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# Small family business in Russia: formal or informal?

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## Abstract

**Purpose** – The purpose of this paper is to deal with informal entrepreneurial activity of micro and small family businesses in the specific transitional environment.

**Design/methodology/approach** – The paper uses two cases – an informal micro business (“marginal” family business), and a formal retail small firm (“simpleton” family firm), respectively, of a panel conducted in 2013–2015 in Moscow.

**Findings** – First, the real distribution of responsibilities between family members is informal; it relies more on interpersonal trust and “common law.” Second, exactly the ease of governing such trust-based businesses for the founders’ generation sets limits of succession of small-scale family businesses. Third, as trust in the state is very low, the policy of Russian authorities to quickly force informal entrepreneurs to become legalized is substantially wrong; the results would be either a transformation of “simpleton” into “marginal” businesses or quitting business.

**Research limitations/implications** – Research limitations of the study are the number of observations and the localization of the panel only in the capital of Russia.

**Practical implications** – The fundamental failure of Russian State policy toward small-scale family businesses is its attempt to convince “marginal” to formalize and to oppress “simpleton” family businesses pushing them into informality. In fact, it should be designed vice versa: tolerate “marginal” businesses and let them to “live and die” while shaping a friendly environment for “simpleton” family firms.

**Originality/value** – The paper argues that the most important facet of informality in small family entrepreneurship is the informal property rights and governance duties’ distribution among the family members.

**Keywords** Transition economies, Informal economy, Family business, Russia, Informal entrepreneurial activity

**Paper type** Research paper

## 1. Introduction

In the family entrepreneurship research (some recent overviews cf. Evert *et al.*, 2016; Randerson *et al.*, 2016; Bettinelli *et al.*, 2017), there are still only a few papers on family entrepreneurship in “transition” economies (Poutziouris *et al.*, 1997; Galetic, 2002; Duh, 2003; Wyrwicka, 2003; Dyer and Panicheva Mortensen, 2005; Dombrovsky and Welter, 2006; Fletcher *et al.*, 2009; Kowalewski *et al.*, 2010; Sheth, 2010; Welter, 2011; Zahra *et al.*, 2014), even less is known about the informal entrepreneurial activity of family firms in former socialist countries (Williams, 2008; Williams and Nadin, 2010; Williams *et al.*, 2013; Bassetti *et al.*, 2015; Welter *et al.*, 2015).

In this paper, we use the components-of-involvement-approach and define a family business, or family entrepreneurship as a business where ownership, management and/or governance are critically dependent on a family (cf. Zellweger *et al.*, 2010; Mazzi, 2011); we do not apply the essence approach and F-PEC scale (Chua *et al.*, 1999), because we are convinced that the two latter concepts presume a certain level of socio-economic stability and a long tradition of family entrepreneurship which are questionable in a fragile transitional context. Moreover, we focus only on bottom-up small family firms and answer

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some questions on their strategies and experience with business using the socio-emotional wealth (SEW) concept (Gomez-Mejia *et al.*, 2007).

Within the SEW concept, there are five different dimensions, summarized as FIBER (Berrone *et al.*, 2012): family control and influence; the identification of family members with the firm; binding social ties; the emotional attachment of family members and the renewal of family bonds to the firm through succession. In the presented paper, we show whether and how family control and the identification of family member with the respective business differ in two family businesses which represent two polar approaches – to do business totally informally vs to be as transparent as possible. Furthermore, as family firms in particular are interested in positive image and reputation (Sharma and Manikuti, 2005; Westhead *et al.*, 2001), it might be interesting to prove whether formal/informal activities are viewed by respondents as something which might improve/worsen the image and reputation of the family business.

