Entrepreneurship in the Soviet Union and Post-Socialist Russia

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ABSTRACT. This article advances the understanding of the present and future of Russian entrepreneurship. Based on secondary information published in the West and in contemporary Russia, empirical research and personal interviews, general characteristics of Russian entrepreneurship within different controversial periods that occurred during different periods of this country's history are presented. Also discussed are the influences of ethnic and religious minorities and foreign businesses on entrepreneurship development as well as the relatively low social status of the entrepreneur. The vitality of entrepreneurial response is discussed in terms of recent events in post-Socialist Russia including the transformation of its economy and society and its integration into the global market. In so doing, the article presents the latest trends in entrepreneurship in the country as well as a profile of the Russian entrepreneur.

Introduction and background

While entrepreneurship research has a history in the twentieth century focusing on entrepreneurs and their businesses in the Western countries, the aspects of entrepreneurship in the East with collectivist orientation have received limited attention. There is a real lack of understanding about entrepreneurship in Russia, the country that Winston Churchill called a "riddle wrapped in a mystery inside an enigma". The dramatic changes that have occurred in this once controlled economy in the 1980s and 1990s, have given rise to numerous questions in the former USSR and abroad. What is the heritage and condition needed for the emergence of Russian entrepreneurship? Can entrepreneurship change the traditional state-dominated system with limited economic freedom thereby contributing to global market developments? And, if a "critical mass" of entrepreneurs already exists what is their profile?

Entrepreneurship as a social phenomena reflects the basic conditions that foster the economic development as a result of human creativity, new ideas, and innovations. "For undoubtedly the most radical division to be made of humanity is between two types: those who demand much of themselves and assign themselves great tasks and duties, and those who demand nothing in particular of themselves" (O. Gasset, 1985, p. 7). Revitalized by J. Schumpeter (1939) and F. Hayek (1961, 1973), enriched by M. Casson (1982), P. Drucker (1985), H. Stevenson (1989), J. Timmons (1989), R. Hisrich and R. Peters (1989), A. Ageev (1991), Z. Acs and D. Audretsch (1993), L. Tyson et al. (1994), and other scholars, entrepreneurship research has focussed on the economic, psychological, and social aspects of entrepreneurial functions and its carriers. Within a wide range of approaches such as the Marshallian view of capitalist entrepreneurship as a response to disequilibria, or the Schumpeterian view of capitalist entrepreneurship as the bringing about "new combinations", there is general agreement that entrepreneurship facilitates the following two areas: economic freedom and economic creativity. Economic freedom makes available a certain amount of rights that guarantee autonomous, independent decision-making in choosing the type, form and field of economic activity, methods of

Accepted in final form March 9, 1994

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operations, as well as the use of the profit resulting from this activity. Economic creativity results both in the new organizations being created as well as old organizations expressing new creative directions and the resulting new products and services.

Accordingly, entrepreneurship can be viewed as a three-dimensional product phenomena: (1) it results in the founding and development of competitive organizations for commercial application of new ideas and allocation of resources; (2) it is the role function that predetermines innovations in the economic system and is reflected in different behaviors of people; and (3) it includes tools and skills of the entrepreneur capable of acquiring necessary resources, having innovative and leadership potential, and having ability to analyze and intuition for decision-making (Gratchev, 1993).

An analysis of the genesis of entrepreneurship in a market economy indicates its multi-dimensional (economic, ethnic, social, political) nature and the relationship between the content of entrepreneurship and the historical conditions of economic growth. In the pre-industrial economic stage, entrepreneurial activity relied primarily on capital accumulation, distribution, and successful financial operations. In the late nineteenth and early twentieth century the transition of the leading countries into the industrial age added effective management and production processes as factors contributing to economic success and the entrepreneur's profits. However, extensive (reproductive) production, hierarchical (bureaucratic) systems, technocratic behavior, and large organizations for decades dominated the industrial economies, putting restrictions on entrepreneurs interested in creating new ventures. The situation changed in the last part of the twentieth century. In the countries and industrial clusters that followed the transition to the innovative (post-industrial) stage of economic growth, innovation increasingly became the key factor for economic success along with an increased number of small businesses, more intrapreneurship in large corporations, and governments supportive of an innovative environment for national competitive advantage.

