

Navigating the hostile maze: A framework for Russian entrepreneurship

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Executive Overview

Unstable government, an undeveloped legal system, overregulation, a virtually unfathomable business taxation system, a pervasive mafia, and an inadequate business infrastructure characterize the maze that Russian entrepreneurs must navigate in their attempts to create successful ventures. To better understand their attitudes and decisions in this hostile environment, we propose a framework for analyzing Russian entrepreneurship during the country's transition to a market-oriented economy. The framework draws upon the entrepreneurship and strategy literatures, and is illustrated primarily by the experiences of five entrepreneurial ventures we studied throughout the decade of the 1990s. Actions, based on the framework, are suggested for Russian entrepreneurs as well as Western executives who might do business with them, as ways of strengthening Russian entrepreneurship.

It takes a determined entrepreneur to endure the bureaucratic maze, partly inherited and partly generated by the current Russian government.¹

—Grigory Yavlinsky
Leader, Yabloko party

This prominent Russian politician and economic reformer went to the heart of obstacles inhibiting the development of entrepreneurship in Russia. An unstable government, an undeveloped legal system, overregulation, a virtually unfathomable taxation system, a pervasive mafia, and an inadequate business infrastructure characterize the maze that Russian entrepreneurs must navigate in their attempts to create successful ventures. This hostile environment stems from historical precedent as well as the government's mishandling of the economic transition during the 1990s.

Consider how the hostile environment presented huge obstacles to the following entrepreneurs in establishing and growing their firms:

- The founders of Premier Bank were forced to keep excessively high reserves on deposit with the Central Bank, limiting funds available for making business loans.

- The entrepreneurs who started Aquarius, an assembler and distributor of computers and cash registers, had to close their plant when the government unexpectedly passed laws making domestic assembly unprofitable and encouraging foreign competitors to export finished products to Russia.
- BusinessLink's founders, who built executive search, consulting, advertising, and real-estate development businesses, lost most of their client base in 1998. Their international customers substantially cut their Russian activities after the ruble was devalued, making imports too expensive for Russian consumers.
- The founder of EpicRus, a software and systems company, was forced to incur heavy security expenses and take other extreme measures, such as not advertising in Russian-language media, to avoid the dangers of exposing the company's activities to the Russian mafia.
- The brothers who started Vybor, a trading and retail firm, found the complicated and ever-changing tax laws so perplexing that they resorted to tips from the how-to book, *Twenty-five Ways to Avoid Taxes*.

Despite this dire situation, entrepreneurship has established a foothold, and the country's future de-

pends heavily on its continued development. During the decade of the 1990s, Russia was a veritable laboratory for observing how entrepreneurial behavior can spring up in a country with extremely limited experience in, and a marked disdain for, entrepreneurship. Russian entrepreneurs were required to follow their instincts, and their experience in doing so can provide valuable insights into entrepreneurial developments in transitional economies. Entrepreneurs came mainly from the former Soviet technical, academic, and cultural elites, had been students, or were involved in the shadow economy but aspiring to develop legitimate business activities. Their decisions often resembled those of entrepreneurs in other countries, yet their approach to entrepreneurship bore a distinctly Russian stamp.

A Framework for Understanding Professionally Oriented Russian Entrepreneurial Ventures

In this article we develop a framework to help Western executives understand Russian entrepreneurs and their ventures. (See Figure 1.) We illustrate the framework with examples from five professionally oriented entrepreneurial service and production ventures we tracked throughout the decade of the 1990s.² (See the Appendix for the methodology.) Introduced above and profiled in Table 1, these largely successful ventures were outnumbered by many others that failed. Vybor, one of the profiled firms, was profitable for many years, but went bankrupt in 1996. Drawing on the framework, the article concludes with actions for strengthening entrepreneurship in Russia.

Mindset is Key in Russian Entrepreneurship

We view the entrepreneurial mindset as the key element in Russian entrepreneurship. This mindset, combined with the creative use of scarce resources and effective scanning of the hostile environment, can produce entrepreneurially oriented goals and decisions. These, in turn, lead to the relentless pursuit of outcomes, especially organizational survival,

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and, where possible, growth and profitability. The components of the framework can interact in various sequences. For instance, changes in resources, the environment, or the entrepreneurial mindset can affect one another. And once outcomes occur,

they can influence resources, the entrepreneurial mindset, or even the firm's environment.

We developed our framework by analyzing professionally oriented entrepreneurial ventures. Thus it may not necessarily apply to less complex operations, such as retail kiosks, privatized state-owned enterprises, or underground-economy operations.