The binding social ties dimension is about social relationships of family businesses within the firm as well as with the micro environment; we collect respondents' self-assessments whether their informal vs mostly formal entrepreneurial activity had any impact on different social ties of their businesses. Emotional attachment to family business members is a key specific of family firms (Tagiuri and Davis, 1996; Eddleston and Kellermanns, 2007), and family emotions can often evolve and change with critical events such as succession, divorce, illness and/or economic downturns (Dunn, 1999; Shepherd *et al.*, 2009); as different family business cases presented in this paper both had to do with positive and negative events, we check whether and how these circumstances influenced the emotional attachment of the family members to their business, and vice versa – whether the emotional attachment was important in critical circumstances.

Lastly, regarding transgenerational control, it is shown in the literature that the key distinction between family and non-family businesses is the desire to maintain the business for future generations (Kets de Vries, 1993; Zellweger *et al.*, 2012). But it is less known whether the informal strategy of family businesses is compatible with this goal, or is this goal an “affordable loss” of doing business in a fragile environment like in Russia? Moreover, does the transparency of a one-generation family firm shape conditions enough for a succession?

The paper delivers some answers to these questions and is structured as follows. In Section 2, we discuss the data and method used; in Section 3 we describe the two cases – one of a totally informal micro business of a couple with no employees, and one – of a formally registered small family firm employing permanent staff, starting with a description of the family businesses history and then focusing on the FIBER-related evidence; Section 4 formulates discussion points and recommendations and addresses some constraints of the research.

## 2. Data and method

In the family business research, qualitative studies represent an important part of publications, providing “stories about family dynamics and the intersection of these dynamics with the operation of a business” (Reay, 2014, p. 100). In most cases, the qualitative design is used to create new taxonomies of family businesses, or to explore intentions, goals and influence of family members and their effect on succession (Evert *et al.*, 2016, p. 27).

As the topic of informality is quite sensitive, and any representative sampling of entrepreneurs using informal activities cannot be designed, in our project a qualitative approach was used (Berglund, 2007; Neergaard, 2007; Yin, 2014). The following is based on a panel of 13 Moscow start-ups, self-employees and small entrepreneurs conducted in three waves in 2013–2015 by the author. The panel was designed using the snowball method and according the “typical cases” approach (see Table I) based on the narrative method, focusing on the meanings that respondents ascribe to their experiences, in order to achieve an insight into the “complexity of human lives” (Josselson, 2006, p. 4). Interviews were semi-structured; in the first wave in the Autumn of 2013, mostly questions on life and business experience,

	Employment status			Beginning of entrepreneurial activity		
	Self-employee	Entrepreneur	Start-up (or seed stage)	1990–1999	2000–2012	At the moment of the survey
<i>Gender</i>						
Man	2	6	2	2	7	3
Woman	1	1	1	1	–	–
<i>Age (years)</i>						
21–30	1	1	1			
31–45		2				
46–60	1		7			
<i>Education</i>						
Not completed						
Secondary school			1	1		
Secondary school		1			1	
Not completed						
Higher school	1					1
Higher school		10		3	7	
<i>Ethnical business</i>		1		1		

**Table I.**  
Structure of the panel  
by socio-demographic  
issues, employment  
status and  
entrepreneurial  
experience  
(as on the beginning  
of the longitude)

family, its role in the business governance, description of the current business, partners, ownership structure, goals, attitudes toward state regulation, team and its structure, employees and forms of hiring and sales, future plans and strategies were raised.

In the Autumn of 2014 and 2015, during the second and third waves of interviews, there were mostly questions on change of status and the business of informants raised, as well as questions concerning the factors of changing of the business climate, etc., estimations of the prospects of the current business and own life prospects. Within such a context, also questions concerning current experience in dealing with the State and state servants, use of different forms of taxation, tax optimization (and possible frauds), etc., had been invented to collect in-depth information about the informal entrepreneurial activity as well as on its reasons and self-perception of informal activity (if mentioned).

