to the possible development of a system of "flexible specialisation" (Piore & Sabel, 1984; Lane, 1995) in Ukraine. However, these two cases of outsourcing among technical innovation path founders in the manufacturing sector seem to be the exception rather than the rule. A much more common strategy among members of this group seemed to involve the establishment of small labour intensive production facilities.

Services

A similar reliance on human labour rather than technology was observed among companies in the interview sample that were engaged in Ukraine's growing services sector. It is worth noting however, that the number of employees involved in service sector firms was on average smaller than in the trade and manufacturing sectors. Each of the respondents whose firms engaged in service provision emphasised the high quality of their companies' offerings, and claimed that maintaining quality precluded expansion. For example, when asked why he does not advertise, one veterinary clinic owner explained:

I simply can't bring myself to say "We have the best specialists in the city!" I simply can't do it. I have approximately one animal die every two weeks... and there is nothing I can do about it. I have no right to

say I am the best... And the thing is that I have quite a few good clients, and I'm afraid that if customers came to me, so to speak 'en masse', I would start cutting corners... (K14)

One of the partners in a 20 employee printing firm in Lviv summarised the business philosophy that seemed to be typical of the interviewed small-scale business owners who engaged in the services sector:

When I am asked how our firm is developing, I try to explain it in an allegorical form. I say: Take a tree, let's say a poplar. It grows quickly - shooting upward - but it makes for poor wood. It's unreliable; brittle; it breaks easily. Our firm is developing like an oak. We're growing slowly, but we're improving as we expand (L7).

The limited growth horizons of the interviewed service company founders in the current sample may be a function of the start-up path composition of respondents involved in this sector. As shown in Table 5.4, the services sector seemed to have predominantly attracted founders who followed the technical innovation and western-influenced paths to business start-up. Embedded path followers engaged in services provision were the least successful members of this group in the overall sample, and only one member of the trade-path group was represented among firms in this sector.

Table 5.4: Profile of value-added service companies within the interview sample:

ID	Path to start-up	Primary Activity	No. of employees
D4	Embedded	Printer cartridge recycling and re-mfg	40
D9	"	Management consulting	20
IF3	"	Tourism	8
L4	"	Printing	100
L6	"	Public relations and advertising	50
L1	Trade	Hotel and casino	300
D6	Technocratic	Computer assembly and network installation	350
D10	"	Custom banking software	25
K8	"	Internet service provider	45
K14	"	Veterinary clinic	4
K21	"	Veterinary clinic	35
K22	"	Veterinary clinic	13
K24	"	Business consultant and lobbyist	8
L7	"	Printing	20
L8	"	Printing	30
D13	Western	Second hand computer assembly and recycling	9
K17	"	Custom software compilation	18
L3	"	Garbage collection	77

The provision of services clearly requires a specific skill set - particularly when, as in this sample, the services offered are primarily knowledge-based. It is, therefore, not surprising that service sector respondents were primarily former academics and SOE engineers who possessed high levels of technical skill and formal training, rather than trade-path followers or embedded actors. Thus, whereas trade and commerce seemed to attract individuals who were able to recognise and pursue market opportunities (more or less successfully), and manufacturing seemed to attract people-oriented organisers, the Ukrainian service sector appears to have attracted individuals with highly developed human capital assets.

However, although appealing to individuals with high levels of accumulated human capital, the scope of firms in the services sector was found to be narrow. Printing (L7, L8), garbage collection (L3), and veterinary services (K14, K21, K22) are not well suited to large scale expansion beyond one's own city or region,²⁸ but even

²⁸The two Lviv-based printers in the sample emphasised the need to provide "just-in-time" services to their clients, and claimed that this precluded them from seeking customers beyond a 100 km radius of their city. The three Kyiv-based veterinary clinic owners narrowed the scope of their respective businesses even further: they sought customers in their own city districts only.

respondents engaged in the provision of information technology services such as custom software (K17), and Internet access (K8), reported being focused on local market niches rather than adopting national or international strategies. Global expansion strategies were mentioned by several embedded-path founders whose companies engaged in services (IF3, L4, L6), but none seems to have achieved the level of success reported by his/her peers whose firms were involved in trade or manufacturing.

Competitive Strategies

As noted in previous chapters the roots of private enterprise in Ukraine can be traced to two originators: a) the co-operative movement of the late-Perestroika period, and b) the tradition of small-scale markets that existed throughout the FSU during the state socialist period (i.e. both shadow economy and legal bazaars). In both cases, the strategic focus of such economic activities was *local*.²⁹ With respect to the goods sold through such limited private economic activities, quality was rarely a differentiating factor because goods and services were perpetually in short supply. Once shortages disappeared during the early 1990's, products came to be differentiated in the first instance based on their *price*: in the minds of consumers, imported goods were more expensive and therefore of higher quality. For these reasons, I submit that a strategic posture focused firstly, on a local market, and secondly, one in which firm or product differentiation is primarily based on offering a better price than a competitor may be characterised as *traditional*.

It is notable that according to such criteria, the competitive postures of trade-path entrepreneurs were found to be the most traditional of all of the identified groups of interviewees. Although members of this group may have departed significantly from the traditional Soviet-era life-course when initially embarking on their private enterprise careers (i.e. for them, firm start-up inevitably involved a substantive career shift away from both their formal training and previous work experience), once established in business they adopted more orthodox competitive strategies for their firms.

²⁹Perestroika-era legislation on co-operatives envisioned that private enterprises of this limited form would facilitate the provision of goods and services to their local economies in sectors where the centralised Soviet distribution system was inefficient (Jones & Moskoff, 1991). Similarly, a bazaar

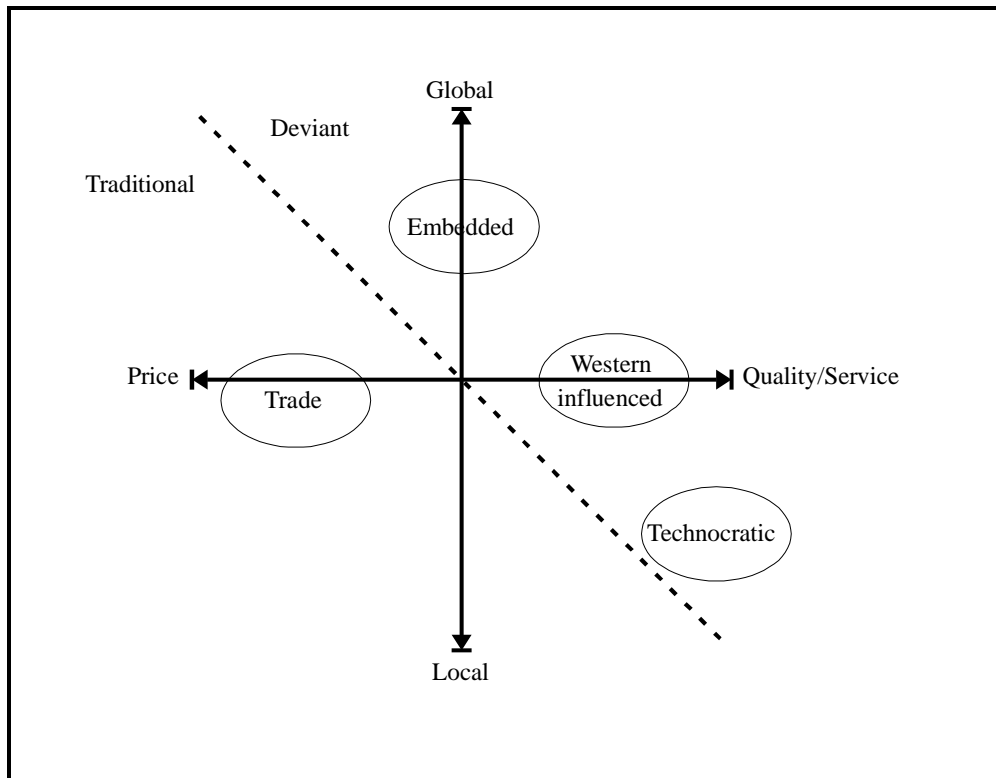
In contrast, the western-influenced and technical innovator groups of firm-founders, who were among the least audacious in their initial venture organisation strategies, seemed to exhibit some deviance from traditional behavioural conventions once established in business. Specifically, respondents from both groups appeared to shun differentiation from competitors based on price, preferring to emphasise the quality of the goods and services that they provided to the market.

The highest level of deviance from traditional strategic conventions was exhibited by respondents who founded firms by mobilising network resources. Their ventures were both diversified and focused on global (or at least inter-regional) expansion, and their marketing strategies emphasised building long-term brand assets by combining both prices and quality levels that differentiated them from competitors.

Figure 5.3 graphically represents this relationship between path to start-up and subsequent competitive posture. The horizontal plane reflects the methods used by interviewees to differentiate their firms from competitors - i.e. whether they emphasised quality with respect to the goods or services their firms sold, or whether they focused primarily on offering lower prices. The Y axis displays the scope of the interviewees' ventures - i.e. 'local', whereby goods and services were distributed to customers only within the firms' immediate geographical region, versus 'global', which refers both to the scope of the companies' actual sales, as well as the breadth of their marketing activities. The placement of the four identified groups of respondents along these two axes is shown below.

economy by its very nature is a localised phenomenon with respect to customer sales - although not necessarily so with respect to the origin of the goods sold (Geertz, 1992).

Figure 5.3: Variations in competitive strategies



Previously I noted that life-course paths seemed to condition the ways in which Ukraine's 'de novo' firm founders organised their ventures at start-up. The above sectoral analysis suggests that behavioural differences between members of the identified paths persisted beyond the start-up period, and that path to start-up continued to play a role as a determinant of entrepreneurial behaviour (although in differing ways) after interviewees had achieved levels of relative success in their businesses.

Path Dependency

Based on this chapter's analysis, the following generalised characterisations of the typical strategic postures of each group of interviewed entrepreneurs may be proposed:

- (i) Embedded path firm-founders distinguished themselves primarily as leaders and risk-taking organisers whose firms engaged in market niches that were personally unfamiliar to their owners. The management structures of their companies were most often diversified, and their marketing strategies were broad-based, long-term and aggressive. Members of this group

(particularly those engaged in manufacturing and trade) were the most successful business-owners within the interview sample.

(ii) Trade path respondents generally remained engaged in trade and commerce in the years after start-up. Although they often behaved highly unconventionally when initially venturing into private enterprise, they adopted more conservative strategies once established in business. As opportunists they tended to change product specialities often, but their competitive methods seemed to be limited to reliance on the price lever, and their growth strategies appeared focused on reacting to the vagaries of a changing market rather than attempting to shape their firms' environments.

(iii) Technical innovation path interviewees were the most traditional of all of the identified groups with respect to their venture organisation strategies at start-up, but after a period of adjustment to their new status as firm-owners, respondents from this group seemed to adopt highly unconventional strategies of business growth - including emphasising the quality of domestically produced goods and services rather than merely their low price. Respondents from this group tended to own relatively small companies, and recognised that the growth of these ventures was stifled by their own lack of expertise in sales and marketing. Their firms concentrated in the knowledge-based services and manufacturing sectors where they produced highly innovative and technologically advanced products.

(iv) Western-influenced path followers seemed to approximate technical innovators in practically all areas of strategic analysis, except with respect to the scope of their firms. Exogenous influence (whether through a demonstration effect or through direct financial investment) clearly extended the horizons of respondents within this group. However, in contrast to technical innovators, western-influenced entrepreneurs seemed to adopt reactive strategic postures with respect to their firms' growth prospects,

relying on available resources rather than seeking to mobilise new sources of human capital and finance.³⁰

Such broad classifications of the typical characteristics of ‘de novo’ firm-owner respondents are significant to the present study of informal institutional change in Ukraine because they suggest variations in the mechanisms by which entrepreneurial agency operates; the means by which it may transform informal institutions at a micro-level. In terms of the overall argument presented in this dissertation, I contend (in congruence with institutionalist theory) that there exists a reflexive relationship between the structure of available opportunities in society, and the prevalent ideas (culture) that condition its members’ action choices. However, in contrast to the traditional path dependency paradigm, I suggest that although structural opportunities may have been unevenly distributed in Ukraine during the early 1990’s, and the prevalent ideology may indeed have been nominally hostile to private enterprise, certain individuals chose to deviate from instituted behavioural conventions. Through their actions they defied what is considered ‘right’ within their social group (Silverman, 1985), and although such deviance was not uniform, when aggregated, its different variants led to changes in both institutional arrangements and the opportunity structure of Ukrainian society.

I agree that with respect to Ukraine’s institutional transformation, the way in which what counted as legitimate behaviour in the former Soviet republic *evolved* during the past decade. Furthermore I contend that such evolution was path dependant on a micro-level. Opportunism, organisational risk-bearing, innovation, and unorthodox judgement were each important strategic behavioural distinctions that facilitated the success of post-Soviet ‘de novo’ firm-founders during the course of Ukraine’s decade of transition. Each of these strategies involved individuals defying institutionalised behavioural conventions in order to manipulate resources of all types (e.g. financial, human, network, fixed capital) for personal gain through private firm ownership. On a macro-level such variation in behaviour led to changes in what ‘conventional’

³⁰In this respect, western-influence path respondents seemed to approximate large firm managers in the West, rather than entrepreneurs. As Aldrich & Zimmer point out (1986:3): “managers are driven by a concern to invest the resources they manage, treating resources as ends in themselves” whereas entrepreneurs treat resources as means to an end.

(legitimate) action was deemed to be in Ukrainian society - particularly when each of the different types of exemplar behaviour were successful in their respective aims.³¹

Informal institutions - the most basic of which are behavioural conventions³² - encapsulate the past experiences of a society and its members, thereby structuring actor expectations of the future (Douglas, 1987:48). Sequenced events in the past ('paths') affect both the cognitive strategies of individual social actors and their individual self-perceptions, thereby conditioning their subsequent choices of action. Traditional interpretations of 'path dependency' in the FSU have suggested that on a macro-level, state socialism left behind a cultural legacy that was antithetical to entrepreneurship, and furthermore that the structure of available opportunities at the time of the USSR's collapse (i.e. concentrated control over productive assets within the nomenklatura) precluded the development of growth-oriented private enterprise as a mass phenomenon during the early post-Soviet period. The material in this chapter suggests that Soviet institutional legacies may have had a more positive effect on the development of private enterprise after the collapse of state socialism.

Ukraine's post-Soviet entrepreneurs (each in his/her own way) seem to have affected a transformation in behavioural conventions with respect to economic behaviour. More will be said in later chapters regarding the mechanisms by which I contend that entrepreneurs have transformed both the prevalent discourse, and criteria of social mobility (including concomitant norms of status and prestige) in Ukrainian society. For the moment suffice it to say paradigmatically, that behavioural deviance (entrepreneurship) in a post-Soviet context inevitably involved appropriating certain ideas, values, perceptions, and behaviour that were rooted in past experience, and

³¹The relative success of each type of entrepreneurial behaviour may be debated if comparing one against another. There is little doubt however, that individuals who embarked on private enterprise careers in Ukraine during the past decade were universally more successful (in terms of personal income) than those who did not.

³²Conventions of 'proper' behaviour are the most basic of informal institutions: they reflect the prevalent vision within society of the natural order of things. In the words of Mary Douglas, before "any busload or haphazard crowd of people deserves the name of society, there has to be some thinking and feeling alike among members" (Douglas, 1987:9); they must agree both to some common purpose and to some rules by which they will interact. This observation is useful in that it points out the fallacy of neo-institutional economic accounts of organisational development in which action choices are said to universally be governed by utilitarian rational choice (Hodgson, 1988, 1994). Clearly, an actor's concept of utility and the methods used in its 'rational' pursuit must be considered subjective if one takes seriously the proposition that informal institutions are supported by cognitive conventions: "In the cognitive paradigm, what a creature does is, in large part, a function of the creature's internal representation of its environment" (D'Andrade, 1984).

modifying them in accordance with the new requirements of utility in a market system (Spinoza et. al., 1997). Over time, if successful, such deviance became an exemplar for others (Axelrod, 1986), thereby generating and reproducing new institutional arrangements. This type of *institutional elaboration*, I argue, defines the essence of what ‘de novo’ entrepreneurs have contributed to in Ukrainian society since the collapse of state socialism.

Chapter 6

Confronting Formal Institutions

In the previous chapter, I described the strategies and behaviour of Ukrainian ‘de novo’ entrepreneurs at the organisational (firm) level. Within the studied sample, I argued that there was evidence of differential structural opportunities shaping adopted strategies, and I postulated that such variations in behaviour led to asymmetric evolutionary effects on informal institutional arrangements in Ukraine’s market sphere. Notable by its absence in this analysis, however, was any mention of the effects of Ukraine’s business environment on respondents’ behaviour. Individual- and firm-level strategic choices are clearly not made in a vacuum: the formal institutional framework, including both legislation and executive orders as well as macro-economic conditions, affect the behaviour of firm-owners.

In this chapter, the formal institutional constraints on economic activities in Ukraine is evaluated first. Next, I scrutinise the literature’s (I contend incorrect) description of the typical behavioural responses of private enterprise owners to this business climate. In the third section, I contrast the literature’s portrayal of business ethics in the Ukrainian context with the reports of my interview respondents. The chapter closes with an investigation of the interviewed entrepreneurs’ beliefs regarding their ability to influence their own life-chances through individual effort and skill given the political and economic environment in which their firms operate.

Formal Institutional Context

As noted in Chapter 2, Ukraine’s formal institutions matured somewhat over the course of the 1990’s. Many of the opportunities for ‘wild capitalist’ private enterprise inherent in the chaotic environment that characterised the early post-Soviet period disappeared, hyper-inflation was brought under control, and legislation protecting private property rights was strengthened.³³

³³The protection of property rights has been emphasised repeatedly in the literature as a prerequisite of business growth in the FSU (EBRD, 1999, 2000; Fuxman, 1997; Hellman et. al., 2000a/b/c; Johnson et. al, 1999 a/b; Kaufmann, 1997; World Bank, 2002). In Ukraine, the principles of an independent judiciary were enshrined in the 1996 Constitution, and then enhanced by the passage of the Civil Code in 2000. The legislative basis for contract arbitration was put into place during the late 1990’s, and courts of arbitration have increasingly been referred to by firm-owners for the resolution of disputes (Yacoub, Senchuk, Tkachenko, 2001).

However, despite such legislative improvements, Ukraine's regulatory environment at the turn of the millennium could not yet be considered 'friendly' to business (World Bank, 2001). The problem did not seem to be rooted in poor legislation or executive orders, but rather in the inconsistency of their implementation. For example: according to Cabinet of Ministers Resolution No. 406 (dated 3 April, 1996) new start-up companies in Ukraine were to be registered in conformance with a nationally-uniform procedure;³⁴ resolution No. 740 (25 May 1998) ordered that the duration of this registration procedure was not to exceed five working days. A survey of 700 enterprises in 10 cities in 1999, however, showed that only 60.4% of respondents reported receiving their company registration certificate within the mandated time period (ARD-Chechi, 2000:11). Significant regional variation was in evidence with respondents reporting average registration times in Lviv of 3.1 days, 11.5 days in Donetsk and 21.7 days in Kyiv. According to another survey conducted that same year, the Donetsk figure of approximately 11 days represented the national average (Yacoub & Senchuk, 2000:15). In terms of person-hours spent on the registration process, both of these studies calculated averages of approximately 8 days.

Registration was only one of several bureaucratic procedures that start-up firms endured as part of their relations with the state. According to Ukrainian law, every firm must be audited by the tax authorities annually, and extraordinary audits may be initiated at any time - not only if the investigated company itself comes under suspicion of tax evasion, but also in cases where a firm's customer or supplier is suspected by the tax authorities of some form of offence (Vasylenko, et. al., 2000). In addition to the tax inspectorate, over 30 state agencies have the right to inspect an enterprise for compliance with some form of regulation (e.g. environmental standards, customs tariffs, worker health and safety, fire prevention, consumer protection).³⁵ Although Presidential Decree No. 817 (23 July 1998) attempted to limit the extent of the bureaucratic intrusions of such agencies into the economy, survey evidence showed that the number of inspections remained high in 1999. That year the average Ukrainian business was inspected 10 times (Yacoub & Senchuk, 2000:25), and as discussed below, the numbers actually *increased* in subsequent years.

³⁴This resolution instituted a nationally uniform fee for registration: 200 UAH (approx. \$50 US).

It would seem that inspections by the tax authorities are the most feared by Ukrainian firm owners. In virtually all survey studies conducted since independence (Intelektual'na Perspektyva, 2000; Yacoub & Senchuk, 2000; Yacoub, Senchuk, Tkachenko, 2001), enterprise owner-managers have consistently reported intrusions by employees of the country's tax administration as being a severe and continuing impediment to the growth of their businesses. Some year on year improvements have been noted, but these have been minor. For example, in IFC's survey studies:

...the share of firms describing the taxation system as a major or serious barrier to their business decreased from 83% to 70% between 2000 and 2001, (but) taxation was still rated the most serious obstacle to business development in 2001, just as it was in 2000 (Nemickas, Senchuk, Babanin, 2002:19).³⁶

In 1999 President Kuchma signed Decree No. 746 which substantially changed (i.e. simplified and de-bureaucratized) the tax system for small start-up enterprises (Bereslavsky & Sehedra, 2002). Henceforth, firms with fewer than 50 employees and with revenues not exceeding 1 million UAH per annum (approximately \$200 000 US) could choose to be subject to a "unified tax" that amounted to 10% of revenues including VAT, or 7% plus VAT.³⁷ Most importantly, SME's could pay this "unified tax" using a simplified monthly reporting procedure, thereby significantly reducing the time required for filing, auditing, and inspections (Yacoub & Senchuk, 2000:68).

Under this simplified system, small companies in Ukraine were to enjoy one of the most 'business-friendly' tax regimes anywhere in Europe, but adoption of the simplified tax regime by the country's SME's was slow. Two years after the

³⁵This problem of over-regulation and frequency of inspections is not unique to Ukraine. Russian regulatory agencies enjoy similar powers to their Ukrainian counterparts (Szabo, 2002).

³⁶Another example is provided by the Gray & Whiston study (1999:65) cited in Chapter 5, which reported that almost 50% of respondents named excessive taxation as the single "most important problem" facing their businesses. By comparison, "lack of working capital" scored second, but with only 13% of respondents identifying this factor as their primary growth constraint.

³⁷The latter provision was designed to encourage manufacturers to export: VAT was not to be remitted on exported goods, and VAT paid on inputs was to be credited back to the exporter - as is the case in most Western states. However in Ukraine, the state often neglects to refund VAT credits, and according to Ukrainian law, such unpaid credits cannot be used to offset other tax liabilities (Nemickas, Senchuk, Babanin, 2002:27).

proclamation of Kuchma's decree, survey evidence showed that only 61% of firms that were eligible to be taxed under the simplified system had chosen to switch to it (Nemickas, Senchuk, Babanin, 2002:29).

As growth-oriented entrepreneurs noted, one of the problems with the new regime was that it instituted a barrier to company growth: enterprises with more than 50 employees were not eligible to report their earnings under the simplified tax regime, and were instead taxed under a graduated profit-based system. Although the top rate of this graduated corporate income tax had been gradually decreased during the latter half of the 1990's from its previously astronomical levels,³⁸ complex bureaucratic reporting procedures remained in force for mid-sized and large companies. In 2001, Ukrainian companies that were too large to be eligible for the simplified tax regime were subject to 19 national-level taxes,³⁹ and countless local-level fees, levies, and duties. Each required a specific reporting procedure, and a suspected error in any single filing often triggered an inspection or audit of all of a company's accounts (Nemickas, Senchuk, Babanin 2002:92).

High tax rates themselves do not seem to be the primary incentive for such 'shadowization'. Surveys of firms with more than 50 employees (i.e. those not eligible for the simplified tax regime) show the marginal rate of tax as being less of a barrier to firm growth than the complexity of the reporting procedures required by the tax system (Nemickas, Senchuk, Babanin, 2002:21). Bureaucratisation of the tax regime for larger companies provides significant incentives for firm-owners to hide employment levels in order to qualify for the simplified tax regime - establishing, for example, multiple companies, each employing fewer than 50 employees. Longitudinal survey data⁴⁰ manifestly demonstrates this type of 'shadowization' occurring. Table 6.1 shows that between 1999 and 2001, employment levels among firms with 1-50

³⁸The 1993 Law on Taxation instituted a top tax rate on enterprise profits of 90%, while payroll taxes and targeted collections (e.g. the Chernobyl and Pension Funds) raised effective tax rates to over 120% of profits (Teriokhin, 2000).

³⁹This number represents a reduction in 2000 compared to the number of taxes required previously. In 1999 Ukrainian firms were required to pay (and file accounting reports for) 23 national level taxes and up to 16 local and regional level collections (Yacoub & Senchuk, 2000:68).

⁴⁰The KIIS (2001) study used a sampling methodology similar to the Gray & Whiston (1999) study in order to generate longitudinal data.

employees (i.e. those eligible to report income under the simplified tax regime) increased while employment in both micro-enterprises and larger firms declined.

Table 6.1: Changes in Firm Numbers and their Employee Catchment between 1999 and 2001.

Employee Size Class	Projected Number of Firms 1999	Projected Number of Firms 2001	Net Difference in Number of Firms	Projected Employment 1999	Projected Employment 2001	Net Difference Employment
0	2,651,433	1,505,002	-1 146 431	2,651,435	1,505,002	-1,146,431
1-5	148,976	238,309	89,333	516,947	814,810	297,863
6-10	104,608	138,092	33,484	850,460	1,126,355	275,895
11-50	123,757	143,470	19,713	3,189,226	3,820,021	630,795
51-250	33,169	28,178	-4,991	4,206,444	3,575,578	-630,866
250 or more	10,851	9,436	-1,415	9,822,542	9,200,100	-622,442
Total:	3,073,244	2,064,488	-1,020,307	21,239,053	20,043,867	-1,195,188

(Source: KIIS, 2001:22)

The data in the above table shows that during the 1999-2001 period, firms with 1-50 employees were the only ones in the survey sample to have increased their employment levels. Given the previously noted discrepancies between the reporting procedures required of larger firms and those required of their smaller counterparts, one may infer that an important factor contributing to such small firm employment growth in Ukraine (and concomitant decline in the mid-sized and large firm sectors) was the simplicity of reporting procedures instituted by the unified tax regime on small employers.⁴¹

⁴¹Conversely, one might argue that employment in small firms (employee size classes 1-50 in Table 6.1) grew primarily on account of a reduction in the number of micro-enterprises during the 1999-2001 period. Accordingly, one might speculate that with Ukraine's overall economic climate improving (this period coincided with the country's first recorded rise in official GDP), individuals who had previously been forced into independent market trade (i.e. had formed unregistered micro-enterprises), abandoned these ventures and sought employment in the SME sector. On the other hand, in addition to a contraction of the micro-enterprise category during the 1999-2001 period, the data also shows employment levels in firms with 50+ workers declining - by approximately the same amount as the reduction in the 0-employee category, making it difficult to draw unequivocal conclusions from the data.

A further reason Ukraine's small firm sector thrived during the 1999-2001 period seems to have been linked to the stability of the "unified tax" regime, and the converse instability of the system of reporting and accounts filing applicable to larger companies. During the 12-month period of 1999, regulations affecting the taxation of firms not eligible for the simplified tax regime were changed 110 times. Amendments at the national-level included 31 new or amended laws, 28 Cabinet of Ministers Decrees, 28 State Tax Administration orders, and 15 State Customs Committee orders (Yacoub, Senchuk, Tkachenko, 2001:47). Countless additional modifications to the tax regime were implemented by regional authorities.⁴²

As several observers have argued (ICS, 2001; Harasymiw, 2002; Hellman & Schankerman, 2000; Varnaliy, 1997), the frequency of changes to accounting rules and tax laws is directly linked to corruption. Because state employees tend to be severely underpaid in Ukraine (official salaries were 300-400 UAH (\$60-80 US) per month in 2000), any non-compliance with formal regulations revealed in the course of an inspection of a firm by a regulatory agency is liable to be resolved through bribery.⁴³ If the rules of financial accounting and tax reporting change frequently, the possibility that a corrupt inspector will reveal non-compliance with a particular regulation increase accordingly.

On the other hand, one should not place the blame for corruption exclusively on the state and its agents. The proliferation of corrupt practises requires (at least) two parties: an agent of the state and either a firm-owner or his/her employee. As described in the following section, in the Ukrainian case, the degree to which a particular firm's manager tends toward corrupt behaviour in his/her relations with state officials seems to be linked to whether the firm was established as a 'de novo' private venture, or formerly operated as an SOE and was then privatised.

Corruption and Firm Origin

⁴²Efforts to curtail the frequency of tax regime amendments through the adoption of a permanent Tax Code have stalled in Ukraine: by mid-2003 Parliament still had not passed this comprehensive legislation in final reading despite drafts having circulated at the committee level for over two years.

⁴³This problem was admitted by the deputy head of Ukraine's Tax Inspectorate at the presentation of the findings of the most recent IFC study (Nemickas, Senchuk, Babanin, 2002) in Kyiv in October 2002.

IMF-sponsored cross-country comparative survey researchers have emphatically concluded that *unlike their SOE and newly privatised counterparts*, Ukrainian ‘de novo’ firms universally and regularly pay bribes to state inspectors and bureaucrats (Johnson, McMillan, Woodruff, 1999a/b). Accordingly, the authors of such studies, argue that ‘de novo’ firms in Ukraine exhibit a prevalence toward “state capture” (Hellman, et. al., 2000a/b),⁴⁴ meaning that they are more inclined to “purchase” legislation, court decisions, and bureaucratic decisions than their privatised and state-owned counterparts. Proponents of the “state capture” paradigm justify such a claim by explaining that when dealing with government officials, SOE managers and their counterparts in privatised companies are able to rely on legacy Soviet-era networks of influential contacts within the state administrative apparatus to which the owner-managers of ‘de novo’ firms do not have access. Accordingly, the authors claim, the sole recourse for ‘de novo’ entrepreneurs when resolving disputes with government bureaucrats is bribery.

By implication the above noted studies paint a picture of widespread corruption and lack of morality in Ukraine’s ‘de novo’ market sphere.⁴⁵ They suggest that ‘de novo’ firm owners universally employ behavioural schemes reminiscent of the “homo sovieticus” mentality, including reliance on contacts (“blat”- Ledeneva, 1998) in their relations with government officials, and strategies characterised as “parasitic innovativeness” (Sztompka, 1995) in cases where no such contacts exist. In this respect, the “state capture” paradigm seems to strengthen the theoretical argument (derived from modernisation theory) whereby the development of former state socialist economies is seen as obstructed by the normative legacies of their past histories - universally viewed as liabilities to be overcome in the process of top-down institutional change.

⁴⁴“State capture” is not a phenomenon that the authors claim to be unique to Ukraine. Instead they argue that it differentiates firms in the FSU from their counterparts in CEE countries.

⁴⁵Collecting accurate data regarding actual levels of corruption is difficult in Ukraine due to the sensitive nature of the subject. Several survey studies have attempted this task by employing an indirect question format that involves asking firm owners to estimate the amounts paid “informally” by “firms similar to theirs” when resolving conflicts with state inspectors (Gray & Whiston, 1999; Johnson, et. al., 1999 a/b; Yacoub & Senchuk, 2000; Yacoub, Senchuk, Tkachenko 2001; Nemickas, Senchuk, Babanin, 2002). Clearly there are serious methodological problems if one seeks to draw objective conclusions regarding the prevalence of corruption based on data collected through such methods: responses measure *perceptions* of corruption rather than actual experiences of it.

If one accepts the conclusions of the cited “state capture” studies, it follows that those Ukrainian ‘de novo’ enterprises that achieved some level of success, must have done so primarily through corrupt practices - a conclusion that implies a significant indictment of the ethical worldviews of such successful company owner-mangers. However, the cited “state capture” studies were conducted as cross-country comparative surveys, and their results seem to be contradicted by data collected specifically in Ukraine. Thus, whereas Johnson, McMillan, Woodruff (1999a), in propounding the “state capture” paradigm emphatically stated that according to their multiple country survey, “Ukrainian managers of start-ups spend more time dealing with government than to do managers of spin-offs”, as shown in Table 6.2, data collected in 2000 through an in-country survey shows Ukrainian ‘de novo’ firms as having been inspected *less* frequently than state-owned and privatised companies.

Table 6.2: Average number of inspections by state agencies during 2000 - cross-tabulated by firm size and origin:

Firm Size (employees)	State Owned	Privatised	‘De Novo’	Average Number of inspections	Total Days required for Inspections
Up to 50	11.1	14.7	10.1	11.5	19.3
51-250	16.7	17.1	16	16.8	34.1
251 or more	21.7	20.6	11.6	20.4	43.8
Average Number of Inspections (yearly)	16.9	17.1	10.9	14.4 (all firms)	
Total Days required for Inspections	32.6	32.9	19.3		26.6 (avg. all firms)

Source: Yacoub, Senchuk, Tkachenko (2001:68) - survey of 2158 firms

Contrary to the findings of the “state capture” studies, according to the survey data shown above, the less a firm was tied to the state (actually or historically), the less likely it was to be inspected, and the less time its managers were forced to spend on dealing with regulatory issues.⁴⁶ Furthermore, although a follow-up survey conducted in 2001 (the year after the data shown above were collected), showed the differences

⁴⁶Compared to data from the previous year, this survey showed the average number of times a enterprise was inspected actually *increased* from 10 in 1999 to 14.4 in 2000.

in inspection rates between firms of various origins (i.e. state-owned, privatised, ‘de novo’) as having almost disappeared (Nemickas, Senchuk, Babanin, 2002:33), differences between the time spent dealing with regulatory authorities remained. In 2001 managers of ‘de novo’ companies spent 14.3% of their time dealing with regulatory issues, whereas the figures for SOE and privatised firm managers were 18.4% and 15.4% respectively (Nemickas, Senchuk, Babanin, 2002:115).