While indeed the number of entrepreneurs varies among societies, the productive contribution of the society's entrepreneurial activities varies even more because of the allocation between productive activities such as innovation and largely unproductive activities such as rent seeking, mafia, and bureaucratism (Baumol, 1990). Different countries' environments can be benchmarked according to the criteria of economic freedom of individuals and groups and their independence in decision-making in economic creativity. Few attempts have been made however, to compare business cultures and systems on a multi-nation basis (Hofstede, 1984; House *et al.*, 1993). There are still no reliable cross-cultural comparisons providing an "entrepreneurship map". As contemporary Russia attempts to survive the transition from monopolism to a free market in the 1990s, it is important to analyze the data available and indicate Russia's place on the "entrepreneurship map", as well as to assess its potential for economic freedom and economic creativity.

Four groups of sources for entrepreneurship research on Russia are available: archives and research in Imperial Russia, literature in the USSR, Western research by Slavic and Soviet scholars, and contemporary Western and Russian (post-Socialist) literature and data. There still exists a large historiography on the subject related to pre-Revolution period such as memoirs of traders; books by Russian historians (Karamzin, Kluchevskii), documents and papers on industry development of late nineteenth and early twentieth centuries; and companies's business records.

In the Soviet state the phenomena of Russian entrepreneurship received limited attention primarily due to two factors. First, economically the state was the only employer legally capable to exploit economic freedom and creativity, and totally disregarded the huge illegal "shadow economy". Secondly, politically the Party monopolized responsibility for management development and economic transformations resulting in ideological censorship of Russian economic history and the standardization of economic "heros" such as directors of state-owned enterprises or Party *nomenklature* leaders. Only in the late 1970s and 1980s did advanced publications appear on contemporary management rooted in Moscow State University, the Institute of World Economy and International Relations, and the Institute of Economy. A few Western books on management were finally translated.

In the West, many Slavic and Soviet scholars continuously expressed interest in the nature of Russian entrepreneurship, its past and present (Blackwell, 1970; Owen, 1981; Gershenkron, 1962; Berliner, 1976). One of the best systemic works resulted from the collaboration of leading U.S. and Russian researchers (facilitated by the Kennan Institute for Advanced Russian Studies) in late 1970s that was published in the volume "Entrepreneurship in Imperial Russia and the Soviet Union" (Guroff and Carstensen, 1983). This book focused on: Russian entrepreneurship in the Tsarist period, the rise of Muskovy entrepreneurial activity in the sixteenth/seventeenth centuries, cultural economic determinants of Russian business in the nineteenth and early twentieth centuries (including the important role of ethnic and religious minorities), and the role of foreign business influencing Russian entrepreneurship. Special attention was given to the pre-WWI situation and analysis of the role of Russian industrialists in designing the entrepreneurial networks and building the advanced economic society.

This collective work and other books (Guroff and Carstensen, 1983; Ronen, 1983 and others) gave insight on entrepreneurship in the USSR, while strongly criticizing the Soviet system. The state's domination over the economy, the pseudo-entrepreneurial role of the Party, central planning as the determinant of Soviet economy, transfer of risk of entrepreneurship from individual to the state, innovations and incentives in agriculture, and R&D to keep the pace of economic development were also discussed. Even though they were very critical of the economic system, they were not successful in identifying the sources for future "entrepreneurship breakthrough" in Russia.

In the post-Socialist period of Russian history there is unprecedented increase in interest in entrepreneurship research as well as discussion on rebirth of Russian entrepreneurship. One visible trend in contemporary entrepreneurship research is the attempt to understand the fundamentals of this phenomena within global developments (Ageev, 1991; Dynkin, 1993). The other is historic research and enlightenment in the pre-Revolution entrepreneurship, success and business ethics of the Russian industrialists (Kuzmichev, 1993; Kuzmichev, Shapkin, 1993; Petrov and Kuzmichev, 1993). In spite of all these investigations, there has not been an analysis of the changes in the origin of Russian entrepreneurship under economic reforms of the 1990s, or research on its political role in the current transformations.

Genesis of Russian entrepreneurship

The genesis of Russian entrepreneurship will be discussed in terms of the key characteristics of Russian entrepreneurship, the historical conditions for entrepreneurial activities, and entrepreneurship in post-Soviet Russia.

Key characteristics of Russian entrepreneurship

Based on the literature in different periods of Russian history, general features of entrepreneurship development can be determined. First, in Imperial Russia, in the Soviet Union and post-Socialist Russia there was and still is a vast amount of *entrepreneurial potential.* In the medieval Russian cities of Kiev and Novgorod not only did merchants and artisans have political power and substantial wealth, almost everyone above the lowest level of peasants engaged in one type of enterprise or another. In Imperial Russia there was a good supply of entrepreneurial energy from both within and outside the business enterprise. St. Peterbourgh managed to breed a cosmopolitan types of entrepreneur during this period. A vigorous level of entrepreneurial response existed even within the Soviet command system. There is a certain positive Russian entrepreneurial heritage that includes courageous changes, large technical projects and charitable traditions. (Ageev, 1991; Guroff and Carstensen, 1983)

