

PART II

Entrepreneurship and the Shadow Economy in Various Contexts



5. Informal entrepreneurship and informal entrepreneurial activity in Russia

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INTRODUCTION

The aim of this chapter is to examine the rationales and motives for conducting informal activities in transitional economies like Russia. To do this, it seeks to explore the roots and character of informal entrepreneurial activity in contemporary Russia using a set of in-depth interviews with a panel of start-ups and entrepreneurs in Moscow collected in two waves, in 2013 and 2014. In doing so, this chapter adds to the relatively sparse literature on entrepreneurship development in weak institutional environments undergoing transition. The main idea underpinning the chapter is that informal entrepreneurial activity in the contemporary Russian economy and in similar transitional environments is only partly a result of the heritage of the Socialist era. In many ways, informal behaviour of start-ups and SMEs is the result of the realms established during the transition itself.

While it is well established within the body of small business literature that ‘context matters’, when considering the nature of entrepreneurship and entrepreneurial behaviour (Welter, 2011), the full impact of historical, cultural and social contexts of entrepreneurship in transitional contexts still requires additional consideration (Blackburn and Kovalainen, 2009). This is true also for informal entrepreneurial activity and informal entrepreneurship in Russia and similar economies with a fragile institutional setting, imperfect competition and ‘limited access order’ (North et al., 2013).

By adopting such an approach, this chapter argues that the dominance of rent-seeking behaviour and ‘unproductive entrepreneurship’ (Baumol, 1990) impacts on entrepreneurial motivation and strategy. It strongly posits that there is a lack of understanding of the heterogeneity of informal entrepreneurship in Russia, due to insufficient reflection on the different push/pull factors for entrepreneurial activity and small business

development within the country. To address this, the chapter develops a typology of Russian bottom-up entrepreneurs, based on their attitude towards informal practices, to demonstrate, in terms of motivation and strategy, their diversity.

To achieve this, the chapter is structured as follows. First, it briefly outlines how it defines informal entrepreneurial activity and informal entrepreneurship and secondly, provides the outline of the institutional and social contexts within which they operate and which determine the motivation of entrepreneurial activity, including the informal activities of many Russian small businesses. The chapter then explores, based on a set of cases collected by the author, the diversity of resources, motives and strategies with which the different actors operate. The chapter then concludes by calling for a more accurate formulation of policy to 'combat' informal entrepreneurial activity in Russia and for further research into the role of context in entrepreneurship and small business development.

LITERATURE REVIEW: 'INFORMAL ENTREPRENEURIAL ACTIVITY' AND 'INFORMAL ENTREPRENEURSHIP'

Within the scope of the literature dealing with the informal economy (Castells and Portes, 1989; De Soto, 1989; Andrews et al., 2011; Godfrey, 2011; Williams et al., 2013), our aim is to focus on the narrower theme, informal entrepreneurial activity (Webb et al., 2013; Dau and Cuervo-Cazurra, 2014).

There are many partly diverging definitions of what is meant when discussing 'informal entrepreneurial activity', especially under transition (for more detail see Gërxhani, 2004), and this chapter draws upon the approach of De Soto (1989) and his followers (see also Portes and Haller, 2005; La Porta and Shleifer, 2008), as it provides a narrow definition: activities, while being illegal, remain legitimate for many entrepreneurs' counterparts (consumers and suppliers, employees and so on). Phenomena embraced by such a definition include the use of undocumented hiring of employees, counterfeiting, ticket scalping, unregistered and/or tax-avoiding businesses, bootlegging, the skirting of environmental regulations, 'street entrepreneurship' and so on (Webb et al., 2013; Dau and Cuervo-Cazurra, 2014).

This definition might also be formulated as follows: informal economic practices are unreported (or in other ways hidden from the state) activities of entrepreneurs/entrepreneurial firms whose business is not 'antisocial in intent' (De Soto, 1989) and who produce goods and services not forbidden

by law. Such endeavours are to be distinguished from, for example, actors such as so-called violent entrepreneurs who use violence as a source of rent extraction (Volkov, 1999), or illegal entrepreneurial activity (Aidis and van Praag, 2007).

First of all, therefore, it needs to be stressed that informal economy, informal entrepreneurial activity and informal entrepreneurship are to be treated as related but different terms. This chapter focuses both on informal entrepreneurial activity and informal entrepreneurship, and the variety of its forms and motives in Russia, a specific post-socialist society characterized by the deep embeddedness of such practices. Consequently, it is important to define the area. According to Gimpelson and Zudina (2011), those who act informally in any economy can be broadly placed into five categories:

- entrepreneurs without any registration of their businesses;
- self-employed who are registered but who act partially informally;
- informal wage and salary workers hired by private persons;
- informal wage and salary workers hired by formal firms and working without any sign of a written contract;
- irregular workers.

Only the first two categories are the actors under investigation in the present chapter. It is widely accepted, as supported by both official statistics and academic estimations, that the share of ‘shadow’, ‘grey’ or informal entrepreneurial activity in the majority of former socialist economies is relatively large (Estrin and Mickiewicz, 2011). In these post-socialist societies, the informal economy grew rapidly during the first decade of economic reform due to the chaotic nature of the processes (Schneider and Enste, 2000). For example, during the rapid marketization process, many employees of former state owned plants were pushed into ‘street entrepreneurship’ (Earle and Sakova, 2000) or suitcase or shuttle trading (Eder et al., 2003; Yakovlev et al., 2007) as wage arrears became a mass strategy of former state enterprises, thus forcing employees to earn an income informally.

According to some measurements, as much as 40 per cent of economic activity in the Russian Federation could be informal in nature, significantly greater than in OECD countries and many other emerging economies (Schneider et al., 2010). Consequently, some experts argue that ‘some of the gap in formal SME and entrepreneurship activity in the Russian Federation, as counted in official business registers, is the reflection of a relatively large informal sector’ (OECD, 2015, p.6). This fact is sometimes used by Russian officials as a reason to elaborate measures to combat, downsize or eliminate ‘informal entrepreneurship’.

Meantime, it is important not to conflate the informal economy with informal entrepreneurial activity, as for instance subsistence economy, homeworking, mutual neighbours' services and so on form a part of the informal economy, but not of informal entrepreneurial activity. Taking into consideration the geography of Russia where many inhabitants of rural areas and even of small towns are participating in the subsistence economy which is informal by definition but has nothing in common with entrepreneurship or business, we presume that the share of these two groups among the variety of the informally active population groups cannot be as large, especially if we refer to the GEM data. The results of this quite reliable project should confirm such doubts, as the share of early entrepreneurs in Russia is among the lowest in the world during the whole period of observation (2006–14), and does not exceed 3–4 per cent of the adult population.¹ It is important to stress, nevertheless, that the GEM method does not differentiate between formal and informal entrepreneurial activity. Hence, the informal part of entrepreneurial activity cannot be bigger than the total early stage entrepreneurial activity.

