

## **All happy families are happy in the same way: some remarks concerning Baltic entrepreneurs and extended order (Comment)**

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One of the most popular statements in the systemic transition literature since the second half of the 1990<sup>th</sup> is that different experiences of the CEE and Baltic states, on the one hand, and the most of the CIS countries, on the other hand, are embedded in different social norms and values, encouraging efforts in the new EU member states and preventing it in some of CIS countries.

Since entrepreneurs are the trigger social group of a market transformation, the comparative study of entrepreneurial values and socio-economic attitudes after 15 years of systemic transition is of great.

The first impression after reading the Latvian, Polish and Russian papers was confusing: to describe this impression, one might cite the first phrase of Leo Tolstoy's "Anna Karenina" where he argued that "All happy families are happy in the same way" – in fact, the differences in entrepreneurs' approaches to some key results of transition, basic institutions and values are more or less negligible. Any differences could be explained rather as a result of the size of businesses represented by the interviewed persons (in Russia, there were some big or medium sized companies' CEOs among the interviewed persons, whereas in Poland and Latvia the interviews were been conducted only with SMEs): for example, the bigger the firm is, the more positive is the attitude of the owner towards privatization in any (post)transitional country, and vice versa. Another important consideration: these differences are closely connected with different types of state and political institutions. Cf. Tables 1-4.

As one may see from the reports delivered by research teams, there are four contradictions which may be constructed from a comparison of statements of the interviewed entrepreneurs in the three countries:

- Between verbal goals and values (market, freedom, democracy) and the real state of institutions (frauds, bribery, bureaucracy),
- Between the values and moral norms of entrepreneurs and other groups of population,
- Between the estimations and the real state of transition to market and democracy,
- Between the general perception of the 'West' and of the EU.

(1) As regards the contradiction between verbal goals and the real state, entrepreneurs were talking about excessive state interference – which contradicts to their believe in free market, opportunistic and rent seeking behaviour of bureaucrats – their behaviour is not one of so called civil servants, but rather one of a good organized interest group. Such moods are common for representatives of all three countries. Not common is the fact that the tendencies are quite different – both Latvian and Polish entrepreneurs did not mention any worsening of the state whereas most of Russian respondents clearly defined the situation becoming worse. So, the *first result is the different direction of changes*: in Latvia and Poland the situation is gradually improving, whereas in Russia the discrepancy between verbal goals and values and the real state of institutions is becoming even bigger.

(2) There were Latvian experts who sometimes referred to positive changes – especially in education level and labour relations. But general trend of observations of entrepreneurs in all three countries was negative, but these negative impressions were of different nature – whereas Latvian respondents were worried about a prevalence of materialist values (formation of a ‘one-dimensional man’), Polish and Russian entrepreneurs mainly were been speaking about Socialist mentality of broad groups of the population. In fact, especially in Russia entrepreneurs are worried about the co-existence of two totally different and contradicting moral systems, which is a big constraint to the development of market relations. From that point of view it is not surprising that Russian respondents had no trust in employees and clients as representatives of population groups with clearly different moral systems. The *second difference* between the three states could be formulated as follows: whereas Latvian small entrepreneurs are worried about too much materialism and need for achievement among their countrymen, Polish and Russian entrepreneurs are missing this bourgeois spirit among the population. In fact, on the one side it is too much marketization of mentality and common day-life strategies, whilst on the other side – too little.

(3) Most disillusioning impressions concerning the real state of transformation were connected with the development and results of privatization (Latvia and Poland) and the State interference in economic process (especially in Russia). Latvian experts often argued that privatization was unfair, a lot of assets have been privatized with big contradictions to the legal base. Moreover, privatization is associated with a waste of state resources and inappropriate control take-over. Besides, it was a much too long process and people didn’t have enough information about it. In fact, it is very interesting that being dissatisfied with the privatization, no one of Latvian or Polish respondents raised the problem of illegitimacy of the property rights in their countries. However, they would support a formation of a state owned sector in their economies – for instance, in the sector of energy production and distribution etc. On the contrary, Russia experts mainly adopted the privatization model and results in Russia, didn’t insist on any forms of state ownership in the economy, but several times mentioned that property rights are not secured in their country. Here, we maybe have the *third big distinction between Baltic states and Russia*: in the former group we have to do with a social acceptance of results of the privatization, despite

of all the failures and legal gaps (positive social contract concerning the property rights system), whilst in Russia it is still a lack of legitimacy of property rights system (negative social contract). It is the State in Russia, which raises this question again and again.