Second, Russian entrepreneurship should be viewed in a *broad* (meta-economic) *context* of relations with ownership structure, institutional framework, and economic "ethos", as well as in the relations with the international community. An analysis of the genesis of entrepreneurship in market economies indicates the relationship between the content of entrepreneurship and the historical conditions of economic growth. In the pre-industrial economic stage, as mentioned, activity relied primarily on capital accumulation, distribution and trade, and successful financial operations. In the late nineteenth and early twentieth centuries talented businessmen S. Morozov, L. Knopp, P. Ryabushinski and others became founders of successful business empires in Russia.

However, as occurred in western economies extensive (reproductive) production, hierarchical (bureaucratic) systems and technocratic behavior prior and after the Revolution dominated the industrial economy restricting the development of entrepreneurs interested in creating new ventures.

In the past quarter of the twentieth century in most countries, the increase in innovations influenced economic growth, economic freedom, and independent decision-making for a healthy economy and society. This begs extremely important questions concerning relations between: stability and change in the USSR and post-Socialist Russia; entrepreneurial freedom and monopolistic domination; centralized and decentralized decisions; hierarchical structures and networks in historic and national settings. In contemporary Russia there is present a search for economic freedom and organizational creativity and innovativeness and acceptance of risk (even under unfavorable political conditions) especially by the younger generation.

Third, the *cultural background* for Russian entrepreneurship in more *diverse* than in monocultural countries. There was no substantial impact of a western (Protestant) spiritual tradition present in the creation of the country's entrepreneurial culture. Different religious, ethnic and national traditions added to the development of entrepreneurship Russia. Historically the emerging Russian Empire that acquired new territories also absorbed the ethnic entrepreneurial spirit of the Germans, Jews, Armenians and others. In the post-Revolution era, non-economic mutants of Communist ideology put additional pressure on economic activities, thereby establishing specific qualities for "creative survival". This helped cause the Russian entrepreneurial profile to have its own unique background.

Fourth, Russian entrepreneurship history has been a continuous *fight against monopolism.* In contrast to Western practices, Russia "appears to have largely retained, even in periods of rapid industrial expansion, an autocratic or patrimonial system (single-centered) which has sharply limited the autonomy of economic units in the use and disposal of resources, and which has preserved for those in political control the right, if only *de jure*, to determine the pace and pattern of economic development" (Guroff and Carstensen, 1983, p. 347). The feature of the Russian and Soviet societies – non-economic domination of interest by a narrow group (imperial family or Party nomenklature elite) over economic development – directly influenced: (1) economic policy (imperial foreign and oppressive domestic economic policy and creation of military-industrial complex); (2) ownership (state as the owner and employer, restriction of ownership forms competitive to state-oriented); (3) institutions (legislation hostile to business, bureaucratization, standardization of structures and decisions); and (4) culture (state paternalism and lack of personal responsibility and initiative). Hence, the future role of the state in Russian economic developments and the political and economic struggle in the 1990s will impact the nature and development of entrepreneurship.

Historic conditions for entrepreneurs' activities

State-domination is the most visible attribute in Russian economic history. Entrepreneurs in the time of Peter the Great were traders who had created Europe's strongest military-industrial complex for Imperial Russia. The economic liberalism of Catherine the Great in the late 18th century had attracted to entrepreneurship the highest ranking Russian nobles. Only the Industrial Revolution (which started in Russia half a century later than it started in England) brought to Russia the real spirit of private entrepreneurship. This primarily affected the textile industries which were oriented to the internal market. The Economic reform of 1861 gave freedom to peasants and activated different population groups. This new industrial policy led to "railway fever" and created favorable conditions for the development of banking capital compared to industrial capital. But even in the "golden decade" of 1890s and early 1900s most entrepreneurial interests were destroyed, despite the efforts of government "bright stars" P. Stolypin and S. Witte who initiated economic reforms. Pumping the economy with foreign investments primarily in heavy industries in a country with weak internal markets resulted in the overheating of the national economy. Russia became the starting point for the world economic crisis in the early 20th century, which preceded the first world war. (Kuzmichev and Shapkin, 1993; Petrov and Kuzmichev, 1993).