However, this does not mean that informal entrepreneurial activity is totally harmless and should not attract the attention of researchers. But it should be understood as a part of entrepreneurial activity in the country being a result of some institutional and societal specifics. On this basis, it could help to explain the nature of informal entrepreneurial activity in Russia and to elaborate more relevant policy recommendations on how to deal with it.

Second, we insist that informal entrepreneurial activity is a broader term than informal entrepreneurship. Many registered and mainly formally acting firms – and not only in transitional economies – occasionally or regularly use informal practices, such as off-the-books transactions with suppliers and customers or the hiring of employees without written contracts. Purely informal entrepreneurship is a much narrower niche, the domain of so-called one-day firms or silent money lenders providing funding to relatives and friends who are starting a new venture, or even to strangers, without any permission or registration needed to do business on a regular basis formally.

The literature on entrepreneurship under the so-called systemic transition, the complex and enduring process of systemic change in the former socialist countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS), has been growing since the middle of the 1990s (McMillan and Woodruff, 2002; Smallbone and Welter, 2001, 2009; Djankov et al., 2005; Ovaska and Sobel, 2005; Welter, 2005; Aidis et al., 2008; Manolova et al., 2008; Welter and Smallbone, 2011; Williams et al., 2013). It is widely accepted that in the course of systemic

transition, several institutional factors predetermined a significant growth of informal entrepreneurial activity, including the specifics of privatization (Feige, 1997; Scase, 1997; 2003; Spicer et al., 2000) and the societal realms (Rehn and Taalas, 2004).

In mature market economies, operating informally is often a temporary strategy of start-ups, to test a product/idea/service informally to gauge the market. If the start-up stage is realized more or less successfully, these enterprises seek to formalize to have better access to customers, financial sector services and to gain the social benefits formality brings. In contrast, in transitional environments, informal entrepreneurial activity is often the single possibility for business survival (Chepurensko, 2014). Why? As Williams (2008) notes, there are four main theoretic lenses to explain informal entrepreneurial activity. First, the modernization perspective presents a dichotomous view that states that as an economy matures, informality will die away. It is also argued that a significant cause of informal entrepreneurial behaviour is the legacy of the 'socialist past' – an attempt to use notions of 'path dependency' to explain contemporary economic development in transition countries and its institutional forms (Ellman, 1994; Johnson et al., 2000; Puffer and McCarthy, 2001; Estrin et al., 2006). However, this chapter argues that to fully understand the persistence and self-reproduction of informal entrepreneurial practices, more than 20 years after the Soviet Union's collapse, requires a greater appreciation of the institutional frameworks of the transition itself. Furthermore, in the existing literature there is a lack of reflection on the variety of forms and practices of informal entrepreneurship – a result of an insufficient examination of different factors pushing/pulling people to engage in such behaviour, their motivations, self-reflections, self-perceptions and so on, within fragile and rapidly shifting business environments.

The second, structuralist, perspective argues that when individuals are excluded from formal labour markets they will turn to informal activities, including when starting up a business activity, despite the lack of protection and low benefits this provides (Castells and Portes, 1989; Sassen, 1997). A third, neo-liberal viewpoint, argues that informal entrepreneurship results from state inefficiencies, corruption and/or over-regulation (De Soto, 1989). Fourthly, a post-structuralist perspective views informal entrepreneurial activity as an alternative space in which participants transform their work identity and/or reveal their true selves such as by establishing informal lifestyle businesses (down-shifters and freelancers becoming entrepreneurs) for a multitude of reasons.

In contemporary Russia, as well as in some similar transitional economies, a mix of all four arguments can be justified (with cases partly reflecting them below, in the empirical part of the chapter). First, the impact of

informal entrepreneurship as a reaction to the shocks and massive deconstruction of the formal economy is decreasing (the rise and then a quick decline of the shuttle-trading; see Yakovlev et al., 2007); second, the reason for informal entrepreneurial activity persistence is the structural exclusion of those without the political connections and/or relevant skills and capital to do business formally, especially immigrants, rural inhabitants and other less adaptive groups; third, the neo-liberal arguments are true when considering formally established SMEs aiming to avoid the excessive bureaucracy; fourth, in post-structural terms many people decide it is safer to be 'hidden' from rent-seekers and to become freelancers acting semi-formally. There are many person-related factors and reasons which may influence the decision to do business informally, at least partly. Very generally, silent money lenders, entrepreneurial employees and self-employed; those driven by empathy or being motivated by necessity; those characterized by the combination of low human capital plus low social capital; strangers and foreigners are more inclined to start up and even to do business informally, or at least semi-formally (Table 5.1; see also Chepurensko, 2014, for details of its 'fuzziness'). Hence, any empirical investigation of the reasons and strategies used by entrepreneurs to act informally should take this fuzziness into consideration.

The balance between formal and informal entrepreneurial activities is not only driven by personal factors but is also context dependent (Welter, 2011), that is, dependent on the specific set and configuration of institutions. Among these institutions, as shown in institutional theory, property rights protection and/or state interference, and easy and equal entry are especially important to ensure that entrepreneurs are active and operate formally. There are different approaches to delineate the differences in institutional settings among countries, with North et al.'s (2013) generalist approach, which highlights 'free access' and 'limited access' orders, an appropriate tool for examining the role of context in entrepreneurial activity and small business development. We assume that, in spite of the fact that North et al. themselves constructed the concept of a 'limited access order' while studying some societies in Latin America and South-Eastern Asia, this concept is fully applicable to Russia and similar 'transitional' societies because they are characterized by exactly the same characteristic features of the State, its role in society, uneven access of representatives of different strata to policy and law protection, and the dominant role of some groups of interest ('oligarchs', 'siloviki' etc.). This is already clearly evident in the literature (Elster et al., 1998; Remington, 2000; Renz, 2006; Rivera and Rivera, 2006; Treisman, 2006; Aidis et al., 2008; Gelman, 2010a, 2010b, 2011) and is supported by the scores Russia obtains in different comparative

Table 5.1 Variety of personal factors influencing informal entrepreneurial activity

By character of entrepreneurial activity	By reasons to become entrepreneurial	By motivation	By set of capital	By origin	By gender
Silent money lenders Entrepreneurial employees	Empathy Seeking additional income source Gaining start-up experience	Reciprocity Necessity driven	Money capital High human capital + high social capital	Core ethnicity Immigrant	Male Female
Self-employed	Traditional ('street entrepreneurs' etc.) Freelancers	Improvement driven opportunity Life style Protest at system Linked to ability	Low human capital + high social capital		
Solo owners Entrepreneurial firms	Survival Growth		Low human capital + low social capital		

rankings (for example, Index of Economic Freedom; Doing Business; Global Competitiveness Index).