(4) The West was a shop-window for many of nowadays entrepreneurs in all three countries before the breakdown of the old planned economy. So, it is hardly surprising that the general attitude towards the West – as an economic, moral and political system – was initially very positive. After several years of transition, both Latvian and Polish entrepreneurs have now more practically based perception, whilst for many Russian entrepreneurs it is still another part of the world. Becoming a member-state of the EU, Latvia and Poland joined – with some exceptions – to the legal system (complicated EU law), the administrative system (anonymous Brussels' bureaucracy) and the common market (competition on the larger scale). It made them less idealistic, but on the other hand, unification of customs procedures, stronger law enforcement, broader chances to find clients on the European market made their attitude to the EU well balanced and generally positive. As regards the Russian entrepreneurs, they clearly accept the fact that Russia will never become a part of the EU and 'the West' in a broader sense. Only few of them regard themselves as Europeans, EU is a neighbour, business partner, but not a desirable community to join. So, the *fourth distinction* between both new EU member states entrepreneurs and Russians is the fact that Baltic states' entrepreneurs are on the way of internalization of norms and values of the EU, whilst Russian entrepreneurs regard it as an external system, partly practicable, but not in all compatible with their own practices.

Hence, the shared values of entrepreneurs on both sides of the invisible border between EU/non-EU are more or less the same; all of them believe in market and competition, all of them are against a state interference in economic process – with an exception of competition protection; all of them try to do business without frauds etc. On the other side, fragile environment – slightly improving in the new EU countries – led to the formation of a certain "zones of low trust" – that is, systemic trust, collective trust and individual trust. Corrupt state institutions, including the juries, weak enforcement of legal norms contribute to bribery and dualism of business moral (the rules to deal within networks and on the "open market" are still different). A third important result is the fact that even under more or less unified conditions there are some differences in the state of mentality of non-entrepreneurial groups of population in Latvia and Poland – the former seems to be 'over-marketed' whereas the latter one – still overloaded by socialist norms and values.

<b>Item</b>	<b>Latvia</b>	<b>Poland</b>	<b>NW Russia</b>
<i>Respondents N and firms size</i>	N = 15, SMEs	N = 21, rather small	N = 17, rather medium and big
<i>Institutional trust to the State</i>	Lack of trust	Lack of trust	Distrust
<i>Law</i>	Important, but corrupt courts and bad enforcement	Important to follow	Important, but corrupt courts and bad enforcement
<i>Enforcement</i>	Inefficient	Inefficient, briberies	Selective, oppression
<i>State 'interface' to business</i>	Bureaucracy, corruption, frauds	Bureaucracy, corruption, frauds	Bureaucracy, corruption, frauds, business capture
<i>Private property</i>	No statement	No statement	Not secured
<i>Positive economic consequences of the transition</i>	Free competition	Private ownership, free market, wealth creation	Private property, market
<i>Perception of privatization</i>	Sceptical	Often - negative	Mainly positive, the social contract as its main constraint and the policy of the State as its main threat
<i>Any desirable exceptions from privatization?</i>	Energy, infrastructure	Energy	No statements
<i>The main cause of transition problems</i>	No statements	State and politicians as well as 'Socialist' mentality of population	Society and bureaucrats as well as old mentality of population

Table 1: *Comparative results of in-depth interviews with entrepreneurs in Latvia, Poland and North-Western Russia: attitude to Economy and State*