The absence of freedom of decision-making in the most important resource – the workforce – and the "no-choice" employment situation were two fundamental obstacles to the development of entrepreneurship. In the first years after the revolution, a transformation of the labor market and its monopolization by the state occurred. According to 1917–1921 Decrees of Sovnarkom (Council of Peoples' Commissars) entrepreneurs could hire employees only through the Labor Exchange that was under the control of centralized unions and the Bolshevik party. If labor disputes occurred, the mediator was Narkomtrud (Peoples' Commissariat of Labor) which was also under Bolshevik control. Communist ideologists Trotski and Bukharin rejected the idea of a "Labor market" and built the system of militarization of labor (reproduced later in the labor camps of the GULAG). This made the state the only recognized legal employer. Restrictive measures eliminated the economic freedom of individual businessmen as well as employees. In the 1920s, the limited revival of market elements in selected segments of economy did not change the employment system's framework. Even a later transformation of the national human resource system was run by technocratic management practices with central planning under Party controls. Prevelant at this time was the use of non-economic assessment criteria and a specific education system with a mythology of the "new worker". The Party was responsible for economic education. The result was an enormous loss of human potential and human lives. This pseudo labor market remained in force until it was changed by reformists in the late 1980s.

After WWI, Russia tried to revitalize its economy and appealed to private entrepreneurship to lead the way for economic survival. In the 1920s, the state did not provide the environment for entrepreneurship. Instead, it tried to use entrepreneurship to further its own interests rather than those of the entrepreneurs. In the next decades there appeared different entrepreneurial types which served party interests. In the 1920s–1930s, Communist party entrepreneurs were "Red experts", as well as leaders of the masses through industrialization, pursing their activities on ideological grounds and rejecting material rewards.

After the second world war with the USSR's rapid increase of military power, new groups of Soviet entrepreneurs appeared – innovators from party backed science, technical intelligencia, and "GULAG entrepreneurship" (R&D centers in Labor camps – "sharazhki"). Together with other types of entrepreneurial activities, these groups wanted to create advanced military weapons and technology. The reforms of Nikita Khruchev and Alexei Kosygin in the 1950s and 1960s started a new wave of entrepreneurs – the professional economists (later reproduced in reformers of the 1980s, such as L. Abalkin, G. Yavlinski, Y. Gaidar). Still, in all these instances, the Party was the dominant depersonified entrepreneur, desperately balancing efficiency vs. power. Thus without radical changes in the nature of the society, including ownership structure and ideological profile, there was always a dead end for each type of entrepreneurial activity.

Among the academic scholars, there was concern regarding the compatibility of entrepreneurial activity and the centrally planned economy. H. Levine, while discussing the nature and location of entrepreneurial activity in the Soviet economy, called this "partnership" "strange bedfellows" (Ronen, 1983, p. 235). Although Berliner argued that in theory socialism does not required central planning, in the Russian case, the institution of central planning was the major determinant of the nature of Soviet entrepreneurship. Central planning reduced the pace of innovations, delegated the function of creating new operations to bureaucratic ministries, and slowed down the acceptance of new knowledge and ideas in the economy as they had to pass the "bottleneck" of Gosplan (USSR State Committee on Planning). Central planning called for qualities that differed from those normally associated with entrepreneurship. (Guroff and Carstensen, 1983, pp. 196–199).

In the Soviet economy the overwhelming majority of its resources were under the control of a small group of monopolistic coalitions. This was not only in the military-industrial complex but also in such industrial areas as construction, mining, trade, and power engineering. For example, in the mid-1980s in the USSR one could identify only two main retail networks, one airline company, one oil-extraction ministerial monopoly, and nine ministerial concerns in defense industries. The interest the Party had in the work of these groups determined strategic decisions in the economy and influenced strategic investment flows and distribution procedures. The needs of the society were sacrificed for the sake of stability and the expansion of these coalitions. Their influence on political leadership secured favorable decision-making in the suppression of competition and in channeling public opinion. In general, their domination resulted in a 20–25 year delay in making the required structural changes causing Russia to lag behind international standards of quality of life.

Entrepreneurship in Post-Socialist Russia

After official acceptance of the need of economic changes for national survival and economic success and the adoption of related laws in the Perestroika years, entrepreneurship in the form of cooperatives, individual labor activity and joint-ventures with foreign capital (1987) led to unprecedented growth of business activity in the former USSR. The absence of modern business practices and institutions resulted not only in the commodity exchange rush but also in the total break-down of traditional economic ties. The financial speculations initiated by state-owned structures made bankers appear as super entrepreneurs in their role in economic development compared to industrialists.