In this paper, two cases of family entrepreneurs were chosen, the only family firms among the sample (for more detailed findings of the project see: Chepurensko, 2016). To guarantee validity and reliability, often seen as doubtful in qualitative research, especially based on a few cases (Guest *et al.*, 2006), we used the “analysis of narratives” approach (Polkinghorne, 1995, p. 12) to create our own descriptions of themes across the stories of our respondents; the differences between the two cases of family entrepreneurs led us to a taxonomy based on the strategy of doing business, including the extent of and reason for engagement in informal activities; thus, we call them a “marginal” family business (case A) acting on margins of the formal market, vs a “simpleton” family business (case B), because the latter tried to be transparent and to grow, but were forced to downsize it. To ensure the trustworthiness of the findings, a purposive sampling was used, namely seeking out similarities and differences to ensure different perspectives are represented (Patton, 1990) and respondents’ assessment whether the final themes adequately reflect the phenomena being investigated (Noble and Smith, 2015).

### 3. Two cases of family businesses: “marginal” and “simpletons”

#### *Backgrounds and the role of the family in the establishment of the business*

*History of the “marginal family business”.* The respondent was a man slightly over 40 at the beginning. He came from a family of a Soviet army officer, but as he was still seven years old when his parents died, he and his sister lived with relatives. According to him, there were no

entrepreneurial traditions in the family before the socialist period. After secondary school, he graduated from a military school in Tiflis and moved to the higher military school close to Moscow, but after the military putsch in August 1990 he resigned the higher school, moved to Crimea and started a small-scale retail trade.

After a certain time, in 1992 or 1993, he was pushed by racketeers to buy out the business, the family went to Moscow and he was employed initially as a construction worker; after having saved \$200, he again decided to start a small-scale retail business. His wife was employed at a different firm, and her salary was a contribution to the family budget, which enabled the start-up of the family to re-invest its earnings totally into the business. After one year, the family already had an own kiosk at one of the markets in Moscow, registered under the wife's name as solo entrepreneur, where he sold imported goods and also produced some semi-finished food products. The wife worked as a seller in his business, while the man was responsible for the whole operative management. The respondent stressed several times that his wife, although formally being the solo entrepreneur, never had the desire to play a more active role in their common businesses; she usually played rather a role of a "silent partner" and employee.

After the crisis of 1998 in Russia the business imploded, because imports became much more expensive, and the family decided to change the character of their business toward something less dependent from the US\$ exchange rate. He asked one friend to train him in the very basics of the renovation of premises, worked for some time with him as a junior partner, and then became independent. From then, he was only doing the renovation of private flats and houses in Moscow. At the beginning, his wife was not part of this business, as she became pregnant and their daughter was born in early 2000s. But after some years of maternity, she became a silent partner and helped in some renovation operations. She was also responsible for keeping the accounts. As the respondent mentioned, when doing business in the shadows, it is critically important to trust in the accountant.

This business was sustainable over the years, because no need for any external financing existed, hence, no credit from formal institutions. They usually received advance payments, bought all materials with this money, and after the work was concluded, they received the final payment.

The couple never had any employees. As the man explained, in this business, to have partners or employees other than family members is something combined with either tension or money losses. The market is small, but reliable. The demand did not diminish during the crisis in 2008, it even grew, probably because many legal firms behaved questionably, and in the end their prices were too high, and the quality was very unreliable.

When conducting their business, the family never thought about formalizing it:

I recognize what is happening to legally functioning firms in construction and renovation; they are steadily oppressed both by competitors as well as by state institutions. Whether I need this climb?

He and his wife were not inclined to grow; "under current circumstances, it might be even dangerous"; inspections would begin, an accountant would be needed, and taxes would occur – all the already know arguments known (Barbera and Hasso, 2013). He estimated that up to 35 percent of income and up to 80 percent of wages might be lost after formalization. On the contrary:

When you are in the shadow, such kind of problems appear only occasionally; recently, we were renovating a flat, and a neighbor claimed against noise to the districts policeman; I paid him, and the incident was finished in such a simple way.