Under such circumstances, unproductive entrepreneurship, that is seeking and exploitation of opportunities to extract administrative or political rent, becomes dominant, as it has already been described based on CEE countries' experience (Sauka and Welter, 2007). When unproductive and destructive entrepreneurship become commonplace there are significant implications for entrepreneurs. First, trust in the state is extremely low as entrepreneurs view it as a hawkish, unfair competitor and societal support for informal entrepreneurial activities increases (Welter, 2005). Tolerance of tax evasion becomes embedded and the reliance on informal shared norms and contacts rather than on legal frameworks becomes stronger (for more detail see Batjargal, 2006; 2010; Ledeneva, 1998; Puffer et al., 2010; Raiser et al., 2003; Smallbone and Welter, 2001; 2009; Tonoyan et al., 2010). Under such conditions, informal entrepreneurial activity is rather a form of rational compromise than of avoidance and deviance (Oliver, 1991). This rationality impacts upon the societal image of informal behaviour, which also differs according to context.

Contrary to established market economies, engaging in informal economic practices in Russia does not necessarily affect the social status of people engaged in it (Zudina, 2013; Round et al., 2008). Whilst commentators have often sought to explain the existence of informal entrepreneurship according to a single logic, recently there have been calls for a greater integration of these four theorizations taking into account the fact that different motives may co-exist for entrepreneurs (Aidis and Van Praag, 2007) and also an individual's motives can change over time (Welter and Smallbone, 2011).

DATA AND METHODOLOGY

The theme of the survey is quite a sensitive topic, and the general parameters of the sample uncertain. Therefore, the preference was made for choosing an appropriate quantitative method (Atkinson and Flint, 2001), while establishing a small sample for a 3 to 4-year survey. Thus, the study is based on a series of cases collected in accordance with the 'typical cases' approach. Below, some findings of the first two waves of semi-structured interviews conducted in 2013 and 2014 in Moscow are presented. The panel was formed in the middle of 2013 among Moscow self-employees, entrepreneurs and start-up founders using the snowball technique to establish a sample (see Table 5.2).

In the initial sample there were respondents included who represented

Table 5.2 Structure of the panel by socio-demographic issues, employment status and entrepreneurial experience (as at the beginning of the study)

	Employment status				Beginning of entrepreneurial activity			
	Self-employed		Entrepreneur	Start-up (or seed stage)	1990–1999		2000–2012	At the time of the survey
	Entrepreneur	Entrepreneur			Entrepreneur	Entrepreneur		
Gender								
	2	6	2	2	7	3		
	1	1	1	1	–	–		
Age								
	1	1	1	1	–	–		
		2						
	1		7					
Education								
			1	1				
		1			1			
Ethical business								
		10		3	7			
		1		1				

both already established business owners and freelancers as well as start-up projects and even seed-stage entrepreneurs, men and women between 24 and 60 years and older, with education from secondary school up to university degree, both born and bred Muscovites and those who had moved to the capital from other Russian regions and the CIS, belonging to different branches (productive sector, business services as well as B2C, catering).

A short portrait of respondents is as follows:

- No. 1: man, over 30 years old, secondary school, Russian, born and raised in Uzbekistan, in Moscow since the end of the 1990s, main business repairing apartments and offices as well as cottage development, more than 10 years of business experience;
- No. 2: man, about 45 years old, from a military family, left a military higher school before graduating, in Moscow since the mid-1990s, self-employed, main business repairing apartments, business experience over 20 years;
- No. 3: man, 50 years old, higher school in engineering, Muscovite, business: engineering in buildings construction and management, business experience over 20 years;
- No. 4: man, about 60 years old, higher school in economics, Muscovite, business in consumption goods import (food), business experience over 20 years;
- No. 5: woman, about 25 years old, higher school, humanities education, born and brought up in North Caucasus, catering, business experience more than 1 year;
- No. 6: man, 60 years old, higher school in engineering and physics, coming from one of the CIS republics in the Caucasus, in Moscow since the beginning of the 1990s, business in construction, business experience over 20 years;
- No. 7: man about 35 years old, secondary school not completed, Muscovite, IT in trade and services, business experience about 20 years;
- No. 8: man about 30–32 years old, higher school, economics, Muscovite, business in transportation and logistics, experience of about 5 years;
- No. 9: woman, about 27 years old, higher school, humanitarian education, in Moscow since 2005, catering, business experience about 2 years;
- No. 10: woman of pension age (in Russia: over 55), higher school, humanities education, Muscovite, business services and printing, business experience over 15 years;

- No. 11: man, about 40 years old, Muscovite, higher education in engineering and physics as well as in economics, business: initially Internet trade, then business brokering, business experience about 15 years;
- No. 12: man, about 60 years old, Muscovite, higher education in engineering, PhD degree, business experience in consulting, including political consulting, project development in mining extraction, business experience over 20 years;
- No. 13: man, about 30 years old, Muscovite, higher school, humanities education, printing services, business experience about 3 years.

Interviews were semi-structured; no recording was used according to the wishes of most of the respondents, but after decoding the notes, the written versions were sent to the respondents and checked by them to avoid any factual misunderstandings.

In the first wave in the Autumn of 2013, the interviews mostly raised questions on life and business experience, family, its role in the business, description of the current business, partners, ownership structure, goals, attitudes towards State regulation, team and its structure, employees and forms of hiring and sales, future plans and strategies.

In the Autumn of 2014, the second wave of semi-structured interviews was conducted, which mostly raised questions on the change of status and the business of the interviewees, as well as questions concerning factors relating to changes in the business climate and so on, estimations of the prospects of their current business and their own life prospects. Within such a context, questions were also asked during the first and second waves of interviews about the respondents' current experience in dealing with the State and state servants, use of different forms of taxation, tax optimization (and possible frauds), as well as on forms of hiring of employees, which could provide some in-depth information about the tools and schemes of informal entrepreneurial activity that were used as well as on the reasons for engaging in informal activity and self-perception of informal activity (if mentioned).

As a rule, an interview in the first wave took close to 2 hours; in the second wave it took 40 minutes to 1.5 hours, with a few longer talks with some interviewees.

RESULTS OF TWO WAVES OF INTERVIEWS (2013 AND 2014)

The two waves of the survey brought some evidence about the forms of informal practices and reasons for using them when hiring employees,

developing payment practices between the entrepreneur and his/her clients and suppliers, as well as when communicating with State authorities. Moreover, there are some assessments of the economic situation in Russia and business morals, and self-perceptions of the factors behind the informal activities which were being assessed.

This part of the chapter is organized according to the logic of the interviews as follows: (a) hiring of personnel and related informal practices (according to our expectations, this was the most common and least sensitive issue); (b) relations with customers (here, we assumed there would be less willingness to report informal activities); (c) relations with state officials (which we initially believed to be the most emotional part of the interview).

Hiring of Personnel and Informal Practices

Informal hiring without a proper work contract as well as informal payment practices when the whole or a significant part of the salary is paid off-the-books, exist according to the interviewees almost everywhere. However, the major difference between the formally registered and totally informal firms is whether all or only a proportion of the employees receive their payment in cash or off-the-books.

Respondent No. 9 expressed this when laughing: 'If any salary is to be paid, it is paid "white" – in white envelopes'. Sometimes, there are no informal payments as for instance at the firm of respondent No. 10, where most interpreters hired for big events are registered as solo entrepreneurs. That is why no salary relation exists, as they are in effect subcontracted. Only those who do not have the formal status of a solo entrepreneur receive their contract payment through a third party, contracted solo entrepreneurs, in cash.