It is noteworthy that, although the findings of the cross-country “state capture” studies contradict those of the in-country survey data in Table 6.2, in both cases, the research primarily focused on describing dominant practices within the *privatised* firm sector. ‘De novo’ companies played the role of a peripheral independent variable that current and former SOE’s were compared against. If the emphasis of research is changed to focus specifically on ‘de novo’ companies, one is confronted with a paradoxical series of questions that the current literature does not answer. Is it possible that growth in Ukraine’s ‘de novo’ sector has been achieved simply through bribery? Do ‘de novo’ entrepreneurs really exhibit a predilection for corruption? Do they use the institutions of the state as a means of gaining competitive advantage as the ‘state capture’ paradigm suggests, or does the ‘bifurcated economy’ thesis outlined in previous chapters explain their behaviour more accurately? If the former is the case, one might expect respondents to hold relativist beliefs with respect to business ethics (particularly in answering questions regarding their relations with state officials). On the other hand, if some degree of moral absolutism were in evidence one would likely expect ‘de novo’ founders to express an aversion to corrupt practises, and (in contrast to managers of privatised firms and SOE’s) a preference for avoiding any and all dealings with the Ukrainian state.⁴⁷

Business Ethics

As part of the current study, I sought to investigate the beliefs of my interviewees regarding ethical behaviour. Thus, in addition to being asked to describe their

⁴⁷Regardless of the methodological problems involved in producing an objective quantitative measure of its extent (i.e. one that can be legitimately used for purposes of cross-country comparison), there is little doubt that corruption is a momentous problem in Ukraine - particularly within the state bureaucracy.

personal histories and strategies in business as part of the open-ended portion of the interview (described in previous chapters), respondents completed a written questionnaire composed of a series of structured 4-point Likert scale questions. Three of the scale items were taken from a previous study of the effects of radical social change on the development of values and beliefs in Poland and Ukraine (Kohn et. al., 1997), and purported to measure a factor referred to as “personally responsible standards of morality.” Respondents were asked to tick whether they “completely agreed” (coded as 1), “agreed somewhat” (coded as 2), “disagreed somewhat” (coded as 3), or “completely disagreed” (coded as 4) with each listed statement. The raw data results, means, and standard deviations from the first of these scale items is shown in Table 6.3 below:

Table 6.3: Interviewee responses and data aggregates for the scale item: “If something works it doesn’t matter if it’s right or wrong”.

	Frequency	Percent		
fully agree	3	5.7		
agree somewhat	13	24.5		
disagree somewhat	16	30.2		
disagree completely	21	39.6	Mean	SD
Total	53	100.0	3.04	0.94

Overall, the mean of responses to this scale item was 3.04 indicating that most interviewees (70%) disagreed with its formulation. One may therefore infer that, on average, respondents claimed to follow internalised standards of morality. However, the standard deviation indicated some divergence of opinion. Analysis of variance based on path to firm start up yielded the following result:

Table 6.4: Results of Analysis of Variance of the item “If something works it doesn't matter if it's right or wrong” tested against respondent path to start-up:

ANOVA: If something works it doesn't matter if it's right or wrong

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	8.941	3	2.980	3.949	.013
Within Groups	36.983	49	.755		
Total	45.925	52			

	Mean	SD	N
embedded	2.88	0.957	16
academic/technocratic	3.50	0.730	16
trade	2.53	0.990	15
western exemplar	3.50	0.548	6
Average / Total	3.04	0.940	53

Although the sample is clearly too small to draw definitive conclusions, the above ANOVA test results suggest that in addition to having an effect on behaviour, path to start-up also affected the degree to which the interviewed Ukrainian 'de novo' firm owners internalised the standards by which they judged right from wrong. The responses of trade-path and embedded actors suggested an ethical belief system that leaned towards ends justifying means, while among technical innovators and western-influence path respondents an internalised standard of morality was more evident.

Path dependency with respect to moral beliefs was further illustrated by the results of the analysis of responses to the second item in the Personally Responsible Morality Scale: *"It's all right to get around the law as long as you don't actually break it."* As shown in Table 6.5, in this case, the overall mean registered at 1.64 (SD=0.682) indicating strong agreement across the sample.

Table 6.5: Interviewee responses and data aggregates for the scale item: *"It's all right to get around the law, as long as you don't actually break it"*.

	Frequency	Percent		
fully agree	24	45.3		
agree somewhat	25	47.2		
disagree somewhat	3	5.7		
disagree completely	1	1.9	Mean	SD
Total	53	100.0	1.64	0.682

Strong agreement with this statement in the overall sample indicates a general “letter-of-the-law” orientation among respondents rather than one which emphasises behaviour that conforms to the law’s “spirit”. Accordingly, the data suggest that respondents viewed the law is an obstacle, rather than as a rule framework that guides behavioural propriety.⁴⁸ As shown in Table 6.6, variance was explained much less significantly by path to start-up than was the case with the statement directly referencing ‘ends justifying means’ (Table 6.4 above), but the results are nevertheless interesting.

Table 6.6: Results of Analysis of Variance of the item “It's all right to get around the law, as long as you don't actually break it” tested against respondent path to start-up:

⁴⁸Respondent L4 (embedded path) suggested that legal nihilism was characteristic of Ukrainians, but caused by the behaviour of the state. He compared people’s behaviour at the Polish-Ukrainian border crossing: on the Ukrainian side he claimed, people regularly smuggle, but these same people don’t even think of bringing something illegally into Poland. My own experience on the Kyiv-Berlin train contradicts this view.

ANOVA: It's all right to get around the law, as long as you don't actually break it

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.268	3	1.089	2.551	.066
Within Groups	20.921	49	.427		
Total	24.189	52			

	Mean	SD	N
embedded	1.38	0.619	16
academic/technocratic	1.56	0.629	16
trade	1.80	0.561	15
western influenced	2.17	0.983	6
Average/Total	1.64	0.682	53

Table 6.6 shows that variance between groups was explained weakly by path to start-up, but embedded actors were slightly more likely than others to view the law as an obstacle. Western exemplar followers seemed to be most inclined to view the law as reflecting a “spirit” or intent, rather than a formalised constraint. The opinions of technical innovators and traders landed between these two extremes.

The positioning of the responses of the interviewed technical innovators is somewhat counterintuitive. One would have expected a greater degree of legal relativism from market traders than from former academics and SOE technical specialists, but as illustrated by the following quotation, technocrats approached formal legal constraints philosophically:

What is the law? It is a pole that one can climb barehanded, or one can by-pass it a little bit. In this country we have learned to by-pass these poles a little. At the top of this pole sits some powerful person - you can try to scale your way up to him along the pole, or you can pass by and give a little wave (K19).

Although technocrats may have viewed the external constraints of the law as not absolute, this observation does not necessarily imply that they held completely relativistic views of morality. On the contrary: several respondents from the technical innovation path group emphasised that private enterprise was a *form of organisation* rather than the essence of what they did. In other words, just because one owns a private firm that provides a particular knowledge-based professional service to customers for profit does not mean that the moral principles prescribed by that profession should be discounted. This was particularly emphasised by the three interviewees in the sample who owned private veterinary clinics (K14, K21, K22). As one such respondent explained, his sense of morality sometimes got in the way of profits, but in such cases professional ethics had to take precedence:

I don't really approve of house calls by veterinarians. And I have lost quite a few clients because of this... But what happens if you get there and find that you haven't brought the instruments you need? Do you say, "Excuse me, I'll come back tomorrow"? In the mean time the animal suffers... (K14).

Defining a professional ethic is clearly much simpler if one owns a company that provides services to the public than in the case of manufacturing or trade and commerce. However respondents engaged in the latter sectors also stressed the ethical dimension of their activities:

I for one see an ethical aspect to what I do. I would not be able to make shoes that had the soles fall off, even if I could sell more of them... I wouldn't want to make windows that fell apart after a time... I want to make things that are of quality. I wouldn't know what to do with myself if someone brought me say, some scrap metal with wires, and then I was told that the child (that collected the wire) had been hospitalised... (L4).⁴⁹

⁴⁹Several incidents of children being electrocuted while collecting electrical wire for sale as scrap had recently been widely publicised in the Ukrainian media.

Reflecting their identities as employers, several respondents emphasised that paying wages on time (D7, K4, L1, L4), and in money rather than in kind (D3), was a moral imperative for them. Ensuring that their businesses maintained a “human face” meant that workers should not be “exploited” for the sake of profit (K24). With respect to exploitation, several contrasted their own relations with their employees to those of western investors who came to Ukraine to take advantage of cheap labour rates (D4, K18, L4):

These are the sharks of capitalism who are not interested in the human factor at all. Our understanding of capitalism is that people care for others, but this (the behaviour of westerners) is a typical example of what they (Soviet propaganda) used to frighten us with in our childhood... (L8).

As discussed further in Chapter 7, there are a variety of reasons why respondents may have emphasised their feelings of responsibility towards their employees during the interviews. However, regardless of whether such emotionally charged words were a genuine reflection of internalised socially responsible values or whether they had ulterior motives, it is notable that when describing their relations with employees, the discourse of interviewees universally involved concepts of equity and justice. The phraseology often seemed to echo state socialist propaganda, and therefore one may question whether it reflected a novel, post-Soviet development of moral values, or a symptom of cultural latency.

I am inclined to find the former explanation more plausible. Those who argue that state socialism left a long-term negative cultural legacy on the societies of the FSU (i.e. proponents of the “post-communist syndrome”) describe the ‘homo sovieticus’ as a moral relativist (Sztompka, 1995; Szyrmer, 2000). The data regarding obedience of formalised legal norms noted above, supports this view, but as several interviewees emphasised, although they may not have viewed obeying the law as a specifically ‘moral’ imperative, keeping one’s promises was universally seen as an absolute:⁵⁰

⁵⁰This may be seen to be a *positive* legacy of state socialist society’s ‘blat’ ethic (Ledeneva, 1998).

If I've taken a loan, I'll always repay it to the last kopeck - even if my co-workers don't get paid (on time). If the loan is at interest, then the interest payments become our prime concern (K26).

Eighteen respondents from the overall sample mentioned attempting to gain access to credit financing at some time during the history of their firms, and of these only three reported having been turned down.⁵¹ Two very small firm owners (less than 10 employees), reported having been provided loans by individuals rather than banks, and in both cases they described such financing as being extended by individuals with less than spotless business reputations.⁵² Regardless of the source of credit however, respondents universally stressed the importance of repaying loans on time. This was a matter of reputation and personal pride, as the following interview excerpts illustrates:

In 1993 we had a relatively large amount of money at the end of the year, and we tried a venture with some businessmen in Central Asia: Uzbekistan, Turkmenistan... We gained some experience: minus one million dollars for our efforts in Uzbekistan. Given that all this money - most of it - was not ours, we had to repay our loans, so we sold everything we had; put up everything we could as collateral... I borrowed money from all my friends... I went to their homes and used to say "lend me some for a time." They'd say "here's a thousand - it's all I have..." By June I guess (of 1994), we had repaid everything that we owed to people, all our loans... To this day people ask me, "you don't need to borrow some money do you?" (K6).

Given the importance of personal reputation universally voiced by respondents during the unstructured portion of the interviews, it is somewhat surprising that quantitative data from the third morality scale item produced such equivocal results. When asked to register their level of agreement with the third item in the Personally Responsible Standards of Morality Scale - "*In business it's all right to do anything you want as long as you don't have problems as a result*" - 18 respondents agreed (7 strongly and

⁵¹The interview schedule did not specifically include a question on use of loans, but the issue of credit was mentioned in the context of a social labelling question (see Chapter 7).

⁵²Respondent L10 called his creditor a "bandit", while K14 referred to his disparagingly as a "novorusski".

11 somewhat), and 35 disagreed (19 strongly and 16 somewhat). As shown in Table 6.7 below, the variation in responses was quite broad across the sample, but interestingly, the rankings produced a statistically significant correlation with a scale item that measured respondents' competitive orientation.⁵³

Table 6.7: Aggregated interviewee response data and correlation of rankings between the third item from the Personally Responsible Standards of Morality scale and one from the Competitiveness scale:

	Mean	SD	N
In business it's all right to do anything you want as long as you don't have problems as a result.	2.89	1.05	53
I never allow others to get credit for what I have done	2.21	0.793	53
Correlation using Spearman's rho: 0.316 (significant 0.05)			

Evaluations of the item that referred to getting personal credit for accomplished results were as follows: 10 strongly agreed, 24 agreed somewhat, 17 disagreed somewhat, and 2 disagreed strongly. Prima facie there seems to be no correlation between the data for the two scale items above. However, testing the similarity of their rankings (Spearman's rho) revealed that, respondents' levels of agreement with the moral relativism implied by the first item were similar to their evaluations of the second item. This finding of a statistically significant correlation suggests that there may exist a conceptual link between an individual's desire for remuneration for achievement and relativist ethical beliefs. In other words, respondents who agreed with the idea that 'getting away with it' was morally acceptable also seemed to want to get credit for achievements. The reverse was also true: those who did not mind sharing credit for accomplishments also believed that business practice necessitated ethical standards beyond simple utility. Furthermore, the wide range of responses showed that there was significant discord within the sample with respect to worldviews.

⁵³This item was drawn from Cassidy & Lynn's (1989) comprehensive measure of achievement motivation in which 'competitiveness' was treated as a component factor of *nAch*, and was measured with an appropriate sub-scale.

As with the issue of varying perceptions of the role of law as a delineator of moral standards, the link between magnanimity and moral absolutism on the one hand, and parsimony and relativism on the other, may be symptomatic of differential levels of penetration of qualitatively new ethical norms into the values complexes of Ukrainian entrepreneurs. As Offe (1996:5) has noted with reference to magnanimity: “state socialist societies, where they were even halfway able to function, relied on a type of person who selflessly, responsibly and devotedly acted for the common good, and regarded this as good for him or her.” According to state socialism’s official ideology, this kind of social magnanimity was treated as a moral absolute.

On the other hand, really existing state socialist society’s pervasive moral relativism was well documented (Ledeneva, 1998, 1999; Sztompka, 1993, 1995; Voslensky, 1984). In the private sphere, individuals behaved according to an unofficial code of ethics whereby what was considered ‘morally right’ was contextually dependent. It was this “dual morality” that is said to have left a distinctive cultural legacy on post-Soviet societies, manifesting itself at the individual level in what has been referred to as the “post-communist syndrome” (Klicperova, et. al., 1997), and (I would argue) on a macro level as the ‘state capture’ phenomenon.

The above noted data on ‘de novo’ firm owners’ beliefs regarding ethical standards of business behaviour, and of the roles of law and reputation, suggest that portraying Ukraine’s independent business sector as *universally* lacking morality (as implied by both the ‘homo sovieticus’ and ‘state capture’ paradigms) is at least unfair, and likely inaccurate. Start-up firm-owners are far from a homogeneous group within Ukrainian society, and therefore their broad brush labelling as somehow ‘immoral’ is at best misleading. Clearly a tendency to resolve problems through a ‘beat the system’ strategy of “parasitic innovativeness” (Sztompka, 1995) was observed in Ukraine during the course of this research, but any suggestion that such an ethic generically defines the ‘de novo’ business sector as a whole is simply untrue. On the contrary, although not conforming to a western-style legal absolutism, the interviewed Ukrainian entrepreneurs universally voiced strong opinions regarding the need to maintain their reputations as ‘ethical’ market actors.⁵⁴

⁵⁴In an effort to influence the social perceptions of the owners of mid-sized private businesses in Ukraine, respondents K15 and K24 co-authored a published “Code of Ethics of the Ukrainian

Locus of Control

Conceptions of instrumental morality are clearly related to more philosophical perceptions of one's place in the world, and beliefs regarding one's ability to effect outcomes through personal effort. It is therefore not surprising that scholarly studies of private enterprise owner managers in various cultural environments identify the existence of an appropriate and supportive socio-cultural context that disavows fatalism as a key factor that facilitates entrepreneurial behaviour (Begley et. al., 1997; Bull & Willard, 1995; Busenitz & Lau, 1997; Bygrave, 1995; Misra & Kumar, 2000; Shapero & Sokol, 1982). Despite disagreements as to the function of the entrepreneur within an economic system (Chapter 5), theories of entrepreneurship that variously emphasise innovation, risk-bearing, opportunity recognition, judgmental decision-making as the differentia of entrepreneurs all agree that entrepreneurial behaviour entails both an affinity to a particular type of action, and a belief in one's ability to realise goals independently.

These studies have (all) noted some common characteristics among entrepreneurs with respect to need for achievement, perceived locus of control, orientation toward intuitive rather than sensate thinking, and risk-taking propensity (Stevenson & Sahlman, 1989:103; see also Brockhaus & Horwitz, 1986; Busenitz & Lau, 1997; Miner, 1996; Stewart et. al., 1998).

The 'locus of control' construct that such studies refer to, was first empirically developed by the psychologist Rotter during the 1960's as a two-dimensional measure (internal-external) of the degree to which an individual perceives success and failure as being dependent on personal initiative and effort. Scales measuring its specifically economic manifestation (ELC) were later devised by Furnham (1986), who split the construct into three dimensions: a) 'internal' (ELC-int), dealing with personal control over financial affairs and outcomes, b) 'chance' (ELC-ch), concerned with the degree of credence given to uncontrollable luck or misfortune as determinants of personal

Entrepreneur" as part of the activities of the business association to which they belong - see www.nf.org.ua.

success/failure, c) ‘powerful others’ (ELC-po), referring to beliefs regarding the power of others over one’s economic position.

It is noteworthy that a prevalence of internality of ELC has been observed in studies that have applied Furnham’s ELC scales to research on firm founders in *collectivist* cultural environments where deterministic beliefs in individual predestination (i.e. fatalism) seem to be very strong (e.g. Asia - Holt (1997), Hussin (1997); Latin America - Gasse (1982). These findings suggest the possible existence of an entrepreneurial mentality that defies more deeply rooted cultural perceptions of fate and destiny. Furthermore, they also seem to lend support to Weber’s characterisation of the entrepreneur as universally being a “rational individualist” who seeks to build “his own private kingdom” regardless of cultural context (Cassidy & Lynn, 1989; Furnham, 1990; Smith, 1973; Warr et. al., 1979).⁵⁵

However, the attribution of individualism to entrepreneurs should not be overstated. Although studies have shown that businessowners seem to exhibit a strong desire for occupational autonomy (particularly in the West - Scase & Goffee, 1980), this does not necessarily imply rejection of broader collectivist values (e.g. Asian Confucianism) that stress family or community obligations (Holt, 1997; Hussin, 1997; Fukuyama, 1995; Markova, 1997). The relative strength of ‘entrepreneurial values’ when these are in conflict with those of the prevailing cultural environment remains unclear. Investigating this issue is particularly cogent in light of the emphasis placed by the interviewed ‘de novo’ firm-founders in the present study on social reputation being a touchstone for ethical behaviour.

What limited previous research that has been conducted on post-Soviet entrepreneurs’ locus of control beliefs has emanated from the field of cross-cultural psychology, and has been based on samples of firm owners in Russia (Green et. al., 1996; Kaufmann, et. al., 1996). In these studies the locus of control construct was operationalised using attitude scale instruments taken verbatim from previous ELC research, but with a

⁵⁵Thus, as Bockhaus (1982:56) noted: “the internal loci-of-control of prospective entrepreneurs allow them to believe that they can effectively influence the results of a business if they personally own it. Typically, it is only after deciding to start a business that they determine on a product or service to offer.”

fourth socio-cultural dimension - that of fatalism - added to those originally defined by Furnham (1986).

In my investigation of the interviewed Ukrainian entrepreneurs' beliefs regarding locus of control I followed the example of the above studies, and measured the construct along four dimensions:

- (a) belief in fate and predestination,
- (b) attitudes to the role of chance as a determinant of events that affect the subject,
- (c) beliefs in one's own ability to determine life-course events (internality of control),
- (d) beliefs in the power of others in society to affect events in one's own life-course.

Fate

The first question on the respondent questionnaire (see Appendix D) was an explicit measure of interviewee beliefs regarding predestination: “*No matter what you do with your life, you will not escape your destiny.*” Aggregated results from respondents' rankings of their levels of agreement/disagreement with this statement are shown in Table 6.8 below:

Table 6.8: Aggregated interviewee response data from the scale item measuring the ‘fatalism’ dimension of ELC:

	Mean	SD	N
No matter what you do with your life, you will not escape your destiny	2.49	1.137	53

The mean of responses to this item was 2.54, indicating an almost even split of opinions among interviewees. More interestingly, the distribution of responses indicated an almost dichotomous division between those that fully agreed and those who completely disagreed with this statement: 28 respondents agreed (10 fully and 18 somewhat), while 24 disagreed (10 somewhat and 14 fully). Furthermore, because the data from this scale item did not correlate with any other items in the questionnaire, and variance was not explained by any of the tested independent variables (age, firm

size, region, path to start-up) using ANOVA, one must assume that beliefs regarding fate were highly individual and personal within this respondent sample.

Such equivocality may indicate dissensus on the question of beliefs regarding fate and predestination, but it may also indicate that individuals who hold internalised beliefs regarding locus of control in its fate dimension may be dispersed among all types of entrepreneurs. If one supposes that an individual who disagrees with the above statement is also likely to be confident in his/her own agential powers, and therefore to be disposed to initiate action, the distribution of such individuals throughout the sample may indicate a presence of some form of entrepreneurial agency within all of the identified groups of respondents.

Chance and Internality of Control

Four other items in the locus of control scale as applied in the current research measured respondent beliefs regarding the role of chance, and internality (Furnham, 1986; Kaufmann et. al., 1996; Kohn et. al., 1997). These may be grouped in pairs based on their ranked responses having yielded statistically significant correlations. Table 6.9 shows the aggregated data results from the respondent sample with respect to the first pair of scale items measuring beliefs in chance and internality of control.

Table 6.9: Aggregated interviewee response data and correlation of rankings between two items from the ELC scale (ELC-ch and ELC-int):

	Mean	SD	N
Becoming rich has little or nothing to do with luck	1.72	0.968	53
When I get what I want it is usually because I worked hard for it	1.38	0.657	53
Correlation using Spearman's rho: 0.335 (significant at 0.05 level)			

Agreement with the first statement indicated strong belief in internal locus of control in the chance dimension. More specifically, as shown in Table 6.10, the respondent sample seemed to agree on average that wealth was linked to personal effort rather than luck.

Table 6.10: Raw Data for “Becoming rich has little or nothing to do with chance”

	Frequency	Percent
fully agree	30	56.6
agree somewhat	12	22.6
disagree somewhat	7	13.2
disagree completely	4	7.5
Total	53	100.0

Similarly, with reference to the second statement, as shown in Table 6.11, the data indicated a high level of agreement, and therefore strong belief among respondents in their personal power to affect the outcomes of their actions (internal locus of control).

Table 6.11: Raw Data for “When I get what I want it is usually because I worked hard for it”

	Frequency	Percent
fully agree	34	64.2
agree somewhat	16	30.2
disagree somewhat	2	3.8
disagree completely	1	1.9
Total	53	100.0

Examining the specific phrasing of the two scale items, and the fact that a statistically significant correlation between the ways in which respondents ranked these two statements was found, may point to the existence of a conceptual linkage between hard work and monetary gain. In other words, the degree to which respondents believed in their own power to achieve set goals may have been linked to their belief in money being a just reward for such effort. However, as discussed further below, such a linkage may not necessarily be indicative of a purely materialistic motive to respondents’ work ethic.

Two other scale items in the questionnaire both referenced respondent beliefs in the efficacy of planning, and therefore it is not surprising that their data results correlated in a significant way. Both raw data results and aggregate statistics are shown in the tables below. Respondents agreed in general with the first statement, and disagreed on the whole with the second, but with a broad distribution of responses in the latter case.

Table 6.12: Raw Data for “When I make plans I am almost certain to make them work”

	Frequency	Percent
fully agree	19	35.8
agree somewhat	24	45.3
disagree somewhat	10	18.9
disagree completely	0	0
Total	53	100.0

Table 6.13: Raw Data for “If something goes wrong in my life, it's rarely because of bad luck - usually it's my own fault”

	Frequency	Percent
fully agree	9	17.0
agree somewhat	13	24.5
disagree somewhat	9	17.0
disagree completely	22	41.5
Total	53	100.0

Table 6.14: Aggregated interviewee response data and correlation of rankings between two items from the ELC scale (ELC-int and ELC-ch):

	Mean	SD	N
When I make plans I am almost certain to make them work(ELC-int)	1.83	0.727	53
If something goes wrong in my life, it’s rarely because of bad luck - usually it’s my fault (ELC-ch)	2.83	1.156	53
Correlation using Spearman’s rho: 0.313 (significant at 0.05 level)			

The four questions questions that referenced ELC-int and ELC-ch in the questionnaire correlated according to a specific pairing, and this fact may be an indicator of two different dimensions of the locus of control construct. In the first instance, respondents linked chance with internality via hard work, and in the other the linkage was made via planning. In other words, the data may point to the existence of a short-term outlook among respondents: a belief that planning does not necessarily result in success, but momentary skill and hard work (rather than luck) are required for achievement of goals (particularly monetary ones).

The reasons for such short-termism may be tied to the high level of perceived instability in Ukraine's business environment. As noted in previous chapters, Ukraine's formal institutional environment (including law enforcement) gradually improved as the country's transition progressed during the course of the past decade. However, the extortionist banditry ("violent entrepreneurship" - Volkov, 1999) that characterised the 'wild capitalist' period of the early 1990's was replaced in later years by a phenomenon equally unfriendly to private enterprise, and one that made the long-term planning of one's business activities difficult at best. As several interview respondents noted, "during the late 1990's, the previously criminal 'roof' (i.e. protection of one's business) became more official" - meaning that protection money was extorted by the very state employees who were nominally charged with protecting business owners from extortionist criminals (K11; echoed by D1, D15, L2, L10, K6). As one respondent whose spirits distribution company employed 200 workers recounted:

In the mid 1990's the power of bandit groups slowly started to wane, but activities of law enforcement authorities became exceptionally fierce - not all obviously, but some... This happened with us. One major felt that the state and he were one and the same, and when we refused him a car, and other gifts, he started a criminal case against us, using the massive power of the state against a specific firm, using his position... And whoever I turned to, everyone said "Well this is the SBU" (secret service). This wasn't the SBU, but rather a specific major... (K6).

The reaction of this Komsomol-incubated firm-founder to such unlawful extortionist demands on his business emanating from a state official was to create a co-operative lobby group of his peers.⁵⁶ In this he was not unique. Similar NGO associations of business owners were established by respondents in the present sample who had suffered from analogous experiences in the past (D7, Dep2, IF2, K27). The activities

⁵⁶It is interesting to note that contrary to the view implied by Krystanovskaya & White (1996) which equates Komsomol firm founders with 'nomenklatura entrepreneurs' (see Chapter 3), none of these organisations seemed to be headed by a patron within the state bureaucracy or political sphere.

of each of these groups seemed to be aimed primarily at protecting their members from unlawful incursions into the private sector by employees of the state.⁵⁷

Given the power of such state officials to make the lives of private enterprise owners difficult, it is perhaps not surprising that respondents in the present sample (as in other studies noted previously) were reluctant to report on their direct experiences of bribery and corruption in the state sector. However universally, when interview questions referenced issues that involved dealings with the political sphere or state sector, responses were phrased in terms of disgust, and a desire for distance. In one case, an interview actually had to be postponed by a respondent after he received a phone call from an oblast administrator stating that payment for products that he had provided to the local government would not be made on time. He vowed that this was the first and last time that he would sell anything to the state (IF2). For him, as for other interviewed entrepreneurs in my sample, the political sphere was perceived as “dirty and immoral” (Dep2, K2), and dealings with it needed to be minimised to whatever extent possible.

Powerful Others

The above accounts all point to the power of the Ukrainian state to intrude into the private economic activities of its citizens being *perceived* by respondents as immense. Certainly the literature reviewed at the start of this chapter suggests that such perceptions may be justified. However perceptions have a tendency to be self-fulfilling, and it is therefore worth investigating the extent to which respondents reported being able to influence events in their personal lives and businesses without being obstructed by external actors.

With respect to the ‘powerful others’ dimension of the locus of control construct, respondents were asked for their opinions (level of agreement/disagreement) regarding a very direct statement: “*People like me have little chance of protecting our personal interests when they are in conflict with those in power.*” As shown in Table

⁵⁷However, contrary to the efforts of western aid organisations who have attempted to foster the creation of private sector lobby groups that would seek to improve Ukraine’s business environment in the long term (e.g. USAID, World Bank, Freedom House), most of the business NGO’s observed during the course of my field research period appeared to operate on a short-term project basis. Although investigating the activities of Ukraine’s business associations was not a specific goal of this

6.15, responses to this item were surprisingly equivocal: only slightly more respondents agreed than disagreed, and the range of answers was very broad.

Table 6.15: Raw Data for "People like me have little chance of protecting our personal interests when they are in conflict with those of people in power"

	Frequency	Percent
fully agree	20	37.7
agree somewhat	14	26.4
disagree somewhat	13	24.5
disagree completely	6	11.3
Total	53	100.0

The way in which interviewees evaluated their beliefs in the power of “others” (as above) to affect the realisation of their personal goals was clearly related to their evaluations of another statement that read “*I want to be a visible person in the community*”. The raw data from respondents rankings of their level of agreement with the latter item are shown in Table 6.16:

Table 6.16: Raw Data for "I want to be a visible person in the community"

	Frequency	Percent
fully agree	17	32.1
agree somewhat	16	30.2
disagree somewhat	9	17.0
disagree completely	11	20.8
Total	53	100.0

The first ‘powerful others’ item on its own yielded equivocal results, but when correlated with the data from the item regarding visibility, analysis showed a statistically significant *inverse* relationship between the two items. Aggregated data from of these two items and their negative correlation are shown in Table 6.17 below:

Table 6.17: Aggregated interviewee response data and correlation of rankings between an item from the “status aspiration” scale and one from the ELC-po sub-scale

research project, the validity of this observation was repeatedly confirmed during informal meetings with NGO leaders.

	Mean	SD	N
People like me have little chance of protecting our personal interests when they are in conflict with those of people in power	2.09	1.043	53
I want to be a visible person in the community	2.29	1.126	53
Correlation using Spearman's rho: -0.379 (significant at 0.05 level)			

The existence of an inverse relationship between the rankings of these two scale items suggests a dichotomous division within the interview sample: on the one hand, respondents who admitted craving social recognition did not view other actors in society as constraints; on the other hand, those who felt powerless in the face of 'others' also shunned visibility.

Although it is clearly difficult to draw definitive conclusions from such a small sample of respondents, the existence of this dichotomy of beliefs may suggest that the constraints on action emanating from 'powerful others' in Ukraine may be more perceived than real. If one assumes that respondents interpreted "people in power" as meaning political actors,⁵⁸ the inverse correlation between desire for social visibility and belief in the power of the state to determine one's life course implies that those who are discouraged from seeking prominence in society are also prompted to pursue economic gain through 'underground' activities. Indeed, the observed linkage between beliefs in the power of 'others' and desire for personal visibility, suggests that the Ukrainian economy may be faced with a vicious circle of self-reinforcing subjectivity: the open (visible) pursuit of individual economic betterment is perceived as being impossible because of external constraints in the form of powerful others, and in turn, the perceived existence of such powerful others discourages economic openness and transparency.

It is worth noting however that perceptions of the need to hide economic activities seem to vary according *region* in Ukraine. When asked for their level of agreement

⁵⁸This assumption is likely since 'those in power' was translated into Ukrainian as "ti khto pry vladi" and "vlada" (Russian: "vlast") generally refers to the state in normal usage.

with the following statement: “*I dislike being at the centre of attention*”⁵⁹ respondents were similarly equivocal (see Table 6.18 below) as with the previous item which asked for evaluations of their desire for “visibility in the community”.

Table 6.18: Raw Data for "I dislike being at the centre of attention"

	Frequency	Percent
fully agree	11	20.8
agree somewhat	23	43.4
disagree somewhat	8	15.1
disagree completely	11	20.8
Total	53	100.0

However, one-way ANOVA testing on this item (Table 6.19) indicated that variance in rankings was significantly explained by the independent variable ‘region’ (i.e. the city where the respondent’s business was located). Western Ukrainian (Lviv and Ivano-Frankivsk) and Kyiv respondents seemed to have been largely ambiguous with respect to their desire for social visibility. Conversely, Donetsk-based respondents clearly disliked the notion of “being at the centre of attention”.

Table 6.19: Results of Analysis of Variance of the item “I dislike being at the centre of attention” tested against region where respondent’s firm was located:

⁵⁹This item was designed as a reverse measure of status aspiration (Begley, et. al., 1997).