In 2015, during the initial phone conversation, he agreed to meet for a new interview, but then suddenly rejected it because of a "busy schedule." So far, the "marginal" business seemed to function perfectly.

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*History of the “simpletons” family entrepreneurship’.* The informant was a man, close to 60 at the start of the project, a Muscovite, with an economic degree from the Moscow State Lomonosov University, coming from a Soviet middle class family; the father was an officer and for several years served as a military attaché abroad. He was not informed about any entrepreneurs among his or his wife’s ancestors. During the Soviet time, he was a research fellow in several applied research institutes; he started the business together with his wife as partner and accountant in 1993 being partly pushed by the circumstances (“my institution’s future was unclear, and the salary – negligible”), partly driven by the idea to become independent with very small initial capital: “The financial resources at that time did not exceed \$1,000, and even child support money for my eldest daughter from the first marriage was being paid by my mother from her rent.” As his wife had a higher education in economics and accounting, it helped very much when they decided to become independent; the respondent could focus on strategic targets and establishing of partnerships with important customers and suppliers.

At the very beginning, the family enterprise was engaged in the import and wholesale of meat products. The informant even worked as a loader, as freight forwarder, and sales agent, the wife as accountant. In fact, the man and his wife were partners in this business, but formally the firm belonged solely to the man. Gradually, the business grew, but after the crisis of 1998–1999, when the rapid import substitution began, it became clear that the market niche must be changed. Then, on the advice of one foreign partner and friend, the family decided to engage in supplying semi products for Russian bakery and confectionery manufacturers.

In the early 2000s they already owned a rather big warehouse, but then sold it, because the family decided to switch from the retail trade to manufacturing. In 2007, they developed a business plan of a small factory: bought the plot, prepared the master-plan and related documentation. A total funding of 250m rubles was needed, additionally to their own money. The firm expected to earn a bank credit. But despite the high assessment of the quality of the business plan, banks denied him a loan because the firm did not have any “production experience.” But at that time the crisis of 2008–2009 happened, and the plans should be postponed. Since 2010, the firm has had difficulties of another character, and has had long debates with the tax and custom authorities, which ended with a significant decrease of turnover and financial losses as well as with a deep personal crisis for the owner. At the end of the observation period, it was only a micro-firm run by the couple, but not a growing small business as before.

The wife always supported the husband emotionally and was an active part of the management team as an accountant and later on – as financial director of the firm, having also other duties: the couple had a son in the early 2000s, and the wife was mainly working online from home and managing also the family household.

The business was mostly done formally, however, part of the salaries of employees (more than 20 persons, at the beginning of the survey) for a certain period of time were paid “under the table.”

As the respondent explained, some off-the-books payments happened because some customers (approximately 10 percent) preferred to pay in cash. But the informant pointed out that it never played any significant role in the business scheme. The off-the-books cash was something for a “rainy day.” Since 2013, the firm has paid all salaries officially, according to the interviewer’s statement, because now it was assumed that it was being monitored by the authorities.

Thus, we have two different cases. The first is a family self-employment case, where functions are distributed according to the roles in the family but not according to any business competences of partners and the whole business model is based on informality, outside the formal economy. The second one is a growing small, then declining

micro business, led by a couple with clearly distributed functions, employing staff, doing business mostly formally, having the possibility of external financing, or later selling of the business as a functioning firm. But, doing business formally, the couple seemingly did not use their social ties, etc., to protect the business from predatory entrepreneurs, or political rent seekers. Both family businesses, however, also have some features in common; they are founder-centered (Duh *et al.*, 2009, p. 36) and choose conservative branches (B2C and retail trade) and modes of doing business (Schjoedt *et al.*, 2013, p. 7, Bettinelli *et al.*, 2017, pp. 513-514).