Post-Perestroika developments created a new national industrial structure composed of a fast-growing number of privatized enterprises and new start-ups, as well as joint-ventures and foreign-owned establishments. Within post-Socialists Russia in the 1990s there is emerging a new level of economic and administrative freedom. Healthy cooperation between business and the state based on partnership and consensus in the national interests is being attempted with varying degrees of success. At the same time demonopolization of the economy facilitating the development of entrepreneurship is taking place. Contemporary economic creativity is reflected in the new businesses being created either in start-ups, or within "incorporation by privatization" of large-scale amalgamation. Intensive networking emerged within this emerging entrepreneurial community.

New all-Russian business associations were also facilitated by (1) former political structures (such as the Russian Union of Industrialists and the Entrepreneurs or the International Association of Enterprise Managers, designed respectively by former Party and Comsomol leaders); (2) government-business alliances (such as the Council on Foreign Economic Policy, supported by leading industrialists and the Ministry of Foreign Economic Relations); and (3) independent leaders who proved their talents with sky-rocketing profits such as K. Borovoi. These new associations appeared on both the local and regional levels thus supporting the necessary legal, political, and socio-psychological environment for the establishment of entrepreneurship and for foreign business.

One issue of primary importance in Russia is the transformation of the forms of property through privatization. The concept of dominating form of ownership was changed in the late 1980s–early 1990s by the adoption of the Soviet Parliament of the laws on cooperation, individual labor activity, and enterprise. The Law of Privatization provided the legal basis for acquiring state property by organizations, collectives and individuals through buyouts, joint-stock, options, or other bases. Even foreign businesses were able to participate in privatization. For the first time since 1917 private property was officially recognized. By October 1993 the privatization process has resulted in 51,000 enterprises privatized, about a 7,000–8,000 monthly average. Over 50% of the enterprises in the economy employing 1/3 of all the workforce were privatized by the middle 1994. There are presently about 30 million shareholders in Russia, 10,000 companies that issued stocks, and 10,000 registered enterprises with foreign capital.

Diversity in ownership forms and resource access facilitate the implementation of different economic strategies. These may be defined on the basis of: (1) ownership development (individual businesses, limited partnerships (*tovarishestva*), employee ownership by privatization, or alliances with foreign businesses); (2) relation to monopolistic structures ("monopoly domination", "follow-the-monopoly", or "blowing-up-the-monopoly", or "economic independence"); (3) business development (technological leadership, stability, de-investment, "wait-and-see", specialization, or emerging acquisitions). These entities operate in a competitive market, where the general criteria for economic success for business enterprises include: financial stability and growth in profits; placement into entrepreneurial networks; availability of resources and accepted risk; dynamic organizational development; attractiveness of organizational culture; and ability to enter foreign markets (Ageev and Gratchev, 1991).

These competitive market factors make Russian entrepreneurship very diverse with a variety of economic and political interests, several different groups are discernible. The first group, the "Old Guard", are those who proved their talents as leaders in a number of projects such as managing technological innovations in the totalitarian system. These people exploit their access to key decision-making points and information, and use former connections and control over resources. The important feature of transforming industrial structure, facilitated by these people is emerging large industrial corporations in internationally competitive branches of industries (oil-and-gas, space, aviation, shipbuilding and others). The second group, the "New Wave" of entrepreneurs, initiated by economic reform, follow a different road to economic independence. This group searches for innovations, reflects the new economic thinking and neglects the stereotypes of a market-oriented society. They were leaders of the now increasingly legalized shadow economy, former party functionaries, or military officers "on conversion" who successfully transferred to businesses. The large portion of this group are young people, passionate for success and business education. Another group of people, who can be called unwilling entrepreneurs, were forced to take initiatives due to unemployment and are involved preferably in trade. Fourth, there is a growing interest on behalf of foreign entrepreneurs to operate in the Russian market; among this group are the representatives of the Russian Diaspora, who strengthen economic ties with Russian businesses.

All these entrepreneurs are motivated by one or a combination of the following business philosophies: (1) "socialist entrepreneurship", based on active initiatives but under state-run supervision and centralized supplies; (2) "pragmatic entrepreneurship", based on maximum profitability on a technocratic basis; (3) "predatory entrepreneurship", based on the search for success through tough suppression of rivals, growth at any price, and cheating on partners, consumers and the state; and (4) "social responsibility entrepreneurship", based on linking business to the promotion of national interests, the resolution of social problems, and universal human values and beliefs.

The 1990s give birth to many successful entrepreneurs. One visible difference is the success-orientation and source of profits of the main two groups of entrepreneurs – whether in the short or long term. The first group (speculative entrepreneurs) tend to make profits from financial operations, weaknesses in the legislation and taxation system, or by adding value by trade operations. The second group (pragmatic entrepreneurs) work hard to create the industrial base for business development and struggle against huge state bureaucracy while developing healthy ethical standards.