ANOVA - I dislike being at the centre of attention

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7.702	2	3.851	3.971	.025
Within Groups	48.487	50	.970		
Total	56.189	52			

Region	Mean	SD	N
Donetsk	1.69	0.85	13
Kyiv	2.55	0.87	29
West Ukraine	2.64	1.36	11

One may be tempted to interpret the above data as confirmation of the widespread social perceptions in Ukraine which view the economy of the Donbas region as being predominantly controlled by the regional FIG (the Donetsk ‘clan’). The fact that the data identifies Donetsk respondents as less desirous of attention may be seen as suggesting that they (more than others) believe that their business interests would be threatened if noticed by ‘the authorities’. According to popular belief, in Donetsk, this term refers to the regional ‘clan’ (centred around the ISD coal-iron-electricity-gas monopolist). Because as noted in Chapter 2, the consolidation of this group’s economic influence in Ukraine’s eastern region was accompanied by violent reprisals on those who did not conform to its requirements, a social representation of the Donbas region as being a place of widespread violence (comparable to Sicily - Lavrov, 1999) was created in Ukraine.

However, the qualitative data collected during interviews with Donetsk-based firm-owners contradicts such an identification of ‘the authorities’ with ‘clan’ actors. Respondents in the sample from Donetsk universally claimed that the regional ‘clan’ had settled on the resource sector as its primary area of interest, and allowed businesses in sectors in which it had few competencies to grow and even prosper. For example, when Respondent D8 (a manufacturer of hydraulic pumps for use in coal mines) was asked whether his market required him to have close personal relationships with members of the Donetsk ‘clan’, he answered that both state and ‘clan’ authorities found him uninteresting. He explained that complex technologies

cannot realistically be controlled in the same way as trade territories or resource sectors. Trade (particularly in metal, coal, and electricity) provides immediate profits and constant income, and so peaks the interest of both corrupt state officials, and ‘clan’ actors. In knowledge-based industries, where product require years of research and development, one can operate free of extortionist intrusions, and in relative personal safety. Two other respondents from Donetsk (a high tech manufacturer of plated metals (D5) and a former Soviet military SOE electronics specialist, now PC assembler and custom software producer (D6)) confirmed this analysis.⁶⁰

Given such qualitative interview accounts, I am inclined to rationalise the regional variation in the quantitative data using a combination of both of the above explanations. Thus, the violent history of Donetsk was likely to have contributed to the past socialisation of firm-owners in the region which accounts for their being less desirous of social visibility and attention than their counterparts in other regions. However, by the time of the interviews the competitive violence that had plagued the Donbas region during the early and mid-1990’s had largely subsided, and the primary factor constraining business growth (as in the rest of Ukraine) had become the state.

However, whether such constraints on private enterprise growth emanating from the Ukrainian state were a matter of social perception or reality remains an open question. Previously, the questionnaire item that measured respondent perceptions of their ability to protect their interests in the face of “powerful others” was examined, and found to correlate negatively with desire for visibility. In other words, according to the data, those who felt stifled by a ‘glass ceiling’ related to pressures from ‘others’ (i.e. political actors or state bureaucrats), tended also to express a limited desire to become socially prominent because visibility would entail conflict with these powerful others. Conversely, those who felt protected did not mind being visible - even desired it. This perhaps suggests that on a personality trait level entrepreneurs generally yearn for visibility, but under conditions of insecurity in the face of external threats, decide to conceal this desire. Logically the reverse is also true: if a person feels threatened by authority then there is concomitantly no desire for visibility.

⁶⁰These two respondents also commented that in recent years the problem of access to credit financing had improved in their region because the commercial banks controlled by Donetsk’s FIG had seen their revenues plummet in the wake of the 1998 financial crisis in Russia, and they were now actively seeking SME loan customers.

If we return for a moment to the scale item that asked respondents to register their agreement with “*I dislike being at the centre of attention*”, and compare interviewees’ response rankings with those of another item which sought to measure their beliefs in their ability to realise plans, the data results suggest that within this sample of ‘de novo’ entrepreneurs, ELC may be a function of culturally informed beliefs rather than real structural constraints. Thus, as shown in Table 6.20, when evaluations of the statement concerning being at the centre of attention were compared with “*When I make plans I am almost certain to make them work*” a very significant negative correlation between respondent rankings (significant at the 0.01 level) was retrieved.⁶¹

Table 6.20: Aggregated interviewee response data and correlation of rankings between an item from the “status aspiration” scale and the ELC-int sub-scale:

	Mean	SD	N
I dislike being at the centre of attention	2.36	1.039	53
When I make plans I am almost certain to make them work	1.83	0.727	53
Correlation using Spearman’s rho: -0.469 (significant at 0.01 level)			

These results indicate *prima facie* that individuals who enjoy being at the centre of attention are also likely to more be self-confident (i.e. internalise locus of control). This observation may be considered intuitively obvious, but it also indirectly confirms the hypothesis regarding the constraints of the state on private enterprise in Ukraine being largely perceived rather than real. If such constraints on private enterprise growth were real, one would expect gregarious individuals to be immediately noticed by corrupt state officials, who would then inhibit the realisation of planned activities. The fact that a significant number of ‘de novo’ entrepreneur respondents agreed with the internalised notion of ELC presented in “planning” item above suggests a level of self-confidence that would be impossible in an environment that was truly hostile to private enterprise.

⁶¹However, in contrast to the “centre of attention” item, no significant relationship between the data from the “planning” item and the independent variable ‘region’ could be found.

Evaluating the Business Environment

Clearly there exist objective constraints on private enterprise activities in Ukraine emanating from the country's formal institutional environment. However, the above data suggest that such constraints are not as significant as the literature suggests: according to many of the entrepreneurs interviewed as part of this research, in Ukraine, those who wish to succeed do, while those who believe in insurmountable obstacles, find them. Respondents lamented that it often seemed to be the latter group who determined public perceptions and discourse. In contrast to this negative discourse, the evaluations of Ukraine's business environment voiced by respondents during the interviews were almost universally positive:

Look at the number of building supply stores. When do people build?
When they have money... Millions of people are engaged in business in Ukraine. Those that say that business in Ukraine is impossible - these are people that should not be in business (D1).

This sanguine opinion of the Ukraine's economic climate voiced by a Donetsk-based owner of a picture frame manufacturing firm was reiterated by the owner of a 15-employee poligraphical equipment distributor from western Ukraine:

Everyone moans, people complain that times are tough, but everyone gets by! People say, well it's difficult: wages are not paid, there's no place to earn a living. But every day more and more expensive stores open, and there are more expensive cars on the streets, and more new homes are built on the outskirts of Lviv, and in Lviv itself old buildings are restored. And still people say life is bad... (L5).

Whether the above respondent realised that consumers who buy goods at expensive stores are not from the same segment of the population as those who complain about their economic status was not explored. Ironically, however, having completed the above tongue-in-cheek description of the tendency of his fellow citizens to complain without cause, this interviewee went on to describe how he was pessimistic about his own firm's future because of the pressures it faced from regulatory agencies. Similarly negative characterisations of their companies' immediate growth prospects

were voiced by other respondents who described their current state as one of “crisis” brought on by Ukraine’s poor economic climate (D2, D12, D15).

Clearly the business environment that such respondents described was far from the ideal they envisioned in their own minds. They implied that at some point in the past, the conditions for profit-making actually had been better in Ukraine than at time of the interviews (i.e. the growth year 2001). During an informal conversation regarding such discrepancies between interviewee self-perceptions and their opinions of others, respondent D9 (an owner-manager of a consulting firm that offered training services to eastern Ukrainian SME’s), suggested an interesting insight. He noted that during the early and mid-1990’s, when inflation was rife, and when consumers were still adjusting to the disappearance of shortages, business people in Ukraine became accustomed to profit levels of 300-400% net on any goods or services that they offered to the market. Such profits were treated as “normal” (respectable), and anything less was considered “not serious”. As the country’s market sphere matured, hyperinflation was brought under control, competition increased, and maintaining profit levels of the magnitude that was possible previously became difficult. As a result, certain businessowners for whom macro-economic stability (for example) was unprofitable began to complain about Ukraine’s business climate.

Although interesting, the above explanation is clearly anecdotal, and cannot be directly confirmed or refuted by any data collected as part of this research. Indirectly, it may be seen as having been supported by the interview responses provided by the most successful respondents (i.e. largest employers) in the current sample (Dn1, K6, L2). When questioned as to who they considered to be their competitors, all three named “the Ukrainian economy”, and explained that since start-up, their firms had achieved a particular share of their respective markets; their task now was to maintain that market share (and profit levels) while the economy as a whole grew. In other words, they believed that as Ukraine grew, their companies’ prosperity would automatically increase as well.

The optimistic outlooks of such successful Ukrainian firm-owners stand in sharp contrast to the general image of Ukraine’s economic climate portrayed in the literature. As noted at the start of this chapter, the results of numerous survey studies

of Ukrainian business owners and managers all point to a single conclusion: they describe the country's formal institutional environment as universally hostile to private enterprise (Gray & Whiston, 1999; Hellman, et. al., 2000a/b; Johnson, McMillan, Woodruff, 1999a/b; Nemickas, Senchuk, Babanin, 2002; Yacoub & Senchuk, 2000; Yacoub, Senchuk, Tkachenko, 2001). According to such studies, not only has the state stifled the growth of private businesses through excessive taxation, harassment by regulatory agency inspections is frequent, and the overall political situation and macro-economic climate of the country (and of the FSU region more broadly) makes growing a viable independent business in post-Soviet Ukraine difficult at best.

It is possible that negative stereotypes created during the early years of Ukraine's transition have affected westerners' evaluations of the country's business environment in later years.⁶² Thus, in order to rationalise the widely perceived hostility of the country's business environment with the manifest growth of new private enterprises, western observers have concluded that the sole means by which business success could be achieved in post-Soviet Ukraine was through corrupt or illegal activities. However definitions of legality, corruption, and business ethics are multidimensional; they are poorly captured by structured questionnaire instruments. This may be one reason why both 'state capture' and 'homo sovieticus' paradigm proponents have misinterpreted the conceptions of instrumental morality of the 'de novo' sector in the FSU as universally relativist. As discussed in the next chapter, another reason may have been that they evaluated moral norms (and entrepreneurial behaviour more generally) through the prism of western cultural standards.

⁶²Stories of well-intentioned investors arriving immediately after independence, and then departing two or three years later having lost a good deal of money are common lore in Ukraine. In several cases the activities of such foreign investors ended when they were robbed by one of the many extortionist bandit groups that preyed on private enterprises during the 'wild capitalist' years immediately following independence. For example, as one interviewed respondent described: "My first partner (a German), he came here and in the beginning he liked it here... (Then) he came upon a bandit group, and they took his car and everything, and he - well he couldn't handle it and left" (K12).

Chapter 7

Evolving Values

In Chapter 5, I identified a micro-level dependent relationship between path to start-up and choices made by respondents regarding the survival and growth strategies pursued by their firms. Subsequently, in Chapter 6, I discussed the interviewed entrepreneurs' evaluations of their business environment, examined their beliefs in their own power to affect their life chances within this environment, and described the moral rules that they reported following in their business pursuits. In this chapter, I examine the values that underpinned the interviewed Ukrainian entrepreneurs' individual normative frameworks, the status and prestige systems in which they were embedded, and the effects of their agency on transforming their normative social context (i.e. institutional arrangements) over time.

By arguing for the existence of a path dependent relationship between the life experiences of the studied entrepreneurs prior to start-up, and their subsequent behaviour as firm owners, I have followed a broadly behaviourist meta-theoretical approach: firm-level strategic behaviour has been examined from the perspective of its having been conditioned by varying life experiences which in turn led to the development of differing subjective action schema among respondents.⁶³ With reference to the material in this chapter, my line of argument requires a shift of approach. Whereas in the previous chapters I treated respondents from the perspective of their being *owner-managers of firms*, here I will examine them as *individuals* embedded in a social milieu.

Specifically, I argue that the transforming goal orientations of the interviewed respondents have affected both the prevalent work ethic and social perceptions of status legitimacy in post-Soviet Ukraine. On a theoretical level, I therefore follow Weber in suggesting that there exists a *reciprocal* dependent relationship between a

⁶³Behaviourism views psychological characteristics and strategic choices as functions of experience: certain types of behaviour are reinforced or punished within a social context, and therefore are apt to be repeated or avoided in the future (Cochran, 1971; Kunkel, 1971).

society's collective subjectivity (i.e. prevalent values) and the perceived legitimacy of its system of socio-economic relations.⁶⁴

The Entrepreneurial Mentality

On an actor level, this link between a specific set of values and a society's economic structure was first empirically investigated in the late 1950's by the behavioural psychologist David McClelland (1961). He postulated that modern societies' criterion of status was derived from the prevalence of a work ethic based on a psycho-cultural "inner concern with achievement" whereby an individual's judgement of 'doing well' was measured by an internal standard of performance rather than by externally imposed rules of behaviour (as had been the case in traditional society). McClelland claimed that an individual's 'achievement motive' could be measured, and quantified in terms of an '*nAch*' (short for 'need for achievement') score. Furthermore, by comparing the *nAch* scores of various representative population samples from both industrialised and non-industrialised states, he argued that economic development/growth and what he defined as the prevalence of achievement motivation were strongly correlated. He concluded that the "mechanism by which *n* Achievement level translates itself into economic growth is the entrepreneurial class" (McClelland, 1961:65).

At the micro level, McClelland presented a psychological portrait of the archetypal entrepreneur that conceptually linked *nAch* motivated behaviour to the functions performed by the owner-manager within the firm. According to this portrait, anecdotal stereotypes that depicted business owners as more hardworking than employees had some basis in fact, but only in select circumstances. Entrepreneurs did have a tendency to be 'workaholics', but only "when there was some challenge in the situation; some chance of losing. Furthermore, they did not work harder at routine tasks, but only at tasks that appeared to require some degree of 'mental manipulation,' originality, or a new angle of approach for successful solution" (McClelland,

⁶⁴Such a hypothesised link between a specific culturally-informed subjectivity and the type of socio-economic relations engendered by market capitalism was at the core of Weber's account of the role of the entrepreneur in Western economic history. Similarly, Marx argued that in a capitalist system, the bourgeoisie: "compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst; i.e. to become bourgeois themselves." (cited by Lane, 1996:198).

1961:226). He concluded that *nAch* was indeed a powerful task motivator for entrepreneurs, but only when some level of intellectual challenge was perceived.

Furthermore, McClelland's studies found that entrepreneurs generally indicated a preference for challenges involving "moderate risk and moderate uncertainty" (McClelland, 1961:210-225) - a conclusion derived from the observation that they dislike gambling, where even though rewards may be quite high, chances of success are not controllable. Thus, he suggested that the observed confidence with which the entrepreneur approaches uncertainty and risk was rooted in "a belief that he can do better than the facts warrant" (McClelland, 1961:222) through either skill or hard work. The challenge of a task was found to be derived from the entrepreneur's desire to control 'the facts,' so as to *minimise* uncertainties. Hard work was triggered only when subjects were presented with an appropriately challenging task where risk was moderate and the likelihood of success dependent on the actor. In such cases, Herculean effort was exerted and the methods used were often highly innovative, but once the challenge (potential to satisfy *nAch*) presented by the uncertainty of a particular outcome disappeared, an entrepreneur was apt to lose interest. According to this portrayal therefore, the archetypal entrepreneur was seen as being a person who, in an inherently uncertain business environment, and motivated by an internalised concept of profit (utility), was able to evaluate risk (more or less) accurately, and *control* his chances of success accordingly.

McClelland's observations regarding entrepreneurs' tendency to share certain beliefs regarding the intrinsic value of work spawned a series of subsequent investigations of the values of entrepreneurs in various cultural environments (Chell et. al., 1991; Green et. al., 1996; Kaufmann et. al., 1996; Triandis, 1995). However these studies, together with McClelland's original methods and approach have been heavily criticised (Bull & Willard, 1995; Chell et. al., 1991; Chell, 1993; Dewhurst, 1989; Donckels & Miettinen, 1997; Kilby, 1971).⁶⁵ Specifically, critics have argued that

⁶⁵For example, the psychoanalyst Kets de Vries (1996) challenged McClelland's romanticised view of the entrepreneurial archetype by suggesting that the observed individualism of the entrepreneur was symptomatic of Narcissism - a reflection of low self-esteem and insecurity rather than *nAch* or internalised ELC. He argued that entrepreneurs often choose business ownership as a defence mechanism: as a means of reaffirming personal worth; as a flight from psychological inadequacies; energetic work habits and constant busyness need to be maintained because the profits and losses of the firm imply personal success or failure. Accordingly, decisions, rather than reflecting a rational evaluation of risk and likelihood of success, are based on the entrepreneur's deeply rooted "inner

attempts at defining a *universal* set of entrepreneurial characteristics that are based on identifying culturally abstracted personality traits carry “a connotation of human characteristics that are highly fixed and not amenable to modification by experimental or situational variations” (Hussin, 1997:34):

Psychogenic interpretations do not explain what needs to be explained, which is the appearance of a new kind of organisation. Without exception they are mute on the question of how individual tendencies, special abilities, unusual motivation, or perception of particular opportunities are transformed into the emergent property that is social organisation. Neither do they explain why, during certain periods of history, entrepreneurs seem to cluster in particular activities... (Young, 1971:140).⁶⁶

Psychological (trait) approaches to entrepreneurship rely heavily on the factor of socialisation. Accordingly, they imply “that in a society where an adequate set of norms and values is not present, modern and innovative entrepreneurs must come (if at all) from marginal and culturally deviant social groups” (Codagnone, 1995:66). In a development theory context, this meta-theoretical limitation has been criticised for its pessimism (MacGaffey, 1987): if entrepreneurship is a requirement for economic growth, then the outlook for societies in the developing world, where entrepreneurial behaviour may not be culturally supported, looks grim indeed. One is confronted with a classical ‘chicken-and-egg’ problem: on the one hand entrepreneurship is seen as

theatre”, and are therefore often based on ‘hunches’ and ‘gut feelings’. The desire to see tangible results of activities, in the form of profit, masks a need for recognition by others. Similarly, Simon et. al. (1999), suggested that low risk aversion, prevalent among 20th century entrepreneurs, was in fact often based on cognitive biases such as overconfidence, illusion of control, and subconscious ignoring of available information. In the same vein, Chell et. al. (1991:48) have noted eight non-entrepreneurial personality characteristics that are often confused with entrepreneurial ones: invulnerability; machismo; rebellion against authority; impulsiveness; outer-control; perfectionism; overconfidence; counter-dependency or extreme independence. According to their view, entrepreneurship demands total commitment, resistance to stress, adoption of the values of the private enterprise system, and the placing of a high value on reputation through ethical behaviour, and these demands are incompatible with the above noted ‘false’ entrepreneurial characteristics.

⁶⁶Several interesting explanations of the observed affinity to business-ownership among socially marginalized groups, such as ethnic minorities and immigrants have been suggested in the literature (Landa, 1991; Martin, 1991; Godsell, 1991; Gupta, 1991; Redding, 1991). Hagen (1971) for example, proposed a multi-generational theory of entrepreneurship whereby a group’s experience of social status withdrawal due to invasion, migration, or a changing distribution of economic power, eventually leads mothers to nurture characteristics in their sons that engender skills amenable to social mobility - namely entrepreneurship. Similarly, Young (1971) suggested that a “reactive subgroup’s” solidarity and lack of “relative centrality” within a broader social context can lead to entrepreneurial careers being chosen as a means of gaining symbolic position in society, with a corresponding effect on personality (see also Busenitz & Lau, 1997; Tan & Redding, 1993).

necessary for economic development, but on the other hand entrepreneurship requires a supportive cultural environment that itself is engendered by economic development.

If an appropriate cultural environment is causally prior to private enterprise becoming a legitimate career option for the mainstream of society, then in former state socialist societies where generations of people were taught that such forms of economic activities were inherently bad (i.e. engendered exploitation), private entrepreneurship is unlikely to become legitimised as an occupational choice quickly. Thus, contrary to the desires of policy advisors and reformist elites in the FSU (Kolodko, 2000; see also Nee, 1989, 1999), 'de novo' entrepreneurship cannot be seen as a viable means of softening the negative effects of economic restructuring (i.e. rising unemployment, falling living standards). Accordingly, the dream of a new class of petty bourgeois owners spontaneously emerging in post-communist societies and creating a 'western-style' society in which 'middle class values' lead to the development of a participant political culture and active civil society (Dahrendorf, 1990; Sztompka, 1993, 1995) seems very distant indeed.

However, the pessimism engendered by such a traditional modernization theory approach to development need not be accepted as the only analytical alternative. Elizabeth Chell and her colleagues (1991, 1993, 1997), following the work of Hampson (1984), have argued that the 'universal entrepreneurial mentality' is nothing more than a social construction of Western culture. They suggest that traits seen as conducive to entrepreneurship in the West (e.g. high *nAch*, low risk-aversion, internal locus-of-control) do not reside within individuals, but rather between them - as semantic categories referring to "clusters of co-occurring behavioural and situational attributes" (Hampson, 1984:38). In other words, glorified archetypal descriptions of the entrepreneur reflect a Western informal institutional order through which social actors (including researchers) identify and relate to certain recurring behavioural characteristics of others. In this respect, the very label 'entrepreneur' (which generally connotes positive and desirable characteristics)⁶⁷ is no more than an evaluative

⁶⁷For example, in America, where new business start-up rates are the highest of any western state, "the man who starts from scratch and becomes a millionaire - preferably before reaching the magic age of thirty - is held in the highest public esteem. He is a sort of latter-day folk hero" (Dewhurst, 1989). This comment is in sharp contrast to other countries where entrepreneurial occupations are viewed with widespread cultural distaste (Scase & Goffee, 1987; Burns, 1989; Burrows & Curran, 1991).

linguistic construction that supports a specifically Western set of socially derived values and cultural stereotypes (Phalet & Poppe, 1996).

In the same vein, I suggest that the negative cultural legacies of state socialism that have been variously described as a “post-communist syndrome” (Klicperova, et. al., 1997; Van Zon, 2000) or a ‘homo sovieticus’ mentality (Sztompka, 1993; Zaslavsky, 1995), and are universally seen as antithetical to modern ‘western-style’ entrepreneurship, may well be more a reflection of stereotypes held by western investigators than a genuine backwardness of the post-Soviet cultural environment (Codagnone, 1995:67). The motivations of Ukraine’s entrepreneurs (i.e. their “terminal values” - Rokeach, 1973) may not cohere precisely with those of business owners in other cultural environments, but they *do not* reflect a broader cultural proclivity to “neo-patrimonialism with anti-modern tendencies” (Van Zon, 2000) as some have suggested. Indeed as discussed below, the interviewed ‘de novo’ firm-founders in the current sample exhibited goal orientations that seemed to *combine* successfully, the accumulation ethic necessitated by a capitalist system with a paternalistic sense of social responsibility derived from state socialist socialisation.

Motivations

Market capitalism’s ethic of profit accumulation clearly contrasts sharply with the ascription-oriented ethic of both traditional pre-industrial society (Weber, 1992), and the ethic underpinning societies of the Soviet type (Dubrovskiy, 2000). In its ‘real existing’ form, socialism in the USSR promoted economic equality, conformity to ascribed norms, and titular mobility through loyalty to the collective as embodied by the Party. “State socialism attempted to encourage participation in society as a citizen, as a ‘comrade’... The political value system endorsed public activity ‘for the good of the cause’; it promoted altruism” rather than the pursuit of personal gain (Lane, 1996:191; see also Offe, 1996:5). As the extensive studies of both Farmer (1992) and Willerton (1992) have shown, the resultant social mobility structure was most often based on patronage rather than merit. Although the middle ranks of Soviet industry were nominally structured as meritocracies, the highest bureaucratic, managerial, and

CPSU ‘nomenklatura’ posts⁶⁸ were almost always achieved through promotion resulting from vertical loyalty to a particular patron.

One of the purposes of this research project was to investigate whether socialisation under such a system of patronage and ‘blat’ actually produced a cultural aversion to western-style achievement-oriented entrepreneurship, and whether the literature’s negative characterisation of post-Soviet start-up companies as essentially subsistence-oriented by-products of the ‘transition recession’ (Hanley, 2000; Roberts & Tholen, 1998; Scase, 1997) accurately described the incumbents of the ‘de novo’ sector in Ukraine. Thus, during the course of interviewing respondents from my sample of Ukrainian business owners, I questioned them extensively as to their motivations and goal orientations both with respect to their business pursuits, and their private lives.

Contrary to what one might expect based on the literature, only eight of the 53 interviewed respondents named monetary gain as the fundamental motivating factor of their economic pursuits. Ten others suggested that the need to generate income for their families may have been the prime cause of their having originally chosen to establish a private enterprise, but since attaining a degree of financial success, other factors had become more prominent (e.g. ability to innovate, intrinsic interest of their work, freedom from supervision). Table 7.1 lists the motivating factors most commonly mentioned in the interviews:

Table 7.1: Motivations for pursuing private enterprise noted by respondents:

	No. reporting as prime motivator
Desire to keep busy doing interesting work	2
Ability to realise personal dream (e.g. funding a specialist school)	4
Freedom (e.g. to structure own workday, travel)	4
Ability to innovate, problem-solving	7
Social esteem, power, influence	6
Money, material possessions	8
Seeing tangible results of work in the form of company growth	22
Total:	31

⁶⁸‘Nomenklatura’ in this case refers to the top levels of the Union and republican state and CPSU administrative apparatus, and top managers of industrial enterprises and ministries (Voslensky, 1984:149-154.)

The responses listed in the first four rows above are comparable to those reported by western small business owner-managers (Scase & Goffee, 1980, 1982). Most often in the West, such motivations have been associated with those of a petty bourgeois class that is confined to the skilled trade and small-scale commercial sectors where accumulation and company growth are not generally regarded as the primary aims of one's private enterprise activities. Although money is not overtly claimed to be the primary motivator of business pursuits by such petty bourgeois SME owners, goal orientations tend to focus on increasing one's individual ability to consume (or engage in leisure) without the structural and temporal incumbrances of traditional employment.

Given the literature's predominant contention that most start-up firm owners in former state socialist societies are of such a petty bourgeois goal orientation (Barkhatova, et. al., 2001; Burawoy et. al., 2000; Scase, 1997; Smallbone & Welter, 2001), it is significant that almost half of the respondents in the current sample identified company growth as their primary motivator. As one interviewee pointed out, increased consumptive capacity may have been the main goal of many firm starters during the early post-Soviet period, but over time the requirements of business growth gradually marginalized such individuals:

When we started we had 4 partners... well their worldview was of this type: what we make, we should eat... So we (parted). I was only able to convince Volodia my (present) partner, that we need to firstly take some portion for consumption, so as to live with dignity, but the lion's share needs to be invested (K7).⁶⁹

Clearly maintaining a comfortable personal standard of living was important for the above respondent, but he denied that material gain was the fundamental motivator of his private enterprise activities. A similar worldview was expressed by a western Ukrainian female entrepreneur whose firm manufactured home and office furnishings:

⁶⁹At the time of the interview, the above respondent owned a 150 employee tea and coffee distribution firm. When queried as to what happened to his former partners, he claimed to be in contact with only two of them, and that neither had been successful in building a prosperous business since the break-up of their partnership.

I am not wealthy, my firm is wealthy... Maybe I am not greedy enough... I don't need a large house. I don't have time to live in it. My apartment is fully sufficient for my needs. Maybe if I couldn't find a place to invest my money (I would buy a house), but I doubt that such a time will ever come.. I can't stand being at home, and even after my child was born I stayed at home for just two weeks - and frankly that time was awful for me (IF1).

Clearly it would be difficult to characterise the worldviews of such respondents as materialistic. Conversely, any suggestion that they would be prepared to adopt ascetic lifestyles would also be untenable: each drove expensive (by Ukrainian standards) western-made cars, travelled regularly (both for business and pleasure), and generally lived comfortably. One may therefore ask what criteria 'de novo' business owners in Ukraine use to delineate success, and what significance they attach to money as a quantifiable measure of their achievement?

In an effort to investigate these questions, interviewees were asked to define their concept of 'well-being'.⁷⁰ Although virtually all respondents defined this word in terms of material possessions, only one suggested a quantified amount (K12 named a figure of 1 million USD cash). Universally, interviewees spoke of their understanding of the term as encompassing the ability to provide material comforts for their families (e.g. food, clothing, education, transportation, medical care), but simultaneously each was at pains to caveat his/her answer with a statement that condemned "excessive consumption". They emphasised that material 'well-being' achieved at the expense of friendships and family life (D6, D12, K1, K9, K17, K20, K23, K25, L4, L10), or through "uninteresting" or "non-creative" work (D3, D5, D10, D11, K8, K14, K15, K18, K21, L8, L9) was not worth having.

I will return to a more detailed discussion of respondents' socially constructed perceptions of what constituted 'excessive consumption' and to the reasons that they

⁷⁰The actual question asked respondents to define their understanding of the Ukrainian word "dobrobut". This term is sometimes translated as "welfare" (e.g. Yushchenko's government program "Reforms for Welfare" - "Reformy za rady dobrobutu"), but in the personal sense the word refers more accurately to 'well-being'.

emphasised their own distance from such behaviour later. For the moment it is notable that in general, qualitative analysis of interviewee responses to in-depth questioning produced a relatively minimalist (or at least ‘middle class’) portrait of their worldviews. When combined with the previously noted summary of the discussions regarding motivations in business (Table 7.1), one is prompted to conclude that for at least part of the interview sample, values orientations approximated those of the classical Weberian entrepreneur who “gets nothing out of his wealth for himself, except the irrational sense of having done his job well” (Weber, 1992:71).

Work Ethic

Such a conclusion is strengthened by the data collected through structured inquiry. In addition to applying the ELC and Morality Scale questions described in the previous chapter, the fill-in questionnaire given to respondents at the conclusion of the interview also included several scale items used by previous researchers to measure beliefs regarding work ethic (Cassidy & Lynn, 1989; Furnham, 1990; Green et. al., 1996; Warr et. al., 1979). Three of these items, together with the means and standard deviations of respondent evaluations of each are listed in Table 7.2 below:

Table 7.2: Aggregated interviewee response data from three items of the “Work ethic” scale:

	Mean	SD	N
I easily get bored if I don’t have something to do	1.7	0.992	53
The worst part about being sick is that my work does not get done	1.75	0.897	53
I take pride in doing a job well - even if no one notices the results	1.23	0.577	53

As shown in Tables 7.3 and 7.4 below, evaluations of the first and second items were slanted strongly towards agreement:

Table 7.3: Raw Data for “I easily get bored if I don't have something to do”

	Frequency	Percent
fully agree	32	60.4
agree somewhat	9	17.0
disagree somewhat	8	15.1
disagree completely	4	7.5
Total	53	100.0

Table 7.4: Raw Data for “The worst part about being sick is that my work does not get done”

	Frequency	Percent
fully agree	26	49.1
agree somewhat	17	32.1
disagree somewhat	7	13.2
disagree completely	3	5.7
Total	53	100.0

Despite moderate equivocality, the results point to a strong intrinsic work motivation: 77% of respondents agreed with the first item, and 81% agreed with the second.⁷¹ If one accepts Furnham’s (1990:135-9) prediction regarding intrinsic work motivation being *less* prevalent in authoritarian and bureaucratic societies, then these high scores point to a possible shift among Ukrainian entrepreneurs’ work values since the collapse of state socialism. Unfortunately, since no baseline studies of work ethic in the USSR exist, such a claim is purely speculative.

On the other hand, speculation regarding work values in Ukraine changing over time is supported by the data results from the third item in the Work Ethic scale. Although respondents registered overwhelming agreement with this item (44 interviewees agreed fully with the statement, and 7 agreed somewhat (N=53)), as shown in Table 7.5 below, ANOVA testing showed that what limited variation in the data did exist was explained by the independent variable of respondent age.

⁷¹These results echo those of the Green et. al., (1996) study of entrepreneurs in Russia.

Table 7.5: Results of Analysis of Variance of the item “I take pride in doing a job well - even if no one notices the results” tested against respondent age:

ANOVA					
I take pride in doing a job well - even if no one notices the results					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.672	3	.891	2.987	.040
Within Groups	14.611	49	.298		
Total	17.283	52			

	Mean	SD	N
20-30	1.83	0.753	6
30-40	1.11	0.323	18
40-50	1.20	0.645	25
50+	1.00	0.000	4
Avg/total	1.23	0.577	53

In contrast to Furnham’s prediction regarding intrinsic work motivations increasing with democratisation, the above data show that younger respondents in the current sample seemed to have been slightly *more* results oriented (an indicator of *extrinsic* work motivations) than their older counterparts. Given the size of the sample, one may only draw speculative conclusions from such a finding. Nevertheless, I would argue that there exist clear differences in the degree to which older and younger generation Ukrainians emphasise material results (e.g. profits). The former were socialised under a system of relative economic equality, in which certain occupations were prestigious because of their intrinsic (i.e. socially or ideologically prescribed) value (Lane & O’Dell, 1978; Lane, 1982). Since the collapse of state socialism, concrete results have become a more meaningful measure of work value than previously.

Conversely, although the shift away from an economic system of planning to one founded on market relations may have heightened the importance of concrete *results* of work, this does not mean that *money* has become the sole measure of such results.

‘Profit’, as the fundamental motivation for action in a market-based society, is not necessarily exclusively limited to profit in the pecuniary sense.⁷² Indeed Weber distinguished acquisition from accumulation,⁷³ suggesting that whereas greed could be observed throughout human history, the differentia of modern capitalism was its cultural, ideological, and moral legitimation of status and prestige measured through *accumulated gain* rather than wealth acquisition.

