Reluctant entrepreneurs of the Russian Far East

Aimar Ventsel

The defining line between the Socialist society and ‘what came next’ is apparently when the former ‘economy of shortage’ was transformed into a market economy, where goods became widely available and entrepreneurship was allowed to exist legally. The collapse of the Socialist planned economy in Eastern Europe was hailed not only as an economic transformation in Western thinking but also as the emergence of an entrepreneurial class, associated in Weberian tradition with the appearance of a fundamental need for innovation, free thinking and democracy.

My paper focuses on a group of entrepreneurs in the Russian Far East that I call ‘reluctant entrepreneurs’, people who often took up their new occupation not because they dreamed of becoming entrepreneurs but because the ‘biznis’ (business in Russian) seemed for them to be the best option for survival.

The Republic of Sakha (Yakutia) and the economic environment

The Republic of Sakha (Yakutia) is the largest territorial unit of the Russian Federation and belongs to the easternmost territory called the Far East Federal District that contains nine different territorial units. The republic is a large but scarcely populated territory covering more than three million square kilometres, where slightly less than a million people live, 55% of which are the titular ethnic group, the Sakha. The republic is famous for its diamond resources, producing 30% of the world’s diamonds and almost 100 per cent of Russia’s diamonds. The extraction of the natural resources is the domain of big companies, as well as large scale construction, air and water transport. 73% of the population in the Republic of Sakha are urban.
In 2009 in the whole of the Russian Far East there existed 181,514 small enterprises. 80% of these were ‘microenterprises’ or enterprises that hired up to 15 employees on a permanent basis. Small enterprises tend to have very low investment and profit levels: 60% of Russian Far East small enterprises are engaged in whole and retail sales.

In 2010, registered in the Republic of Sakha (Yakutia) there were 115 medium size enterprises, 4,952 small enterprises. In the year 2009, small enterprises contributed only 6.6% to the regional GDP, but gave work to 40% of the local workforce. The particularity of the region is that 80% of these enterprises are concentrated in four cities (the capital Yakutsk, Nerungri, famous for its coal industry, the diamond industry’s centre Mirnyi, and Lensk). The statistics show that in Sakha small enterprises are engaged in wholesale, building, real estate and transport. The role of the small scale enterprises in different spheres can be high: 94.3% of service (bytovye uslugi), 100% of small bus transport belongs to small enterprises as do the majority of tourism, clothing repair, cargo transport, car and truck repair and services. Local economists have highlighted one peculiarity of small scale enterprises; their need for high skilled specialist labour is much lower than their demand for unqualified manual labour.

In this paper, I draw on the fieldwork I conducted in the Republic of Sakha in July and December 2013 and in July 2014.

The beginning

In general, one expects that a person who enters into a small business possesses the wish to be engaged in entrepreneurship and predicts some vision or strategy as to how he or she will develop the business. Another popular argument in academic literature is the “path dependency” argument, an assumption that entrepreneurs have role models, have been active in the business before or that new post-Socialist enterprises follow the footsteps of similar state companies of the Socialist period.
The group studied had quite similar motivations to switch their occupation. ‘When in the 1990s wages were not paid I had nothing else to do but to open my own kiosk. We sold everything, day and night!’ The majority of such people worked, until that period, in low paid public sector jobs, which were the first to go unpaid or receive extremely poor salaries in the new economic conditions. Among the respondents were former teachers, library workers, day care teachers, university teachers, accountants and middle level clerks in various state enterprises.

There is one different story in my data. One of the informants was forced to start leading a fishing and hunting enterprise because her mother died and left the enterprise behind. “My mother died and I had no choice. Somebody had to take control. That was an enterprise she had built up and we could not abandon it!” In answer to my question as to why she felt obliged to take over the leadership, she replied: “My mother had established the enterprise, how could I give it up. Moreover, all the people working for the company are our relatives in the North (in the village of Tiksi at the coast of the Arctic Ocean). How will they receive their salaries if the company ceases to exist?”