The Russian entrepreneur today

Entrepreneurs' profile

There is definitely a need for a significant amount of focused empirical research on these trends. The results of a recent study of 32 Russian entrepreneurs, who created new businesses, provide an entrepreneurial profile. As would be expected, the majority of the entrepreneurs (84%) were male with an average age of 34.1 years. Their fathers typically had an equivalent of a high school (31%) or college degree (29%) and had either blue-collar (37%) or professional/technical employment (25%). The entrepreneurs' mothers were slightly less educated than the fathers, many having the equivalent of a high school degree (47%) and less having a college degree (22%). The majority of the mothers of the entrepreneurs were employed and their occupation varied greatly. 22 percent were blue collar, 16 percent managerial, and 29 percent were professional/technical, and 34 percent were homemakers. The majority of the entrepreneurs (63%) were married; an equal number (9%) were either never married, never engaged and/or never divorced. The entrepreneurs were more highly educated than their parents. Sixty-six percent had a college degree and the remainder the equivalent of a high school degree or some college. The spouses of these entrepreneurs were not as well educated as the entrepreneur with 34 percent having a college degree equivalent and 31 percent having graduated from high school. Only six (20%) of the spouses were homemakers with the rest being employed in either blue-collar occupations (6%) or professional/technical occupations (29%). The education level within this sample was lower than entrepreneurs in the U.S. as was the educational level of their spouses, fathers and mothers.

The present venture for the majority of the entrepreneurs (72%) was their first. It was the second venture for the remaining ones. The first venture was the most frequent because the first Law on Small Business and Entrepreneurship was not adopted until 1991. The new venture was in a field in which most of the entrepreneurs did not have precious experience. Fifty-six percent of the businesses were service and 44 percent were manufacturing. The businesses were financed at start-up by personal assets and savings. No businesses had any outside financing. Average age of the businesses was 2–3 years. The businesses varied in size in terms of the numbers of full-time and part-time employees. The smallest category of full-time employees (1–4) employees) was indicated by three firms. Eight firms indicated they employed between 5–9 full-time employees. Five employed between 10–19 and five employed 20–49. One firm employed between 50–99 full-time employees and six firms employed 100 or more employees. Twenty one of the firms used part-time employees. The new ventures differed significantly from the typical new venture created by entrepreneurs in the United States in several ways. First, significantly more ventures in the United States are funded at start-up with outside capital. Secondly, more entrepreneurs in the United States have previous entrepreneurial experience before starting their entrepreneurial venture than the 28% of the Russian entrepreneurs. Finally, more start-ups in the United States are in the service area than occurred in Russia.

When queried about their departure points and motivations for starting their present entrepreneurial venture, the responses were similar to the responses of the entrepreneurs in other countries. The two departure points mentioned most frequently were job frustration (59%) and interest in the area of business (28%) (see Table I). When asked about the motivations for becoming involved in their entrepreneurial venture, the motivations receiving first place ranking were: lack of job satisfaction (31%), desiring independence (22%), economic necessity (16%) and opportunity (16%). Achievement and money also received three and one first place ranking respectively (see Table II). The second priority (i.e., being ranked number 2) were more evenly distributed. Opportunity (22%) received the most second place rankings followed by achievement (13%), job satisfaction (13%), money (9%), independence (6%) and economic necessity (6%). The motivations of career/security and status/prestige were ranked third when they received three (9%) and status/prestige one (3%). Other motivations receiving third place rankings were opportunity (19%), money (6%), economic necessity (6%) and lack of job satisfaction (3%).

TABLE I
Departure points for the present entrepreneurial venture

Departure point	Number	Percent
Job frustration	19	59%
Interested in area of business	9	28%
Other	4	13%

Results for the Russian entrepreneurs on personality characteristics using similar measuring instruments that have been used in studies in other countries are indicated in Table III. Russian entrepreneurs are energetic, independent, competitive and self-confident. Other traits that are not quite as strong include: social, anxious, flexible, goal-oriented and being a generalist. The two personality traits of the Russian entrepreneurs that were not clear, were realistic/idealistic and tolerant/perfectionist, with the entrepreneurs varying significantly on these two personality traits. The personality traits exhibited by the Russian entrepreneurs were similar to those of entrepreneurs in the U.S.