If the firm is under the exceptional control of the State authorities, the usage of only formal hiring and payment practices becomes unavoidable. This is the case in respondent No. 4's firm where until 2009 part of the salary was paid informally, and 'nobody worried about it, but after the conflict with the Customs and Tax administration began, wage arrears occurred. After August 2013 we switched to only white salary, as we did not have any non-accounted goods and transactions any more'. Thus, in his family business there is no core personnel turnover at all in spite of the relatively modest salaries: 65–70 000 roubles per month if the business is running well, while sales managers have a fixed part of their salary (30–40 per cent) and the rest consists of special bonuses for fulfilling certain key performance indicators (KPIs). Before the incident with the State authorities, this bonus, according to the interviewee, was also

paid in envelopes. However, there are no unregistered workers. 'Even the workers from Central Asian republics working in the depot (it is impossible to hire any non-alcoholics among Russian citizens for this kind of work) have official registration permits', says the interviewee, as well as written contracts with carefully formulated terms and conditions.

Forms of the self-legitimation of informal hiring and payment to employees differ: some respondents argue it is a form of control; some add also that it is a form of partial risk transfer to the personnel. The single argument which was not at all mentioned by the respondents is the minimizing of tax costs.

Certainly, often respondents told us that they engage in these practices because all the entrepreneurs are doing it, and the most important reason for this situation is corruption. As respondent No. 2 mentioned, 'there are about 10 per cent of entrepreneurs in Moscow who work entirely legally. Others are using 'black' cash. Otherwise, you will have only troubles; one inspection goes out, the next is coming in. And all insist on donations. The change of the Governor of the city [in 2010, the old Governor Lushkov, known for his highly bureaucratic and corrupt system of city governance, was suspended by the President 'for loss of trust' and a new Governor Sobyanin from the Kremlin administration was assigned] did not change much in this situation'.

Respondent No. 1:

Sure, all employees are working on the basis of oral agreements only. As soon as the contract with the client is received, I make the initial calculation. Then, I make an initial calculation of salaries. I do not pay any advance, the first payment comes after 5 to 7 days of working on the job; I have to prove first whether it is OK there. After it I pay regularly, in small instalments, and my residual is about 10 per cent.

As he stated:

Now, it is more and more difficult to find workers for the simplest kinds of work. That is, it is hard with the black people. We call them avatars. Because they are able only for the simplest types of work. But they are not drinking, unlike Russians, and do not have many other harmful habits, they only are chewing their *nasvay*.² . . . Who is responsible for it? The Federal Migration Service and we, Russian racists. Russians are, to my feeling, big racists. In [Central] Asia, according to Russian employers' demand, there is already a firmly established slave trade; there are many courtyards where prospective workers are coming. You may come and choose somebody who is fatter or leaner. Then, you say: I will take this guy and another guy; if you need, you may take even 70 persons or more. Then, you have to pay a tax to the authorities, they are sending all of them to you, and you are using them as a cheap labour. They are very submissive; it is easy to oppress them morally and to let them do what you wish. And

Russians, they do not like to work, besides, they have their habits to drink, to smoke etc. And all of them, even those who are not able to do anything, wish to become bosses.

As respondent No. 11 said:

Now, we have around 50 persons in our firm. There are drivers, call-centre people, IT personnel (outside of the official staff), storekeepers, purchasing managers, quality control, accountants. Some of them are working on a labour contract, some have agency agreements. For instance, our IT people are residing in the Ukraine, and there is one individual on an agency agreement who is paid for their work.

Those who are formally hired receive a fixed salary and some rewards according to the financial results.

In such a way, we try to transfer part of our financial risks to employees. Sure, a part of the salary is paid off-the-books. But it is so in all small enterprises. Medium sized firms cannot work in such a manner. And as for the big firms, for them it is maybe impossible.

Especially interesting was the statement of respondent No. 7. He does not accept any shadow transactions, as this is against his moral principles, but he shows a certain understanding for other entrepreneurs, as ‘the Russian legislation is a draconian legislation. That is why entrepreneurs try to avoid taxes’.

To avoid salary taxation, which in Russia is the employer’s responsibility, apart from a simple off-the books technique, there are several other methods used. One method is, however, a clear separation of core and periphery workers as regards their employment status and level of formality. For instance, as respondent No. 1 mentioned in the second wave of interviews:

my formal staff consists of only three persons, as officially we provide only services but not works in furnishing and construction. Then, which questions could be raised to me [from the tax authorities]? All my workers ‘graze’ outside of the wall. Really, I have around 70 employees now, 4 teams, each with its own master; besides that, we hire from outside when needed. All the questions concerning salary, its form, level etc., the masters clarify by themselves.

Immigrant workers dominate. ‘A whole international team is working there, Dagestan people, Uzbeks, Tajiks, Tartars, Gagauz people, Ukrainians, we even have one Jewish man who is breaking old walls; nobody believes me when I am telling about him’.

A similar picture was painted by respondent No. 6. At his firm,

besides the masters and workers who change steadily and receive a piecework payment, there are 8 core staff members: director, chief engineer, deputy director, accountant, 2 consultants, 2 chief masters. All of them receive a fixed 'white' salary and may receive some bonuses, if we are able to pay them. No envelopes. That is my principle. Maybe, because I am unable to dodge? Two times in my life I tried to bribe, and both times I was caught; it seems to me that it is written on my face when I try to cheat [he smiles].

The fact that masters and workers are belonging to the personnel, too, and that the hiring and payment practices with this category seem to be not as formal as with the core team, seems not to be reflected by the respondent as a problem.

The above examples let us assume that within the entrepreneurial community in Russia a certain practice of differences exists, not only in the level of salary but also in the level of formality of hiring between the core and the periphery. Second, the informal hiring of the periphery seems not to appear to be a problem for the entrepreneurs themselves, either regarding the legal aspect or the moral state of things.

Another method used is the establishment of such a model of business when most members of the team are formally independent solo entrepreneurs, so no employment relation formally exists. For instance, most workers of respondent No. 8 are formally his franchisees; a similar story is told by respondent No. 10. However, in her case, many interpreters who initially were individual entrepreneurs, decided to quit the business, as the social tax for solo owners was doubled in 2014 by the Russian government. After this, she complained, many of the interpreters decided to work only off-the-books, while transferring the fiscal claims of the government to her firm: she was forced to register her son and daughter as solo entrepreneurs and to pay them according to contract. In reality, the honoraria were paid in cash to the persons who really managed the work.