Eclectic Research Foundation for the Framework

We have tied our framework to an eclectic body of research on entrepreneurship and strategic management. The definition of entrepreneurship we use is: "a context-dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities."³ The context-dependent component is similar to the environment in our framework. The social process incorporates networks, and packaging resources is reflected in our emphasis on the creative use of resources. Other strategic-management frameworks we draw on include those that recognize the role of the environment, resources, and personal values of decision makers in formulating strategic decisions, as well as the importance of resource dependency.⁴

A general definition of an entrepreneur, which aptly applies in the Russian case, is: "an imaginative actor who seizes contingent opportunities and exploits any and all means at hand to fulfill a plurality of current and future aspirations, many of which are shaped and created through the very process of economic decision making and are not given a priori."⁵ The same author views entrepreneurs as starting out with "their own traits, tastes, and abilities; the knowledge corridors they are in; and the social networks they are a part of." Our framework inherently contains the tastes, traits, and abilities as elements of the entrepreneurial mindset; it considers the knowledge corridors to be intellectual resources; and views social networks as a critical resource.

The framework also includes internal capabilities, such as an entrepreneurial orientation and financial resources, which are predictors of growth for new-technology ventures, as well as the creative deployment and sequencing of resources, which are recognized as key success factors for Russian entrepreneurs.⁶ Additionally, the framework includes pioneering-innovative decision making, which is also characteristic of many entrepreneurial ventures.⁷ Our focus on mindset and resources is consistent with the view that entrepreneurs' strategic choices in transitional economies are due mostly to the managerial and technological skills of firms and

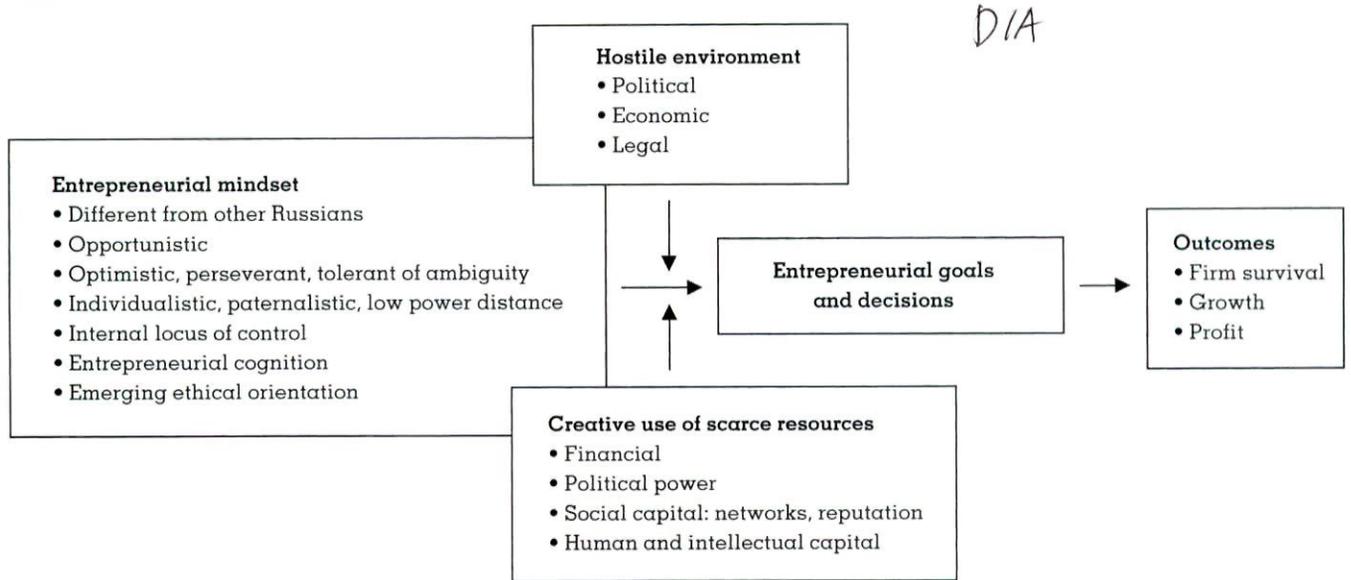


FIGURE 1
A Framework for Russian Entrepreneurship

their owners, while also recognizing the environment and its institutions.⁸ Another related model includes the simultaneous interaction of entrepreneurial behavior, the environment, and social cognition as joint influences on outcomes of entrepreneurial decisions.⁹ Being grounded in such entrepreneurship and strategic-management models, the framework allows comparisons of key similarities and differences between entrepreneurship in Russia and other countries.