The fourth item in the Work Ethic scale contained an implied distinction between acquisition and accumulation, and was designed as a reverse measure of intrinsic work motivation: “*If I make enough money, I plan to stop working*” (Furnham, 1990). The aggregated data from respondents’ rankings of their level of agreement with this statement are shown in Table 7.6.

Table 7.6: Aggregated interviewee response data from item 4 of the Work Ethic scale:

	Mean	SD	N
If I make enough money, I plan to stop working	3.04	1.176	53

In accordance with the notion that suggests that classical ‘entrepreneurs’ view money as a secondary criterion of success (Schumpeter, 1971:68) most respondents in the current sample strongly disagreed with the above statement (N=28). Eight interviewees agreed somewhat, and an equal number disagreed somewhat. These results support the previous qualitative analysis which argued that money was not a primary motivator in business for most of the studied ‘de novo’ firm founders.

It is interesting to note that of the nine respondents who fully agreed with this scale item (i.e. would consider retiring if they made “enough” money), two indicated that at the time of the interviews their firms were in a state of financial crisis (K2, L5). Five

⁷²As Young (1971:148) pointed out, “money is only an index of the businessman’s efficiency in the market and the status rewards therefrom. So abstracted, the concept of profit applies to the work of the research scientist, the ghetto educator, or even the religious leader fomenting a new sect movement. Although they may call it ‘professional recognition’ or ‘doing one’s duty in the eyes of God’ it is still a quest for profit in the fundamental sense... If one rejects the concrete monetary indicator, as one must when dealing with activities other than business, then the group’s social perception of its efficiency and status is clearly dependent on consensual validation. So profit is fundamentally social.”

⁷³This distinction was also very important for Schumpeter, who distinguished between the entrepreneur and the capitalist (provider of venture funding), and pointed out that pecuniary gain cannot be the prime motivator of the innovative entrepreneur. Money motivates the capitalist. The entrepreneur is motivated by a desire to “build his own private kingdom” (Schumpeter, 1971; DeVecchi, 1995).

others had recently removed themselves from the day-to-day management of their firms in order to pursue interests outside of their businesses (Dep 1, Dep 2, K8, K15, K26). Among such other interests, the most common was a political career, and it is therefore noteworthy that the questionnaire item that referred to respondents' political ambitions (my own formulation) very strongly *inversely* correlated (significant at the 0.01 level), with the one measuring monetarist work motivation. Levels of agreement/disagreement with both statements were similarly broad ranging (as shown in Tables 7.7 and 7.8), but given the strength of the statistical correlation (inverse) of the rankings (Table 7.9), one is prompted to speculate as to some explanation for their interdependence.

Table 7.7: Raw Data for “If I make enough money, I plan to stop working”

	Frequency	Percent
fully agree	9	17.0
agree somewhat	8	15.1
disagree somewhat	8	15.1
disagree completely	28	52.8
Total	53	100.0

Table 7.8: Raw Data for “I would like someday to become an influential politician

	Frequency	Percent
fully agree	16	30.2
agree somewhat	16	30.2
disagree somewhat	9	17.0
disagree completely	12	22.6
Total	53	100.0

Table 7.9: Interview response data and correlation of rankings between Item 4 from the “Work ethic” scale and an item measuring political ambitions:

	Mean	SD	N
If I make enough money, I plan to stop working	3.04	1.176	53
I would someday like to become an influential politician	2.32	1.141	53
Spearman's rho correlation: -0.492 (significant at 0.01 level)			

Three inferences may be drawn from the strong inverse correlation between these two items: a) the majority of respondents who rejected the possibility of making “enough” money also rejected politics as a career option; b) those (few) respondents who were considering a political career once they had achieved their financial goals generally considered politics to be “work” and not a form of retirement; c) those (few) who planned on changing careers after having earned what they considered “enough” money were not considering entering politics after their retirement from business. Among the third group, several admitted to having achieved sufficient wealth to be in a position to finance electoral campaigns (Dn2, IF2), and to consider political careers themselves (IF2, L2, L6, K1, K15). However as discussed in Chapter 6, they were reluctant to seek political office because of the “dirt” that they associate with Ukraine's state sector.

Notwithstanding this rejection of politics as a career option, it is clear both from the collected quantitative and qualitative data that with reference to business performance, the interviewed Ukrainian entrepreneurs saw money as a secondary evaluative criterion. Financial results may have served as the tangible symbol of achievement, but the actual measure of success was an internalised standard of evaluation, or ‘achievement norm.’ In Ukraine as elsewhere, it seems that “capital accumulation and wealth creation are ‘external’ criteria of what counts as entrepreneurial behaviour, business development being one important manifestation which indicates sustained entrepreneurial performance” (Chell, et. al., 1997:4).

Social Responsibility

The mere existence among the interviewed respondents of an orientation that downplayed the importance of expanded consumptive capacity (i.e. disposable income) as a measure of business success was less interesting in itself than the fact that such a personal worldview also seemed to colour respondents’ views of others. For example, the way interviewees ranked their opinions as to the scale item that directly linked material well-being with access to leisure correlated very strongly with their rankings of a statement that evaluated the reasons others fail at a job. The raw and aggregated data from responses to these two scale items are shown in the tables below:

Table 7.10: Raw Data from “Success in business means having time to pursue leisure activities”

	Frequency	Percent
fully agree	13	24.5
agree somewhat	19	35.8
disagree somewhat	10	18.9
disagree completely	11	20.8
Total	53	100.0

Table 7.11: Raw Data from “People who fail at a job usually have not tried hard enough”

	Frequency	Percent
fully agree	17	32.1
agree somewhat	25	47.2
disagree somewhat	8	15.1
disagree completely	3	5.7
Total	53	100.0

Table 7.12: Interview response data and correlation of rankings between two items from the “Work ethic” scale:

	Mean	SD	N
Success in business means having time to pursue leisure activities	2.36	1.076	53
People who fail at a job, usually have not tried hard enough	1.94	0.842	53
Spearman’s rho correlation: 0.429 (significant at 0.01 level)			

The strong correlation between the rankings for these two items indicates that a leisure orientation tended also to connote a negative opinion of those who are less able in society. Conversely, an accumulation ethic (i.e. a rejection of leisure time being a measure of business success), also entailed a degree of empathy towards people who fail. The correlation seems to point to a possible conceptual link between respondents’ perceptions of their own social status and their normative beliefs

regarding obligations necessitated by such status. In other words, one may hypothesise that firm-owners who are growth oriented also tended to believe that their status position necessitated a degree of social responsibility, while those who were consumption- or leisure-oriented seemed to incline to self-centred individualism.

Such a hypothetical division of worldviews within the sample would be tenuous if it were not supported by another similar correlation. When asked whether they agreed that firm ownership entailed social respect in Ukraine, respondents were largely equivocal with 33 agreeing, and 20 disagreeing, but interestingly, their rankings correlated strongly with their opinions regarding an item designed to measure the degree to which they saw themselves as competitive. The raw and aggregated data from the responses to the two items are shown in the tables below:

Table 7.13: Raw Data from “In our society people who run firms are considered influential”

	Frequency	Percent
fully agree	9	17.0
agree somewhat	24	45.3
disagree somewhat	15	28.3
disagree completely	5	9.4
Total	53	100.0

Table 7.14: Raw Data from “I judge my performance on whether I do better than others rather than just on getting a good result”

	Frequency	Percent
fully agree	7	13.2
agree somewhat	17	32.1
disagree somewhat	12	22.6
disagree completely	17	32.1
Total	53	100.0

Table 7.15: Aggregated interview response data and correlation of rankings between an items from the “Status aspiration” scale and one from the “Competitiveness” scale:

	Mean	SD	N
In our society, people look up to those who run firms	2.29	0.871	53
I judge my performance on whether I do better than others rather than just on getting a good result	2.74	1.059	53
Spearman’s rho correlation: 0.410 (significant at 0.01 level)			

As with the previous linkage between leisure orientation and social empathy, the strong correlation between the two above items points to the existence of a conceptual link between competitive evaluations of performance and perceptions of status. In other words, those who evaluated personal performance based on competitive criteria felt that they deserved social respect, and those who internalised evaluative criteria believed either that they were not influential, or that their occupational status as firm owners was irrelevant to their prestige position in society.

Based on the above correlations we may draw two tentative conclusions regarding the cognitive (values) frameworks of members of the respondent sample. Firstly, growth orientation (i.e. rejection of increased leisure capacity as a goal of economic activity) seemed also to connote a degree of social empathy. Secondly, competitive posture seemed to be linked to status perception, and therefore to an ethical belief that firm ownership is deserving of social respect.⁷⁴ One may therefore speculate that members of the subset of the respondent sample that were growth-oriented and competitive, perceived their status as firm owners as entailing a degree of status prestige, and also as requiring certain social duties. Conversely, those respondents in the sample whose goal orientation focused primarily on leisure and acquisition rather than growth, largely disregarded the broader social implications of their improved material conditions.

⁷⁴Unfortunately a direct statistical relationship between these two conclusions could not be found within the data, but this was likely due to the small size of the sample. However, several studies have linked competitive posture with growth orientation among business owners in other geographical settings (Cassidy & Lynn, 1989; Holt, 1997), and therefore it is not unreasonable to suggest that ‘entrepreneurial’ (i.e. growth oriented) respondents within my Ukrainian sample were also competitive.

Confirmation of such a division within the sample seems to have been also in evidence with respect to respondents' attitudes towards employees. As shown in Table 7.8 below, data from interviewee rankings of their levels of agreement/disagreement with the scale item that measured beliefs regarding failure in business being a cause for family shame,⁷⁵ correlated significantly with their ranked evaluations of the questionnaire item that read: "*I find satisfaction in having influence over others because of my position*". Respondent evaluations of both items were very widely dispersed with the mean indicating slightly more disagreeing with both items than agreeing, but those who registered their general agreement with the first item, also seemed to agree with the second, and vice versa - as shown in the tables below:

Table 7.16: Raw Data for "An owner whose company has failed brings shame to himself and his family"

	Frequency	Percent
fully agree	13	24.5
agree somewhat	10	18.9
disagree somewhat	13	24.5
disagree completely	17	32.1
Total	53	100.0

Table 7.17: Raw Data for "I find satisfaction in having influence over others because of my position"

	Frequency	Percent
fully agree	9	17.0
agree somewhat	13	24.5
disagree somewhat	13	24.5
disagree completely	18	34.0
Total	53	100.0

⁷⁵This item was drawn from Hussin's (1997) study of the effects of cultural collectivism on Asian entrepreneurs and the concomitant relationship between entrepreneurship and social status in collectivist cultures (see also Begley, 1997).

Table 7.18: Aggregated interview response data and correlation of rankings between two items from the “Status aspiration” scale:

	Mean	SD	N
An owner whose company has failed brings shame to himself and his family	2.64	1.178	53
I find satisfaction in having influence over others because of my position	2.77	1.113	53
Spearman’s rho correlation: 0.463 (significant at 0.01 level)			

The fact that respondents’ ranked levels of agreement/disagreement with the above two items correlated significantly demonstrated a clear division within the interview sample with respect to the degree to which the occupation ‘employer’ was perceived to be socially significant. Those interviewees who strongly agreed that business failure was shameful generally also strongly agreed that they gained satisfaction from their positions of authority, but the reverse was also true: those that felt that social perceptions of failure were unimportant, also minimised the significance of their status as employers.

Acquisition vs. Accumulation

Based on the aggregated analysis of all three of the correlations discussed above, a twofold division within the interview sample may be identified: one portion of the sample (a slight majority consisting of 30-33 respondents) generally seemed to be oriented towards accumulation and venture growth through continuous reinvestment; the other group (20-23 interviewees) could be characterised as either subsistence- or leisure-oriented hedonists.⁷⁶

Significantly, the between-group distinction did not seem to have been merely based on contrasting goal orientations. Instead interviewees’ motivations in business appeared to have been linked both to their conceptions of social prestige derived from property ownership, and to the degree to which they believed their status as employers subsumed broader obligations to their respective social environments. Thus on the one hand, growth oriented entrepreneurs in general were also competitive, socially

responsible and desirous of social prestige - both within their firms and in broader society (although not necessarily via politics). On the other hand, respondents oriented primarily towards increasing their ability to consume or engage in leisure also appeared to discount the broader social significance and obligations of their positions as property owners and employers.

It is notable that respondents from the 'materialistic' group were generally pre-1991 trade path business starters. Their firms were structured according to an extreme authoritarian model: highly controlled with minimal trust placed in managers, and with employees motivated almost exclusively through material incentives (e.g. commission on sales). With respect to their explicit or implicit feelings of responsibility towards employees, respondents from this group were purely pragmatic:

An owner is, first and foremost, interested in the business. And because he understands and worries about the interests of the business, he also understands the value of this or that particular employee to his firm. And based on his understanding of the value and loyalty of specific employees he structures his relations with them: how much do I want to make sure that this employee does not have problems at home, in his family, with money, with leisure? If someone in his family is sick, I want to offer my shoulder and all of my resources - to the extent to which I need him, and no more. Because if I told him that I am like his mother or father, I would be lying (L1).⁷⁷

Although some of the firms owned by respondents from this 'materialistic' group⁷⁸ enjoyed a degree of financial success, their owners emphasised *personal* material well-being as their primary motivator in business. For these firm-owners, investments seemed to be focused on accruing wealth rather than on company growth - as

⁷⁶The distinction was not clear-cut: the responses of three respondents with respect to goal orientations seemed to eschew discrete characterisation.

⁷⁷The phrasing referencing "his mother or father" followed the formulation of the interview question - see Appendix B.

⁷⁸Two respondents from this group actually spent considerable time listing their various material possessions; boasting that since embarking on private enterprise careers they had accumulated several luxury cars, large houses, frequent holidays etc. (D1, L1).

demonstrated in the following response to a question regarding an interviewee's motivations for having recently invested in a cafe:

I did it for myself - there was nowhere to eat well. If it were possible, I would build myself a luxury hotel: to live there; so that my wife would not have to clean and vacuum everyday... Well, now I have a place to eat, I'm left with finding a place to live. What else? I guess I could build a car factory, so as to build nice cars? Well I'm afraid life is too short for that. What I'm trying to say is: everything I do (in business) is for myself... (D1).

Such pragmatic self-centred materialism stands in sharp contrast to the worldview of the (slight) majority of interviewees in the current sample who were growth-oriented. Pragmatism was similarly in evidence among respondents from this group with respect to justifying particular investments (both in capital and human resources), but each emphasised the importance of linking personal wealth to broader legitimacy within Ukrainian society. Several recognised that since the collapse of state socialism, income inequalities had significantly increased in Ukraine, and that the relative wealth of individuals engaged in private enterprise compared to the majority of the population had led to a rise in social tensions and negative stereotyping of firm-owners as 'bandits' (D11, L1).⁷⁹

Respondents traced the initial lack of social acceptance of entrepreneurs to Soviet-era socialisation under a "culture of entitlement" when "all were poor" (D1). They therefore stressed the importance of *personally* working to improve upon the negative stereotypes of business owners, and were at pains to differentiate themselves from what they perceived as "the few who tarnish the good name of the many" (K14). Thus, when asked if he had ever been referred to as a "novo-russkiy", one respondent explained:

⁷⁹As one entrepreneur-parliamentarian explained, social representations of 'business-people' in Ukraine were far from favourable during the 1990's: "As I recall, when I was campaigning last time (1998), the word 'business' among average people meant bandit or swindler... But today whether we like it or not, the whole country is involved in business... Life forces people to go and trade, so everyone is involved in business" (Dep1).

“New Russians” is a great label. Not because he is rich, but because he has a certain mentality. The thing is that those who made really large amounts of capital are those who started in business right away - at the start of Perestroika... the ones who had nothing to hold them back - they had nothing, no profession, they didn't care. They as a rule were not distinguished by their intellect, nor their education, nothing. Real bandits... The thing is that the time-period when they, let's say, thieved and robbed, has passed... In truth, they stole an awful lot - huge sums of money - but what to do next they basically don't know (L10).

The owner of a 100 employee printing firm contrasted his own position which he believed subsumed a significant amount of “moral” responsibility to those of such “novo-russki”:

We just came back from an exhibition in Germany. The trip was organised on the Ukrainian side by the Chamber of Commerce. Most of the people that went with us deal in scrap metal. We understand that today scrap metal is no longer simply left lying around waiting to be collected... Some buy stolen machinery; others pull up electric cabling, and as a result children are left without arms because they are sent to steal high voltage lines. Where is the morality of this business?... This is the kind of money that comes easily: not through your own work, or from the work of a collective of some 100 people whose jobs you are responsible for. And they depend on you because they are the sole providers for their families. So my direct responsibility is not just for 100 people, but for 100 families... So if something happens, say an operation is needed, or someone is ill, or some problem in the family, I as the employer try to help in any way I can (L4).

As can be seen from the above passage, positive self-evaluations were justified through expressions of concern for the social well-being of employees and less fortunate members of society. With respect to the latter, the importance of helping friends was repeatedly stressed: “I for example, try to help my friends in whatever way I can - to help them become wealthier because the richer my friends are, the

richer I am” (D4). Similarly, with reference to friendship: “if a person, by getting involved in business, doesn’t lose his human qualities, then relations with his circle (of friends) does not change” (D3); “having money need not involve losing one’s human qualities” (D9).⁸⁰

Civic duties and helping out neighbours, acquaintances, and friends were cited by virtually all interviewees in the growth-oriented portion of the sample as being crucially important to maintaining one’s standing in the community. Thus, one interviewee recalled with pride the annual Veteran’s Day activities that he sponsored for the elderly residents of his neighbourhood (D7). Another described having recently hired a care-taker for his apartment block - a person whose salary he paid, but whose job involved cleaning communal areas, and fixing anything that may need attention in the neighbours’ apartments (D14). Such examples of community activism through direct financial support for less fortunate members of society were particularly common among respondents who managed mid-sized companies (i.e. employing 50 - 250 workers). They were cited as methods by which possible tensions that may have arisen due to visible socio-economic differences between themselves and neighbours could be diffused.

Investing in Legitimacy

The discourse of larger employers (i.e. those with 250 or more employees), in contrast to their smaller counterparts in the growth-oriented group, seemed to place emphasis not so much on direct responsibility for the material welfare of socio-economic subordinates (i.e. employees and less well-to-do neighbours), as on feelings of personal obligation for the well-being of society as a whole.

Thus, as one respondent who managed a company of 2000 employees pointed out (Dn1), Article 13 of the Ukrainian Constitution states explicitly: “Property entails responsibility.” Since 1996, he and his partner had invested over \$20 million into technological improvements on a 7000 hectare former collective farm in an effort to

⁸⁰The Russian phrase “chelovecheskiyi kachestva” was used by both D3 and D9 - an idiom that roughly translates as “human qualities”. With respect to the role of friends in business, K11 pointed out an insightful distinction: “friends are people you are obliged to help. Clients should not be friends”.

demonstrate that farming could be profitable in Ukraine.⁸¹ From a strictly business perspective, for a company whose primary activities involved automobile, tractor and truck parts distribution, such an investment may not have made immediate economic sense. However, as the owner-manager of a 1700 employee oil and gas trading company who had recently invested in a similar venture explained:

Given that we grew up on the land - and we have no plans to emigrate, we are staying here - we decided to, in the place where I was born, to help a little with job creation. We bought a food processing plant that we are - well so far we've been successful only in putting money into it. At the moment there's 180 people working there... It's a small town and thanks to our example, in the past year, two more new plant owners have arrived... I think just over 10 million (hryvni)⁸² have been invested in the last year; 600 new jobs created (K6).

Analysis of the recent investments made by larger owner-managers within the respondent sample yielded a remarkable pattern: 7 out of 10 had invested in agricultural and/or food production ventures during the previous 3 years. Agribusiness is not known for its profitability in Ukraine, so it was logical to query such respondents as to their motives. Two reasons were given. Firstly, employees needed to be fed, and having the company provide meals was a way of maintaining morale and rewarding good work (L2, K6). Secondly (and perhaps more importantly) such investments improved the image of firm owners in society (Dep1; D3): they demonstrated consideration for Ukraine's future which, in popular discourse, was seen as being intimately tied to the image of the country as the 'breadbasket of Europe' (Kovalevska, 2000).⁸³

⁸¹Some of this money has come from EBRD development loans and other western sources. The majority of this respondent's customers are either private farmers or large agribusiness concerns. From a business perspective, his logic was explained as follows: if farms become profitable, farmers will need machinery, and therefore there will be a greater demand for parts. In his words: "our competitors are not individuals or firms, but the economy as a whole" (Dn1).

⁸²Approximately \$2 million US.

⁸³Respondent Dn1 justified his company's decision to invest in agribusiness philosophically: "What sort of country is Ukraine? Is it known for manufacturing or mining? No we are an agrarian state."

As noted previously, the largest employers in the sample hailed from the embedded path to firm start-up. Interviewees from this group saw themselves as non-specialist organisers and leaders, and tended to invest in broad ranging ventures that allowed them to remove themselves from the day-to-day operations of their firms. However, in contrast to what one might expect given the non-elite origins of embedded-path respondents (Chapter 4), rather than being focused ‘upward’ (i.e. on being recognised by current elite actors), their investment strategies seemed to employ a ‘downward’ looking vision: they targeted ventures that, although not necessarily related to their core business, were of a high profile and deemed strategic in popular discourse. Thus, in contrast to the acquisition-oriented respondents discussed previously (i.e. primarily market trade path interviewees) embedded-path respondents referred to their business ventures as tools for the gaining of broader social influence. Both their formal investments and extensive charitable activities seemed to be geared towards a kind of paternalistic ‘buying’ of prestige from their social milieu.⁸⁴

A negotiated capitalism?

Several tentative conclusions may be drawn from the above analysis. Firstly, the literature’s portrayal of the values of ‘de novo’ firm founders in the FSU as universally tending towards subsistence and/or increased consumption seems to be inaccurate. Although material gain in the form of increased access to consumer goods and leisure seemed to be primary goals for a significant portion of the interviewed Ukrainian firm-founders, an ethic of accumulation and an orientation that valued firm-level growth were also in evidence.⁸⁵

Secondly, among those Ukrainian ‘de novo’ firm owners who may be characterised as ‘entrepreneurial’ (i.e. growth-oriented) there seemed to exist a conceptual link between accumulation as a goal orientation and paternalism as a management method. In other words, those firm founders who reported focusing their business strategies on continuous profit reinvestment (i.e. those for whom neither subsistence nor leisure were the primary objectives of their economic pursuits), seemed also to view their status positions as company owners as entailing a degree of social responsibility. In

⁸⁴For example, respondent D3 explained that in many cases paying wages in kind, rather than in money, was more effective because it motivated employees to be loyal to the firm owner.

⁸⁵Further research using a statistically representative sample of ‘de novo’ firm founders is required to determine the ratio of ‘growth-oriented’ to ‘subsistence/leisure-oriented’ company owners in Ukraine.

practical terms this feeling of commitment to their social environment manifested itself both in a verbalised concern for the well-being of employees and neighbours, and in their prevalent choices of investment targets.

I suggest that such paternalism with respect to relations with subordinates and those of lower socio-economic status can be traced to a latency effect of state socialism. As Ledeneva (1998) has pointed out, an ethic of ‘mutual help’ permeated Soviet society, and was at the core of the system of informal relations commonly negatively referred to as ‘blat’. In the ‘regime of status’ that Ledeneva (1998:150-155) describes as having typified ‘blat’ relations between, for example, enterprise directors and subordinates, occupational status subsumed significant social responsibilities.⁸⁶ Individuals who held prestigious positions in society were expected to provide their subordinates with access to goods and services that were perennially in shortage,⁸⁷ and in return, subordinates offered loyalty and token gifts (e.g. chocolates, alcoholic beverages, flowers) as expressions of gratitude - particularly when the favours provided by high-status individuals were impossible to repay.

In the post-Soviet period, once state socialism’s inherent shortages disappeared, ‘blat’ was generally viewed as having become an anachronism (Ledeneva, 1998:175-214). However, as evidenced by the importance placed on charity by ‘de novo’ firm owners in this sample, the expectation in society that those in positions of elevated status are obliged to dole out favours in return for loyalty seemed to have survived the structural changes brought on by marketization. Furthermore, even though the property distributed through such top-down patronage was no longer owned by the state, its new owners seemed to find such a system of influence-buying agreeable.

⁸⁶Ledeneva describes the ethical requirement of helping family members and friends with ‘blat’ contacts as the ‘regime of affection’ and the ‘blat’ favours that were offered with the expectation of reciprocity as the ‘regime of equivalence’ (Ledeneva, 1998). In these regimes, the significance of ‘blat’ contacts diminished significantly: monetization of the economy and privatisation of property transformed the problem of access to goods from one of dependency on personal contacts to one of impersonal buying and selling whereby money became the object of scarcity rather than the goods it could buy.

⁸⁷Under state socialism goods and services provided by the state were supposed to be distributed to all members of a workers’ collective equitably. In practice however, the director of an enterprise often controlled such distribution - a fact that inevitably introduced a measure of subjectivity with respect to who got what.

In Ukraine, as in other FSU states, the (implicit) ideological shift from a system of social integration based on relative economic equality to one founded on property ownership led to a growing income inequalities and increasing social tensions that became manifest in negative stereotyping of business owners as a group. The departure from the system of legitimation prevalent under state socialism therefore required a new principle of social integration. To put the matter in Marxist terms: the new economic structure required a new ideological superstructure.

Entrepreneurial economic agents who focused on business growth through capital accumulation, implicitly (and in some cases explicitly) seem to have recognised that their improved socio-economic status relative to the population as a whole required legitimation. As a public demonstration of their commitment to Ukraine's economic development, they have expended significant efforts to demonstrate their concern for their fellow citizens through direct financial support (charity), or when able, have invested their capital into the agricultural sector. Such direct and indirect prestige-buying activities may not have yielded high levels of profit in a strictly business sense, but they seem to have generated returns that are greater than those quantifiable in monetary terms. In this respect the philanthropy and targeted investments of Ukraine's 'de novo' entrepreneurs echo the 'legitimacy-buying' practices of 'blat' relations under the 'regime of status' - indicating a process by which old informal rules that may have been considered anachronistic by Western observers of the post-Soviet transition, have been transformed into assets for the establishment of legitimacy by the incumbents of this transition.

I would argue that the prevalence of such informal rule transformation may be taken as evidence of a developmental process whereby the principles of social legitimation required by a stratified economic system based on the market are being created and proliferated in Ukraine through a process of bottom-up *adaptive negotiation* (Spinoza et. al., 1997). Just as Soviet-era enterprise directors 'negotiated' their legitimacy by facilitating subordinates' access to shortage goods and services, so too do growth-oriented post-Soviet Ukrainian entrepreneurs seek to legitimise their status in the new market environment through charity and high profile investments. Although goods shortages may have been replaced by a scarcity of money, the notion of status entailing responsibility has remained.

Furthermore, from a more comprehensive historical-developmental perspective, one may draw a parallel between growth-oriented entrepreneurs' informal institutionalisation of status legitimacy according to 'new-old' rules in Ukraine, and the process that Weber described as having occurred in Western Europe during the 17th and 18th centuries.⁸⁸ According to Weber, the historical transition of western societies from traditionalism to industrial-capitalism was facilitated by the appearance of a particular ethic that was derived from Calvinism (Collins, 1992; Swedberg, 1998, 1999), and entrepreneurs who subscribed to this ethic later provided the ideological foundation for the type of social relations engendered by a modern western-style economic system.⁸⁹ Specifically, entrepreneurs (according to Weber), motivated by a particular subjective choice of life goals, successfully engaged in a specific type of economic activity, and introduced moral rules that became an exemplar for others - thereby legitimising the capitalist system's overall ethic.⁹⁰ Accumulation through continuous reinvestment became a legitimate aim of economic activity, and norms of status shifted from being defined based on titular position to being tied to property ownership.

From a Weberian perspective, the function of the entrepreneur in the West European transition to capitalism was to be the cultural/ideological legitimizer of market-based society. To the extent that it was a requirement of such a society that market actors be motivated by the rational pursuit of profit and its accumulation through continuous

⁸⁸However the analogy between the two social transformations should not be overstated: Ukraine's post-Soviet transition is not a repetition of the transition from traditionalism in a different temporal and geographical context, as some modernisation theorists would suggest (e.g. Dubrovskiy, 2000; Sztompka, 1993, 1995; Van Zon, 2000, 2001). Ukraine is a highly industrialised society, and it is much too simplistic to simply equate its lack of experience with market institutions with backward traditionalism (Codagnone, 1995). On the other hand, both the proclaimed motivational ethic of Soviet society, and its titular social mobility structure, although not based on hereditary ascription, were comparable to those of traditional society - more so than to modern meritocratic capitalism.

⁸⁹As Berger (1991:19) points out: "under the influence of Calvinism, Weber argued, work was transformed from a technique of survival and crude profit-making into a tool for 'salvation' by and for the individual. In this shift, individuals became dislodged from their embeddedness in family and kinship, and received a new autonomy. While the activity of work was 'sacrilised' it became secularised, and eventually developed into an end in itself." The key elements of this transforming valuational worldview were: acceptance of accumulation (continuous reinvestment) and frugality as morally 'right', and a belief in the possibility of advancement through personal effort (internal locus of control).

⁹⁰Schumpeter, following Weber, referred to the existence of an "entrepreneurial mentality - a sublimation of the aggressive instinct (which in capitalist society) becomes the prevailing community attitude" and determines its structure (DeVecchi, 1995:9).

reinvestment, it was the role of the entrepreneur to legitimise both the reward of accumulated profit as an end, and the choices of means by which that end was attained (Berger, 1991).

Similarly, the transition from state socialism in Ukraine required a change of emphasis with respect to the prevalent normative order in society. Whether particular organisational strategies (including private entrepreneurship) became successful, and whether the ideas, values, perceptions, and behaviour associated with them developed into a broader culture was dependent on human response. It is therefore significant that for the proportion of successful 'de novo' entrepreneurs interviewed as part of this study who subscribed to an 'achievement-oriented ethic' (to paraphrase McClelland), personal goal orientations were found to also connote normative obligations to broader society.

Since 1991, privately owned 'de novo' firms have become a significant fact within Ukraine's economy. Partly as a result, the former Soviet republic's social structure has changed dramatically during the past decade, yet class tensions have not resulted in an eruption of popular protest. The country's successful property owners seem to have recognised that their legitimacy as a status group has an informal institutional price.

I suggest that state socialist culture's focus on social responsibility provided Ukraine's accumulation-oriented entrepreneurs with a sufficient basis for negotiating a peaceful transition to a system of economic organisation that inherently subsumes socio-economic inequalities. Thus, as examined further in the final chapter, contrary to the literature's portrayal of the cultural legacies of state socialism as universally constituting liabilities that retard transition, there seems to be some evidence for the informal institutions of state socialism having been successfully converted into *assets* in post-Soviet Ukraine.

Chapter 8

Evolutionary Transformation

The preceding chapters outlined the origins, behavioural strategies, ethical beliefs, and normative values of the ‘de novo’ entrepreneurs interviewed during my field research period in Ukraine. In this final chapter, my first task will be contrast the findings of this empirical research with the prevalent views of the literature on post-Soviet Ukraine. Later, based on the results of this empirical discussion, I criticise the standard ‘policy-oriented’ meta-theoretical approach to analysing post-Soviet transitions, and suggest an alternative ‘bottom-up’ perspective that is based on the morphogenetic paradigm of social realist theory (Archer, 1988, 1995; Sztompka, 1991, 1993). In the concluding section of the chapter, summarise my empirical findings, and elaborate briefly on the role that I contend ‘de novo’ entrepreneurs continue to play in Ukraine’s socio-economic transformation, a decade after the collapse of state socialism.

A Latent ‘Homo Sovieticus’?

The literature on the transitions from state socialism generally emphasises the *negative* effects of the latency of Soviet-era cultural institutions. Universally these are viewed as liabilities to be overcome in the process of social transformation. Instead of being seen as potential generators of change, ‘cultural effects’ are most often viewed as stifling, or at best mediating factors with respect to transformative social processes (e.g. Parsons’s “pattern maintenance”). Indeed in the case of CEE and the FSU states, much has been written in a modernisation theory context regarding the existence of a culturally predicated “post-communist syndrome” (Klicperova et. al. 1997; Ploszajski, 1995; Van Zon, 2001) that is deemed to constrain the ability of these societies to transform into market-based economies. According to this view, former state socialist societies suffer from a “fake modernity” (Sztompka, 1993) resulting from the fact that industrialisation was imposed on them ‘from above’ by Communist elites, rather than emerging ‘from below’ as it did in the West. Consequently, it is argued that their cultural environment was developmentally skewed on a macro level, with symptomatic *individual*-level results manifest as pervasive passivity, fatalism, and interpersonal suspicion. Accordingly, ‘grab-it-and-run’ strategies antithetical to

legitimate entrepreneurship are said to permeate all economic activities (Sztompka, 1995).