The self-legitimation of the informal payment of a (sometimes significant) part of the salary usually consists in the argument that in such a way the respondent is trying to minimize taxation. This argument, however, sometimes contradicts the fact that the taxation system for some of the interviewees should, on the contrary, stimulate them to show all costs properly. For instance, this was the case for respondent No. 13, whose micro-business uses the simplified tax system where the amount of the tax is counted as a share from the difference between turnover and total costs. It seems that, without stating it openly, the respondent used such a form of payment in order to control the labour and the loyalty of his small staff (three people) to the firm. Or, another possible explanation is that it

is an instinctive attempt to portray the business as being as small as possible in order not to attract inspections and to avoid a business takeover by low-level state bureaucrats. And certainly it is a strategy used by those of the interviewees who will never try to sell their businesses. As respondent No. 11 stated, 'when the true goal of the business is not the operation profit but the price of the company, you must be transparent. Thus, the motivation is changing'. His firm has five employees, all of them receiving fixed 'white' salaries.

Relations to Customers and Informal Practices

In relations with customers, fully formalized practices usually exist, with the exception of such trust-based areas as construction and repair, where deals mainly rely upon an already existing personal acquaintance with the prospective serviceman or upon recommendations of well trusted people who informally play a role of 'due diligence'.

As respondent No. 2 stated:

I have my own market, as the clients recommend me to third parties, and I am working mostly with teachers and academic scholars. It is a very charming audience. And the demand is not going down, and in 2008³ it even increased. Why? Maybe because many of them already had bad experience with legal firms, where prices are higher, and simply due to different frauds.

He works only in Moscow, as it is a larger market and the travel distances are shorter for him than in the greater Moscow area.

Informant No. 1 says that the use of formal or informal practices is client dependent:

It looks different with different types of clients. If I have to deal with juridical entities, I usually use any one day firm, all scope of works are to be registered with this firm, but in reality all services are provided by my firm. If there is an individual, then I act according to the customers' desire; if he or she wishes, we make a formal agreement on paper, but do not register it and do not show it anywhere. If the customer already knows us and has trust in our services, then we don't do that. We simply agree upon the total price and start working.

The same story is confirmed by respondent No. 2:

For sure, with clients we always agree orally. Somebody introduces me to the client, and I cherish my own reputation very much. In the event of any defect, I remove it without additional payment as I guarantee the quality. Therefore, people have trust in me and are ready to refuse any written contract.

However, respondent No. 6, who also works in construction, considers a close cooperation with big firms which are juridical entities as a reason to resort to different stratagems including informal practices: 'Under the circumstances described above [see above] it is very difficult not only to plan but also to pay salary to the workers regularly. From here we have to deal with the "optimization" of taxation, hiring without written contracts etc.'

It is evident that the level of formalization of the main business plays a role. Unlike entrepreneurs and the self-employed in construction, in the retail trade the level of formalization of relations with customers is much higher. As respondent No. 3, who is a co-owner of a retail shop dealing with cladding panels mentioned, they deal with customers only with advance payment; therefore this kind of relationship is carefully documented, after payment on delivery they only deal with a small number of reliable customers who already have significant experience in cooperating with his firm.

Our principle is never to provoke our clients. Even if the client wishes to return an item for any reason, we agree although we are not required to do so if nothing is corrupted or damaged, because we are aware that in this case the client will choose us next time again.

However, as the respondent mentioned, if the entrepreneurs tried to avoid accepting returned items, 'he will never accept reclamations, and no bailiffs would help because no firm responsible would exist there at that time'.

The legal form of the entity is important, too, as it is possible to use the simplified tax regimes. As respondent No. 5 mentioned,

as we are using the simplified tax regime, we tried to have for all our purchases any receipts or cash-cheques etc. For instance, the rental of a truck was included in the estimates of the project. But concerning the revenue it is not so . . . If you are working according to the simplified tax rule, it is always in your interest to show all your expenses in full – but not all your benefits.

Informant No. 9 confirmed that when the payments are by bank transfer (through a third juridical entity, as the individual firm is in the process of registration), 'in such a case all is made in accordance with the law'.

Why do entrepreneurs like oral agreements with customers? Informant No. 3 explained that there is no choice:

Otherwise, where will we receive the cash from which we need to pay salary to our staff and to ourselves? There are no risks, as when we let our staff collect payment from clients for services, it is not such a huge amount of money to run away with. There are other risks: last year, my bag with a big amount of money was stolen; it was the black revenue of the firm.

As regards the customers, their reasons are similar, according to respondent No. 2:

We discuss all details orally. Customers are eager to do so because they also receive only 10–12 per cent of their wages officially, the rest of their income is off-the-books. And the renovation may cost up to 1–2 billion roubles. Therefore, nobody is interested in showing his/her real incomes!! To buy materials we use cash, and we report the expenses showing the invoices from the market.

It should be stressed, however, that in spite of the fact that it seems to be a quite realistic explanation, it is not really; in Russia, there is no obligation to register such kinds of civil-law contracts; moreover, tax inspectors working with documents of private entrepreneurs have no powers to analyse the sources of revenue of individuals who are customers of the controlled firms.

However, in other fields the situation might differ. For instance, in consumption goods retail trade, according to respondent No. 4: 'Actually, we simply do not need such a practice – 90 per cent [of turnover] goes through our bank; we rarely use our own cash. Because, why should we need it? If we need a small amount of cash, we may show a natural decrease (shrinkage, spillage, damage etc.), of up to 10 per cent [of costs]'.

In printing and publishing the situation is mixed. As respondent No. 10 mentioned, 'most transactions flow through the bank, among them from individuals, but somebody who knows and believes in us and our reputation, simply brings cash. Anyway, all is dealt with according to the customer's wish'. In other words, the firm itself has no preferences, and is equally eager to work with bank transfers or cash.

And respondent No. 9 insisted that oral agreements could even cause a financial crash of the business: 'our main customers are big firms (tourist agencies etc.), and they are not inclined to work with "black" cash; moreover, the agreement is a guarantee for us against any attempt to cheat from the side of bigger companies'. Here, we see a contradictory statement: on one hand, the respondent argues, it is the strategy of clients to avoid any informal payments, but on the other hand, she confirms that an agreement is rather an instrument of self-protection of the small firm. Anyway, she described some evident reasons not to use any informal off-the-books transactions between two businesses.

Meanwhile, in construction it also depends on the typology of customers. Clients of respondent No. 6 are mostly big construction companies. Therefore, 'such forms are not used, rather we have to count with the possibility that they will not pay the full price, or with cases when payment is suddenly suspended. For instance now we are still waiting to see whether a very big customer would pay, all the same'. Such an exploitation of smaller

firms serving as suppliers of big companies that dominate the market formally does not imply any informal transactions in B2B relations; however, to survive under such circumstances, the supplier is pushed to minimize costs, for instance using informal hiring.

If oral agreements are a usual practice, it is mainly not a tactic used to avoid taxation but simply because the business itself is based upon a variety of very quick logistical services for different firms and individuals – respondent No. 8's business is delivery of goods, therefore, 'oral agreements are typical, also with business companies like Internet-shops where delivery is to be organized just in time; so, we simply don't have time to deal with many papers'.

Relations with State Officials

Respondents mainly tried to avoid talking about the State and its politics, except the representatives of the older cohort whose long entrepreneurial experience enables them to discuss the evolution of the State approach to entrepreneurs and small business. With one exception, this evolution is considered very negatively.