The entrepreneurs were also asked to rate on a five-point scale from poor to excellent their own management skills. Russian entrepreneurs felt they were poorest in finance followed by marketing/sales (see Table IV). They also felt a little stronger about their management skills of dealing with

TABLE II
Rank order of motivations for involvement in entrepreneurial venture

Motivation	First priority (No. 1 ranking)		Second priority (No. 2 ranking)		Third priority (No. 3 ranking)	
	Number of respondents	% of total respondents	Number of respondents	% of total respondents	Number of respondents	% of total respondents
Achievement	3	9%	4	13%	4	13%
Job satisfaction	10	31%	4	13%	1	3%
Opportunity	5	16%	8	25%	6	19%
Status/prestige	0	0%	0	0%	1	3%
Independence	7	22%	2	6%	3	9%
Money	1	3%	3	9%	2	6%
Economic necessity	5	16%	2	6%	2	6%
Career/security	0	0%	0	0%	3	9%

TABLE III
Personality characteristics

	1	2	3	4	5	
Passive	0	0	6	17	7	Energetic
Affiliative	0	2	8	16	4	Independent
Non-competitive	0	1	9	17	3	Competitive
Private	0	6	11	6	6	Social
Realistic	3	9	9	9	0	Idealistic
Unsure	0	2	5	20	3	Self-confident
Tolerant	4	7	11	2	5	Perfectionist
Relaxed	0	5	13	5	6	Anxious
Rigid	1	4	7	10	8	Flexible
Uncertain	1	2	3	13	11	Goal-oriented
Specialist	1	2	11	12	5	Generalist

TABLE IV
Self ranking of management skills

Management skill	Ratings					
	Poor	Fair	Good	Very good	Excellent	No opinion
Finance	12	9	6	0	0	2
Dealing with people	3	11	11	4	0	0
Marketing/Sales	6	8	12	1	1	1
Idea generation	3	12	7	6	1	0
Business operations	2	9	13	3	1	1
Organizing & planning	2	5	17	3	0	2

people and idea-generation than their skills in business operations and organizing and planning. The management skill levels perceived by Russian entrepreneurs were similar to entrepreneurs in the U.S. in that both felt their management skills in marketing and finance were the weakest. The two groups differed in that entrepreneurs in the U.S. feel they have much stronger skills in business operations and organizing and planning.

As would be expected in a once controlled economy just starting to emerge as a market-oriented one, there were numerous business problems confronting the Russian entrepreneurs. The start-up problem mentioned most frequently was the lack of business training. This problem at start-up was followed in order of frequency of occurrence by: lack of experience in hiring outside services; lack of guidance and counseling; lack of experience in financial planning; demands of company affecting personal relations; personal problems; lack of involvement with business colleagues; and weak collateral position – not having assets to act as collateral.

A somewhat different set of problems are occurring for the Russian entrepreneurs during their current operations, even though the most frequently mentioned was the same as occurred at start-up – lack of business training. Other present problems mentioned in order of frequency of occurrence were: lack of experience in hiring outside services, such as accounting; obtaining lines of credit; lack of respect; lack of guidance and counseling; personal problems; and lack of experience in finance and planning.

These findings are different from those obtained from entrepreneurship research in Poland and Hungary, where entrepreneurs surveyed: were older; had at least three years of experience; were generally in minority equity positions owning less than 1/2 of the enterprise; and had departure points of utilizing of previous experience and gaining financial independence (Hisrich and O'Cinneide, 1992).

Cases of entrepreneurial success

Personal interviews with two Russian entrepreneurs indicate a potential for leadership and economic breakthroughs as well as an ability to manage change and innovation.

One of the entrepreneurs interviewed was Stepan Pachikov who is the founder and leader of ParaGraph company. The company, founded in 1989 by a group of software whiz-kids, most of whom had previously worked in the USSR Academy of Sciences, is centered around character recognition technology. Hand-written texts consisting of continuous strings of letters are the cornerstone of ParaGraph's business. The technology can even be implemented on a low-performance computing platform under DOS and is applicable both for scanned image character recognition (off-line) and for characters written with a special pen on an electronic pad (screen).

Pachikov's educational background is Tbilisi University (B.Sc.), Moscow State University (M.Sc.) and the USSR Academy of Sciences (Ph.D.). Core educational interests now relate to innovative breakthroughs in multidisciplinary areas. Pachikov created a cross-discipline seminar on computer related problems, with computer specialists, psychologists and other experts. The company discovered the solution to character recognition in the micromotions of a child four to eight years old and then applied this to information technologies.

Pachikov's ability to inspire people and create a vision for the future and his ability to build the team of co-thinkers and business development has led the company to economic success and international recognition. In October 1991, 40 influential papers in America reported that Apple Computer intended to use, in its new pen-pad computers, the technology developed by ParaGraph. That was the international market breakthrough the Russian entrepreneurial venture needed.