In this vein, and with specific reference to Ukraine, Szyrmer (2000:17-19) has listed six principles of the Soviet system that, he claims, survived the country's (inconsistent) implementation of market reforms as latent and stable *micro-level*⁹¹ informal institutional liabilities antagonistic to a system of market capitalism. Thus, referencing the continuity of behavioural conventions, he identifies individual-level passivity as a Soviet-era normative legacy that seems to continue to exist in Ukraine after a decade of transition. He declares (stereotypically) that post-Soviet Ukrainians lack initiative, and suggests that this phenomenon may be traced to the state socialist system's requirement that citizens be disciplined in their behaviour, and that such discipline be enforced through CPSU control over all aspects of both state administration and the economy. Markets require diffused freedom in order to operate efficiently, and therefore passivity as an accepted conventional form of behaviour may be said to forestall the effective functioning of markets.

Szyrmer's argument with respect to individual-level activism being a necessary functional requirement of a market system is clearly theoretically correct, but according to the findings of this dissertation, his stereotypical characterisation of Ukrainians as lacking such entrepreneurial zeal, is empirically unfounded. Ukraine experienced an unparalleled decline in officially recorded output during the 1990's which could be attributed (theoretically) to popular passivity.⁹² However, the rapid decline of the country's official economy was accompanied by a burgeoning shadow economy,⁹³ and the incumbents of the latter were clearly not passive. In fact, as

⁹¹In addition to the micro-level principles named below, Szyrmer also notes the minimal role of money in the Soviet system, but as discussed in Chapter 2, I treat this as a macro-level institution.

⁹²Clearly other factors, such as the structural decline of 'rust-belt' industries and the collapse of demand for military-industrial complex production, contributed to the collapse of Ukraine's official economy. The argument presented by Szyrmer and others (VanZon, 2000, 2001), suggests that passivity on the part of managers (in their view, a cultural inheritance the Soviet system) was one of the factors contributing to Ukraine's industrial SOE's inability to restructure and to operate efficiently under a market system.

⁹³As noted in Chapter 2, throughout the second half of the 1990's, the shadow economy's share of total Ukrainian GDP was estimated to have been approximately one half of officially reported figures - i.e. about 1/3 of the overall economy. Some analysts have suggested that during the early years of transition, the 'shadowization' phenomenon (common to all FSU states, and manifesting itself as a tendency to hide any and all income from the authorities), was the result of Soviet-era socialisation: the informal institutional norms of 'blat' produced a culture of "parasitic innovativeness" whereby

several authors have argued (Golovakha & Panina, 1995; Rose, 1995), the mammoth growth of Ukraine's shadow economy since independence may reflect a prevalence in the population of an 'entrepreneurial spirit' that leads to resilience and adaptation to adversity. Certainly most of the 'de novo' entrepreneurs interviewed as part of this research cannot be characterised as passive.

Szyrmer also claims that a society-wide aversion to economic activities aimed at the pursuit of profit survived the past decade of social transformation in Ukraine. A market economy requires the public encouragement of individual utility maximisation. Conversely, the individual-level profit motive was publicly *condemned* in the USSR, and as a result, during the late-Perestroika years (i.e. early market reform period), profit-oriented economic activity undertaken as part of the co-operative movement often carried an odium of illegitimacy (Jones & Moskoﬀ, 1991). According to my research, such popular condemnation of economic activities targeted at wealth accumulation through private enterprise seems to have increasingly become subdued in Ukraine during the past decade. As one interviewee noted:

What we once perceived in one way, now it is all represented differently. The thing is that now, there's lots of private businesses, and those people who work in private firms, their mentality has changed. In the civil service people are paid very little money. Pensioners who (are supposed to) get their money from the state, often don't get it all. And so, many families survive on account of those family members who work in private companies, and this leads to the development of a (different) mentality (D11).

According to Szyrmer (2000), although private enterprise in general may have become somewhat more legitimised during the past decade, economic activities predicated exclusively on commerce, rather than 'real' goods production, are still viewed disparagingly in Ukraine. Until 1991 'speculation' was a criminal offence

creativity in private economic activities involved 'bending-the-rules' in the first instance (Sztompka, 1995). However, as Kaufmann (1997) has noted, Ukraine's level of 'shadowization' during the 1990's was one of the highest among the states of the FSU, and therefore blaming 'shadowization' exclusively on a negative effect of cultural latency is insufficient in the Ukrainian case. I suggest in fact (Chapter 2), that the *popularity* of private enterprise among Ukrainians was one of the factors contributing both to the mammoth size of the country's shadow economy to its relatively low levels of absolute poverty.

throughout the FSU, and as a result, 'non-productive' work was stereotyped as illegitimate. My findings partially confirm those of Szyrmer who claims that such stereotypes survived the introduction of market reform policies in Ukraine. Specifically, as discussed in Chapter 6, educated professionals who embarked on private enterprise careers during both the early and later post-Soviet years (i.e. the technical intelligentsia who established the technical innovation path to firm founding), generally seemed to cluster in manufacturing and service provision rather than trade. Conversely, a parallel process occurred whereby commerce and market trade (i.e. sectors perceived as 'non-productive') became legitimised. In addition to structural factors that led to individual-level trade becoming a mass phenomenon (Barkhatova, 2001; Burawoy, et. al., 2000), I contend that the legitimisation of commerce in Ukraine may be traced to a demonstration effect: during the early post-Soviet period, the improved material conditions of individuals who had previously been involved in illegal shadow economy activities had a positive effect on the prestige position of successful businessowner 'middlemen'. As discussed in the latter portion of this chapter, I contend that such a demonstration effect - derived from the improved economic conditions of individuals whose status position was once subaltern - may be seen as having had much broader consequences than simply legitimising private enterprise activities. I argue that the example of success led to imitative behaviour that in turn transformed institutionalised rules, norms, and conventions.

Turning to the way in which 'normality' was represented in Ukraine at the turn of the millennium, Szyrmer (2000: 17-19) points out that Soviet society professed and actualised a system of minimal income disparities, and that although a market system requires inequalities in order to motivate people to seek utility maximisation, in Ukraine, even after a decade of transition, personal wealth still seemed to be universally condemned. The individuals interviewed as part of this research may on the whole be considered relatively affluent by Ukrainian standards. It is therefore notable that, although recognising that income inequalities increased after the collapse of state socialism, none of the respondents reported such socio-economic disparities to have been a cause of social tension. I submit that at least to some extent, such micro-level acceptance of inequality by Ukrainian society can be attributed to the 'legitimacy-buying' efforts of 'de novo' entrepreneurs described in Chapter 7.

With respect to broader moral rules governing interpersonal and inter-firm relations, Szyrmer suggests (as do proponents of the ‘state capture’ paradigm) that the Soviet-era practise of implementing laws idiosyncratically resulted in the long-term institutionalisation of a relativistic ethic within the Ukrainian population. As argued in Chapter 6, the accounts of the interviewed entrepreneurs indicate that this seems to be only partially true: although formal legal proscriptions, and constituted rules more generally, continue to be viewed primarily as obstacles to be overcome (and therefore to be treated relativistically), this does not connote that Ukraine’s ‘de novo’ firm owners subscribe to an overall relativistic morality. On the contrary, almost all respondents in the current sample emphasised the importance of reputation and keeping promises to business colleagues as moral absolutes.

In the area of employer-employee relations, ‘de novo’ entrepreneurs have clearly been important facilitators of changes in prevalent perceptions of morality in Ukraine. As Szyrmer points out, economic ‘exploitation’ was ideologically condemned by Marxism, and it is possible that the persistence of this ideological legacy may explain why many of the interviewed entrepreneurs in the current study emphasised their moral duty to employees and those less fortunate in society. As outlined in Chapter 7, a majority of the respondent sample appears to have accepted the notion of ‘property entailing responsibility’,⁹⁴ and through their own actions diffused any perceptions of themselves as ‘exploiters’.

From the perspective of the country’s broader socio-economic development, I contend that such innovative adaptation of the informal norms that prevailed under state socialism to the new realities of a market economy may point to a process by which a qualitatively new form of negotiated capitalism may be evolving in Ukraine: one whose structure conforms to that of a stratified market economy, but where the cultural role of firm-owner is understood to entail significant duties with respect to status subordinates. Thus, contrary to the pessimistic outlook of authors who identified state socialist cultural inheritances as prime constraints that would lead to an unfavourable path dependency in the transition in the FSU (Greif, 1994; Stark, 1994; Stark & Bruszt, 1998), I suggest that the cultural legacies of state socialism

⁹⁴As stated in Article 13 of the Ukrainian Constitution.

cannot universally be characterised as liabilities. Contrary to the portrayal of Ukraine as a “neo-patrimonial society with anti-modern tendencies” (VanZon, 2001) whose business owners primarily practice the “grab-it-and-run” tactics viewed as characteristic of the ‘homo-sovieticus’ mentality (Sztompka, 1993), the results of my research point to a *fruitful* transformation of the informal institutional legacies of Ukraine’s state socialist past by the country’s ‘de novo’ firm-owners.

Ukraine’s Transition

Methodological problems arise when attempting to theorise the overall nature of Ukraine’s socio-economic transformation since the collapse of state socialism based on small-scale empirical research. Nevertheless, my own findings and the generally accepted meta-theoretical approach to analysing post-Soviet transitions do not cohere. I contend, therefore, that a re-evaluation of the literature’s emphasis on ‘top-down’ policy implementation as being the driving force of transition⁹⁵ is in order - particularly if one seeks to understand the *broader cultural effects* of the past decade of socio-economic change in Ukraine. No doubt since the collapse of state socialism some limited reforms have been implemented by the country’s post-Soviet elite through ‘top-down’ methods (Kuzio, 1997; Pynzenyk, 1998; Sundakov, 1999; Von Hirschhausen, 1998); examples reviewed in Chapter 2 included legislative changes and executive orders that affect economic organisation (e.g. privatisation, price and trade liberalisation). However, the current transition is much more fundamental than is implied by analysts who focus exclusively on such elite-led structural reform.

The alternative approach that I advocate to analysing Ukraine’s post-Soviet economic transformation addresses the role of individuals as agents of social change at the

⁹⁵The paradigmatic view that posits formal institutional change as being the primary prerequisite of transition should be placed in the context of the broader scholarly debates that have emerged as to whether the processes of social change that began in the CEE and FSU regions a decade ago can best be described as a “transformation” or “transition” (Lane, 2002; Lavigne 2000). Arguing the appropriateness of the former term, Clause Offe (1996) has pointed to the absence of a defined end-state in the articulated visions of the actors who initiated the events of 1989-91 in CEE countries and in the FSU. In contrast, Valerie Bunce (1999) has argued that the vision of a Western-style market-based society, though amorphous, constituted a sufficiently coherent programmatic goal to allow for the past ten years to be characterised not simply as a ‘transition’ but as a revolution. Both of these perspectives are derived from a fundamental premise: that systemic change can be implemented through a top-down elite-led process. Accordingly, mass attitudes are considered important to the analysis of the course of transformation, but only because they constrain and limit the actions of elites (Stark & Bruszt, 1998), or because democratically elected governments require a constituency of support in order to enact reforms (Kubicek, 1997; Miller et. al., 1995, 1998; Holovakha, 2000; Pynzenyk, 2000).

micro (interpersonal) level, and emphasises the role of cultural assets at the macro level.⁹⁶ In this respect I follow a broadly Weberian theoretical tradition, meaning that I have sought to understand both micro-level structural issues (i.e. behavioural path dependency) and broader cultural questions (i.e. status and prestige norms; legitimacy of terminal and instrumental values) involved in the phenomenon of entrepreneurship. Methodologically, one can define this theoretical approach as follows:

We wish to understand on the one hand the relationships and the *cultural* significance of individual events in their contemporary manifestations, and on the other, the *causes* of their being historically so and not otherwise (Weber, 1949:72 - emphasis added by Silverman, 1985:41; see also Boudon, 1986).

Thus, rather than examining Ukraine's transition from a traditional political economy perspective (Holton, 1992) that attributes causal primacy to the state and to political elites as shapers of a formal institutional framework conducive to markets, in this dissertation I have applied the opposite, 'bottom-up' perspective to my analysis.⁹⁷ Instead of viewing economic actors as relatively passive recipients of institutional stimuli that provide incentives for and/or constrain given types of action (as traditional neo-institutional economists would argue - Hodgson, 1988), I have suggested that an equally important, though understudied, aspect of the post-Soviet transition process involves informal institutional change at the inter-individual level. Thus, I have attributed agency to entrepreneurs by positioning them as 'bottom-up' shapers of informal institutions: as individuals who affect, a) what is considered

⁹⁶Although focusing primarily on ideational issues in my empirical investigations, I have attempted to avoid a reductionist conception of social change that would attribute causal primacy exclusively to cultural factors (e.g. Parsons, 1966:133). Indeed, I believe this bias to be one of the faults of analytical approaches to post-Soviet transitions derived from modernisation theory (Grancelli, 1995; Sztompka, 1995), which attribute the slow rates of economic growth in the countries of the FSU almost exclusively to cultural latency, and more specifically to socialisation according to state socialist cultural norms. Such cultural reductionism has been famously criticised for its "oversocialised conception of man" (Wrong, 1961; see also Eisenstadt, 1971; Holton, 1992), and has proven unhelpful in analysing the obstacles to economic development in the post-colonial world. Its mistakes need not be repeated in research on post-Soviet transitions.

⁹⁷I submit that given previous researchers' emphasis on providing policy advice to governments and reform-oriented groups within the elites in FSU countries, a reductionist bias has developed within the literature on post-Soviet transitions that attributes causal primacy with respect to social transformation (or its lack) exclusively to structural economic factors as affected by the actions of the state. Clearly the role of the state cannot be ignored in any analysis of Ukraine's transition, but such exclusively 'liberal economic' and 'political economy' approaches (Holton, 1992) ignore the 'bottom-up' dimension of post-Soviet transition.

legitimate behaviour in society; b) what constitutes an ethical aim or goal; c) what sorts of social and interpersonal relations are to be frowned upon, and which supported (or at least tolerated).

I have chosen these three substrata of informal institutions because they are the base elements of any cultural system (Douglas, 1987), and as Margaret Archer (1988, 1995) has pointed out, although the relationship between actors at the level of socio-cultural interaction need not be logical (it may be causal or contingent), the relationship between the elements of the cultural system in which they are socialised is always *logical*. When actors interact in everyday life, their causal or contingent actions elaborate individual cultural items. If a particular choice of action leads an actor to question an institutionalised norm, an internal contradiction within the cultural system may result.⁹⁸ Thus, according to Archer, one can identify a historically continuous ‘morphogenetic’ process that involves the continuous resolution of logical contradictions within a particular cultural system through the interaction of individual agents (Archer, 1995, 1998). The resolution of such logical contradictions in the course of everyday interaction leads to change in the prevalent (normative) cultural system of a society when aggregated to a macro level.

Archer’s ‘cultural morphogenesis’ is clearly an expansion of Schumpeter’s classic paradigm of ‘creative destruction’: as with economic change, cultural transformation is seen as an evolutionary process whereby elements of the past are articulated, cross-appropriated, and reconfigured into a new reality.⁹⁹ Applied to a post-Soviet context one may identify just such a meta-theoretical process occurring among (and being driven by) ‘de novo’ entrepreneurs. As shown in the empirical analysis presented in previous chapters, during the past decade in Ukraine, entrepreneurial individuals manipulated state socialist structural inheritances (e.g. human capital, network contacts), and cultural legacies (e.g. norms of paternalistic responsibility), into a novel infrastructure of informal institutions which both maintains elements of the past, and

⁹⁸Culture itself is not the *cause* of action. Here we return to the ‘push’ and ‘bind’ effects of institutions as conditioning factors that determine the legitimacy of action choices, but do not determine the choices themselves.

⁹⁹Spinoza, et. al. (1997) suggest three specific mechanisms by which institutional arrangements may be elaborated by entrepreneurs: 1) *articulation* of the hidden reasons that a normative order has become institutionalised; 2) *reconfiguration* of structural resources; 3) *cross-appropriation* of practices normally used within one ‘disclosive space’ and their application to another.

engenders new social rules and norms that are radically different from those of state socialism. Through their everyday economic activities Ukraine's 'de novo' entrepreneurs have transformed what was subjectively considered legitimate behaviour, and have thereby effected a path dependent *institutional elaboration*.

My argument follows the postulate of Axelrod (1986): deviant behaviour which leads to success is likely to be imitated. In Ukraine during the early 1990's, after years of ideological discreditation, private enterprise became legitimised. The catalyst was a top-down policy change (i.e. the legal permission of private enterprise activities), but over time the bottom-up process that involved individuals choosing to pursue particular avenues of utility maximisation became self-sustaining: the visible economic successes of 'de novo' entrepreneurs led to a demonstration effect. More specifically, the fact that certain types of entrepreneurial behaviour (e.g. opportunism, innovation, organisation, non-standard managerial decisions - see Chapter 5) led to improvements in the economic standing of the individuals involved, led others (particularly those with similar professional backgrounds - i.e. life-course paths) - to mimic this behaviour. The result, I contend, was a broad transformation of behavioural conventions, moral rules, and social norms that previously had denied the legitimacy of entrepreneurship as a professional occupation in Ukraine.

Furthermore, differential paths to entrepreneurship led to variations in the ways in which specific informal institutions evolved. As shown in the empirical chapters of this dissertation, in the years following the collapse of state socialism, each of the interviewed entrepreneurs, in different ways, successfully converted Soviet-era informal institutional inheritances into *resources* and later into *assets* that facilitated their success in private business. Thus, rather than reflecting a negative macro-level path dependency, the interviewed entrepreneurs provided evidence of a virtuous pattern of micro-level path dependent development.

In his seminal work on the transition of Western society from traditionalism to modern industrial capitalism, Max Weber ([1904] 1992; [1920] 1999) identified entrepreneurs as pivotal agents of the dissemination of a values-complex and worldview that he termed the "spirit of capitalism". This dissertation clearly falls within this Weberian theoretical tradition: Ukraine's post-Soviet entrepreneurs have

been examined as key “new actors” (Arzeni, 1996) in a transforming social environment; a potentially ascendant (in terms of socio-economic status) vanguard of ideological change whose present actions (re)organise existing economic *and* cultural resources - thereby leading to the “creative destruction” of both.

However, rather than being rooted in Protestantism, or other exogenous (religious or secular) pressures experienced by Ukrainian society since independence, the worldviews of the interviewed respondents can be traced to *endogenous* structural and cultural roots. In Chapter 4, I identified four distinct groups of ‘de novo’ entrepreneurs, and traced their life-course paths to firm-ownership. The social structural position of members of each group at the time of start-up was found not only to have influenced their later objectively quantifiable achievements, but also to have conditioned subjective choices of survival and growth strategies (Chapter 5), as well as internalised standards of business ethics (Chapter 6). Each of the four identified ‘entrepreneurial mentalities’, instead of reflecting some form of ‘homo sovieticus’ values set, echoes a variant of the Weberian ‘capitalist spirit’. Furthermore, instead of representing a radical departure or “civilizational break” (Sztompka, 1996) with the past, these Ukrainian variants of the ‘capitalist spirit’ seem to represent a natural outgrowth of the legacies of state socialism: moral rules defining personal life-goals and motivations in the Soviet-era appear to have evolved to incorporate the new requirements of a market-based society (Chapter 7). Changes in status and prestige norms as well as the evolution of social rules governing interpersonal interaction (e.g. relations with employees, family and acquaintances) point to an ongoing process of ‘bottom-up’ morphogenetic development.

Conclusion

The examination presented in this dissertation of the role of ‘de novo’ entrepreneurs in effecting ‘bottom-up’ socio-economic transformation in post-Soviet Ukraine diverges significantly from the accepted paradigm presented in the literature. In the past, observers of economic transformation in the FSU have generally minimised both the structural and cultural significance of ‘de novo’ firms to the transition. Traditional analysis of post-Soviet transformations have generally viewed cultural effects either as regulators of the method (macro-level “path”) of institutional change, or as latent, moderating factors that constrain and retard structural policy implementation

(Dahrendorf, 1990; Sztompka, 1995). Implicitly therefore, such analysts have adopted a Parsonian perspective to the study of informal institutions (Parsons, 1990), focusing on their function in securing pattern maintenance and social reproduction.¹⁰⁰

From the perspective of structural change, during the early 1990's analysts *critically* observed that within the 'de novo' sector in the CEE and FSU states, "growth was mostly in very small firms, mostly in non-tradeables, and mostly outside of manufacturing."¹⁰¹ In this dissertation, I have argued that this was precisely what occurred during the early years of transition in Ukraine, and that it was a *positive* phenomenon from the perspective of the country's long-term economic development. During the decade that followed the collapse of the USSR, a significant number of 'de novo' firms that started as small enterprises gradually became large, diversified corporations.

Furthermore, I have argued that these 'de novo' firms created a distinct and autonomous market sphere in Ukraine where none existed before. On a macro-level one may claim that according to the criterion of structural differentiation, the results of the past decade of transformation in Ukraine were mixed. The country's economy at the turn of the millennium seemed to be split into two parallel spheres (i.e. state-centred heavy industrial on the one hand, and autonomous market with a predominance of 'de novo' firms on the other).¹⁰² However, although the short-term merits of such bifurcation could be debated during the 1990's, by the turn of the millennium, economic activities conducted within the market sphere had gained a critical mass. Thus, by 2000 (and in the years that followed), Ukraine's 'de novo' firms became the main driving forces of the former Soviet republic's economy.

¹⁰⁰Such a perspective is clearly important if one is attempting to explain why societies cohere and remain stable (as was Parsons' intention - Rocher, 1974:161). As an explanation of how social institutions *change* however, it is not particularly helpful - except in pointing out that 'top down' (i.e. elite-led) transformation must necessarily be slow due to the inherent latency of culture.

¹⁰¹This criticism was levelled by A. Berg and O. Blanchard at a NBER conference on Transition in Eastern Europe in February 1992 - quoted by Neuber (1995:127)

¹⁰²A similar economic bifurcation seems to have occurred in Taiwan after the island's 1949 take-over by Chiang Kai-shek and his followers. During the ensuing decades, the Taiwanese heavy industrial sector remained largely controlled by an authoritarian state whose expatriate mainland-Chinese power-brokers ruled through a corrupt system of vertical network patronage that excluded the island's native population (Gold, 1986). In the SME sector however, native Taiwanese were allowed to develop their businesses with minimal state intrusions, and it was this market sphere of owner-controlled firms that

Furthermore, in the specific context of Ukraine's 'de novo' market sphere development a micro (inter-individual) level morphogenesis has occurred. For select entrepreneurs (those who chose to attempt to deviate from established norms and conventions) Soviet-era cultural experiences became assets that shaped their subsequent behaviour. In other words, differentially distributed cultural assets (e.g. human capital, skills in interpersonal relations, network embeddedness) accumulated during the Soviet period, enabled certain individuals to pursue successfully, and to popularise entrepreneurship (both in the official and shadow economies) once private enterprise was permitted in Ukraine. In turn, the proliferation of such formerly unorthodox activities led to an evolution of institutionalised social norms, and therefore to a change in the delineated boundaries of legitimate economic action. Culture therefore both provided the micro-level stimulus for individual economic agents to behave in a particular manner, and was also the net macro-level beneficiary of their agency.

In this dissertation I have argued that the appearance of private business ownership in Ukraine after the collapse of state socialism had a direct effect on the country's cultural environment, resulting in a re-evaluation of social conventions, moral beliefs, and norms of interaction ingrained during decades of Soviet rule. The predominant worldview of the former Soviet republic's population could not and did not change overnight, but its culture was gradually transformed by entrepreneurial individuals who through their actions generated new behavioural conventions, modified ethical beliefs regarding legitimate life goals and moral rules regulating the means of their pursuit, and reconfigured social norms that determined status and prestige criteria.

During the past decade, Ukraine experienced a process of socio-economic transformation that was led by entrepreneurial example. It is my hypothesis that as a result, a virtuous spiral of change (i.e. engendering optimism) in the ways in which individuals in broader society interact in their daily lives was begun. Future survey research that investigates the values and beliefs of both entrepreneurs and of the broader population - using a broad-based representative sample - will test the validity of this hypothesis. In the meantime, Ukraine's economy continues to grow, and 'de

quickly developed into the main engine of Taiwan's rapidly growing, export-oriented economy (Whitley, 1999).

novo' firms continue to proliferate - as do the corollary cultural and structural effects of their propagation described in this dissertation.

Appendix A - Statement of Potential Author Biases

I was born in Canada to immigrant parents who both fled western Ukraine after WWII. I am fluent in the Ukrainian language, and have been active in the Diaspora community.¹⁰³ During the field research period described in this dissertation (September 2000 - September 2001) every attempt was made to discount any preconceived notions, prejudices and biases that may have resulted from my personal background and history, and to become a *participant* observer of Ukrainian society. The extent to which I was successful is up to the reader to judge. Nonetheless, it is customary for authors reporting on qualitative research projects to state their own potential biases outright, and in my case these may be summarised as follows:

I have no doubt that a market system of competition between privately owned economic entities is more efficient at providing consumer goods, and at generating wealth, than a system of central planning. Furthermore, my own experience of having participated in an entrepreneurial venture¹⁰⁴ has led me to conclude that the owner-managed entrepreneurial firm is the organisational antithesis of human commodification (i.e. what Weber referred to as the ‘iron-cage’ of bureaucracy, and Ritzer (1996) called ‘McDonaldization’). I therefore believe the proliferation of such entrepreneurial firms in Ukraine to be one of the methods of both avoiding the ill-effects of western-style bureaucratic rational capitalism, and of preserving some of the humanising aspects of the state socialist “world we have lost” (Lane, 1996). The social environment that I experienced when travelling to Ukraine during the early 1990’s was highly personalised - the result of both a transitory revolutionary buoyancy and many years of surviving within a system of ‘blat’ that may not have been efficient, but certainly demanded human contact. During the field research period described in this dissertation, ideological buoyancy was again present on the streets of Kyiv: mass demonstrations were accompanied by countless discussions regarding Ukraine’s economic and political future. A decade earlier I found it difficult to avoid actively participating in such discussions, and this time was no different.

¹⁰³I first travelled to Ukraine in July 1989, then again in 1990. From January to August 1991, I participated in an exchange program with Dnipropetrovsk State University, where I engaged in the nascent student political movement. In addition to the fieldwork year on which this dissertation is based, since 1991 I have visited Ukraine over 12 times both on business and to visit family and friends. These visits included a trip in 1997 to conduct research for my Cambridge M.Phil. dissertation, entitled: “The 1996 Constitution of Ukraine: a Reflection of the Values of the Political Elite”.

Appendix B - Empirical Research Methods

During the course of fieldwork, the methods that I used to investigate the phenomenon of entrepreneurship in post-Soviet Ukraine changed substantially. In this Appendix I have followed Silverman's (2000:236) advice to doctoral students writing methodological chapters in qualitative research dissertations, and have included a "natural history of my research". The reader may find it interesting to see how the presented project developed over time.

Combining Quantitative and Qualitative Methods

My intended research design was to combine both qualitative and quantitative methods of data collection. The research questions to be investigated during my year of fieldwork in Ukraine (September 2000 - September 2001) were structured around the three broad themes:

1. The social origins of Ukraine's post-Soviet entrepreneurs and the situational factors that led individuals to choose to start their own business ventures during the early post-Soviet period.
2. The business strategies of 'de novo' firm owner-managers, and their behaviour within their social milieu, including their interaction with employees, relations with competitors, customers, and the state.
3. Ukrainian entrepreneurs' values and beliefs including their perceived personal and company goals, status aspirations, and work ethic

To explore these themes I planned to adopt a mixed method approach that favoured qualitative inquiry, but also employed some limited quantitative methods of primary source data collection. In this way the advice of Kollermeier was to be taken into account (1991:52): "the study of entrepreneurship in an economy in transition... requires a hybrid approach. The uniqueness of this transient situation requires the use of (both) qualitative and quantitative methods." It was hoped that such a combination of methods would both provide rich qualitative data that would allow for the painting of a phenomenological portrait of the values and beliefs of more successful

¹⁰⁴From 1993 to 1999 I was employed as V.P. Sales & Marketing by Lava Computer MFG Inc. - a Toronto-based computer add-on manufacturer owned by my brother.

entrepreneurs (selected for interviewing), and also result in broadly based quantitative data that would be useful in analysing similarities and differences between Ukrainian business owners and entrepreneurs in other countries.

The qualitative portion of the research design called for a series of semi-structured interviews with new firm founders in three Ukrainian cities (Lviv, Kyiv, Donetsk) during which respondents were to be asked open-ended questions regarding, a) their motivations for start-up, and b) the strategies they employed once established in business (e.g. competitive posture, growth orientation). In contrast to the planned survey which sought to collect quantitative data from a mass sample, the aim of this aspect of the field research design was to gain an in-depth qualitative understanding of the values and beliefs of selected *successful* 'de novo' entrepreneurs, and to explore their world views, motivations, ideological beliefs, management and growth strategies.

Qualitative research of this type (i.e. based on in-depth interviewing) is not conducive to comparative analysis (Creswell, 1994), and therefore comparability between my results and those of other researchers in different geographical settings was to be made possible by the addition of a quantitative phase to the research design. Specifically, a survey of business owners in Ukraine was planned using standardised questions derived from previous studies of both western and Russian businessowners' beliefs regarding such issues as work ethic, locus of control, personally responsible standards of morality, competitiveness (Begley, 1997; Covin & Slevin, 1989; Cassidy & Lynn, 1989; Furnham, 1990; Green et. al., 1996; Hussin, 1997; Kohn et. al., 1997; Miner, 1996; dePhillis, 1998; Simon et. al., 2000; Stewart et. al., 1999). Twenty three 4-point Likert scale questionnaire items were taken verbatim from these studies, translated into Ukrainian by me, and then back-translated and verified by a native speaker while in the field. At the start of fieldwork, a survey booklet was produced, and 1500 copies made, but as discussed further below, quantitative data collected using this instrument was not used in the eventual analysis.¹⁰⁵

¹⁰⁵In addition to the standardised questionnaire, the survey booklet solicited demographic information (e.g.: age, gender, marital status), asked about previous occupation (prior to business start-up), competitive strategy (niche vs. mass marketing), evaluations of the business environment of the respondent's firm, and his/her time spent engaging in various leisure activities.

Quantitative Failure

Beginning in August 2000 several attempts were made to generate a random sample for the implementation of the planned survey by obtaining national and/or local (city) lists of registered enterprises. Various Ukrainian government and NGO authorities were contacted to this end including the State Statistics Committee, State Committee on Regulatory Policy and Entrepreneurship (SCRPE), State Tax Inspectorate, the Kyiv International Institute of Sociology, and the Coordinating-Expert Council of Business Associations. By the end of October 2000, it became clear that none of these organisations would be of much help. Government agencies refused to provide enterprise contact information on the grounds that lists of registered firms were considered to be state secrets in Ukraine, and local NGO databases were all found to be out of date by at least 2 years.¹⁰⁶

Given my failure to access official firm registry lists, I abandoned trying to compile a statistically representative sample, and resorted instead to attempting to access the membership of Ukrainian NGO business associations through their activists and leaders. This strategy would clearly not lead to a statistically random sample of Ukraine's population of firm-owners, but I hoped it would nevertheless be large enough for face validity to be maintained (with certain caveats) with respect to comparisons with the results of previous research.

In December 2000 I signed an agreement with the Union of Co-operators and Entrepreneurs, an NGO that purported to represent over 25 000 retail and wholesale traders working in Ukraine's almost 4000 bazaars. They agreed to distribute and collect 1000 survey pamphlets among their members for a fee of 3 UAH (approximately \$0.55 US) per collected questionnaire. At the end of January 2001 they presented me with 801 completed questionnaires, but when data was entered into

¹⁰⁶As I later discovered, such lack of availability of reliable company registers is a common problem in Ukraine. For example, working with a sample selected from registry lists supplied by local (oblast) government agencies, the authors of the IFC survey studies (Yacoub & Senchuk, 2000; Yacoub, Senchuk, Tkachenko, 2001), admitted in conversation that their achieved response rates were below 50%. Similarly, the 1999 baseline "Survey of Business in Ukraine" (funded by USAID) reported that when attempting to contact firms based on a national register of companies: "... there were major problems finding a significant minority of firms. More than 70 percent of small firms (with fewer than 50 employees) could not be found, and 40 percent of medium-sized firms and more than 20 percent of large firms from the registry sample could not be found when interviewers called or visited the addresses provided in the registry sample provided by the State Committee on Statistics" (Gray & Whiston, 1999:x).

a spreadsheet package it quickly became clear that the majority of the surveys had not been filled in by respondents, but rather had simply had answers ticked by the 'surveyors' themselves: identical responses to the 23 Likert scale questions were recorded in over 400 cases. Facing such gross problems with reliability, I was forced to discard the entire survey.

During the time that the above fraud was being perpetrated, I independently sought to expand my survey sample by asking other NGO's to also distribute my questionnaire to their membership. 69 surveys were collected through the Young Entrepreneurs Council of Ukraine (average age 27 years), 21 through the Association of Enterprises with Foreign Capital (based primarily in Kyiv), 7 with the aid of the Donetsk NewBiznet Consulting Centre, and 10 through the Uzhhorod Women's Business Consulting Centre (Zakarpattia oblast).¹⁰⁷ I personally collected an additional 38 completed survey booklets by approaching business owners at two trade shows (pharmaceuticals - November 2000; computers and electronics - early February 2001), and informally in the course of travelling throughout Ukraine (e.g. restaurant and hotel owners, service suppliers, etc.).