Entrepreneurial mindset shaped by adversity

The characteristics we view as central to the Russian entrepreneurial mindset come from the literature on entrepreneurial traits and characteristics, or the entrepreneurial mindset, as well as studies on Russian managerial beliefs and mindsets.¹⁰

Like entrepreneurs elsewhere, Russian entrepreneurs see themselves as different from their countrymen, and have a strong sense of individualism and internal locus of control, and use entrepreneurial cognition to scan the environment. In contrast to their counterparts in other countries, because of a hostile environment and scarce resources, Russian entrepreneurs tend to be more opportunistic, optimistic, perseverant, and tolerant of ambiguity. Russian entrepreneurs also tend to be somewhat more hierarchical (higher power distance) and more paternalistic, and some may be less consistent in their ethical orientation than entrepreneurs elsewhere.

Different from other Russians

Entrepreneurs are consistently found to perceive themselves as being different from others. One

study in nine culturally different countries found that entrepreneurs believed that their views of the nature of work, failure, and responsibility were different from those of their countrymen. These differences "create a tension in the mind of the entrepreneur that generates behavior that is different [i.e. entrepreneurial]."¹¹

Research on Russian entrepreneurs has found that they see themselves as being different from other Russians, feel out of the mainstream of society, and are looked upon with suspicion for going against the collectivist and egalitarian culture. Entrepreneurs feel responsible for their own survival and success, whereas the former communist, centrally planned system fostered an entitlement mentality by guaranteeing jobs and social benefits. Russian entrepreneurs, like their counterparts in other countries, possess a risk-taking orientation. The general Russian population is much more risk averse because of a tradition of criticism and punishment for mistakes and initiative.

Nonetheless, it is inappropriate to categorize Russians: they often appear contradictory and incomprehensible to foreigners, as well as simultaneously dependent on, yet wary of, their leaders.¹² Also, some older Russian managers endured many hardships during the communist period, causing them to be self-reliant to ensure personal survival and well-being, while also conforming to the collectivist system. Some older entrepreneurs have successfully made the transition. For instance, the 70-year-old founder of Premier Bank, after a successful academic career in finance and economics, decided to put his

Table 1
Five Russian Entrepreneurial Ventures

Characteristics	Premier Bank	Aquarius Systems	BusinessLink	EpicRus	Vybor
Type of business	Commercial banking	Assembly and distribution of computers, cash register systems	Consulting, personnel search, advertising, real-estate development	Software and systems for accounting and manufacturing	Trading company, consumer goods distributor and retailer
Year founded	1988	1992	1991	1993	1988
Locations	Moscow	Moscow and key Russian cities	St. Petersburg, Moscow, Novgorod, and Finland	Moscow, St. Petersburg	Moscow and 40 other Russian cities
Initial capital sources	Founders, close associates	Equity raised as an open-stock company	Founders	Founder, close associates	Founders, credit from suppliers
Founders	Two professor/economists, male, 60s, succeeded in 1996 by a son with U.S. MBA	Computer scientist; lawyer/politician, male, 30s	Four university professors/senior administrators, male, early 40s	Big Five accounting-firm manager with U.S. MBA, Russian Ph.D., female, 30	Two brothers, 30s, a musician and a mathematician, both won national awards in their fields
Highlights	First registered commercial bank; 25 full-time and 30 part-time employees and assets of \$10 million by 1996, ranking in top 20 percent of banks; survived 1998 national financial crisis	One of top three Russian PC and server firms in 2001; 27 service centers, 76 regional partners; sole Russian computer company with ISO 9002 certification	St. Petersburg's largest advertising agency by 1996; \$14 million revenues, 200 employees in 1998; by 2001 main revenues from real-estate company	Founder honored as one of Russia's top women executives; company named best accounting software firm in 2001; 150 employees; 200+ customers	One of top 50 trading firms by 1993, with 500 employees throughout Russia; bankrupt in 1996 with \$2 million debt

ideas about the market economy into practice and opened a commercial bank.