*Family control and influence and the identification of family members with the firm*

*“Marginal” family business.* When they started their family business, the couple was already married, and the wife, who had not finished higher education, worked with the respondent as a seller. The beginning of the 1990s was a double stress for him – the collapse of the country and of his prospective career as an army officer, therefore emotionally he was in a very bad state, and the readiness of his young wife to share with him the uncertainties and risks was very important. He stressed that they had no other resource than their own energy and mutual emotional support to be resistant against different fears and they could not count on any support of other relatives, as most of them simply had neither money nor expertise to help them to survive in a totally new economic reality. So, the familiness (Habbershon and Williams, 1999) played in such a business the most important role.

The family has a formally registered business, belonging to the wife who is a solo entrepreneur. However, this business exists purely on paper, as according to the respondent, the time costs of closing that firm are higher than the tax they are paying on annual base while showing zero turnover; on the contrast, the current real family business is not registered, but functions perfectly.

The responsibilities of partners are defined informally on the basis of a typical gender driven division of labor in patriarchal family micro firms. Attracting of new clients is usually the man’s role; according to the respondent, he also takes care of initial negotiations with prospective clients and provides the initial costs estimates. When the deal is agreed, he is usually also responsible for the purchase of necessary materials and their transportation to the workplace. The same is also true for receipt of final payment and for clarification of some queries and resolution of clients’ claims regarding the quality of already finished work. The wife’s operative duties are minimal or absent, but all possible new contracts are subject of mutual agreement. Characteristically, the wife did never show up, in spite of several requests to speak with her, too.

As there are no premises and no employees to manage, the family pair decides together when and whether they need to buy some (new) instruments to master renovation work, or a new car, etc. They do not differentiate between the family’s and the business’ budgets, every such decision is subject to consensus between both of them; they could not remember any serious tensions concerning the business.

Typically, it is a classical informal type of family firm governance based on mutual trust, optimal with regard to the size and nature of the business.

*Simpleton family entrepreneurship.* Since the very beginning of the family’s business, the couple established a soft division of labor. The man was responsible for acquiring of new clients, products and markets as well as negotiating with banks, etc., while the wife was operating business finance, staff hiring and dismissal and salary payment. These duties were formalized in the internal documents of the firm. However, as it became clear from the interview, the mechanism of solving of conflicts and of the benefits sharing was formulated in a very general manner; both of them received a fixed official salary as employed managers whereas the decision on dissemination of profits was made jointly “according to

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the current financial situation of the firm.” At the time when it was running well, they decided to start negotiating on establishing of a manufacturing business; both partners were convinced to invest in a new venture a significant part of the cumulated income of the family business.

It was possible during the interviews to meet the wife of the respondent to discuss her duties and views on the future of the family business; albeit she did not attend at the interviews with the man, in most cases she shared his statements.

Other family members seemed not to be engaged in the business operative control. The type of family firm governance in this case can be viewed as a fraternalist one (Radaev, 2009), where the responsibilities among partners are clearly defined, but most important decisions are made upon agreement of both stakeholders.

Thus, in both cases family control of current business activities and family members' identification with the related business was very strong, but in the case of the “simpleton” family business external factors which the pair could neither control nor predict resulted in big problems – and a certain loss of control. Exactly the identification of family members with the firm was the single reason not to quit it immediately, as hired managers most likely would have done.

#### *Binding social ties and emotional attachment of family members*

*Marginal family business.* Usually, customers recommended him to their neighbors, relatives and friends; most clients were teachers, scientists or other intellectuals, a very pleasant audience. It did not damage the business, as the respondent was very cautious as regards the trust of clients:

People recommend me to next clients, and I am cherishing our reputation. If there are any defects, I fix them for free, because I provide a guarantee. Therefore people believe me and avoid written agreements.

In 2014, when a deep economic crisis occurred in Russia, the respondent mentioned that:

[...] it is still not more complicated to conduct my business, because we have a good reputation and a large queue of clients waiting for renovation.