<b>Item</b>	<b>Latvia</b>	<b>Poland</b>	<b>NW Russia</b>
<i>Respondents N and firms size</i>	N = 15, SMEs	N = 21, rather small	N = 17, rather medium and big
<i>Comparison 'planned economy – market economy'</i>	In favour of market, however, planned economy was good for poor people	In favour of market, however, planned economy was good for poor people	In favour of market without exceptions
<i>Money</i>	Money – more a medium than a target	Money – more a medium than a target	Only medium, not a target
<i>Entrepreneurs role</i>	Locomotive of the economy, paying salaries and taxes	Positive people, supports his/her family and stakeholders	No statements
<i>Social responsibility of business</i>	To pay taxes and salaries	To pay taxes and salaries	To pay taxes and salaries, extremely negative attitude to the State organized campaign on the 'social responsibility of business' as a form of oppression
<i>Trust in the sphere of B2B relations</i>	Written contracts preferred, oral contracts – only after long business relations	Written contracts preferred, oral contracts – only after long business relations	Written contracts and informal enforcement
<i>Business – friendship relation</i>	Partly – friendship can rely on steady deals, partly – vice versa	Friendship rely on steady deals	Written contracts and prepayment from unknown firms
<i>Networking</i>	Important	Important	Important, despite often a waste of time
<i>To become entrepreneurial again?</i>	No statements	Partly no	Up to 50 % - no

Table 2: Comparative results of in-depth interviews with entrepreneurs in Latvia, Poland and North-Western Russia: statements on Economy and Entrepreneurship

<b>Item</b>	<b>Latvia</b>	<b>Poland</b>	<b>NW Russia</b>
<i>Respondents N and firms size</i>	N = 15, SMEs	N = 21, rather small	N = 17, rather medium and big
<i>Description of the moral state of society</i>	Negative - prevalence of materialist values in the society, people treat each other as competitors, ignore rights of each other	Negative - moral degradation as a consequence of opportunistic behaviour of civil servants	More individualistic, bigger distance between people; however, the society as a whole still a 'Soviet' one
<i>Ties between people</i>	Weak, no time for friends	Weak, no time for friends	Weak, less time for friends, widening social distance
<i>Interpersonal trust</i>	No trust	No trust	No trust
<i>Connections</i>	Needed in local institutions and courts	Needed in courts	Extremely needed in everyday entrepreneurial practice
<i>Moral values in communication with close relatives and outsiders</i>	Different	Different	Different

Table 3: Comparative results of in-depth interviews with entrepreneurs in Latvia, Poland and North-Western Russia: observations on Society in transition

<b>Item</b>	<b>Latvia</b>	<b>Poland</b>	<b>NW Russia</b>
<i>Respondents N and firms size</i>	N = 15, SMEs	N = 21, rather small	N = 17, rather medium and big
<i>General attitude to Western Europe</i>	Positive, less idealism after the years of transformation	Positive, no significant changes after the years of transformation	Positive, not changed after the years of transformation
<i>General attitude to the EU</i>	Positive	Positive	Neutral, to bureaucratic
<i>In which country the situation is comparable to yours?</i>	Baltic states	Ukraine, Lithuania	CIS
<i>Model for own country is...</i>	Ireland, Germany	Germany, Sweden	If any USA
<i>EU enlargement: own experience</i>	Gen. pos., complications w. EU law in the initial stage	Generally positive, more EU bureaucracy	Not applicable
<i>EU enlargement in future</i>	Positive as regards CEE and SEE countries	Positive as regards CEE and SEE countries	Neutral
<i>Russia's access to WTO</i>	Positive	Positive	Mainly positive or neutral, no understanding of the consequences

Table 4: Comparative results of in-depth interviews with entrepreneurs in Latvia, Poland and North-Western Russia: attitude to Western Europe

Some conclusions:

(1) The shared values of entrepreneurs on both sides of the border between EU/non-EU are more or less the same; all of them believe in market and competition, all of them are against any state interferences in economic process – with an exception of competition protection; all of them try to do business without frauds etc.

(2) Fragile environment – slightly improving in the new EU countries – led to the formation of certain “zones of low trust” – that is, systemic trust, collective trust and individual trust. Corrupt state institutions, including the juries, weak enforcement of legal norms contribute to bribery and dualism of business moral (the rules to deal within networks and on the “open market” are still different).

(3) Even under more or less unified conditions there are some differences in the state of mentality of non-entrepreneurial groups of population in Latvia and Poland – the former seems to be ‘over-marketized’ whereas the latter one – still overloaded by socialist norms and values.