Opportunistic

Entrepreneurs have been characterized as opportunists rather than as risk lovers.¹³ The decision to become an entrepreneur in both Russia and the U. S. is due more to intelligent proactive thinking rather than a reaction to a negative job experience, and both groups optimistically seek opportunities.¹⁴ One reason that Russian entrepreneurs are likely to be more opportunistic than entrepreneurs elsewhere is that few other stakeholders, such as venture capitalists and bankers, were in place to restrain them in their decision making. As BusinessLink grew, for instance, the founders diversified into real-estate development, sparked by the rapidly increasing value

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of the building they occupied. Perhaps the most opportunistic of the entrepreneurs we studied were the two brothers who founded Vybor. As one explained at our first meeting: "I'll stay until it's not so profitable. Then, I'll make a change."

Optimistic, perseverant, tolerant of ambiguity

Entrepreneurs are optimistic, believing that they have greater chances of success than others, are highly perseverant, and tolerant of ambiguity. In hostile transitional economies, they have also been called relentless.¹⁵ Russian entrepreneurs appear more optimistic than entrepreneurs elsewhere, perhaps due to a Russian cultural tendency to have unrealistic expectations, sometimes to the extent of believing in miracles. They also tend to be more perseverant, since alternatives for making a living are exceedingly limited. And their high tolerance of ambiguity arises from the need to function in a chronically hostile and unpredictable environment.

The entrepreneurs in all five firms we followed maintained an optimistic outlook even in dire circumstances. For instance, in 1996, after Vybor was \$2 million in debt and went bankrupt, the co-founder started two new businesses. He stated:

A few years ago, a lot of people practically wanted to steal what they could get from their companies and then leave. Now they want to work for what they get. So I'm optimistic. To live without optimism is impossible.

Perseverance paid off for Aquarius's founders. After selling their component-production plant because of adverse tax policies, they repurchased it and resumed production when those policies changed. Such bold actions helped them become Russia's leading computer producer.

An American executive described the perseverance of EpicRus's CEO:

She's very savvy and she'll survive no matter what. I can't think of another person who could have pulled off what she has pulled off.

Russian entrepreneurs typically show greater tolerance for ambiguity than managers from former state-owned enterprises, who often view plans as absolutes to be followed, rather than guidelines that can be changed.¹⁶ They also experience greater ambiguity than entrepreneurs in the West. As the CEO of EpicRus explained:

Americans are different because they were raised as part of a system that works for the consumer. It's too easy. The people are so much a product of their beautifully developed system. The system is much more complex here, and because of that, this country has not advanced as much as America.

Individualistic, paternalistic, low power distance

One study found that Russian respondents scored moderately on Hofstede's dimensions that could be considered supportive of entrepreneurship—individualism and low power distance—but higher on paternalism, which is not necessarily associated with entrepreneurship.¹⁷ These responses might result from traditional beliefs and values as well as the newness of entrepreneurship in Russia. Paternalism stems from strong collectivist traditions as well as vestiges of the communist system, which required enterprises to provide for employees' material and social needs. And higher power distance, with more hierarchical tendencies than entrepreneurs elsewhere, results from Russia's tradition of top-down organizational structures.

However, younger respondents exhibited more entrepreneurial inclinations, reporting the highest scores for masculinity and the lowest for paternalism. For instance, a young entrepreneur, who was

in the process of setting up EpicRus's St. Petersburg office, stated:

The big attraction of this job was the excitement, the responsibility, and I said to myself, I'll go for it.

She felt very empowered in this team-oriented organization thanks to the founder's low-power-distance style. Similarly, BusinessLink organized itself as a holding company, allowing business-unit heads wide discretion. This is consistent with the finding that Russian middle managers generally prefer democratic, rather than authoritarian, leadership styles in their superiors.¹⁸

Internal locus of control

Entrepreneurs generally have a high internal locus of control, perceiving that they can influence their own destiny. Although some Russian entrepreneurs have shown a lower internal locus of control than those in other countries, they see themselves as having a higher locus than other Russians.¹⁹ One study found that Russians generally viewed their physical and social environments as having a small zone of safety and a very large zone of danger, with the environment containing mostly hazards.²⁰ In contrast, the founders and leaders of all the entrepreneurial firms we studied took control of their own destinies. For instance, the CEO of EpicRus demonstrated an extremely high locus of control:

I got into this role of general manager . . . and it just clicks all of a sudden. I'm in charge and I had this voice inside of me telling me what to do. It doesn't mean I don't make mistakes, but my judgment gets better, and I love it.