*Simpletons family entrepreneurship.* There were some social ties which negatively affected the family business development. Their business, import retail, made networking with customs unavoidable; the ease of customs clearance was an essential element of the business. But while the company was located in Moscow, the customs were operating in St Petersburg. The firm was advised by customs' officer who was known to the respondent since many years and with whom he established over the years of cooperation very personal relations to use the services of one of custom broker firms affiliated with the local customs in St. Petersburg. He did so and collaborated with this broker firm over more than five years. Suddenly, this broker firm was suspect to be engaged in contraband, and also in tax evasion. The customs and tax authorities started investigations against this firm and soon its CEOs made statements that it was the informant's firm which was the true organizer of the customs and tax evasion scheme.

Then, a “war” began with customs: they did not permit goods to be imported, and the respondent's firm lost three big clients which made of a significant proportion of the turnover. After that, the Moscow tax authority arrested the firm's accounts, but the firm managed to open accounts with another bank to re-address at least some portion of the cash flow on the wife's name.

There was a slight lull, some “intermediaries” came into contact with the respondent and offered him to pay unofficially \$300,000 (at that time – ca. 9m rubles); however, no

guarantees of the prosecution termination were given. After the denial they mentioned that he would regret it. Then the arbitration court with the tax inspection began, and in 2012 the criminal investigation against him in person was also started, even without any claim from the tax inspectorate themselves. After 2.5 years of conflict with the authorities, in July 2013, he had to pay 250,000 rubles penalties; additionally, NN thousand US\$ (the respondent did not mention the real sum) was handed over to the lawyer to avoid two years in prison, as the prosecutor requested. Despite the fact that the firm was transferred to his wife, it had no more access to bank credits as he had now a “criminal record.”

The respondent mentioned several times that in all these troubles and decision making his wife fully supported him; over the period of active business operations, in the eyes of the respondent, she became an experienced partner with a clear vision of targets and became sophisticated in financial management – an additional benefit for the firm, because having his wife as a trustworthy accountant, he could plan and develop also informal activities without any restrictions; moreover, the wife invented some techniques to escape from additional claims from authorities, which an employee would hardly do (Barbera and Hasso, 2013).

Meanwhile, then the economic crisis came in 2014–2015, and the firm lost some clients and had to cut some employees.

In 2014, they even thought about to sell the business at least for half of its value. If it would allow the family to provide ca. 70–80 percent of their current income on deposits and on the stock exchange, they would definitely become rentiers. However, in 2015 the situation slightly improved. The strategy of the family entrepreneurs to reduce costs and to focus on the highest margin goods seemed to work well. The respondent said that they realized what are their competitive advantages were compared to large companies:

Firstly, they purchase larger quantities, and cannot so flexibly change prices for each single delivery; secondly, they have a long negotiation process between single units and the head office, whilst we can quickly change the prices bids, therefore we have a faster turnover. But no profit, anyway.

Moreover, they reduced the amount of taxes on the salary, because the man became pensioner in 2015 and worked since it formally on voluntary basis; it brought a tax deduction of 50,000 rubles per month (ca. \$800).

The whole business now was officially conducted by the ex-wife; the divorce was only a formal issue, because the court still had some claims against the respondent, the family decided to rewrite all the property and even the family’s house on the wife’s name and then to get divorced. “But if something happens with my wife, then I will have almost nothing.”

In 2015, the firm radically decreased the staff. Now, they only had two sales managers, one programmer working half time, two persons in the warehouse, one of them was also driving goods. All employees were receiving piecework wages only officially, because the respondent was confident that somebody was looking behind them; therefore they had to be clean and transparent.

They rather seldom made oral agreements with customers; they did not work with any one-day-firms; with unfamiliar partners they dealt only with advance payments.