The purpose of these additional surveys was to expand the sample beyond that provided by the Union of Co-operators and Entrepreneurs. However, when the data collected by this main source was discarded due to fraud, the relatively small number of supplementary surveys that remained made any claims regarding generalisability of the data that they contained dubious at best. Exasperated, I abandoned the planned quantitative data collection strategy completely in February 2001.

Interviews

However, the contacts made with NGO business associations in the course of attempting to organise survey distribution and collection eventually proved useful in the qualitative phase of research. Personal acquaintances and NGO business association leaders were asked to act as 'gatekeepers' - mediating contacts with

¹⁰⁷Both consulting centres receive funding on a contract basis from western donors (e.g. USAID, TACIS).

potential interviewees. The eventual sample was therefore generated through a classic ‘snowball’ approach (Arber, 1993).¹⁰⁸

My respondents were to be based in three cities: Donetsk, Lviv, and Kyiv. In Lviv, I had sufficient personal contacts to generate a sample largely through past and present acquaintances, but in other cities sample selection relied on contacts mediated by: the Kyiv Chamber of Commerce, the Kyiv Association of Retailers, the Association of Entrepreneurs “Nova Formaciya” (Kyiv), Freedom House (Kyiv), the Donetsk Chamber of Commerce, the Young Entrepreneurs Council of Ukraine (Donetsk), the Intron Business Consulting Centre (Donetsk).

I planned to conduct the interviews as semi-structured conversations that would last no more than 30-45 minutes. At the conclusion of the open-ended questioning portion of the interview (see description below), respondents were to be asked to complete a fill-in questionnaire containing the same scale items used in the planned survey. A Ukrainian version of this single page questionnaire is provided in Appendix D, and an English-language listing of the scale items together with the referenced studies from which they were drawn and dimensions that they purported to measure, are provided in Appendix E.¹⁰⁹

Interviews began in September 2000 with an initial pilot visit to a large (2000+ employee) ‘de novo’ firm in Dnipropetrovsk (Dn1).¹¹⁰ This was followed by a subsequent pilot interview in Kyiv (K11) and two in Lviv (L2, L3) in October 2000.

¹⁰⁸In addition to intermediation by gatekeepers, letters of support for my project were sought and received from Oleksandra Kuzhel’, chair of the State Committee on Regulatory Policy and Entrepreneurship (SCRPE), and from Deputy Prime Minister (Economy) Yu. Yekhanurov. Even with such official sanction however, a personal referral (usually by phone) from another business owner was often required to gain access to a respondent.

¹⁰⁹Prior to beginning fieldwork I had planned to have interviewees perform an occupational sorting exercise in addition to filling in the questionnaire. This exercise was to involve respondents using their own freely chosen criteria to sort 48 cards labelled with various Soviet-era occupational titles (extracted from Lane & O’Dell, 1978:75 and Lane, 1982:69), intermixed with market-economy titles as “food store owner”, “manufacturing enterprise owner”, “non-owning restaurant manager”, “privatised firm director” etc. The data collection exercise followed the example of Coxon & Jones’s research on occupational prestige (1978, 1979, 1986), and as they had done in the UK, I planned to use the recorded results to create an MDS model of Ukrainian entrepreneurs’ representations of the status of their own occupations in relation to those of others (Coxon, 1999). This exercise was dropped from the interview schedule after the initial pilot interviews due to its being viewed as inappropriate by respondents.

¹¹⁰This was not one of the cities I had intended to study, but I met with an employee of the company in question during my flight to Kyiv, and she was keen to arrange a meeting for me with her boss.

During these first interviews I realised that contrary to their portrayal in the literature (Gray & Whiston, 1999; Yacoub & Senchuk, 2000; World Bank, 2002), ‘de novo’ firms in Ukraine are not necessarily small or medium sized businesses. Many respondents in my sample were in fact representatives of an economic elite, and expected to be treated as such by the researcher. Whereas I had previously neglected status differences, the pilot interviews explicitly made clear it to me that in this project I was “studying up” (Cassell, 1988).

Furthermore, relying on an indirect form of question wording for potentially sensitive issues (e.g. queries regarding revenues and profits, and bribe payments),¹¹¹ proved to be inappropriate during the four pilot interviews. Two respondents openly stated that they found such indirect question wording to be insulting. All four refused to provide figures regarding revenues, and direct questions regarding their relations with tax authorities and other state regulatory agencies were answered in only the most general terms.¹¹²

Finally, prior to the pilot interviews I had assumed that once access to a respondent had been granted, “getting on” would be a relatively easy task. This turned out to be incorrect. Regardless of how highly I may have been recommended by a friend or acquaintance, the onus remained on me to establish credentials that would be seen as sufficient for openness.

With these lessons in mind, after completing the pilot interviews in November 2000, a more flexible approach to questioning was adopted. The formal questionnaire continued to be used, though respondents were asked to complete it only at the end of the conversational interview. In order to generate the in-depth qualitative data that would reflect entrepreneurs’ status as a potential (or in some cases actual) elite, the interview schedule was reformulated into a conversational style, rather than a question-answer session. In such an approach:

¹¹¹Studies of business owners in Ukraine conducted by donor organisations respondents have asked about their views of “a firm owner similar to themselves” when queried on such issues (Gray & Whiston, 1999; Johnson, et. al., 1999a/b; Yacoub, Senchuk, Tkachenko, 2001).

¹¹²Respondents were aware that several investigations of both corruption and the regulatory environment for business had been recently conducted in Ukraine (UMREP, 1998; Yacoub & Senchuk, 2000). In addition to being reluctant to answer questions on these topics in principle, many resented having their time wasted covering issues that were already well publicised in the media.

it is almost impossible to stick to (a pre set question ordering) in any very strict or rigid way and still maintain the conversational style that is required. For example, it is often the case that in responding to one question another will also be answered. Equally a new line of questioning may open up unpredictably that seems promising enough to be followed even at the expense of some subsequent areas of the agenda. (Moyser, 1988:126)

The research project was introduced as one that sought to gain an interpretative understanding of the values, beliefs, and motivations of Ukraine's business owners, and to contrast these with those of firm-owners in the West. Thus, rather than focusing on the structural and formal institutional environments in which firm owners operated, interviews often evolved into rich discussions regarding firm-owners' cultural values as related to issues such as growth strategy, competitive posture, work ethic, and normative beliefs. The end result (I believe) was my gaining a much more in-depth interpretative understanding of post-Soviet entrepreneurial motivations and behaviour than would have been possible with my original research design.

The Interview Schedule

Interviews were conducted in Ukrainian or Russian, and generally lasted between 40 and 80 minutes. They began with an introductory statement that was admittedly rather long (English translation provided in Appendix C), but given the way in which most interviews were arranged this could not be helped. In most cases, meetings with respondents were set up by their personal acquaintances who introduced me simply as "a researcher from Canada" (or from England), who was working on "an interesting topic" - without specifying specifically what this topic was. Several key points therefore needed to be established before the start of the conversation in order for the interview to become a "conversational partnership" (Rubin & Rubin, 1995).

Firstly, my knowledge of the Ukrainian language needed to be explained - after all I was introduced to respondents as a foreigner.¹¹³ Secondly, as part my introduction I

¹¹³In Donetsk and Kyiv my Ukrainian Diaspora background was at first treated by some with suspicion - a fact that made it all the more important to make respondents feel at ease with the conversation.

mentioned the fact that I am a former businessman, indicating that I was able to relate (at least in part) to the day-to-day concerns of my interviewees.¹¹⁴ Thirdly, my introductory statement recalled my having personally experienced difficulties in establishing a joint venture in Ukraine. This was designed to indicate to respondents that mine was not yet another of several recent well-publicised academic studies of the constraints on private enterprise growth in Ukraine. All interviewees were intimately aware of differences between their own cultural frames of reference and those of the West: having either previous direct experience with foreign business contacts, or having travelled to Europe and/or North America. The issue of differences in “mentality” was one which often sparked their interest, and therefore facilitated dialogue.

Finally, although the mediation of gatekeepers was important to gaining the trust of respondents, the credentials of the University of Cambridge were key to establishing that the interview was in fact to be used for academic research, and therefore that anonymity would be guaranteed. During the pilot study two interviewees had refused to have their responses recorded because the purpose and parameters of the interview had not been made sufficiently clear at the outset. This needed to be avoided during subsequent encounters. The request for permission to tape the conversation was therefore linked to downplaying my interest in sensitive issues related to corruption: I stated that I had experienced this phenomenon personally, and thereby implied that I would not need their thoughts on the subject. Respondents were further reassured that they could interrupt the recording at any time during the course of the interview if they so desired.¹¹⁵

The structure of the interviews closely followed the recommendations of Rubin & Rubin (1995) on qualitative interviewing: four themes were to be examined as part of the main questions, with several probes prepared for each, and follow-ups often spontaneously arising from the interview accounts.

¹¹⁴Since most Ukrainians judge me to be 22-25 years old based on my appearance, establishing my credentials as a former business manager was doubly important.

¹¹⁵Only one respondent (D1) took advantage of this offer when I asked him about his relations with the Donetsk ‘clan’.

The main goal during the initial stage was to induce respondents to talk about themselves, thereby expressing their own underlying cultural beliefs and values. Interviews therefore began with a very general question: “How did you come to establish your own firm?” Without interrupting accounts unnecessarily, interviewees were probed as to their previous occupation, their age when founding their first business venture, their sources of start-up capital, and whether they remembered a specific pivotal event that prompted them to venture into independent business. The purpose of such general questioning was to explore the life-course paths to firm ownership followed by respondents, and to determine the structural resources at their disposal - both at start-up, and later.

After a brief historical account, respondents were asked to describe the specific activities of their firms. In several cases this line of inquiry was covered without overt questioning because the interview had been preceded by an informal tour of company premises, or (as was most often the case) the historical accounts naturally moved into descriptions of present activities. Interruptions were again avoided, but occasionally factual information regarding such points as number of employees, firm ownership structure (partnership, minority shareholders), and additional areas of business (if any), was probed for. An important area that was asked about in all cases, concerned the marketing and sales strategies that respondents’ firms employed. Information collected from this line of questioning, together with field notes written after each company visit formed the basis for the development of the typology of ‘de novo’ entrepreneurs’ strategic behaviour described in Chapters 6 and 7.

The first portion of the interview - including both historical accounts and respondents’ descriptions of their current activities - was essentially unstructured. The idea was to allow interviewees the freedom to describe their firms in a conversational style, and to allay any suspicions as to possible ulterior motives for my research. Usually this portion of the interview lasted approximately 20 minutes - depending on how talkative the respondent proved to be. It was concluded with a simple question: “Why do you do all this?”

In cases where such simplicity was not understood, the question was rephrased in terms of: “I imagine that you must have a very unstructured workday. What motivates

you?”. Such general motivational questioning was then followed up with two more specific formulations:

1. If your firm continues to grow what then? A rich person can retire to a warm climate, or perhaps go into politics. What are your plans?
2. I have often read in the press, and have heard from some of my acquaintances that conducting ‘normal’ business in Ukraine is impossible. You have obviously been successful, what makes you different?

These two questions were designed to solicit information regarding respondent motivations, growth plans (including personal goals), and their perceptions of their own positions as actors embedded in a social context. Responses to the above lines of inquiry generally moved the conversation into one of two possible directions: either respondents proceeded to describe the Ukrainian regulatory environment, (i.e. how their firms dealt with such issues as inspections, taxes and crime), or interviewees concentrated on describing their own personal qualities, and contrasted these with what they saw as characteristics of less economically successful members of Ukrainian society. Either way, the flow of the interview inevitably moved into a discussion of political issues. Where relevant respondents were probed regarding their perceptions of the primary constraints on growth that their firms experienced, and their own personal roles within their firms. In all cases they were asked for their evaluations of the Ukrainian business environment (see Chapter 8).

Staying within the general topic of politics, respondents were then posed the following question:

I would like to read a quotation from an interview that I conducted with a Parliamentary deputy a few years ago, and to hear your reaction to it. Incidentally this person continues to be quite influential in government to this day. In any case, the quote reads as follows: “A characteristic of the Ukrainian mentality is to always take a negative view of someone close by if he is rich. That's why privatisation is going very badly for us. It's not so bad if I don't have it, so long as my neighbour doesn't either. This is a very frightening thing... I can say

from my own experience, when things were difficult... all my neighbours liked me. But when I became the director of my own firm, when I bought a car and became wealthy, and incidentally everyone knew that I had earned my money, that I hadn't engaged in speculation, that I hadn't taken any credits (loans), nevertheless I lost the respect that people had given me because I had become wealthy.” Do you agree with this assessment, and have you ever experienced this kind of thing personally?

The above query was designed to solicit evaluations of how respondents saw their own positions within Ukraine’s social structure, and how changing social and normative representations of ‘business people’ (entrepreneurs) had affected them personally. As follow-ups interviewees were asked whether they had ever personally experienced being called either a ‘spekulant’, or a ‘novo-russki’ or ‘novyj ukrainets’ (derogatory terms for business people), and what their opinions of such social labels were.

Moving away from overtly political issues, but still within the general topic of prevalent social norms in Ukraine, the interview schedule moved to a more specific question regarding respondent relations with employees. The query was phrased as follows:

At the beginning of our conversation I mentioned that for the past seven years I ran a business in Canada together with my brother. When we started out, we had three employees and now we have just over 60. Well over the years, my brother and I came up with a little saying, namely that to his employees, an owner of a business must sometimes act like a father, mother, or grandparent, and sometimes like a family dog who gets kicked around. In other words, if an employee has personal problems, these automatically become the problems of the owner. At the same time, there is a need to keep some distance with employees in order to maintain authority. How do you manage to grapple with this problem? Are you able to maintain some sort of balance?

The introduction of private enterprise in Ukraine after the collapse of state socialism had a profound effect on worker-management relations, and this was clearly an area that was both emotionally charged for respondents, and one that they had pondered over a great deal. As described in the literature, growth always leads to a transformation of relations within the firm (OMEDT, 2001; Scase & Goffee, 1980; Stanworth & Curran, 1989), but in the Ukrainian case this seems to have been exacerbated by the broader social changes that have occurred in the country during the past decade. Specifically, respondents spoke of the disappearance of the Soviet-era 'kolektyv' (with its associated group leisure activities), and the individualisation of worker-management relations (see Chapter 9).

Somewhat surprisingly, almost all interviewees picked up on the phrasing of the question and the fact that it mentioned both my brother and myself. As a result, in addition to describing some of the difficulties that they had experienced with respect to their relations with employees, many commented on their experiences both with employing family members and (where relevant) their relations with co-owning partners.

The penultimate portion of the interview asked respondents to answer "a somewhat philosophical question", namely: "how would you define 'well-being'?"¹¹⁶ Having described their work motivations in a specific sense (with respect to their business), this question allowed respondents to generalise as to their personal goals in life. It's relevance to the present study was key to evaluating the extent to which the Weberian hypothesis as to entrepreneurs' being driven by accumulation rather than consumption, and Schumpeter's claim as to the non-materialistic motivations of entrepreneurs, would apply to Ukraine's 'de novo' business owners.

Finally, at the conclusion of the open-ended questioning portion of the interviews, respondents were asked to fill-in the 23-point Likert-scale questionnaire (Appendix D), and then thanked for their participation in the study.

Data Analysis

Each interview was transcribed, and field notes attached to the transcriptions together with the filled in one-page questionnaires. Much of the qualitative data analysis was performed while I was still in Ukraine, with concepts and categories emerging as the interviews progressed, and as I was exposed to various political events that affected the business environment of the country. Interview transcripts were analysed using a conceptual coding method, with interview data constantly compared against field notes.

During the course of fieldwork my study evolved into one largely based on the ethnographic methods paradigm (Hammersley & Atkinson, 1995; Rubin & Rubin, 1995; Strauss & Corbin, 1998). The goal of analysis was to gain in-depth qualitative understanding and to illustrate trends (including possible typologies of firm-owners) rather than prove or disprove hypotheses. My analytical method therefore followed the 'realist' paradigm outlined below:

Realism implies that social structures are 'real', in the sense that they are reflected in social relations which may be hidden from (though expressed in) the perceptions of the individual. This means that interview data display cultural realities that are neither biased nor accurate, but simply 'real'. Interview data, from this point of view, are not 'one side of the picture' to be balanced by observation of what respondents actually do, or to be compared with what their role partners say. Instead, realism implies that such data reproduce and rearticulate cultural particulars grounded in given patterns of social organisation (Silverman, 1985:157).

The questionnaire data was analysed after my return to Cambridge in October 2001. Responses to the collected Likert scale questions were analysed using two distinct procedures provided by SPSS 10. Firstly, correlations in the data were sought out using the Spearman's rank-order (ρ) test of significance. This test is appropriate for small samples in which respondents are asked to provide rank responses, and for

¹¹⁶The actual Ukrainian word used was "dobrobut". This term appeared in the title of PM Yushchenko's 2000 government programme, and has been sometimes translated as "welfare" rather

which, as was the case with the current non-random sample, a given distribution of the resultant data cannot be assumed (Welkowitz, et. al., 2000:194).

Secondly, one-way ANOVA tests were used to examine whether variance in respondent agreement/disagreement rankings for individual questions could be explained using a series of independent variables. Specifically these were: respondent age, firm size (as measured by number of employees), sector, region, and period of start-up (pre-collapse or post-1991).¹¹⁷ In addition to these overt factors, respondents' path to firm start-up was identified based on the qualitative data provided, and variance in the structured responses was analysed using 'path' as an independent variable. The evidence for the existence of four distinct paths to start-up presented in Chapter 4 is primarily qualitative. However, from a methodological perspective it is significant to note that when variance was analysed for the aggregated data from the structured questions, this factor was found to be the most explanatory of all of the independent variables tested. The quantitative analysis can thus be seen to complement the qualitative results with some degree of data triangulation in evidence.

than "well-being". I believe "well-being" more accurately reflects its lay usage.

¹¹⁷The sample included only two female respondents, so gender was not used as an independent variable.

Appendix C

English translation of the introductory statement that preceded interviews

Thank you for agreeing to meet with me. Perhaps I should start by explaining what it is that I'm doing here, and what the purpose of our meeting is.

I am at the moment conducting research on the phenomenon of entrepreneurship in Ukraine. Specifically, I'm interested in more successful business people who started their ventures 'from nothing' ("z nulia") rather than through privatisation.

A couple of words as to how this all came about: I was born in Canada, and for the past seven years, together with my brother, I ran a company in Toronto. This firm incidentally continues to exist. It manufactures printed circuit boards for computers. Back in 1993-94 we, like many other members of the Ukrainian Diaspora, attempted some investment projects in Ukraine, and again like many others, after a few years gave up. I should say that at the time we were prepared for all of the standard problems associated with trying to do business in Ukraine - corruption, problems with customs, the tax inspectorate, et. cetera. What we were not prepared for were problems associated with what is referred to in Ukraine as "mentalitet". As you can see I speak Ukrainian relatively well and my brother is just as fluent, but in dealing with our partners we often found that when we referred to a vacuum pump, they understood "vacuum cleaner" ("my pro nasosy a vony pro pylososy").¹¹⁸

So, when last year the opportunity arose to start work on a PhD dissertation at the University of Cambridge in England, I chose to focus my research on trying to understand this problem of differing mentalities. Other western researchers have conducted similar projects in East Asian countries and in Russia, but so far this is the first in Ukraine - and this incidentally allows for interesting comparisons, but that's an aside.

At this point I would like to take about a half hour of your time and conduct an interview with you. If you don't mind I'd like to tape it because unfortunately I write

¹¹⁸This phrase translates poorly because it is idiomatic. In most cases it elicited a chuckle and/or signification of understanding from respondents.

very slowly (smile). Incidentally, I should tell you that one of the requirements of the University of Cambridge is that all such interviews should be academic rather than journalistic, so I can assure you that neither your name, nor your company's name will be published anywhere. All information that you give me will remain anonymous. On the other hand, I understand as a former businessman myself that some questions may be sensitive, and if you don't wish to answer, just tell me and I'll turn the recorder off.

So can we begin?

Appendix D

Structured Questionnaire as Administered

В цьому короткому додатку до інтерв'ю я б хотів дещо більш формалізовано довідатися про Вас як особу. В даному випадку пропоную Вам деякі стандартні питання які вживалися в численних дослідах про підприємців західних держав. Ваші відповіді на саме ці формулювання дадуть можливість для порівняння загальних цінностей та психологічних рис українських підприємців із західними колегами, а це погодьтесь потенційно дуже плідний задум.

Нижченаведено серію тверджень. Будь ласка біля кожного вкажіть чи Ви з даним твердженням: повністю згодні, дещо згодні, скоріше не згодні, чи зовсім не згодні.

	Повністю згідний/а	Дещо згідний/а	Скоріше не згідний/а	Зовсім не згідний/а
1. Що не робиш в житті, долі своєї не оминеш				
2. Я не люблю бути в центрі уваги				
3. Якщо мета досягнена і вона добра, не грає ролі якими методами до неї дійшов/ла				
4. Коли я хворий/а мене найбільше турбує те, що моя робота не виконана				
5. Головним мірилом якості моїх дій є те чи я випередив/ла свого конкурента, аніж просто добрий результат				
6. Особисте збагатіння людини рідко коли завдячується суто везінню				
7. У нашому суспільстві люди, які керують власними фірмами, вважаються впливовими				
8. Обійти закон дозволяється – аж поки не дієш проти закону				
9. Якщо я зароблю досить грошей, я б хотів перестати працювати				
10. Якщо мені щось не вдається, це рідко буває через невезіння – переважно це через мою власну помилку				
11. Я хотів би колись стати впливовим політиком				
12. Успіх в бізнесі це означає мати час на розвагу (дозвілля)				
13. Коли я щось старанно запланував/ла, я майже завжди забезпечу собі успіх				
14. Я ніколи не дозволяю щоб хтось інший присвоював мої заслуги				
15. В бізнесі можна робити що хочеш, аж поки це не призводить до поганих наслідків				
16. Власник невдалого бізнесу приносить сором своїй сім'ї та родині				
17. Я маю задоволення з того що маю вплив на інших завдяки своїй посаді				
18. Переважно невдахам не вдається заплановане виключно через брак зусиль				
19. Я швидко нуджуся (втрачаю цікавість) коли не маю що робити				
20. Я хочу бути видною особою в суспільстві				
21. Досягнення своєї мети я переважно можу завдячити в основному власній наполегливій праці				
22. Я горджуся добре виконаною роботою – навіть якщо її ніхто не зауважує				
23. У таких людей як я мало можливостей захистити власні інтереси, якщо вони розбігаються з інтересами тих, хто при владі				

Appendix E

English-language version of the scale items used in the fill-in questionnaire portion of the interviews and the relevant constructs measured.

Number in questionnaire (Appendix D)	Translations of scale items and relevant constructs (references to original studies from which questions were derived are noted in parentheses)
Personally Responsible Standards of Morality Scale (Kohn et. al., 1997) ¹¹⁹	
15	In business it's all right to do anything you want as long as you don't have problems as a result.
3	If something works it doesn't matter if it's right or wrong.
8	It's all right to get around the law as long as you don't actually break it.
Status/Power Aspiration Scale (Cassidy & Lynn, 1989; Begley et. al., 1997)	
20	I want to be a visible person in the community
2	I dislike being the centre of attention
17	I find satisfaction in having influence over others because of my position
7	In our society, people look up to those who run firms
16	An owner whose company has failed brings shame to himself and his family
11	I would like to become an influential politician someday ¹²⁰
Locus of Control Scale - measured dimension noted in brackets (Green et. al., 1996; Furnham, 1986; Kaufman et. al., 1996; Kohn et. al., 1997)	
1	No matter what you do with your life, you will not escape your destiny (fatalism)
10	If something goes wrong in my life, it's rarely because of bad luck - usually it's my fault (chance)
21	When I get what I want it is usually because I worked hard for it (internality)
23	People like me have little chance of protecting our personal interests when they are in conflict with those of people in power (powerful others)
6	Becoming rich has little or nothing to do with luck (chance)
13	When I make plans I am almost certain to make them work (internality)
Work Ethic Scale - measured dimension in brackets (Cassidy & Lynn, 1989; Green et. al., 1996; Furnham 1990; Warr et. al., 1979)	
19	I easily get bored if I don't have something to do (involvement)
4	The worst part about being sick is that my work does not get done (intrinsic motivation)
9	If I make enough money, I plan to stop working (monetarism)
18	People who fail at a job, usually have not tried hard enough (execution)
22	I take pride in doing a job well - even if no one notices the results (intrinsic motivation)
12	Success means having ample time to pursue leisure activities (attitude to leisure)
Competitiveness Scale (Cassidy & Lynn, 1989)	
5	I judge my performance on whether I do better than others rather than just on getting a good result
14	I never allow others to get the credit for what I have done

¹¹⁹The Kohn et. al. (1997) study measured the relationship between values and social class in Poland and Ukraine, using a random sample of over 2200 respondents in each country.

¹²⁰This item was not taken from any previous studies. It is my own formulation.

Bibliography

- Abercrombie, N.; Hill, S.; Turner, B.S. The Dominant Ideology Thesis. London: Allen & Unwin, 1980.
- Aldrich, Howard & Zimmer, Catherine. "Entrepreneurship through Social Networks" in The Art & Science of Entrepreneurship, Sexton, Donald & Smilor, Raymond W. (eds.). Cambridge MA: Ballinger Publishing Co., 1986.
- Andrusz, Greg. "Co-operatives and the Legacy of State Socialism" in The Legacy of State Socialism and the Future of Transition. Lane, David (ed.), Lanham MD: Rowman & Littlefield, 2002.
- Applebaum, Anne. Between East and West: Across the Borderlands of Europe. London: Papermac, 1995.
- Arber, Sara. "Designing Samples" in Gilbert, Nigel ed. Researching Social Life. London: Sage Publications, 1993.
- Archer, Margaret S. Culture and Agency: The Place of Culture in Social Theory. Cambridge: Cambridge University Press, 1988.
- Archer, Margaret S. Realist Social Theory: The Morphogenetic Approach. Cambridge: Cambridge University Press, 1995.
- ARD-Chechi - unpublished survey report conducted by a USAID contractor, mimeo, 2000.
- Arel, Dominique. "The Parliamentary Blocs in the Ukrainian Supreme Soviet: Who and What do they Represent?" in Journal of Soviet Nationalities, vol. 1, no. 4, pp. 108-154, Winter 1990-91.
- Arrighi, Giovanni. The Long Twentieth Century: Money, Power, and the Origins of Our Times. London: Verso, 1994.
- Arzeni, Sergio. "Entrepreneurship in Eastern Europe: a critical view" in Brezinski, Horst and Fritsch, Michael (eds.) The Economic Impact of New Firms in Post-Socialist Countries: Bottom-up Transformation in Eastern Europe. Cheltenham: Edward Elgar, 1996.
- Aslund, Anders. "Why Has Ukraine Failed to Achieve Economic Growth?" in Economic Reform in Ukraine: The Unfinished Agenda. Aslund, Anders and de Menil, Georges (eds.), Armonk NY: M.E. Sharpe, 2000.
- Axelrod, Robert. "An Evolutionary Approach to Norms" in American Political Science Review, vol. 80, no. 4, pp. 222-238, December 1986.
- Balzer, Harley. "Russia's Middle Classes" in Post-Soviet Affairs, vol. 14, no. 2, pp. 165-186, 1998.

- Banaian, King. The Ukrainian Economy Since Independence. Cheltenham: Edward Elgar, 1999.
- Barkhatova, Nonna; McMyler, Peter; Mellor, Rosemary. "Family Business in Russia: the path to middle class?" British Journal of Sociology, vol. 52, no. 2, pp. 249-269, June 2001.
- Baumol, William J. "Formal Entrepreneurship Theory in Economics: Existence and Bounds" in Bull, Ivan; Thomas, Howard; Willard, Gary eds. Entrepreneurship: Perspectives on Theory Building. Oxford: Elsevier Science, 1995.
- Begley, Thomas M.; Wee-Liang, Tan; Larasati, Asti Budi; Rab, Abdul; Zamora, Elvira; Nanayakkara, Gunapala. "The Relationship between Socio-Cultural Dimensions and Interest in Starting a Business: A Multi-Country Study" in Frontiers of Entrepreneurship Research. Wellesly MA: Babson College, 1997.
- Berger, Brigitte "The Culture of Modern Entrepreneurship" in The Culture of Entrepreneurship, Berger Brigitte (ed.). San Francisco: ICS Press, 1991.
- Bereslavsky, Serhiy & Sehed, Serhiy. Sproshcheni Systemy Opodatkuvannia. Kyiv: Tsentr Komertsiynoho Prava, 2002.
- Birch, Sarah. Elections and Democratization in Ukraine. Basingstoke: Macmillan, 2000.
- Birley, Sue. "The Start-up" in Burns, Paul and Dewhurst, Jim eds. Small Business and Entrepreneurship. London: MacMillan Education Ltd. 1989.
- Blanchard, O. & Kremer, M. "Disorganization" in Quarterly Journal of Economics, vol. 112, no. 4, pp. 1091-1126, 1997.
- Boudon, Raymond. Theories of Social Change: A Critical Appraisal. Cambridge: Polity Press, 1986.
- Braguinsky, Serguey & Yavlinsky, Grigory. Incentives and Institutions: The Transition to a Market Economy in Russia. Princeton: Princeton University Press, 2000.
- Braudel, Fernand. The Wheels of Commerce. London: Fontana, 1985.
- Brezinski, Horst & Fritsch, Michael. "Introduction: the scope for bottom-up transformation in post-socialist countries." in Brezinski, Horst & Fritsch, Michael (eds.) The Economic Impact of New Firms in Post-Socialist Countries: Bottom-up Transformation in Eastern Europe. Cheltenham: Edward Elgar Publishing, 1996.
- Brockhaus, Robert H. Sr. & Horwitz, Pamela S. "The Psychology of the Entrepreneur" in The Art & Science of Entrepreneurship, Sexton, Donald & Smilor, Raymond W. (eds.). Cambridge MA: Ballinger Publishing Co., 1986.

- Brym, Robert J. "The Ethic of Self-Reliance and the Spirit of Capitalism in Russia" in International Sociology, vol. 11, no. 4, pp. 409-426, December 1996.
- Bull, Ivan & Willard, Gary. "Towards a Theory of Entrepreneurship" in Bull, Ivan; Thomas, Howard; Willard, Gary eds. Entrepreneurship: Perspectives on Theory Building. Oxford: Elsevier Science, 1995.
- Bunce, Valerie. "Lessons of the First Postsocialist Decade" in East European Politics and Societies, vol. 13, no. 4, pp. 236-243. Spring 1999.
- Burawoy, M; Krotov, P; Lytkina, T. "Involution and Destitution in Russia" in Ethnography, vol. 1, no. 1, pp. 43-65, July 2000.
- Burns, Tom R. & Flam, Helena. The Shaping of Social Organization: Social Rules System Theory with Applications. London: Sage, 1987.
- Burrows, Roger; Curran, James. "Not Such a Small Business: Reflections on the Rhetoric, the Reality and the Future of the Enterprise Culture" in Work and the Enterprise Culture. Cross, Malcolm and Payne, Geoff (eds.). London: The Falmer Press, 1991.
- Busenitz, Lowell W. & Barney, Jay B. "Differences between Entrepreneurs and Managers in Large Organizations: Biases and Heuristics in Strategic Decision-Making" in Journal of Business Venturing, vol. 12, no. 1, pp. 9-30, January 1997.
- Busenitz, Lowell W. & Lau, Chung-Ming. "A Cross-Cultural Cognitive Model of New Venture Creation" in Entrepreneurship Theory and Practice, pp. 25-39, Summer 1996.
- Bygrave, William D. "Theory Building in the Entrepreneurship Paradigm" in Bull, Ivan; Thomas, Howard; Willard, Gary eds. Entrepreneurship: Perspectives on Theory Building. Oxford: Elsevier Science, 1995.
- Cabinet of Ministers of Ukraine. Zvit Kabinetu Ministriv Ukraïny pro vykonannia programy dial'nosti urïadu "Reformy zarady dobrobutu" v 2000 rotsi. Official document, Cabinet of Ministers Decree No. 211, 2 March, 2001.
- Carlin, Wendy; Fries, Steven; Schaffer, Mark; Seabright, Paul. "Barter and non-monetary transactions in transition economies: evidence from a cross-country survey" in The Vanishing Rouble: Barter Networks and Non-Monetary Transactions in Post-Soviet Societies, Seabright, Paul (ed.) Cambridge: Cambridge University Press, 2000.
- Cassell, J. "The Relationship of Observer to Observed when Studying Up" in Studies in Qualitative Methodology, Burgess, R.G. (ed.) London: JAI Press, 1988.
- Cassidy, Tony & Lynn, Richard. "A multifactorial approach to achievement motivation: The development of a comprehensive measure" in Journal of Occupational Psychology, vol. 62, pp. 301-312, 1989.