Morality of the business

The last citation introduces another phenomenon related to the reluctant entrepreneurs in the Russian Far East: the moral dimension of the business that follows these entrepreneurs during their active career. Different moralities seem to play significant role in shaping the business ideology. These norms are embedded in local kinship ideology, a notion of social value and morality. Different theoretical approaches to morality agree that the perception of what is moral or not is anchored in cultural values (Brandstädter 2003; Estrin, Aidis, and Mickiewicz 2006) although according to some scholars morality should be publicly demonstrated through behaviour and the decisions made (Robbins 2007).
As mentioned, entry into the world of entrepreneurship for the informants in most cases was involuntary, the incentive being a need to seek alternative income, not the desire for self realisation. This entry did not exclude, however, following certain moral principles that remained consistent. It was not only providing income for relatives and demonstrating kinship solidarity that was important for Far Eastern entrepreneurs in the early 1990s. “Working in a kiosk is quite dull. You just sit in there and sell what people want. I never hired young men (parnei) because this is not a man’s work to sit and sell cigarettes. Girls are more able to adapt [to the situation], this work is more suited for them. Moreover, girls have a better sense of discipline. They do not drink heavily and then skip the next day. For a girl, it is a good opportunity to earn some money when they have just arrived to the city and need some finances. But this is not a job for a guy to start a career.” In this and similar statements practical reasons are merged with local perceptions about gender and masculinity. In the Russian Far East the man is foremost a breadwinner. Work in a kiosk contradicts the local perception of masculinity, where a man should earn money through heavy physical work and not sitting in a small booth. Perceptions of gender are important for hiring employees, as is the obligation to provide income for relatives. Moreover, many respondents confessed that they prefer to hire pensioners. From the practical side, pensioners in Russia usually agree to work without a contract, are more disciplined and accept lower pay. This practice was also, however, seen as a form of charity by some entrepreneurs, because old people were able to earn additional income to their low state pensions.

The entrepreneurs were sometimes, nevertheless, making decisions that were clearly, and especially in the short term, unprofitable. Most of respondents who had food shops, stated that they refuse to sell alcohol. I was told, “We do not support it [alcohol trade]. We support a healthy way of life (ZOZh in Russian, very common abbreviation from zdrorovye obrazy zhizni).” To sum up this section, it seems that when economic rationale comes into conflict with social norms, prevalence is given to the social norms.

Explaining reluctance
As is apparent from various anthropological, sociological or economists’ works, the newly emerging entrepreneur class may not behave according to the rules of transparent trade, however they possess a certain amount of the required way of thinking: a desire for enlargement, a keen eye on innovation and a rational cost effective strategy.

First a story of a successful female entrepreneur who had moved to the city in the early 1990s, when salaries remained unpaid in the villages: She started with kiosks, and soon opened a small enterprise, initially producing toilet paper. After some years she sold her business and invested the money in some food shops. The accumulation of income was not used for enlarging her initial business but for opening a laundry. When the laundry became successful, she opened a hair salon. In the discussion with her, and after getting additional information from other people, I understood that she managed her enterprises herself, using only the occasional help of her children. A similar pattern became apparent with other entrepreneurs: they relied on informal kinship networks and were not very interested in the growth of their enterprise, but rather the diversification of risks by investing into an unrelated sphere. The reluctance to grow and develop the otherwise well-functioning enterprise was also signalled by the near invisibility of the shops. Most enterprises I visited had either extremely modest signs on the street or nothing at all. As the owner of a non-marked laundry explained to me, her customers come to her by word of mouth. People who were engaged with supplying village people with furniture and domestic tools relied upon a network of customers and had no formal catalogue or web site.

The mistrust of formal institutions and a preference for informal networks in the post-Socialist economy is widely known. It is stressed that the institutional environment explains the low level of entrepreneurial development in Russia and this is true but in a different way. Namely, in the Russian Far East, small enterprises have an unexpected freedom in their activities. The reality shows that local government structures have little interest in controlling this segment of the economy and support large companies. In a situation, where nearly 60% of the Yakutsk population has problems with finding suitable work, most small entrepreneurs are engaged with reselling imported goods and focus on satisfying the elementary needs of the population.
The reluctance of people to follow “normal business rules” was especially obvious when it became clear that entrepreneurs do not form a community, as one would expect. All the respondents told me that they have little interest in knowing their competitors and that they do not communicate with them at all.

Concluding remarks

Personal relationships in the world of business include a variety of social norms and strategies that affect the “economically rational behaviour”. The entrepreneurs of the Russian Far East demonstrate that economic practices can be better understood when looking at the economic environment in the region and people’s biographies.

In the case of reluctant entrepreneurs, entry into business was often involuntary, a step to choose the best option between the bad possibilities available. While there is a widespread understanding that private business maintains affiliation with the state structures in order to profit from that connection then my research shows that this connection is also needed in order to withdraw from private entrepreneurship “when the time is over”. All but one of my informants told me that being a “state employee” is significantly better than being a self-employed entrepreneur. In a state job, one receives a stable income, sick leave and (very important in the Far East) annual paid travel inside the Russian Federation during the holidays.

Considering the future plans, biographical facts and business ideology of my respondents, their reluctance to follow “normal” business rules is explained by the fact that they see their activity as temporary. They are reluctant to let their enterprises grow beyond the limit where they need to hire educated managers, instead of that the “reluctant entrepreneurs” often prefer to exist in a grey area and diversify their activities to avoid economic risks.