Today more than 150 highly skilled professionals work in the company primarily doing fundamental research and development of new software products. ParaGraph today deals with respected companies in information technologies, such as Motorola and Microsoft. In order to build its international network and help with market research, ParaGraph International has set up an office in Silicon Valley in California. This "technologic tube" between two ParaGraphs has been an effective vehicle for meeting global standards in the information technology market. The ability of a Russian company to invent something new, add the necessary organizational framework, enter international markets and effectively work with customers was demonstrated by ParaGraph. And, according to Pachikov, the Russian entrepreneur is characterized by a "sharpened" sensitivity towards effectiveness, and the ability to visualize the situation in years ahead.

Another entrepreneur Viktor Tokarenko, founder and CEO of a broker company – S.A. & Co. Ltd, created a stock and commodity exchanges. The evolution of the market system and transition from monopolies to real competition, according to Tokarenko, required serious institutional and legislative changes. In 1990, the disorganized economy was searching for new entrepreneurial vehicles. Enterprises could not find information on sources of supply of materials, parts, or equipment or on the potential demand for their products. The exchange companies, substituting for the state distribution monopoly were making large profits on trade. In the early 1990's emerging joint-stock companies such as commercial banks discovered that brokers could attract a new group of investors. For example, one of the leading Russian commercial banks "Avtovazbank" could sell its stock to institutional investors by working together with a broker company – S.A. & Co. Ltd. which could also sell stock to private investors. In October 1991, S.A. & Co. Ltd. was the only broker company participating in second issue underwriting of Russia's largest truck producer KAMAZ and was one of the first stock brokers to provide quotes on this very liquid stock. By the end of 1991, the stock market had been fully established.

In early 1992, central establishments such as the Russian Raw Materials and Commodities Exchange and Moscow Commodity Exchange met sudden disaster. The stagnating economy on the one hand and direct ties among the producers and distributors led to closure of many Russian commodity exchanges. Modest dividends and low liquidity compared with the dollar and investing in consumer goods caused people to seriously consider whether stocks should be purchased. "For a certain period the previous achievements made it difficult to notice the lack of new ones. That was until profitability plunged and consequently so did the earnings. We understood that it was high time for new ideas", commented Viktor Tokarenko. One of the "new ideas" initiated was the creation of a bank bill. This commercial paper with four-months maturity and a high interest rate had to be issued by Emission Syndicate of the three biggest Russian commercial banks (Inkombank, Avtovazbank, Conversbank) with S.A. & Co. Ltd. as the Syndicate's operating manager. First issued in September 1992, this commercial paper became very attractive for institutional and private investors. Other new ideas appearing were municipal bonds, privatization projects, and foreign exchange partnerships.

The entrepreneur founder of S.A. & Co. Ltd. Victor Tokarenko is representative of a new wave of bright Russian entrepreneurs. They characteristically are young and ambitious, with strong leadership qualities and communication skills and a passion for business ethics and social responsibility. Victor Tokarenko graduated from Moscow State University in 1989 with diploma work in Russian pre-Revolutionary entrepreneurship. He worked on a group feasibility study to create the first commodity exchange in contemporary Russia Moscow. He is both the analytic and visionary at the company, while one important rule of start-up in any country is being fast in reaction and having flexibility. For Russia, it is the golden rule. And, for Viktor Tokarenko it is his greatest competitive advantage.

Conclusions

Contemporary Russia is radically changing. Russian entrepreneurship is on the leading edge of radical economic and political transformation of the society that should lead to new business developments, and improved quality of life as well as the decline and eventual defeat of the Mafia structures. The competitive advantage of Russia rests on flourishing small businesses, as well as on transformed large industrial complexes, the development of financial infrastructure, and the internationalization of present businesses. This requires high quality management and entrepreneurship.

Russian entrepreneurship as a phenomenon is not radically different from that occurring in other countries. In Russia, entrepreneurs desire economic freedom, innovations, organizational creativity and responsibility. Research indicates that the transition to a full-fledged market economy will give birth to great diversity of entrepreneurial profiles, and organizational cultures, different property forms, and a variety of corporate strategies. Not surprisingly, the main group of Russian entrepreneurs are young, bringing a new generation to economic power. Their business activity and business mentality have been strongly influenced by the country's historic heritage (state-centered state, multi-cultural society, and weak middle class), the communist ideology, and the absence of reliable business laws.

Russia is still in search of the best strategy for entrepreneurship development. Collaboration of scholars may help create the new "mental model" for doing business in Russia – the country of risks, opportunities and human potential. This requires much more empirical and comparative analysis in future research studies. Not only academic scholars will benefit from this research, but also decision-makers who can facilitate the development of the Russian "economic miracle" in the 21st century.

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