Entrepreneurial cognition

The entrepreneurial mindset is also characterized by scanning and interpreting information through the process of entrepreneurial cognition. Entrepreneurs often interpret changes in their environments as opportunities, in contrast to others who might ignore them or interpret them as threats.²¹ For instance, BusinessLink's founder saw the government's privatization policies as an opportunity for diversification:

Privatization is here, and to my mind it is foolish not to use the chance to buy real estate very cheap, or to buy industrial facilities or

shares of companies which are also very cheap.

Entrepreneurs concentrate their scanning on areas in the environment they consider most important, and scan intensely when they perceive threats and opportunities.²² They use social cognitive interpretations in selecting, analyzing, and pursuing alternatives.²³ Premier Bank's founder scanned constantly, utilizing personal information sources, and kept extremely well informed about potential government policies and economic events. For instance, he set a policy of making loans repayable in as few as 10 days because of the volatile and inflation-ridden ruble. The founder of EpicRus gained substantial intrapreneurship experience in software and systems development in her previous positions at Big Five consulting firms. With such a background, she needed to perform only moderate scanning when these activities became the focus of her new company.²⁴

Entrepreneurs prefer informal information sources to formal or official ones. They are seen as operating "at the edge of what they do not know," and develop metaphors and mental models to interpret situations.²⁵ The Russian entrepreneurs we studied clearly preferred obtaining information from their own networks. They generally considered more formal sources, such as the government or the press, to be unreliable because of political objectives or inaccurate data. Russians also have a cultural tradition of using metaphors and stories with themes of overcoming hardships and obstacles to guide them during adversity.

Emerging ethical orientation

Russian entrepreneurs have had little consistent guidance on what constitutes ethical behavior. Many have difficulty fully understanding the ethics of their decisions because of cultural influences from the past.²⁶ Many exhibit a dual ethical standard of adhering to universal ethical principles in close friendships, but not in impersonal business transactions. This leads at times to behaviors that cause distrust among business partners. Also, since many entrepreneurs came from the shadow economy, it is crucial that they learn about and adopt high ethical standards to gain credibility.

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Russian entrepreneurs are also influenced by the new market-oriented economy, with its unfamiliar conditions and standards. This can result in confusion, sometimes making them seem to ignore ethics in their decisions, despite their intentions otherwise. In other cases, unethical actions result from blatant criminal intent, such as the illegal takeover, and physical threats against the owners, of the St. Petersburg franchise of Subway, a U. S. fast-food chain. Fortunately, in the past year or two the threat of the Russian mafia has become less pervasive.

Some Russian owner-managers have perceived themselves as less likely than Americans to engage in exploitive behavior, and as more rigid and less equivocal in their evaluations of ethical situations.²⁷ All of the entrepreneurs in our study demonstrated high ethical standards. Such behavior was likely due to their own personal backgrounds and values, and reinforced by the professional requirements of their businesses. The CEO of EpicRus demonstrated her values:

Everyone around me should see a positive impact. I am very lucky that I can make other people's lives better—customers, colleagues, employees, and family.

Hostile political, economic, and legal environment

The environment constitutes the initial conditions facing entrepreneurs in any economy.²⁸ Factors hindering entrepreneurial development in most transitioning economies include resistance to change in the bureaucratic-administrative business culture, an undeveloped legal and financial infrastructure, excessive administrative discretion and corruption in government offices, restrictive taxation, high interest rates, inflation, and lack of management expertise.²⁹ The environment in Russia and Central and Eastern European countries is often described as traditionally hostile to entrepreneurial activities; in Russia, it was aversive as far back as the tsarist era, when modest entrepreneurial activity was conducted primarily by minority ethnic groups.³⁰ With some exceptions, entrepreneurship was illegal throughout most of the Soviet period, from 1920 through 1991. The 20th-century social experiment of central planning and egalitarianism had, in the early 1990s, given way to faltering attempts at developing a market-oriented economy.

In surveys throughout the 1990s, entrepreneurs reported that government regulations, taxes, the political situation, and financing were their most serious problems.³¹ Most entrepreneurs also re-

ported counting on support from the state during their startup phase, but 40 percent also believed that the state was likely to create opposition and obstacles to their progress.³² In fact, it was less the absence of regulation and legal structure, and more the excessive proliferation of regulations and red tape, such as those required to start a business, that hindered development of entrepreneurial ventures. This was certainly the case for the founder of Premier Bank, who declared that his main headache was the Central Bank. It interfered in every aspect of his business, the most serious problem being that it kept 20 percent of each bank's assets as a reserve, severely limiting funds that could be invested. The Russian economic environment in the late 1990s was described by a number of Western joint-venture managers as alien, sometimes impossible, and absolutely unpredictable.³³

The country's financial crisis of August 1998 created serious problems, but eventually evolved into a relatively stable, though hostile, environment for entrepreneurs. Key developments were Vladimir Putin's election as president in 2000, the devaluation of the ruble, and the relative prosperity resulting from oil exports sold at high world energy prices. Business groups in transitioning economies were supported at times by policies of lower levels of inward investment, import substitution, and protection of domestic businesses.³⁴ The dramatic devaluation of the ruble saw a marked decrease in competition from international firms whose imported products and services had become very expensive relative to those of Russian companies. By late 2001, promising developments occurred in tax legislation and corporate governance.