At that time, quitting the business was no longer the only possibility: “To sell the business? Until now, nobody offered to buy it, because the overall situation in the market is bad.” A liquidation of the business seemed to be a horror for the family; first, they should then sell off stocks, etc., with no less than 50 percent discount. Moreover, the wife still needed to “hold out” for 10 years until her pension. Therefore, they decided to fight on, hoping that the optimized size of the business and a slight change of their market strategy may help them to survive.

As the observations showed, the social network of the “marginal family business” is very limited, it includes a small circle of former clients and is supported by the couple to circulate their reputation among a potential clientele. In this case, the establishment of trust-based

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relations is easier and more reliable, as the network does not include state institutions or possible subcontractors or even competitors which might behave opportunistically, as in the second case; in the latter case, the social network of the family firm was much broader, and had assumingly many more holes and weak ties. Maybe, one of the participants of the social network tried to either destroy the “simpleton” business or to bribe them when involving a customs and tax inspection. Hence, in weak institutional environments and without having access to any serious “friends” among the police, etc. (Volkov, 2002), to run even a small-scale family business might become dangerous, as one cannot control the whole social network your business is embedded in.

Emotional attachment was an important source of longevity of the “simpleton” family business, and of its activities to avoid state established obstacles while redispersing the official governance functions in favor of the non-affected family member. In the case of “marginal,” the attachment to the current business was not viewed as a passionate mission, but rather as a rational strategy to secure the family’s well-being.

#### *Prospects of business and the limits of transgenerational control*

*Marginal family business.* During the last interview, the respondent was aware that their business model is a perfect fit against state authorities’ interference, but has no future. Their business is “virtual,” they have nothing to sell or to inherit, except their personal reputation among a close circle of clients; besides, they were confident that their single daughter would never wish to conduct such a business, or similar; they spent a significant part of their incomes in educating her and at that time she was finishing the secondary school, her professional choice was, according to the father, to become a doctor. The parents neither wanted to promote, nor perceived any entrepreneurial ambitions in their daughter (Laspita *et al.*, 2012) – on the contrary, they invested in her additional education in music and preparation to admission to a medical school to promote her future career as a well-educated employee, not a business lady.

In 2014, during the last meeting with him, the informant mentioned that he felt:

[...] a growing tension in society, it seems that the situation can only become worse, both economically and politically. The middle class is getting poorer, but these people are our main clients.

However, the family intended to continue:

If things become worse - well, I will take a poster and stand up at the subway station, like Uzbeks and Tajiks, who now stand with posters about repairs, etc.

Being asked about the possibility of becoming ill or simply too old to work, he answered that he would find another job. Pension and chronic disease were not hot topics for him.

*Simpleton family entrepreneurship.* The pair has two children in the family; the daughter of the wife from her first marriage and a son. The stepdaughter even worked at the family firm as one of the sales managers, but both he and his wife were dissatisfied with the level of her engagement; she showed no ability or interest to become more engaged into the firm’s current state and prospects. As regards the son, he was at the time of the last interview a student at one of the Moscow universities; the father criticized his lack of efforts and low interest in the education and expressed skepticism concerning his commercial abilities in the future. Characteristically, the son was never engaged in any form in the firm’s activities, as some children of family entrepreneurs do already as teenagers. Hence, there is no affinity of the children with the family business (Björnberg and Nicholson, 2012), and the parents do not insist on it, so the dominant coalition rejects all potential family successors (De Massis *et al.*, 2008). Based on their poor experience with financial losses and trouble with the current business, the owners tolerate and support the desire of the children to choose another career path.

Some years ago, before the interference of customs and tax authorities, the family had the idea to sell the business, once it would become too difficult to manage and develop it, but under consideration of last years' tensions and constraints, there are no hopes, as the turnover of the firm is shrinking, and the reputation is damaged by the "combat" with tax authorities.

Therefore, in the view of the respondent, in case the business couple would lose the courage or come into advanced age, they would rather simply sell some assets and quit the business.