First, respondents assess the State approach to small business as a fiscal one. Characteristically, respondent No. 7 lamented, concerning taxation:

you should give back 60 per cent from the profit but for what kind of services from the State? Seventy per cent of entrepreneurs according to my own estimations do not want to pay to such a State, 20 per cent came on the market to earn fast money and would not pay to any State at all, 10 per cent are still starting up and are still unable to pay any taxes.

For instance, the company where at the moment of the interview the respondent is employed, is paying all taxes and respecting all rules, but it is big enough, while small businesses are objectively unable to fulfil all the tax regulations. Accountants recognize this fact and sell them tax optimization schemes for 2000–3000 roubles. As for him, 'solo entrepreneurs with up to 100 billion roubles annual turnover should be free of any taxation at all, as they would not be able to establish new jobs, at least legally'.

Second, State policy is repressive. Meanwhile, identifying and combating economic crimes of some firms is often used as an excuse to extort rent from 'partners in crime'. The following is a story told by respondent No. 4:

My firm specialises in import of consumption goods; there are constantly trucks arriving, and a necessary element of such business is customs clearance. But my firm is located in Moscow and the customs where we usually import is located in St Petersburg. Under the existing conditions, we are pushed to

cooperate with those customs brokers whom we find on advice of certain circles around the customs; at one time they recommended some closely related intermediaries, and we worked with this firm over a period. In 2010 it suddenly turned out that this firm was caught smuggling (at that time this still was a criminal, not an administrative issue), then it was caught evading tax. After the firm was investigated, they started to accuse our firm, as if our firm was the real initiator of the affair, and they were simply being our 'agent', and we had organized all the deals. As the customs officers were closely involved in these dirty affairs, the firm, to avoid prosecution, started a war against us: they did not allow our goods into the country, and we had serious losses. Subsequently, three big customers who made up a big part of our turnover left us, because we were unable to provide them with all the required range of goods and on time. Then, Moscow customs began to chase us. Our account was suspended, but we had managed to open an account at another bank beforehand. In that way, we saved a part of our turnover. Then, there was a certain hiatus, and some representatives of, let us call them, law enforcement bodies contacted us and asked us to pay 300 000 USD, although without any guarantees that the prosecution would be terminated. As we denied it, they told us that we would be sorry. Then, an arbitrage court was engaged by the tax inspectors, and after that, to increase the pressure, the criminal court; meanwhile, the criminal case was instituted by the Investigation Committee in 2012 without any claims from the tax authority.

Meanwhile, estimations of the tax and of the police were very different; the tax was 34 billion roubles in overdue payments, but the police were asking only 13 billion roubles. The fact that during the same period of three years the firm had paid, apart from the payments made in Moscow, more than 200 billion roubles in VAT through the customs in St Petersburg was ignored, as well as the independent economic expertise results provided by the firm; not one (!) petition was taken into consideration either by the investigator, or by the judge. According to formal regulations, a criminal case should be discontinued on expiry of the limitation period. But the investigator decided, relying on the opinion of the tax inspector (who gave the tax inspector the right to interpret the law?) that the VAT paid through the customs office should not be included in the total sum of taxes paid to the State (!) and proposed article 2 of article 199 'overdue tax payments in large scale'. And the court stamped this proposal without any doubts.

As a result, after two and a half years of battling with the tax authority and the Investigation Committee, in July 2013 we were enforced to pay 250 000 roubles in penalties (and X thousand USD passed through our lawyer to the judge, otherwise I had to count on two years of prison, as the Prosecutor requested). And the output: it is naive to expect an objective treatment from any State branch. If they want, they will find any possibility to crush you. Business in Russia is an enemy of the existing regime. But also its source of enrichment.

Now the respondent has a criminal record. In spite of the fact that the firm now formally belongs to his wife, it has no more access to bank credit, whereas earlier they had received credit from the Sberbank without any problems. No new credit cards can be issued for him. Moreover, living some years under such a pressure has left its mark; first he had a hypertensive crisis, and now he has chronic heart disease and other illnesses.

Some of the respondents even made generalizations like: ‘Putin – it is the Soviet Union! He is rebuilding it. We hope he will leave a small piece that we do not have to die in a gutter . . . ’ (respondent No. 3).

Meanwhile, younger entrepreneurs and start-ups did not have any tensions with state authorities at all, and this theme seemed to be irrelevant for them, in contrast to those with longer business and life experience. The statements of the latter concerning their communications with state officials were, as a rule, filled not so much with condemnation or resentment but rather with indifference and disgust.

In the context of relations with public authorities corruption was mentioned occasionally. So, respondent No. 7 mentioned:

I got acquainted with one former KGB officer. And he asked me whether I am thinking about my life after becoming retired. But it seemed to me that he had something quite different in mind than me. Even because I am thinking over my retirement, I am doing business but not theft on state procurement. All people who make me a certain offer, I send to one colonel from the FSEP [Federal Service of Execution of Punishments]. All my relatives are somehow connected with the Army, and they still have some views on the officer’s honour and how things should be. In general, I try not to do any deals with officers, only with generals; they have already solved all their problems and they do not raise bad questions.

The comparison of experience with other countries where corruption is assumed to be high might help to make cynical judgements, as respondent No. 12 does. He is involved in different business projects in several African countries, and he said:

What is the difference between officials in Africa and in Russia? In Africa, corruption is not personalized; they understand that a bribe is paid not to the person X, but to the deputy minister. It implies that if the person is suspended and you start to work with their successor the new person will never require his ‘slice of the pie’. In Russia now we started to combat against corruption; but there are no non-corrupt institutions, and the result of such a combat will consist in a total stagnation of business life. In a country where there are no non-corrupt schemes of the industry policy, it is impossible to start to combat corruption!

Corruption is not always combined with the State; as respondent No. 1 mentioned, corrupt behaviour is rather typical of representatives of big customers or contractors:

With officials I did not have such an experience, but with contractors. First, often they simply do not have specialists speaking professional language, as construction and furnishing is something outside of their main competences. Therefore, sometimes people responsible for working with us from the side of the contractor are not aware of any technical or economic issues they have to

supervise. But they are fully aware of what they want to receive personally in the process of procurement . . . So, we have to negotiate . . . [smiling].

The same story was told by respondent No. 3:

We participated in two subcontracting deals, because one firm we have been cooperating with for a long time asked us to participate in two big tenders by a big state owned contractor. Because of this deal we actually have some income. But with tenders, what kind of deal is it usually? To give you an example: one tender I know about was to service 130 air conditioners for 130 000 roubles annually. We don't play such games. Because you have to work with only one air conditioner for at least three hours when you are making a proper service, and 130 000 will cover the salary of one serviceman for no longer than two months, the minimal price of such kind of procurement should be no less than 300 000! But I have no doubt that somebody took part in this tender and won it. Really, no service was provided at all, but the responsible person on the side of the contractor has earned something. Moreover, a significant part of the employees received no bonuses, because a significant part of that money was used to pay for a proper service of air conditioners.