- Casson, Mark. The Entrepreneur: An Economic Theory. Hampshire: Gregg Revivals, 1982.
- Casson, Mark. Entrepreneurship and Business Culture: Studies in the Economies of Trust. Aldershot: Edward Elgar, 1995.
- Chan, K.F. & Lau, Theresa. "Are small business owner/managers really entrepreneurial?" in Entrepreneurship & Regional Development, vol. 5, pp. 359-367, 1993.
- Chavance, Bernard & Magnin, Eric. "Emergence of path-dependent mixed economies in Central Europe" in Amin, A. & Hausner, J. (eds.) Beyond Market and Hierarchy: Interactive Governance and Social Complexity. Cheltenham: Edward Elgar, 1997.
- Chell, Elizabeth. The Psychology of Behaviour in Organizations, 2nd edition. Houndmills: MacMillan Press, 1993.
- Chell, Elizabeth. "The psychology of small firms development" in Entrepreneurship & Regional Development, vol. 5, pp. 297-299, 1993.
- Chell, Elizabeth; Hedberg-Jalonen, Nina; Miettinen, Asko. "Are Types of Business Owner-Managers Universal? A Cross-Country Study of the UK, New Zealand, and Finland" in Donckels, Rik and Miettinen, Asko eds. Entrepreneurship and SME Research: On its Way to the Next Millenium. Aldershot: Ashgate Publishing, 1997.
- Chell, Elizabeth; Haworth, Jean; and Bearly, Sally. The Entrepreneurial Personality: Concepts, cases and categories. London: Routledge, 1991.
- Chepurenko, Alexander J. and Vilensky, Alexander V. "Small businesses in Russia" in Brzezinski, Horst and Fritsch, Michael eds. The Economic Impact of New Firms in Post-Socialist Countries: Bottom-up Transformation in Eastern Europe. Cheltenham: Edward Elgar, 1996.
- Cherkaskyj, Oleksa. "Tse ne kazka I ne tryler - po krajini khodyt' kiler" in Polityka i Kul'tura, No. 14 (49), pp. 12-17, 14-20 April 2000.
- Cochran, Thomas C. "The Entrepreneur in Economic Change" in Kilby, Peter (ed.) Entrepreneurship and Economic Development. New York: The Free Press, 1971.
- Codagnone, Cristiano. "New Entrepreneurs: Continuity or Change in Russian Economy and Society?" in Social Change and Modernization: Lessons from Eastern Europe. Grancelli, Bruno (ed.) Berlin: Walter de Gruyter, 1995.
- Collins, Randall. "Weber's Last Theory of Capitalism: A Systematization" in The Sociology of Economic Life. Granovetter, Mark & Swedberg, Richard (eds.). Boulder CO: Westview Press, 1992.

- Commander, Simon & Mummsen, Christian. "The growth of non-monetary transactions in Russia: causes and effects" in The Vanishing Rouble: Barter Networks and Non-Monetary Transactions in Post-Soviet Societies, Seabright, Paul (ed.) Cambridge: Cambridge University Press, 2000.
- Connor, Walter D. "The Rocky Road: Entrepreneurship in the Soviet Economy, 1986-1989" in The Culture of Entrepreneurship, Berger Brigitte (ed.). San Francisco: ICS Press, 1991.
- Covin, Jeffrey G. & Sevin, Dennis P. "Strategic Management of Small Firms in Hostile and Benign Environments" in Strategic Management Journal, vol. 10, pp. 75-87, 1987.
- Coxon, Anthony P.M. Sorting Data: Collection and Analysis. London: Sage Publications, 1999.
- Coxon, Anthony P.M. & Jones, Charles L. Images of Occupational Prestige. London: Macmillan Press, 1978.
- Coxon, Anthony P.M. & Jones, Charles L. Class and Hierarchy: The Social Meaning of Occupations. London: Macmillan Press, 1979.
- Coxon, Anthony P.M. & Jones, Charles L. Images of Social Stratification: Occupational Structures and Class. London: Sage Publications, 1986.
- Creswell, John W. Research Design: Qualitative and Quantitative Approaches. London: Sage Publications, 1994.
- Creswell, John W. Qualitative Inquiry and Research Design: Choosing Among Five Traditions. London: Sage Publications, 1998.
- Curran, J. & Burrows, R. "The Social Analysis of Small Business: Some Emerging Themes" in Goffee, R. & Scase, R. eds. Entrepreneurship in Europe: The Social Processes. London: Croom Helm, 1987.
- D'Andrade, Roy G. "Cultural Meaning Systems" in Shweder, Richard A. & LeVine, Robert A. (eds.) Culture Theory: Essays on Mind, Self, and Emotion. Cambridge: Cambridge University Press, 1984.
- Dahrendorf, Ralf. Reflections on the Revolution in Europe. London: Chatto & Windus, 1990.
- Damijan, Jose & Knell, Mark. "Does FDI facilitate the economic transformation of eastern Europe? Evidence from Estonia and Slovenia" paper presented at the "Enterprises in Emerging Markets" Managing Economic Transition Network, Eighth Research Seminar, at the Centre for the Study of Economic and Social Change in Europe SSEES/UCL, 17 June 2002.
- Das, T.K. & Teng, Bing-Sheng. "Time and Entrepreneurial Risk Behaviour" in Entrepreneurship Theory and Practice, pp.69-87, Winter 1997.

- Datsyshyn, Markijan; Zasadnyj, Bohdan; Olijnyk, Oleksandr; Pavliv, Orest; Pugachova, Maryna; Syrota, Volodymyr. Rejting investytsijnoji pryvablyvosti regioniv Ukrainy u 1-omu pivrichchi 2000 roku. Kyiv: Institute of Reforms, 2000.
- de Melo, Martha; Denizer, Cevdet; Gelb, Alan; Tenev, Stoyan. "Circumstance and Choice: The Role of Initial Conditions and Policies in Transition Economies" World Bank Policy Study 1866. Washington: World Bank, 1997.
- de Menil, Georges. "From Hyperinflation to Stagnation" in Aslund, Anders & de Menil, Georges (eds.) Economic Reform in Ukraine: The Unfinished Agenda. Armonk NY: M.E. Sharpe, 2000.
- Delanty, Gerard. Social Theory in a Changing World: Conceptions of Modernity. Cambridge: Polity Press, 1999.
- Derzhkomstat: Osaulenko, O.H. (ed.) Ukraine in Figures in 1999. Kyiv: State Statistics Committee of Ukraine, 1999.
- Derzhkomstat: Osaulenko, O.H. (ed.) Statistical Yearbook of Ukraine for 1999. Kyiv: Tekhnika, 2000.
- DeVecchi, Nicolo. Entrepreneurs, Institutions and Economic Change: The Economic Thought of J.A. Schumpeter. Aldershot: Edward Elgar, 1995.
- Dewhurst, Jim. "The Entrepreneur" in Burns, Paul and Dewhurst, Jim eds. Small Business and Entrepreneurship. London: MacMillan Education Ltd. 1989.
- DiMaggio, Paul. "Culture and Economy" in The Handbook of Economic Sociology, Neil J. Smelser and Richard Swedberg (eds.). Princeton: Princeton University Press, 1994.
- DiMaggio, Paul. "Culture and Cognition" in Annual Review of Sociology, vol. 23, pp. 263-287, 1997.
- Douglas, Mary. How Institutions Think. London: Routledge & Kegan Paul, 1987.
- Drucker, Peter. Innovation and Entrepreneurship: Practice and Principles. New York: Harper & Row, 1985.
- Dubrovskiy, Vladimir. "Economic Transformation in the NIS and Failure of the Washington Consensus: More Questions than Answers" in Reforms for Ukraine: Ideas and Actions. Szyrmer, Janusz and Snelbecker, David (eds.), Kyiv: Alterpres, 2000 (a).
- Dubrovskiy, Vladimir. "Mutual Settlements as a Source of Rent - Examples of the Phenomenon of "Transparency Evasion"" in The Barter Economy: Non-Monetary Transactions in Ukraine's Budget Sector. Szyrmer, Janusz M. (ed.) Kyiv: Harvard Institute for International Development, 2000 (b).

- Earle, J.S. and Estrin, Saul. "Privatisation and the structure of enterprise ownership" in Russia's Post-Communist Economy. Granville, B. & Oppenheimer, P. (eds.) Oxford: Oxford University Press, 2000.
- EBRD (European Bank for Reconstruction and Development). Transition Report 1999: Ten Years of Transition. London: EBRD, 1999.
- EBRD (European Bank for Reconstruction and Development). EBRD Annual Report 2000. London: EBRD, 2000.
- Eisenstadt, S.N. "Societal Goals, Systemic Needs, Social Interaction, and Individual Behavior: Some Tentative Explorations" in Turk, Herman & Simpson, Richard L. (eds.) Institutions and Social Exchange: The Sociologies of Talcott Parsons & George C. Homans. Indianapolis: The Bobbs-Merrill Company Inc., 1971.
- Elster, Jon; Offe, Claus; Peuss, Ulrich K.; Boenker, Frank; Goetting, Ulrike; Rueb, Friedbert W. Institutional Design in Post-Communist Societies: Rebuilding the Ship at Sea. Cambridge: Cambridge University Press, 1998.
- Evans, Geoffrey. "Social class and interest formation in post-communist societies" in Conflicts about Class: Debating Inequality in Late Industrialism, Lee, David J. & Turner, Bryan S. (eds.). London: Longman, 1996.
- Estrin, Saul & Rosevear, Adam. "Enterprise Performance and Corporate Governance in Ukraine" in Journal of Comparative Economics, vol. 27, no. 3, pp. 442-458, September 1999.
- Eyal, Gil; Szelenyi, Ivan; Townsley, Eleanor. "The Theory of Post-Communist Managerialism" in New Left Review, no. 222, March/April 1997.
- Eyal, Gil; Szelenyi, Ivan; Townsley, Eleanor. Making Capitalism Without Capitalists: The New Ruling Elites in Eastern Europe. London: Verso, 1998.
- Farmer, Kenneth C. The Soviet Administrative Elite. New York: Praeger Publishers, 1992.
- Fligstein, Neil. "Fields, Power, and Social Skill: A Critical Analysis of the New Institutionalisms" in Ekonomicheskaya Sotsiologiya, vol. 2, No. 1, 2001.
- Foddy, William. Constructing Questions for Interviews and Questionnaires. Cambridge: Cambridge University Press, 1993.
- Freeland, Chrystia. Sale of the Century: Russia's Wild Ride from Communism to Capitalism. Toronto: Doubleday Canada, 2000.
- Frohlich, E. & Pichler, J.H. Werte und Typen mittelstandischer Unternehmer. Berlin, 1988.
- Frydman, Roman; Rapaczynski, Andrzej; Earle, John S., et. al. The Privatization Process in Russia, Ukraine and the Baltic States. Budapest: Central European University Press, 1993.

- Furnham, Adrian. "Economic Locus of Control" in Human Relations, vol. 39, no. 1, pp. 29-43, 1986.
- Furnham, Adrian. The Protestant Work Ethic: The Psychology of Work-Related Beliefs and Behaviours. London: Routledge, 1990.
- Fuxman, Leonora. "Ethical Dilemmas of Doing Business in Post-Soviet Ukraine" in Journal of Business Ethics, vol. 16, pp. 1273-1282, 1997.
- Gaddy, C.G. & Ickes, Barry W. "Russia's Virtual Economy" in Foreign Affairs, vol. 77, no. 5, pp. 53-67, 1998.
- Ganev, Venelin I. "The Dorian Gray effect: winners as state breakers in postcommunism" in Communist and Post-Communist Studies, vol. 34, pp. 1-25, 2001.
- Gasse, Yvon. "Elaborations on the psychology of the entrepreneur" in Kent, Calvin A.; Sexton, Donald L.; Vesper, Karl H. (eds.) Encyclopedia of Entrepreneurship. Englewood Cliffs N.J.: Prentice-Hall Inc., 1982.
- Geertz, Clifford. "The Bazaar Economy: Information Search in Peasant Marketing" in The Sociology of Economic Life. Granovetter, Mark and Swedberg, Richard (eds.) Boulder CO: Westview Press, 1992.
- Geertz, Clifford. The Interpretation of Cultures: Selected Essays by Clifford Geertz. London: Fontana, 1993.
- Giddens, Anthony. Central Problems in Social Theory: Action, structure and contradiction in social analysis. London: MacMillan Press Ltd., 1979.
- Godsell, Gillian "Entrepreneurs Embattled: Barriers to Entrepreneurship" in The Culture of Entrepreneurship, Berger Brigitte (ed.). San Francisco: ICS Press, 1991.
- Gold, T.B. State and Society in the Taiwan Miracle. Armonk NY: M.E. Sharpe, 1986.
- Golodniuk, Inna. "Government Program: 'Reforms for Welfare'" in Reforms for Ukraine: Ideas and Actions. Szyrmer, Janusz and Snelbecker, David (eds.). Kyiv:Alterpres, 2000.
- Golovakha, Evgenii & Panina, Natal'ya. "Ukraine's Population under Conditions of Socio-Economic Crisis: Psychological State and Factors of Survival" in Post-Soviet Puzzles: Mapping the Political Economy of the Former Soviet Union, Segbers, Klaus and DeSpiegeleire, Stephan (eds.). Baden-Baden: Nomos Verlagsgesellschaft, 1995.
- Granicelli, Bruno. "Who Should Learn What?" in Granicelli, Bruno (ed.) Social Change and Modernization: Lessons from Eastern Europe. Berlin: Walter de Gruyter, 1995.

- Granovetter, Mark. "Economic Action and Social Structure: The Problem of Embeddedness" in American Journal of Sociology, vol. 91, pp. 481-510, November 1985; reprinted in Granovetter, Mark & Swedberg, Richard (eds). The Sociology of Economic Life. Boulder CO: Westview Press, 1992.
- Grant, Alan. "Entrepreneurship - the major academic discipline for the business education curriculum for the 21st century" in Scott, Michael G.; Rosa, Peter; Klandt, Heinz. (eds.) Educating Entrepreneurs for Wealth Creation. Aldershot: Ashgate, 1998.
- Gray, John. "Post-Totalitarianism, Civil Society, and the Limits of the Western Model" in Rau, Zbigniew, ed. The Reemergence of Civil Society in Eastern Europe and the Soviet Union. Boulder: Westview Press, 1991.
- Gray, Thomas A. & Whiston, William B. "A Survey of Business in Ukraine" Washington: Management Systems International, October 1999 - retrieved from www.usaid.kiev.ua.
- Green, R.; David, J.; Dent, M.; Tyshkovsky, A. "The Russian entrepreneur: a study of psychological characteristics" in International Journal of Entrepreneurial Behaviour and Research, vol. 2, no. 1, pp. 49-58, 1996.
- Gregory, Paul R. "The Ukrainian Virtual Economy: Transition to a Permanent Disequilibrium" Ukraine Through Transition: Challenges and Strategies. Szyrmer, Janusz & Sultan, Khwaja M. (eds.), Harvard/CASE Ukraine Project, Kyiv: Alterpres, 2000.
- Greif, Avner. "Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies" in Journal of Political Economy, vol. 102, no. 5, pp.912-950, 1994.
- Gupta, Ashis. "Indian Entrepreneurial Culture: Bengal and Eastern India" in The Culture of Entrepreneurship, Berger Brigitte (ed.). San Francisco: ICS Press, 1991.
- Gustafson, Thane. Capitalism Russian-Style. Cambridge: Cambridge University Press, 1999.
- Haas, Jeffrey K. "The great transition: The dynamics of market transitions and the case of Russia, 1991-1995" in Theory and Society, vol. 28, pp. 383-424, 1999.
- Hagen, Everett E. "How Economic Growth Begins: A Theory of Social Change" in Kilby, Peter (ed.) Entrepreneurship and Economic Development. New York: The Free Press, 1971.
- Haitani, Kanji. Comparative Economic Systems: Organizational and Managerial Perspectives. Englewood Cliffs, NJ: Prentice-Hall, 1986.
- Halchynskyj, Anatoij. Ukraina: Postup u Majbutnie. Kyiv: Osnovy, 1999.

- Hammersley, Martyn & Atkinson, Paul. Ethnography: Principles in Practice, 2nd Edition. London: Routledge, 1995.
- Hampson, R. "Personality traits in the eye of the beholder, or personality of the perceived?" in Cook, M. ed. Psychology in Progress: Issues in Person Perception. London: Methuen, 1984.
- Hanley, Eric. "Self-employment in post-communist Eastern Europe: a refuge from poverty or road to riches?" in Communist and Post-Communist Studies, vol. 33, pp. 379-402, 2000.
- Harasymiw, Bohdan. Post-Communist Ukraine. Edmonton: Canadian Institute of Ukrainian Studies Press, 2002.
- Havrylyshyn, Oleh "Economic Reform in Ukraine" in Blejer, Mario I. and Skreb, Marko (eds.) Macroeconomic Stabilisation and Transition Economies. Cambridge: Cambridge University Press, 1997.
- Havrylyshyn, Oleh & McGettigan, Donal. "Privatization in Transition Countries: A Sampling of the Literature" IMF Working Paper, January 1999.
- Hebert, Robert F. & Link, Albert N. The Entrepreneur: Mainstream Views and Radical Critiques. New York: Praeger, 1982.
- Hedlund, Stefan. Russia's "Market Economy: A bad case of predatory capitalism. London: UCL Press Ltd., 1999.
- Hellman, Joel S.; Jones, Geraint; Kaufmann, Daniel. "Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition" World Bank Policy Research Working Paper 2444, September, 2000 (a).
- Hellman, Joel S.; Jones, Geraint; Kaufmann, Daniel; Schankerman, Mark. "Measuring governance and state capture: the role of bureaucrats and firms in shaping the business environment. Results of a firm-level study across 20 transition economies." European Bank for Reconstruction and Development Working Paper No. 51, June 2000 (b).
- Hellman, Joel & Schankerman, Mark. "Intervention, corruption and capture: the nexus between enterprises and the state" European Bank for Reconstruction and Development Working Paper No. 58, October 2000 (c).
- Hewett, Edward A. Reforming the Soviet Economy: Equality vs. Efficiency. Washington: The Brookings Institution, 1988.
- Hills, Gerald E. & Shrader, Rodney C. "Successful Entrepreneurs' Insights into Opportunity Recognition" Frontiers of Entrepreneurship Research. Wellesley MA: Babson College, 1998.
- Hodgson, Geoffrey M. Economics and Institutions: A Manifesto for Modern Institutional Economics. Cambridge: Polity Press, 1988.

- Hodgson, Geoffrey M. "The Return of Institutional Economics" in The Handbook of Economic Sociology, Neil J. Smelser and Richard Swedberg (eds.). Princeton: Princeton University Press, 1994.
- Hofstede, Geert. Culture's Consequences: International Differences in Work-Related Values. London: Sage Publications, 1984.
- Hofstede, Geert. Cultures and Organizations: Software of the Mind. London: McGraw-Hill, 1991.
- Holovakha, Yevhen. "Ekonomichni reformy i masova svidomist' v Ukraini" in Ukrajins'ka Pryvatyzatsia: pliusy i minusy. Paskhaver, O. Y. (ed.), Kyiv: Alterpres, 2001.
- Holovko, V.A. "Pro rozvytok pidpryjemnytsva v Ukraini u 1998 rotsi" Derzhkomstat Summary Report No. 455, mimeo, 10 December, 1999.
- Holt, David H. "A Comparative Study of Values among Chinese and U.S. Entrepreneurs: Pragmatic Convergence Between Contrasting Cultures" in Journal of Business Venturing, vol. 12, no. 6, pp. 483-505, November 1997.
- Holt, David H.; Ralston, David A.; Terpstra, Robert H. "Constraints on Capitalism in Russia: The Managerial Psyche, Social Infrastructure, and Ideology" in California Management Review, pp. 124-141, Spring 1994.
- Holton, Robert J. Economy and Society. London: Routledge, 1992.
- Hrebenchuk, Yuri. "A Maze of Statistics Lit by a Torch of Economic Freedom" in The Ukrainian, vol. 1/2002, pp. 26-28, 2002.
- Huber, P. & Worgotter, A. "Observations on Russian Business Networks" in Post-Soviet Affairs, vol. 14, no. 1, pp. 81-91, 1998.
- Hubner, Danuta. "Institutional Support for Small Business in Poland" in Levitsky, Jacob (ed.) Small Business in Transition Economies: Promoting enterprise in Central and Eastern Europe and the former Soviet Union. London: Intermediate Technology Publications, 1996.
- Hussin, Habrizah. "Personal Values and Identity Structures of Entrepreneurs: A Comparative Study of Malay and Chinese Entrepreneurs in Malaysia" in Donckels, Rik and Miettinen, Asko eds. Entrepreneurship and SME Research: On its Way to the Next Millenium. Aldershot: Ashgate Publishing, 1997.
- IFC (International Financial Corporation). Pryvatyzatsia Zemli ta Reorganizatsia Kolektyvnykh Sils'ko-hospodars'kykh Pidpryjemstv v Ukraini, Kyiv: Stolittia, 2000.
- Inglehart, Ronald. Culture Shift in Advanced Industrial Society. Princeton: Princeton University Press, 1990.

- ICS (Institute for Competitive Society). Male Pidpryjemnytstvo Ukrainy: Protses Rozvytku. A joint publication of ICS and SCRPE. Liapin, Dmytro (ed.), Kyiv: 2001.
- Intelektual'na Perspektyva. "Tin'ova Ekonomika: Social'ni Problemy Neofitsijnoji Ekonomichnoji Dijal'nosti v Ukraini: Zvit No. 3 - Vplyv nelehal'noji ekonomiky na pidpryjemnyts'ku dijal'nist'" Kyiv: Mimeo report prepared by the "Intelektual'na Perspektyva" think-tank based on a survey of 106 experts in 7 Ukrainian cities, 2000.
- Isakova, Nina. "Sector-Related Opportunities and Threats for Small Business Starters in Ukraine" in Donckels, Rik and Miettinen, Asko eds. Entrepreneurship and SME Research: On its Way to the Next Millenium. Aldershot: Ashgate Publishing, 1997.
- Ishaq, Mohammed. "The Ukrainian Economy and the Process of Reform" in Communist Economies and Economic Transformation, vol. 9, no. 4, pp. 501-517, December 1997.
- Ishaq, Mohammed. "Foreign Direct Investment in Ukraine since Transition" in Communist and Post-Communist Studies, no. 32, pp. 91-109, 1999.
- Jackson, Peter. Maps of Meaning: An Introduction to Cultural Geography. London: Unwin Hyman, 1989.
- Jennings, R.; Cox, C; Cooper, C.L. Business Elites: The Psychology of Entrepreneurs and Intrapreneurs. London: Routledge, 1994.
- Johnson, Simon & Kaufmann, Daniel. "Institutions and the Underground Economy" in Havrylyshyn, O. & Nsouli, S.M. (eds.) A Decade of Transition: Achievements and Challenges. Washington: International Monetary Fund, 2001.
- Johnson, Simon; Kaufmann, Daniel; Shleifer, Andrei. "Politics and Entrepreneurship in Transition Economies" Working Paper Series, No. 57, The William Davidson Institute, University of Michigan, 1997.
- Johnson, Simon; McMillan, John; Woodruff, Christopher. "Property rights, finance and entrepreneurship" European Bank for Reconstruction and Development Working paper No. 43. October 1999(a).
- Johnson, Simon; McMillan, John; Woodruff, Christopher. "Entrepreneurs and the ordering of institutional reform: Poland, Romania, Russia, the Slovak Republic and Ukraine compared" European Bank for Reconstruction and Development Working paper No. 44 October 1999 (b).
- Jones, Anthony and Moskoff, William. Ko-ops: The Rebirth of Entrepreneurship in the Soviet Union. Bloomington: Indiana University Press, 1991.

- Kaminski, Antoni Z. and Kurczewska, Joanna. "Strategies of Post-communist Transformations: Elites as Institution-Builders" in Social Change and Modernization: Lessons from Eastern Europe. Berlin: Walter de Gruyter, 1995.
- Kaufmann, Daniel. "The Missing Pillar of a Growth Strategy for Ukraine: Reforms for Private Sector Development" in Accelerating the Transition to Market: Proceedings of an IMF-World Bank Seminar. Cornelius, P.K. & Lenain, P. (eds.), Washington: World Bank, 1997.
- Kaufmann, Patrick J.; Welsh, Dianne H.B.; Bushmarin, Nicholas V. "Locus of Control and Entrepreneurship in the Russian Republic" in Entrepreneurship Theory and Practice, pp. 43-56, Fall 1995.
- Kennedy, Robert E. "A Tale of Two Economies: Economic Restructuring in Post-Socialist Poland" in World Development, vol. 25, no. 6, pp. 841-865, 1997.
- Kets de Vries, Manfred.F.R. "The Anatomy of the Entrepreneur: Clinical Observations" in Human Relations, vol. 49, no. 7, pp. 853-883, 1996.
- Kilby, Peter. "Hunting the Heffalump" in Kilby, Peter (ed.) Entrepreneurship and Economic Development. New York: The Free Press, 1971.
- Kirzner, Israel. "The Primacy of Entrepreneurial Discovery" in Seldon, Arthur ed. The Prime Mover of Progress: The Entrepreneur in Capitalism and Socialism. London: Institute of Economic Affairs, 1980.
- Klicperova, Martina; Feierabend, Ivo K.; Hofstetter, C. Richard. "In the Search for a Post-Communist Syndrome: Theoretical Framework and Empirical Assessment" in Journal of Community & Applied Social Psychology, vol. 7, pp. 39-52, 1997.
- KIIS - Kyiv International Institute of Sociology, unpublished draft report. Analitychnyj zvit z proektu "Pidprijemnytstvo v Ukrayini - 2001. mimeo, 10 August, 2001.
- Knight, Gary A. "Cross-Cultural Reliability and Validity of a Scale to Measure Entrepreneurial Orientation" in Journal of Business Venturing, vol. 12, no. 3, pp. 213-225, May 1997.
- Kohn, Melvin L.; Slomczynski Kazimierz M.; Janicka, Krystyna; Khmelko, Valeri; Mach, Bogdan W.; Paniotto, Vladimir; Zaborowski, Wojcech; Gutierrez, Roberto; Heyman, Cory. "Social Structure and Personality under Conditions of Radical Social Change: A Comparative Analysis of Poland and Ukraine" in American Sociological Review, vol. 62, pp. 614-638, August 1997.
- Kollermeier, Thomas. "Entrepreneurship in an Economy in Transition: Perspectives on the Situation in the ex-GDR" in International Perspectives on Entrepreneurship Research, pp. 37-57, 1991.

- Kolodko, Grzegorz W. "Transition to a market economy and sustained growth. Implications for the post-Washington consensus" in Communist and Post-Communist Studies, vol. 32, pp. 233-261, 1999.
- Kolodko, Grzegorz W. From Shock to Therapy: The Political Economy of Postsocialist Transformation. Oxford: Oxford University Press, 2000 (a).
- Kolodko, Grzegorz W. "Transition to a market and entrepreneurship: the systemic factors and policy options" in Communist and Post-Communist Studies, vol. 33, pp. 271-293, June 2000 (b).
- Konigs, Jozef & Walsh, Patrick Paul. "Disorganization in the Process of Transition: Firm-level Evidence from Ukraine" in Economics of Transition, vol. 7, no. 1, 1999.
- Kontorovich, Vladimir. "Has New Business Creation in Russia Come to a Halt?" in Journal of Business Venturing, vol. 14, no. 5-6, pp. 451-460, September/November 1999.
- Kornai, Janos. The Road to a Free Economy - Shifting from a Socialist System: the Example of Hungary. New York: W. W. Norton & Co. 1990.
- Koropecykj, I.S. "Economic Prerogatives" in The Ukraine within the USSR: An Economic Balance Sheet. Koropecykj, I.S. (ed.), New York: Praeger, 1977.
- Kostiuchenko, Oleksij. "Molod' - ne majabutnie, a siohodennia Ukrajiny!" in Ukrajins'ka Dumka, vol. 53, no. 16, p. 4, 20 April 2000.
- Kovalevska, Liubov. "Rozvytok: ne nasha ideja?" in Den', no. 206, pp. 6-7, 10 November, 2000.
- Krueger, Norris F. & Carsrud, Alan L. "Entrepreneurial intentions: Applying the theory of planned behaviour" in Entrepreneurship & Regional Development, vol. 5, pp. 315-330, 1993.
- Kryshtanovskaya, Olga & White, Stephen. "From Sovet Nomenklatura to Russian Elite" in Europe-Asia Studies, vol. 48, no. 5, pp. 711-733. July, 1996.
- Kubicek, Paul. "Post-Soviet Ukraine: In Search of a Constituency for Reform" in Journal of Communist Studies and Transition Politics, vol. 13, no. 3, pp. 103-126, September 1997.
- Kubicek, Paul. "Regional Polarisation in Ukraine: Public Opinion, Voting and Legislative Behaviour" in Europe-Asia Studies, vol. 52, No. 2, pp. 273-294, 2000.
- Kunkel, John H. "Values and Behavior in Economic Development" in Kilby, Peter (ed.) Entrepreneurship and Economic Development. New York: The Free Press, 1971.

- Kurzweil, Edith. Italian Entrepreneurs: Rearguard of Progress. New York: Praeger Publishers, 1983.
- Kuzio, Taras and Wilson, Andrew. Ukraine: Perestroika to Independence. London: Macmillan, 1994.
- Kuzio, Taras. "Crime still Ukraine's greatest enemy" in Jane's Intelligence Review, vol. 9, no. 1, pp. 10-13, January, 1997 (a).
- Kuzio, Taras. Ukraine under Kuchma: Political Reform, Economic Transformation and Security Policy in Independent Ukraine. Houndmills: Macmillan Press Ltd., 1997 (b).
- Kuzio, Taras. "Ukraine: A Four-Pronged Transition" in Contemporary Ukraine: Dynamics of post-Soviet Transformation, Taras Kuzio (ed.) London: M.E. Sharpe, 1998(a)
- Kuzio, Taras. "Ukraine: Coming to Terms with the Soviet Legacy" in Journal of Communist Studies and Transition Politics, vol. 14, No. 4, pp. 1-27, December 1998(b).
- Landa, Janet T. "Culture and Entrepreneurship in Less-Developed Countries: Ethnic Trading Networks as Economic Organizations" in The Culture of Entrepreneurship, Berger Brigitte (ed.). San Francisco: ICS Press, 1991.
- Lane, Christel. Industry and Society in Europe: Stability and Change in Britain, Germany and France. Aldershot: Edward Elgar, 1995.
- Lane, David S. The End of Social Inequality?: Class, Structure and Power under State Socialism. London: George Allen & Unwin, 1982.
- Lane, David S. Soviet Economy and Society. Oxford: Blackwell Publishers, 1985.
- Lane, David S. The Rise and Fall of State Socialism. Cambridge: Polity Press, 1996.
- Lane, David S. "What kind of capitalism for Russia? A comparative analysis" in Communist and Post-Communist Studies, vol. 33, pp. 485-504, December 2000.
- Lane, David S. "Trajectories of Transformation: Theories, Legacies and Outcomes" in The Legacy of State Socialism and the Future of Transformation. Lanham MD: Rowman & Littlefield, 2002.
- Lane, David S. & O'Dell, Felicity. The Soviet Industrial Worker: Social Class, Education and Control. Oxford: Martin Robertson & Co. Ltd., 1978.
- Lavigne, Marie. The Economics of Transition: From Socialist Economy to Market Economy 2nd edition. London: Macmillan Press Ltd., 1999
- Lavigne, Marie. "Ten years of transition: a review article" in Communist and Post-Communist Studies, vol. 33, pp. 475-483, December 2000.

- Lavoie, Don. "The Discovery and Interpretation of Profit Opportunities: Culture and the Kirznerian Entrepreneur" in The Culture of Entrepreneurship, Berger Brigitte (ed.). San Francisco: ICS Press, 1991.
- Lavrov, Taras. "Donets'ka Sytsyl'ija: Donbas - region de vbyvajut' najchastishe v Ukrajinu" in Polityka i Kul'tura, no. 18, pp. 20-24, 26 August, 1999.
- Ledeneva, Alena V. Formal Institutions and Informal Networks in Russia: A Study of Blat. PhD Dissertation, Faculty of Social & Political Sciences, University of Cambridge, 1996.
- Ledeneva, Alena V. Russia's Economy of Favours: Blat, networking and informal exchange. Cambridge: Cambridge University Press, 1998.
- Ledeneva, Alena V. "Shadow barter: economic necessity or economic crime?" in The Vanishing Rouble: Barter Networks and Non-Monetary Transactions in Post-Soviet Societies. Seabright, Paul (ed.). Cambridge: Cambridge University Press, 2000.
- Ledeneva, Alena V. Unwritten Rules: How Russia really works. London: Centre of European Reform, May 2001.
- Levine, Herbert S. "On the Nature and Location of Entrepreneurial Activity in Centrally Planned Economies: the Soviet Case" in Ronen, Joshua (ed.) Entrepreneurship. Lexington MA: D.C. Heath & Co. 1983.
- Levine, Herbert S. & Szyrmer, Janusz M. "Institutional Development and Fiscal Policy in Countries in Transition" in Szyrmer, Janusz M. & Sultan, Khwaja M. (eds.) Ukraine Through Transition: Challenges and Strategies. Kyiv: Alterpres, 2000.
- Liapin, Ksenia and Liapin, Dmytro "Male pidpryjemnyctvo: regional'ni problemy stanovlennia" in Ukrajins'kyj Regional'nyj Visnyk, no. 15, 15 March 2001.
- Liapin, Ksenia; Liapin, Dmytro; Bereslavs'kyj Serhij. Natsional'na Programa Rozvytku Maloho Pidpryjemnytstva. Kyiv: Institute for Competitive Society, 2001.
- Long, Norman. "From paradigm lost to paradigm regained? The case for an actor-oriented sociology of development" in Long, Norman & Long, Ann (eds.) Battlefields of Knowledge: The Interlocking of Theory and Practice in Social Research and Development. London: Routledge, 1992.
- Lovei, Laszlo. "Electricity Reform in Ukraine: The impact of weak governance and budget crises" in Viewpoint, no. 168. Washington: The World Bank Group, December 1998(a).
- Lovei, Laszlo. "Gas Reform in Ukraine: Monopolies, markets, and corruption" in Viewpoint, no. 169. Washington: The World Bank Group, December 1998(b).