Both families saw clear barriers preventing a succession or sale, but the reasons were different. In case of the "marginal," the daughter was not interested in a self-employment career, while selling would be impossible due to its informal status. In the case of the "simpletons," the family firm theoretically could be sold to third parties, but after the demolition of the business by the authorities, they assumed they would never find a buyer. Informality is an additional factor preventing succession not yet mentioned in the literature (De Massis *et al.*, 2008), which is very important in fragile environments where the political rent seeking of state agencies and an inefficient legal system are additional factors making any succession doubtful: every year thousands of Russian small entrepreneurs become bankrupt despite the court denied the claims of the tax or customs authorities, only because of several additional costs, personal stress and the uncertainties related to such interferences.

#### **4. Discussion limitations and directions for future research**

The story of two different family businesses explains, why we called the first case a "marginal family business" and the second one a "simpleton family firm"; the first is sustainable while invisible for the state and too small to be an interesting target for potential rivalries, the second one tried to be transparent and moderately growing in the formal economy, and had to pay for it with a loss of the biggest part of the turnover and market, as well as with personal trauma and stigma. Therefore, only simpletons behave honestly and transparently in fragile environments.

First, our findings confirm that in transitional economies "family firms [...] rely on more informal governance structures (such as social control mechanisms through shared attitudes and values) than do non-family firms [...]. Thus, family influence seems to make a difference in business; not only in formal governance, but also in the quality of relationships and the prevalence of informal control mechanisms" (Astrachan, 2010, p. 12). The two cases show that informal relations between the members of small-scale family businesses are very important both when doing business informally and formally. The factual distribution of responsibilities between family members is mostly informal agreements; they rather seldom fully formalize mutual duties and obligations, as well as the shares of business tending to rely more on trust and "common law."

Such an embedded informality can hardly be changed by interferences by the state; especially in societies with lack of entrepreneurial experience and low trust in formal institutions like Russian society.

Second, exactly the ease of governing such trust-based businesses for the founders' generation sets limits on succession in small-scale family businesses. Neither the next generation of "marginal" or "simpleton" families is inclined to run such a family business, nor is it possible to sell it to strangers as a business. In addition to succession problems in western economies (Brockhaus *et al.*, 2004; De Massis *et al.*, 2008; Schroeder *et al.*, 2011), there is one additional factor, namely the lack of hopes for favorable framework conditions for small-scale businesses in nearest future, which makes succession in Russia and similar transitional economies unpredictable.

Third, as the trust in state is low or absent, the policy of Russian authorities to quickly enforce people engaged in informal economy to become legalized is substantially wrong;

the results would be either massive transformation of “simpletons” into “marginals” family businesses or quitting of business. Therefore, we support the view of Williams and Nadin (2012) that such a narrowly focused policy would hardly achieve the expected results; a rational decision would be to let such small-scale family businesses “live and die,” as economic and social costs of formalization would be prohibitive for them; meanwhile, such family businesses are providing their owners with regular incomes and the poor and lower middle classes with cheap services they need. Hence, they play an important economic and social role.

A more important but also much more complicated policy approach would be to support the sustainability of “simpleton family firms” which operate primarily formally to encourage them to expand and/or to succeed, it would imply, however, actively combatting “predatory entrepreneurs” and diminishing the rent seeking of state agents.

Thus, the fundamental failure of Russian State policy toward small-scale businesses is its inverted design: it tries to convince “marginals” to formalise while oppressing “simpleton” family businesses and pushing them to become more informal. However, to develop and realize a more contingent and entrepreneur friendly policy is hardly possible while “exclusive institutions” (Acemoglu and Robinson, 2012) dominate the Russian economy.

The two major constraints of the study are, first, the limited number of observations in the panel, and second, its localization in the capital of Russia, where the framework conditions and the development of market institutions differ significantly from provincial Russia. A comparison of the formality/informality in the entrepreneurial practices of small and bigger family firms across the “transitional” economies is a challenge for future research.

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