A legal small business is very vulnerable in such kinds of relations imposed by firms which are affiliated with state institutions; although there are usually more advantageous price conditions offered, the risk of the participation in illegal schemes being detected is also very high. For example respondent No. 4 referred to:

Some goods we import not by ourselves but receive them [already in Russia] from a big import company closely affiliated with the CEO of the customs; they sell them to us at a very cheap price because the costs of customs clearance for them are equal to zero. Why do they sell them to us? Not because we are very close to them, but because we are specializing in such a segment of goods which is very narrow, so they simply do not know who could be included in their scheme in place of our firm.

If an entrepreneur is working completely in the 'shadows', he or she has no tension with corrupt state officials or contractors' representatives. That is the case of respondent No. 2, who admitted that he does business entirely informally:

I do not have any contact with inspections and other state institutions. Sometimes it happens that neighbours complain, then the police inspector is coming, but he has no powers. He only can ask me to keep silence outside of normal working hours or request my passport. But my passport is OK. And what else can he control? Even large construction and repair companies usually make contracts with clients without specifying the full amount or even without any amount of the contract.

Hence, the respondent justifies his behaviour with reference, first, to the cost reduction, and second to the usual practices of firms in that field.

It is noteworthy that both of the two senior individuals in the sample mentioned that they try to avoid, if possible, any contact with state officials. So, respondent No. 4 claimed on annoying bailiffs.

In accordance with the decision of the court I have already paid all the penalties in January. But in April I recognized that I am still on the stop-list on the bailiffs' website as a debtor. With the regional bailiffs department there were no worries; I have called them and sent a scan of the payment order; they have withdrawn all my data from the database. But it was about penalties, but I had to confirm the payment of the customs itself, and it was to do with the municipal bailiffs' service. They had no website, the phone given on the website of the region's office website was invalid, and they even had no fax. I had to visit them personally twice; both times I handed the copies of the payment orders out against receipt, but no changes in the database were made. The third time I went there close to the end of the summer, shortly before leaving for a business trip abroad.⁴ 'My' bailiff was absent, and there was a queue both to the chief and deputy chief of some dozens of people. I managed to catch the chief in the hallway and to explain the reason to him. He ordered another person to make improvements to the database. All in all, it took me several days.

Earlier, when things got better, I even had a special deputy in administration matters to negotiate with officials, because I do not like them at all and cannot speak quietly to them, as I immediately fall into a rage from their unique mixture of aplomb and ignorance.

A similar view was shared by respondent No. 6:

Immediately [with officials], I do not contact officials, try to avoid them. But also clerks of commercial organizations are trying to dress like bureaucrats when you are visiting them with any commercial offer. But what is the difference, who is the guest and who is the visitor? What is important, it is the issue to be discussed. But no, they are so proud . . .

In the context of people's own sad experience of relations with concrete state institutions and their representatives, very critical comments were made concerning the general current socio-economic situation and political system. It should be noted that such characteristics are formulated by the respondents who declared the rejection of informal business activity. So, for instance, respondent No. 6 noticed:

Total control over a personality, they act according to [Stalin's] principle; it is important to get a person, and then we will find any article in the law. That is the credo of legislators. And Bastrykin⁵ is simply like a vice-premier in economics!

The more oppressed is the personality, the lower will be the business activity of self-made people. For an infusion of a new blood into business, under such circumstances, any stimuli are absent . . .

It began already under Yeltsin, in the second half of the 1990s. In Moscow it was especially evident, because Luzhkov managed to establish his own power vertical⁶ earlier. Large corporations are ‘built in’, therefore they behave not like private business, but rather like conductors of bureaucratic interests. If you follow the intonations and accents of officials who make statements in the press it is evident that today only those people may try to enter business who cannot imagine an alternative existence. We’re rolling downhill. Actually, already in the mid-1990s there were security services who governed the business; nobody could persuade me that I am wrong. Exceptions were already rare at that time; only people who managed to explore a proper niche from the very beginning and who were already grown before the security services captured them. For example, Yevtushenkov;⁷ he is neither Gates nor Jobs. He was ‘allowed’. I think, even in China the share of entrepreneurs who grow freely is higher than here.

EVIDENCE AND POLICY RECOMMENDATIONS

The chapter has sought to explain that the labels ‘informal entrepreneurship’ and ‘informal entrepreneurial activity’ should be used more accurately, taking into consideration a wide variety of both motivations for undertaking entrepreneurial activities partly or totally on an informal basis within the nexus of opportunity/necessity-driven motivation within imperfect transitional economies like Russia. The chapter points out such crucial constraints of informal entrepreneurial activity as low visibility, financial traps as well as absence of possibilities to transfer the business to the new generation of the family.

The self-legitimization of doing business totally or partly informally is very different. Some of the respondents speak about their lack of entrepreneurial experience, some of them argue that they have to save on taxes, while for others it is the necessity to have unrecorded cash to bribe officials or representatives of contractors. As there is no single reason for informal entrepreneurial activity, there can no single recipe to reduce informal entrepreneurial activity. The ‘typical cases’ analysed in the chapter show that usually there is a set of external and internal factors pushing or pulling the entrepreneur to use informal practices, namely, the size of the business, field, market structure (open or closed), as well as with the strategy of personal hiring. Hence, State policy aiming to diminish the impact of informal entrepreneurial activity should try to accept this complexity; otherwise, it will not achieve its goals.

Micro-business owners and start-ups in the B2C sphere interviewed in the course of the project insisted that they are unwilling pawns of the economy, pushed to act informally. But it seems that here we are not dealing with any transitional specifics or even peculiarities of the Russian market, as some fields such as construction and household repair services

are informal by nature; facts and arguments mentioned by the interviewees could be found in any other economy including established market economies. As such, businesses are creating only a few jobs and primarily for the kinds of employees who are not inclined or even not able to compete for jobs in the formal labour market, such a form of informal entrepreneurial activity should be rather tolerated or welcomed in societies with weak social protection systems and low pensions, because it provides these categories of adults with temporary jobs and salaries.

It is to be stressed that in the course of the project we dealt with some cases where the markets are constituted in such a way that micro- and small businesses are very dependent on procurements of either the state institutions or large firms, and this circumstance may become a crucial pushing factor to skip to informal practices to minimize the costs because of regular overdue payments, or simple underpayment from the side of the mighty and influential contractor dominating the market. In such situations, or when the contractors enforce them to minimize the price of their services, the subcontractors are forced to hire some of the personnel on an informal basis, and to do part of their transactions off-the-books to both reduce the salary fund and to have some cash to pay minimal salaries until the contract is paid. Such a practice becomes more regular during a crisis when currency is depreciating; as contractors have fixed budgets and are involved in the realization of several State-controlled programmes, they try (a) to decrease the payment compared with the initial contract, and (b) to pay as late as possible to gain benefits from the depreciation of the rouble. Having much weaker positions on the market, the small subcontractors have a choice either to tolerate such voluntary behaviour of contractors, or to quit the market. Even big and prosperous Russian firms may become hostages of such situations when being involved in huge politically prioritized projects in contemporary Russia.⁸ Meanwhile, the State concern in Russia is to attract as many SMEs as possible to participate in state procurement. The experience of some of our respondents, however, shows that taking into consideration the disparity of market power and quite rational reasons for payment arrears and so on on the part of the contractors, for many SMEs becoming subcontractors of bigger firms could become an additional factor of uncertainty and rather encourage them in informal behaviour, or lead them to bankruptcy, especially under the conditions of a long-lasting crisis.