- Lovei, Laszlo. "Coal Restructuring in Ukraine: The politics of coal mining and budget crises" in Viewpoint, no. 170. Washington: The World Bank Group, December 1998(c).
- Lunina, Inna & Vincentz, Volkhart. "The Subsidisation of Enterprises in Ukraine" in Siedenberg, Axel & Hoffman, Lutz (eds.) Ukraine at the Crossroads: Economic Reforms in International Perspective. New York: Physica Verlag, 1999.
- Lydall, Harold. The Entrepreneurial Factor in Economic Growth. London: MacMillan Academic and Professional Ltd., 1992.
- Lytvyn, Volodymyr M. Ukraina na mezhi tysiacholit' (1991-2000). Kyiv: Alternatyvy, 2000.
- MacDonald, Ronan. "Schumpeter and Max Weber: Central Visions and Social Theories" in Kilby, Peter (ed.) Entrepreneurship and Economic Development. New York: The Free Press, 1971.
- MacGaffey, Janet. Entrepreneurs and Parasites. Cambridge, Cambridge University Press, 1987.
- MacRae, Donald G. "From Villain to Hero?" in Seldon, Arthur ed. The Prime Mover of Progress: The Entrepreneur in Capitalism and Socialism. London: Institute of Economic Affairs, 1980.
- Malinvaud A. "Comment on Douglass C. North "Privatization, incentives, and economic performance"" in Privatization: Symposium in Honour of H. Giersch. Siebert, H. (ed.) Tubigen: J.C. Mohr, 1992.
- Mantzavinos, C. Individuals, Institutions and Markets. Cambridge: Cambridge University Press, 2001.
- Marin, Dalia; Kaufmann, Daniel; Goroehowskij, Bogdan. "Barter in transition economies: competing explanations confront Ukrainian data" in The Vanishing Rouble: Barter Networks and Non-Monetary Transactions in Post-Soviet Societies, Seabright, Paul (ed.). Cambridge: Cambridge University Press, 2000.
- Markova, Ivana. "The Individual and the Community: A Post-Communist Perspective" in Journal of Community & Applied Social Psychology, vol. 7, pp. 3-17, 1997.
- Marples, David. Ukraine Under Perestroika: Ecology, Economics and the Workers' Revolt. Houndmills: Macmillan, 1991.
- Martin, David. "The Economic Fruits of the Spirit" in The Culture of Entrepreneurship, Berger Brigitte (ed.). San Francisco: ICS Press, 1991.
- McClelland, David C. The Achieving Society. Princeton: D. Van Nostrand, 1961.
- Mel'ota, Iryna. "The Shadow Economy in Ukraine: Measurement Problems" unpublished manuscript provided by the author, 2001.

- Mel'ota, Iryna & Gregory, Paul. "New Insights into Ukraine's Shadow Economy: Has it Already Been Counted?", Kyiv: German Advisory Group on Economic Reforms in Ukraine, unpublished manuscript, April 2001.
- Millar, James R. "The Little Deal: Brezhnev's Contribution to Acquisitive Socialism" in Soviet Society and Culture: Essays in Honour of Vera S. Dunham. Thompson, Terry L. & Sheldon, Richard (eds.), Boulder CO: Westview Press, 1988.
- Miller, William L.; White, Stephen; Heywood, Paul. Values and Political Change in Postcommunist Europe. Houndmills: Macmillan Press Ltd., 1998.
- Miner, John B. "Evidence for the Existence of a Set of Personality Types, Defined by Psychological Tests, that Predict Entrepreneurial Success" in Frontiers of Entrepreneurship Research. Wellesly MA: Babson College, 1996.
- Minniti, Maria & Bygrave, William. "The Microfoundations of Entrepreneurship" in Entrepreneurship Theory and Practice, pp. 41-52, Summer 1999.
- Mishler, William, and Rose, Richard. "Trust, Distrust and Skepticism: Popular Evaluations of Civil and Political Institutions in Post-Communist Societies" in The Journal of Politics. vol. 59, no. 2, pp. 418-51, May 1997.
- Misra, Sasi & Kumar, E. Sendil. "Resourcefulness: A Proximal Conceptualisation of Entrepreneurial Behaviour" in The Journal of Entrepreneurship, vol. 9, no. 2, pp 135-154, 2000.
- Morawska, Ewa. "The malleable homo sovieticus: transnational entrepreneurs in post-communist East Central Europe" in Communist and Post-Communist Studies, vol. 32, pp. 359-378, 1999.
- Moscovici, Serge. The Invention of Society: Psychological Explanations for Social Phenomena. Cambridge: Polity Press, 1993.
- Motyl, Alexander. Dilemmas of Independence: Ukraine after Totalitarianism. New York: Council on Foreign Relations Press, 1993.
- Motyl, Alexander. "State, Nation, and Elites in Independent Ukraine" in Contemporary Ukraine: Dynamics of Post-Soviet Transformation. Kuzio, Taras (ed.). London: M.E. Sharpe, 1998.
- Moyser, G. "Non-Standardized Interviewing in Elite Research" in Studies in Qualitative Methodology, Burgess, R.G. (ed.) London: JAI Press, 1988.
- Nahaylo, Bohdan. The Ukrainian Resurgence. London: Hurst & Company, 1999.
- Neace, M.B. "Entrepreneurs in Emerging Economies: Creating Trust, Social Capital, and Civil Society" Annals of the American Academy of Political and Social Science. 565:148-161, September, 1999.

- Nee, Victor. "The Theory of Market Transition: From Redistribution to Markets in State Socialism" in American Sociological Review, vol. 54, pp. 267-282, 1989.
- Nee, Victor & Cao, Yang. "Path dependent societal transformation: Stratification in hybrid mixed economies" in Theory and Society, vol. 28, pp. 799-834, 1999.
- Nellis, John. "Time to Rethink Privatization in Transition Economies?" in Transition, February 1999.
- Nemickas, Andrius; Senchuk, Bohdan; Babanin, Olexander. Ukraine: An Assessment of the Business Enabling Environment. Kyiv: International Financial Corporation, Survey and Sectoral Analysis Project in Ukraine, October 2002.
- Nestorovych, Volodymyr T. Ukrainian Businessmen and Manufacturers in Western Ukraine: 1920-1945, (Ukrainian language). Toronto: Ukrainian Professionals and Business Club, 1977.
- Neuber, Alexander. "Adapting the Economies of Eastern Europe: Behavioural and Institutional Aspects of Flexibility" in The Flexible Economy: Causes and Consequences of the Adaptability of National Economies. Killick, Tony (ed.). London: Routledge, 1995.
- Nordberg, Marc "State and Institution Building in Ukraine" in Contemporary Ukraine Dynamics of post-Soviet Transformation, Taras Kuzio (ed.) London: M.E. Sharpe, 1998
- North, Douglass C. Institutions, Institutional Change and Economic Performance. Cambridge: Cambridge University Press, 1990.
- North, Douglass C. "Privatization, incentives, and economic performance" in Privatization: Symposium in Honour of H. Giersch. Siebert, H. (ed.) Tubigen: J.C. Mohr, 1992.
- Nove, Alec. The Soviet Economic System, 3rd edition. London: Allen & Unwin, 1986.
- Odling-Smee, John and van Rooden, Ron. "Growth in Ukraine - Lessons from Other Transition Countries" in Siedenberg, Axel and Hoffman, Lutz (eds.), Ukraine at the Crossroads: Economic Reforms in International Perspective. Heidelberg: Physica-Verlag, 1999.
- OECD (Organisation for Economic Cooperation and Development). Transition at a Glance, Paris: OECD Division for Non-Member Countries, Statistics Directorate, 2001.
- Offe, Claus. Varieties of Transition: The East European and East German Experience. Cambridge: Polity Press, 1996.
- OMEDT (Ontario Ministry of Economic Development and Trade) The Six Stages of Growth in Ontario's Leading Growth Firms. Toronto: Government of Ontario (Canada) Consultative Document, May, 2001.

- Ovin, Rasto. "The Nature of Institutional Change in Transition" in Post-Communist Economies, vol. 13, No. 2, pp. 133-146. June 2001.
- Pachkovskij, Yuriy F. Psykholohiya Pidpryjemnytstva. Lviv: Afisha, 2001.
- Parsons, Talcott. "Prolegomena to a Theory of Social Institutions" in American Sociological Review, pp. 313-345. June, 1990.
- Paskhaver, Alexander. "Prospects for Entrepreneurship: Privatization and Capital Accumulation" in Reforms for Ukraine: Ideas and Actions, Szyrmer, Janusz and Snelbecker, David (eds.). Kyiv: Alterpres, 2000 (a).
- Paskhaver, Alexander. "'Khto vynyen' i 'Shcho robyty?': V Ukrayini ekonomichni protsesy nashtovkhnulysia na taki sotsialni obmezhenia yaki sama ekonomika ne podolaye" in Polityka i Kultura, no. 44 (79), 28 November 2000 (b).
- Perepelkin, O.V. "Rosijiskij Predprinimatjel': Shtrikhi k Social'nomu Portretu" in Sociologicheskii Isledovaniia, vol. 2, pp. 35-40, 1995.
- Phalet, Karen & Poppe, Edwin. "Competence and morality dimensions of national and ethnic stereotypes: a study of six eastern-European countries" in European Journal of Social Psychology, vol. 27, pp. 703-723, 1997.
- dePhillis, Emmeline G. "What's Achievement Got to Do With It? The Role of National Culture in the Relationship Between Entrepreneurship and Achievement Motivation" in Frontiers of Entrepreneurship Research. Wellesly MA: Babson College, 1998.
- Piore, W.W. & Sabel, C.F. The Second Industrial Divide. New York: Basic Books, 1984.
- Pikhovshek, Vyacheslav V. Koruptsiya v Ukrayini: Pokhodzhennia, Dzherela, Suchasna Sytuatsiya. Kyiv: Ukrainian Independent Centre for Political Research and "Agentsvo Ukrayina", 1998.
- Pistrui, David; Welsch, Harold P.; Roberts, Joseph. "Growth Intentions and Expansion Plans of New Entrepreneurs in the Former Soviet Bloc" in Donckels, Rik and Miettinen, Asko (eds.), Entrepreneurship and SME Research: On its Way to the Next Millenium. Aldershot: Ashgate Publishing, 1997.
- Pivovarsky, Alexander. "How Does Privatisation Work? Ownership Concentration and Enterprise Performance in Ukraine" IMF Working Paper, Washington DC, April 2001.
- Ploszajski, Piotr. "Polish Reforms: The Fine Art of Learning and Forgetting" in Social Change and Modernization: Lessons from Eastern Europe. Grancelli, Bruno (ed.) Berlin: Walter de Gruyter, 1995.

- Pocock, J.G.A. Politics, Language and Time: Essays on Political Thought and History. London: Methuen & Co., 1972.
- Polyanyi, Karl. "The Economy as Instituted Process" in Polyanyi, Karl, Arensberg, Conrad M., Pearson, Harry W. (eds.) Trade Market in the Early Empires, 1957; reprinted in Granovetter, Mark & Swedberg, Richard (eds). The Sociology of Economic Life. Boulder CO: Westview Press, 1992.
- Przeworski, Adam. Democracy and the Market. Cambridge: Cambridge University Press, 1991.
- Putnam, Robert D. Making Democracy Work: Civic Traditions in Modern Italy. Princeton: Princeton University Press, 1993.
- Pynzenyk, Viktor. "Koni ne vynni, abo Reformy chy jix imitacija". Kyiv: Akademija, 1998.
- Pynzenyk, Viktor. "How to Find a Path for Ukrainian Reforms" in Economic Reform in Ukraine: The Unfinished Agenda. Aslund, Anders and de Menil, Georges (eds.), Armonk NY: M.E. Sharpe, 2000.
- Pynzenyk, Viktor & Lunina, Inna "Syndrom mjakykh bjudzhetnykh obmezhen' v ukrajins'kij ekonomitsi" in Ukrajins'ki pidpryjemstva v postpryvatyzatsijnij period. Pynzenyk, Viktor (ed.), Kyiv: Institute of Reforms, 2000.
- Radaev, Vadim. "Emerging Russian Entrepreneurship: As Viewed by the Experts" in Economic and Industrial Democracy, vol. 14, pp. 55-77, 1993.
- Rau, Zbigniew, ed. The Reemergence of Civil Society in Eastern Europe and the Soviet Union. Boulder: Westview Press, 1991.
- Redding, S.G. "Culture and Entrepreneurial Behaviour among the Overseas Chinese" in The Culture of Entrepreneurship, Berger Brigitte (ed.). San Francisco: ICS Press, 1991.
- Reynolds, Paul D. "The role of entrepreneurship in economic systems: developed market and post-socialist economies" in Brzezinski, Horst and Fritsch, Michael eds. The Economic Impact of New Firms in Post-Socialist Countries: Bottom-up Transformation in Eastern Europe. Cheltenham: Edward Elgar, 1996.
- RFE/RL Poland, Belarus, Ukraine Report "Tymoshenko Takes Stand Against Oligarchs", Vol. 2, No. 23, 20 June 2000.
- Richter, Andrea & Schaffer, Mark E. "The Performance of De Novo Private Firms in Russian Manufacturing" in Enterprise Restructuring and Economic Policy in Russia, Commander, Simon; Fan, Qimiao; Schaffer, Mark E. (eds.), Washington: World Bank, 1996.
- Rigby, T.H. Political Elites in the USSR: Central leaders and local cadres from Lenin to Gorbachev. Aldershot: Edward Elgar, 1990.

- Riordan, Jim. "Soviet Youth: Pioneers of Change" in Soviet Studies, vol. 40, no. 4, pp. 556-572, October 1988.
- Riordan, Jim. "The Komsomol" in Soviet Youth Culture, Jim Riordan (ed.). Bloomington: Indiana University Press, 1989.
- Roberts, Ken & Tholen, Jochen. "Young Entrepreneurs in East-Central Europe and the Former Soviet Union" in IDS Bulletin, vol. 29, no. 3, pp. 59-64, 1998.
- Roberts, Ken & Zhou, Changcheng. "New Private Enterprises in Three Transitional Contexts: Central Europe, the Former Soviet Union and China" in Post-Communist Economies, vol. 12, no. 2, pp. 188-198, June 2000.
- Robinson, Alan. Ukraine: Restructuring for Growth. London: Euromoney Publications, 1998.
- Rocher, Guy. Talcott Parsons and American Sociology. London: Thomas Nelson and Sons Ltd., 1974.
- Rokeach, Milton. The Nature of Human Values. New York: The Free Press, 1973.
- Rosa, Peter; Scott, Michael G.; Klandt, Heinz. Educating Entrepreneurs in Modernising Economies. Aldershot: Avebury, 1996.
- Rose, Richard. "Adaptation, Resilience, and Destitution: Alternative Responses to Transition in Ukraine" in Problems of Post-Communism, pp. 52-61, November/December 1995.
- Rubin, Herbert J. & Rubin, Irene S. Qualitative Interviewing: The Art of Hearing Data. London: Sage Publications, 1995.
- Rupp, Kalman. Entrepreneurs in Red: structure and organizational innovation in the centrally planned economy. Albany: State University of New York, 1983.
- Ryabchuk, Mykola. "Civil Society and National Emancipation: The Ukrainian Case" in Rau, Zbigniew, ed. The Reemergence of Civil Society in Eastern Europe and the Soviet Union. Boulder: Westview Press, 1991.
- Ryabchuk, Mykola. Dylemy Ukrajin's'koho Fausta: hromadians'ke suspil'stvo i "rozbudova derzhavy". Kyiv: Krytyka, 1999.
- Ryabchuk, Mykola. Vid Malorosiji do Ukrajin'y: paradoksy zapizniloho natsietvorennia. Kyiv: Krytyka, 2000.
- Scase, R. & Goffee, R. The Real World of the Small Business Owner. London: Croom Helm, 1980.
- Scase, R. & Goffee, R. The Entrepreneurial Middle Class. London: Croom Helm, 1982.

- Scase, Richard. "The Role of Small Businesses in the Economic Transformation of Eastern Europe: Real but Relatively Unimportant?" in International Small Business Journal, vol. 16, no. 1, Oct-Dec. 1997.
- Schumpeter, J.A. "The Fundamental Phenomenon of Economic Development" in Kilby, Peter (ed.) Entrepreneurship and Economic Development. New York: The Free Press, 1971.
- Schwartz, Shalom H. & Bilsky, Wolfgang. "Toward a Theory of the Universal Content and Structure of Values: Extensions and Cross-Cultural Replications" in Journal of Personality and Social Psychology, vol. 58, no. 5, pp. 878-891, 1990.
- Scott, Michael G.; Rosa, Peter; Klandt, Heinz. Educating Entrepreneurs for Wealth Creation. Aldershot: Ashgate, 1998.
- Scott, W. Richard. Institutions and Organisations. London: Sage Publications, 1995.
- SCRPE (State Committee on Regulatory Policy and Entrepreneurship). "Report on the activities of the SCRPE in 2000", mimeo reproduced by the Institute of Competitive Society, Kyiv: 30 August, 2001.
- Schiller, R.; Boycko, M.; Korobov V. "Hunting for the Homo Sovieticus: Situational versus Attitudinal Factors in Economic Behaviour" in Brookings Papers on Economic Activity, vol. 1, pp. 127-95, 1992.
- Shapiro, Albert & Sokol, Lisa. "The social dimensions of entrepreneurship" in Kent, Calvin A.; Sexton, Donald L.; Vesper, Karl H. (eds.) Encyclopedia of Entrepreneurship. Englewood Cliffs N.J.: Prentice-Hall Inc., 1982.
- Sheremeta, Pavlo. Keys Metod: Z Dosvidu Vykladannia v Ukrainjs'kij Biznes Shkoli. Kyiv: Institute for Innovation and Development, 1999.
- Shpek, Roman V. "Priorities of Reform" in Aslund, Anders & de Menil, Georges (eds.) Economic Reform in Ukraine: The Unfinished Agenda. Armonk NY: M.E. Sharpe, 2000.
- Shulman, Stephen. "The cultural foundations of Ukrainian national identity" in Ethnic and Racial Studies, vol. 22, No. 6, pp. 1011-1036, November 1999.
- Shulus, Alexei. "Entrepreneurship in the Former Soviet Union and Russia (1985-1994)" in Rosa, Peter; Scott, Michael G.; Klandt, Heinz (eds.) Educating Entrepreneurs in Modernising Economies. Aldershot: Avebury, 1996.
- Sikora, Ivan V. Natsional'ni interesy Ukrainy ta lobists'ki tekhnologiji biznesu. Kyiv: Centre for the Forecasting of Socio-economic and Political Processes, 2000.
- Silverman, David. Qualitative Methodology and Sociology: Describing the Social World. Aldershot: Gower Publishing Co. Ltd., 1985.

- Silverman, David. Doing Qualitative Research: A Practical Handbook. London: Sage Publications, 2000.
- Simon, Mark; Houghton, Susan M.; Aquino, Karl. "Cognitive Biases, Risk Perception, and Venture Formation: How Individuals Decide to Start Companies" in Journal of Business Venturing, vol. 15, no. 2, pp. 113-134, March 2000.
- Smallbone, David & Welter, Friederike. "The Role of Government in SME Development in Transition Economies" in International Small Business Journal, vol. 19, no. 4, July-Sep, 2001.
- Smelser, Neil J. & Swedberg, Richard. "The Sociological Perspective on the Economy" in The Handbook of Economic Sociology, Neil J. Smelser and Richard Swedberg (eds.). Princeton: Princeton University Press, 1994.
- Smith, J.M. "A Quick Measure of Achievement Motivation" in British Journal of Social and Clinical Psychology, vol. 12, pp. 137-143, 1973.
- Snelbecker, David. "The Fundamental Macroeconomic Cause of Barter and Arrears in Post-Soviet Economies" in Ukraine: Monetizing a Transition Economy. Kyiv: Harvard/CASE, 2001.
- Snelbecker, David & Novoseletsky, Edward. "An Analysis of Fundamental Economic Problems in Ukraine and an Agenda for a Comprehensive Reform Effort" in Reforms for Ukraine: Ideas and Actions. Szyrmer, Janusz & Snelbecker, David (eds.) Kyiv: Harvard/CASE, 2000.
- Spinoza, Charles; Flores, Fernando; Dreyfus, Hubert L. Disclosing New Worlds: Entrepreneurship, Democratic Action, and the Cultivation of Solidarity. Cambridge MA: MIT Press, 1997.
- Stanworth, John and Curran, James. "Employment Relations in the Small Firm" in Burns, Paul and Dewhurst, Jim eds. Small Business and Entrepreneurship. London: MacMillan Education Ltd. 1989.
- Stark, David. "Path Dependence and Privatisation Strategies" in Kovacs, Janos Matyas (ed.) Transition to Capitalism? The Communist Legacy in Eastern Europe. New Brunswick N.J.: Transaction Publishers, 1994.
- Stark, David, and Bruszt, Laszlo. Postsocialist Pathways: Transforming Politics and Property in East Central Europe. Cambridge: Cambridge University Press, 1998.
- Stevenson, Howard H. and Sahlman, William A. "The Entrepreneurial Process" in Burns, Paul and Dewhurst, Jim eds. Small Business and Entrepreneurship. London: MacMillan Education Ltd. 1989.
- Stewart, Wayne H. Jr.; Watson, Warren E.; Carland, Joann C.; Carland, James W. "A Proclivity for Entrepreneurship: A Comparison of Entrepreneurs, Small

- Business Owners, and Corporate Managers" in Journal of Business Venturing, vol. 14, pp. 189-214, 1998.
- Stiglitz, Joseph. "Whither Reform? Ten Years of the Transition." Paper presented at the World Bank Annual Conference on Development Economics. Washington, 1999.
- Strauss, Anselm & Corbin, Juliet. Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory. London: Sage Publications, 1998.
- Sundakov, Alex. "Transition Crisis: Is Crisis Management Delaying Transition?" in Siedenberg, Axel and Hoffman, Lutz (eds.) Ukraine at the Crossroads: Economic Reforms in International Perspective. New York: Physica-Verlag, 1999.
- Swedberg, Richard. Max Weber and the Idea of Economic Sociology. Princeton: Princeton University Press, 1998.
- Swedberg, Richard (ed.) Max Weber: Essays in Economic Sociology. Princeton: Princeton University Press, 1999.
- Sych, Vitaly "Foreign companies dominate list of 'best' taxpayers" in Kyiv Post, 7 June, 2001.
- Szabo, Antal. "Development of the Small Business Sector in the Russian Federation" (mimeo). Paper prepared for the "Managing Economic Transition Network" 9th Research Seminar, Kingston Business School, 15 November, 2002.
- Szelenyi, Ivan. Socialist Entrepreneurs: Embourgeoisement in Rural Hungary. Cambridge: Polity Press, 1988.
- Szelenyi, Ivan & Kostello, Eric. "The Market Transition Debate: Toward a Synthesis?" in American Journal of Sociology, vol. 101, no. 4, pp. 1082-1096, January 1996.
- Sztompka, Piotr. Society in Action. Cambridge: Polity Press, 1991.
- Sztompka, Piotr. The Sociology of Social Change. Oxford: Blackwell Publishers, 1993.
- Sztompka, Piotr. "Cultural and Civilizational Change: The Core of Post-communist Transition" in Granicelli, Bruno (ed.) Social Change and Modernization: Lessons from Eastern Europe. Berlin: Walter de Gruyter, 1995.
- Szyrmer, Janusz. "Post-Soviet Transition: Problems, Lessons, and Solutions" Reforms for Ukraine: Ideas and Actions. Szyrmer, Janusz & Snelbecker, David (eds.), Harvard/CASE Ukraine Project, Kyiv: Alterpres, 2000.

- Tedstrom, John E. "Ukraine's Economy: Strategic Issues for Successful Recovery" in Contemporary Ukraine: Dynamics of Post-Soviet Transformation. Kuzio, Taras (ed.), Armonk NY: M.E. Sharpe, 1998.
- Teleshun, Serhiy & Kolpakov, Andriy. "FPG v Ukrayini: politychnyj portret" in Kompanyon, no. 27, pp. 19-22, 12 July, 2002.
- Teriokhin, Serhyi. "Tax Policy" in Economic Reform in Ukraine: The Unfinished Agenda. Aslund, Anders and de Menil, Georges (eds.), Armonk NY: M.E. Sharpe, 2000.
- Thomas, Michael. "How to become an entrepreneur in East Germany: conditions, steps and effects of the consitution of new entrepreneurs" in Brzezinski, Horst and Fritsch, Michael eds. The Economic Impact of New Firms in Post-Socialist Countries: Bottom-up Transformation in Eastern Europe. Cheltenham: Edward Elgar, 1996.
- Thompson, John B. Ideology and Modern Culture. Cambridge: Polity Press, 1990.
- Tiessen, James H. "Individualism, Collectivism, and Entrepreneurship: A Framework for International Comparative Research" in Journal of Business Venturing, vol. 12, no. 5, September 1997.
- Topalova, Velina. "Individualism/Collectivism and Social Identity" in Journal of Community & Applied Social Psychology, vol. 7, pp. 53-64, 1997.
- Toritsyn, Arkady. "Building a Pro-Reform Coalition in Ukraine: Reducing the Bargaining Power of Bureaucracy" in Reforms for Ukraine: Ideas and Actions. Szyrmer, Janusz and Snelbecker, David (eds.), Kyiv: Alterpres, 2000.
- Triandis, Harry C. Individualism & Collectivism. Boulder: Westview Press, 1995.
- Udell, Jon and Pricer, Robert "The role of entrepreneurship education in the transition to a market economy." in Rosa, Peter; Scott, Michael G.; Klandt, Heinz (eds.) Educating Entrepreneurs in Modernising Economies. Aldershot: Avebury, 1996.
- Ukrainian Economic Trends: Monthly Update, Kyiv: European Centre for Economic Analysis and the Ministry of Economy of Ukraine, October 1994. Ukrainian Economic Trends: Monthly Update, Kyiv: European Centre for Economic Analysis and the Ministry of Economy of Ukraine, October 1994.
- UMREP - Ukrainian Market Reform Education Program. "Opytuvannia Kerivnykiv Serednix ta Velykykh Pryvatyzovanykh Pidpryjemstv Ukrajiny" (Survey of Leaders of Medium and Large Privatized Enterprises in Ukraine). mimio. April and June, 1998.
- Van Praag, C.M. & Van Ophem, H. "Determinants of Willingness and Opportunity to Start as an Entrepreneur" in Kyklos, vol. 48, pp. 513-540, 1995.

- Van Zon, Hans. The Political Economy of Independent Ukraine. Basingstoke: Macmillan, 2000.
- Van Zon, Hans. "Neo-Patrimonialism as an Impediment to Economic Development: The Case of Ukraine" in Journal of Communist Studies and Transition Politics, vol. 17, no. 3, pp. 71-95. September 2001.
- Varnaliy, Z. S. "Place, Role and Problems of Small Business in Ukraine" in Malyj Biznes Ukrainy: Pidprijemtsi Zdatni Vidrodyty Krajinu. Kyiv: Yednannia, 1997.
- Vasylenko, S. Yu.; Servetskyj, I.V.; Yurchenko, O.M. Vidkryttia zlochyniv u sferi opodatkovannya. Kyiv: Prosvita, 2000.
- Veblen, Thorstein. The Theory of Business Enterprise. London: Routledge, 1994 (1904).
- Volkov, Vadim. "Violent Entrepreneurship in Post-Communist Russia" in Europe-Asia Studies, vol. 51, no. 5, pp. 741-754, 1999.
- von Hirschhausen, Christian. "Industrial Restructuring in Ukraine Seven Years After Independence: From Socialism to a Planning Economy?" in Communist Economies and Economic Transformation, vol. 10, No. 4, pp. 451-465, December, 1998.
- Voslensky, Michael. Nomenklatura: Anatomy of the Soviet Ruling Class. London: The Bodley Head, 1984.
- Warr, Peter; Cook, John; Wall, Toby. "Scales for the measurement of some work attitudes and aspects of psychological well-being" in Journal of Occupational Psychology, vol. 52, pp. 129-148, 1979.
- Weber, Max. The Protestant Ethic and the Spirit of Capitalism. London: Routledge, 1992.
- Weber, Max. Methodology of the Social Sciences. New York: Free Press, 1949.
- Welkowitz, Joan; Ewen, Robert B.; Cohen, Jacob. Introductory Statistics for the Behavioural Sciences, Fifth Edition. Orlando FL: Harcourt Brace College Publishers, 2000.
- White, John; Lean, Jonathan; Gorton, Matthew; Chaston, Ian. "Overcoming sub-optimal entrepreneurial training and development in Eastern Europe." in Rosa, Peter; Scott, Michael G.; Klandt, Heinz (eds.) Educating Entrepreneurs in Modernising Economies. Aldershot: Avebury, 1996.
- White, Stephen. After Gorbachev. Cambridge: Cambridge University Press, 1993.
- Whitley, Richard. Divergent Capitalisms: The Social Structuring and Change of Business Systems. Oxford: Oxford University Press, 1999.

- Wiklund, Johan. "Entrepreneurial Orientation as Predictor of Performance and Entrepreneurial Behaviour in Small Firms - Longitudinal Evidence" in Frontiers of Entrepreneurship Research. Wellesley MA: Babson College, 1998.
- Wilken, Paul H. Entrepreneurship: A Comparative Historical Study. Norwood, N.J.: Ablex Publishing Corporation, 1979.
- Willerton, John P. Patronage and Politics in the USSR. Cambridge: Cambridge University Press, 1992.
- Williamson, John. "Democracy and the 'Washington Consensus'" in World Development, vol. 21, no. 8, pp. 1329-1336, 1993.
- Willmott, Robert. "Structure, Culture and Agency: Rejecting the Current Orthodoxy of Organisation Theory" in Journal for the Theory of Social Behaviour, vol. 27, no. 1, 1997.
- Wilson, Andrew. Ukrainian Nationalism in the 1990's: a minority faith. Cambridge: Cambridge University Press, 1997.
- Wilson, Andrew. The Ukrainians: unexpected nation. New Haven: Yale University Press, 2000.
- Winiecki, Jan "Heterodox Stabilization in Eastern Europe" EBRD Working Paper No. 8, July 1993.
- Wojciszke, Bogdan. "Parallels between competence- versus morality-related traits and individualistic versus collectivistic values" in European Journal of Social Psychology, vol. 27, pp. 245-256, 1997.
- World Bank. From Plan to Market: World Development Report 1996. Oxford: Oxford University Press, 1996
- World Bank. Ukraine: Social Safety Nets and Poverty. Internal Draft Report of the World Bank Human Development (ECSHD) Europe and Central Asia Region, mimeo, December 2000 (edited version published as World Bank Report No. 22677, June 2001).
- World Bank. Transition, The First Ten Years: Analysis and Lessons for Eastern Europe and the Former Soviet Union. Washington: The World Bank, 2002.
- Wright, Mike; Filatotchev, Igor; Buck, Trevor. "Entrepreneurs and Privatized Firms in Russia and Ukraine: Evidence on Performance" in Frontiers of Entrepreneurship Research. Wellesley MA: Babson College, 1996.
- Wrong, D. "The Over-Socialised Conception of Man in Modern Sociology" in American Sociological Review, vol. 26, pp. 183-189, 1961.
- Yacoub, Max & Senchuk, Bohdan. The State of Small Business in Ukraine: An IFC Survey of Small Enterprises in Ukraine. Kyiv: International Financial Corporation, June 2000.

- Yacoub, Max; Senchuk, Bohdan; Tkachenko, Taras. Ukrainian Enterprises in 2000: An IFC Survey of Ukrainian Business. Kyiv: International Financial Corporation, May 2001.
- Yartseva, Olga. "L'Entrepreneur Russe Depuis le Debut de la Perestroika" in Cahier Internationaux de Sociologie, vol. 96, pp. 99-112, 1994.
- Young, Frank W. "A Macrosociological Interpretation of Entrepreneurship" in Kilby, Peter (ed.) Entrepreneurship and Economic Development. New York: The Free Press, 1971.
- Zaslavsky, Victor. "Contemporary Russian Society and its Soviet Legacy: The Problem of State-Dependent Workers" in Granicelli, Bruno (ed.) Social Change and Modernization: Lessons from Eastern Europe. Berlin: Walter de Gruyter, 1995.
- Zhukov, S. and Vorobyov, A. "Reforming the Soviet Union: Lessons from Structural Experience" Working Paper no. 96. Stockholm: WIDER, 1991.
- Zhylayev, Ihor B. "Demonetization of Ukraine's Economy and the New Economic Policy Architecture" in Ukraine Through Transition: Challenges and Strategies, Szyrmer, Janusz M. & Sultan, Khwaja M. (eds.) Kyiv: Alterpres, 2000.
- Zuckerman, H. "Interviewing an Ultra Elite" Public Opinion Quarterly, vol. 36, no. 2, pp. 159-175, 1972.