The most common informal practice mentioned by the respondents is no doubt the off-the-books salary payment, especially in the case of peripheral personnel. Even those among the respondents who describe their business as something fully formalized are limiting the area of purely formal contracting of their employees with the core only. As regards the periphery

(construction workers, maintenance workers and so on), by default, the hiring of them is purely informal, and this fact is not perceived by respondents as a problem. In the course of this project, it was not possible to collect opinions from the employees themselves about their satisfaction with such a status. But from other research papers (Zudina, 2013) we know that being employed informally does not negatively affect the life satisfaction or the self-perception of their social status. It is a quite rational attitude taking into consideration a short life expectation, uncertainty of the prospects of the pension system, low quality of free state medical care and so on. Hence, the embeddedness of semi-formal or informal hiring practices is, on one side, protecting the entrepreneurs against the volatility of external market conditions and a regulatory framework; on the other hand, it finds an acceptance from the employees themselves. In conclusion, without serious changes to the environmental conditions (social services of the State for the formally employed population) any attempts to diminish the sweep of informal hiring in the SME sector will hardly become efficient.

However, to pay part of the salary on a steady basis off-the-books, entrepreneurs need to have some unreported turnover; its sources seem to be the most sensitive part of the interviews. To have unreported cash, interviewees mostly used a limited number of techniques: starting from informal oral agreements with clients in services; taking loans from relatives and friends; shrinkage and outage in retail trade with consumption goods; and finishing with participation in 'simulated' state procurement, which is already criminal. Of all these usual practices, only the last one is really illegal and should be suppressed; but under a dominance of 'unproductive entrepreneurship' it seems not to be realistic.

Informal entrepreneurial activity is reflected as something negative by those respondents who are growing their business for sale. In situations when the main purpose of running a business is simply to secure the well-being of the owner and his/her family, the attitude toward informal activity is more tolerant. As a general improvement of the economy should increase the share of serial entrepreneurs aiming to sell their successful businesses, it automatically would strengthen the positions of those inclined to do business entirely formally.

The start-up respondents had, in parallel with the observed business, either some freelance experience or an ongoing freelance project. Some of them respect freelancing and sometimes even employment, as a necessary supplement of their business; freelance activity is a source of existence while business is something dealing with self-realization. *Nota bene*: those combining freelance activities with a start-up never have spoken about any necessity to do business informally, or to have some amount of grey money with which to bribe officials and so on.

An attitude toward entrepreneurship as something creative, even as a game, is a remarkable trait of the younger respondents; a possible failure is taken into account but rather as a result of lack of business experience. However, for representatives of older cohorts a business failure may become a trauma due to circumstances, or due to a bad environment or State policy. Older respondents, regardless of the size and nature of their business, are more inclined to condemn the bad macroeconomic situation or the State for their failures or even regarding doing (parts of) their business informally. Younger respondents, however, are more likely to recognize that when choosing informal activities it is their own decision, and they are more tolerant toward the regulatory functions of State authorities, and, when trying to avoid unnecessary contact with officials, they have more respect for their functions. Consequently, a possible failure and quitting a business is perceived much more deeply by the older generation of entrepreneurs, and they are more likely to introduce informal activities to avoid such a negative scenario. Moreover, a starting point is important and has a strong impact on the business nature and the embeddedness of informal practices. Those respondents who started a venture in the early 1990s achieved their first efforts while using a very modest amount of initial capital and informal networking to establish the business. In contrast to this, start-ups of the late 2000s tried to behave formally, both to attract external resources as well as to develop their businesses. Therefore, among respondents less than 30 years old, we could not find anybody aiming to do business totally informally, in contrast to representatives of older cohorts. It seems that, first, better entrepreneurial skills and, second, a natural process of generational change may improve the situation in Russia; younger generations grown in the atmosphere of State interventionism are taking it 'as it is' and are protesting less; hence, from a moral point of view, they are less inclined to legitimate informal activity as a protest against the intervening State.

CONSTRAINTS AND FUTURE RESEARCH POSSIBILITIES

The most evident constraints of the study are the small number of respondents (hence, the validity of the results might be questionable) and the very short distance of time between the two waves, taking into consideration the fact that entrepreneurial behaviour changes because a reaction to both the external and internal situation of the related business may take much more time. It would be advisable to carry out a longitudinal survey in a longer perspective to examine the role of different factors such as motivation,

self-efficacy, set of capitals and strategy as well as of the macro-conditions in the country in the possible change of the intensity and forms of informal activities of respondents.

If such a study could be based on quantitative surveys with a sample representing the adult population structure (using the PSEDI method of initial sample formation), the results could also be used to discover cross-regional differences and the role of the urban factor, among others.

NOTES

1. See <http://www.gemconsortium.org/teams/79/russia>.
2. A mix of different organic components which has a slightly stimulating and saturating effect, like coca leaves, used by the native population in some Central Asian countries.
3. The beginning of the previous crisis in Russia.
4. In Russia, if a person has not paid fiscal debts or penalties, they may be added to the stop-list of the border police.
5. Head of the Federal Investigation Committee of the Russian Federation.
6. President Putin's term for a centrally governed hierarchy he has been establishing in the country since the beginning of the 2000s.
7. Multibillionaire, head of the mighty 'Systema' holding, imprisoned and then released in 2014 in the course of an investigation of an old privatization case.
8. CEO of the second largest IT-holding in Russia, 'Lanit', Georgi Gens, claimed in an interview: 'A serious risk of payment arrears occurs. We had some bad contracts which had a very strong impact on the company as a whole. There are, for instance, gross non-payments on some big projects of strategic importance for the country which we finished last year, among them in Sochi. We were being urged to do it as quickly as possible, then we were thanked. But a part of the objects remained unpaid until now. . . there were subcontracts. Taking the specifics of the construction of Olympic games projects, many issues of agreements execution were solved in an emergency mode . . . Our personnel worked perfectly, they always tried to fulfil the contractor's wishes, even if certain services were not the subject of our agreement. All people understood how important it was. Nevertheless, more than one year ago we still do not have the final instalment. It is more than 50 billion rubles. We are forced to sue. But it is the constructing firm who was the contractor we were subcontracted by with . . . who did not receive money, or did not receive in full' (Vedomosti, 10 March, 2015, available at: <http://www.vedomosti.ru/newspaper/characters/2015/03/09/na-primere-irana-yasno-chto-sanktsii-mogut-stat-zatyazhnoi-problemoi>).

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