Hostile and complex environments can foster high levels of risk taking, innovation, and proactivity on the part of entrepreneurs.³⁵ Volatility can bring with it greater opportunities, particularly if resource deployment is done in a way that controls the inherent risk.³⁶ Aquarius, for instance, took advantage of the chaos affecting foreign companies like IBM, which stopped assembling computers in Russia due to the vacillating tax policy on imported components. Aquarius was able to fill the gap, since it produced parts in its own plant outside Moscow.

Creative use of scarce resources

Two major longitudinal studies of Russian entrepreneurs found that growing their companies depended primarily on the combination of resources and the sequence in which they were

allocated.³⁷ Similarly, a study of company groups in several emerging economies found that proprietary resources and coordination skills enabled them to grow and diversify by entering new businesses quickly and at a low cost.³⁸ Thus, despite scarce resources, it is the creative securing, development, and allocation that strongly influence success.

The ways in which Russian entrepreneurs obtained and allocated resources reflect the extraordinary scarcity of all types of resources after the fall of the Soviet Union in 1991. This scarcity was far more extreme than that experienced by entrepreneurs in more developed economies. With personal capital being the only source of financing for most Russian entrepreneurs, they were forced to be highly creative in developing other resources. They attempted to garner political power and influence, develop social capital through networks and building their reputations, and attract intellectual capital in the form of talented professionals. Marshalling such resources was extremely challenging in an environment hostile toward entrepreneurs and fraught with risks, including the omnipresent Russian mafia.

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Financial resources

Financial resources were exceedingly scarce for most Russian entrepreneurs, and the long tradition of bartering substituted at times for scarce capital. Still, access to adequate financial resources, primarily personal, was a key element for firm survival and growth.³⁹ One source of help was the social safety net that some entrepreneurs retained by working in state-owned enterprises while simultaneously bootstrapping their new businesses. Startup funds drawn from personal sources were more common than in developed economies, and many outside investors were reluctant to work with entrepreneurs having questionable business practices, such as not registering their companies and operating in cash to avoid taxes.⁴⁰

The paucity of capital sources often led to professionally oriented service businesses, like BusinessLink and EpicRus, rather than physical-asset-based firms like Aquarius. The companies we

studied were bootstrapped primarily by personal finances of the founders and their families. Premier Bank also obtained initial capital from close friends to meet government reserve-funds requirements. Aquarius and Vybor obtained supplier credit and bank loans to finance initial working capital, and Aquarius raised equity as an open-stock company. Vybor also engaged in barter, sold goods at reduced prices in exchange for shares of other companies, and accepted merchandise on consignment.

Political power

Political power was found to be the most significant single resource in predicting survival and growth of small Russian companies in the 1990s.⁴¹ Access to power was important for obtaining permits to start companies, export, and conduct other activities. Such power could also bring favorable treatment regarding taxes, contracts, grants, real estate, and other assets.

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Most new entrepreneurs did not have easy access to government officials, and tried many approaches, including making contacts in management training programs.⁴² Aquarius executives made political connections by joining the Moscow Information Technology Club, whose president was the director of information management in the Moscow city government. Aquarius's CEO noted that this political connection helped them gain the city as a client. In general, however, private spinoffs from state enterprises were better positioned than startups to gain access to officials.

Social capital: Networks and reputation

Social capital consists of the actual and potential resources entrepreneurs gain from knowing others, being part of a social network, or having a good reputation within a network.⁴³ Interaction, relationship quality, and network ties determine what knowledge will be gained from partners.⁴⁴ Networks provide credibility and legitimacy to participants, and a firm's reputation is an important intangible resource.⁴⁵ As BusinessLink's founder stated: "We have grown fast enough, and have sought to achieve

a balance between growth and reputation."

Alliance networks can enhance the probability of a startup's survival and success, and networks can bring more abundant and more accurate information, as well as increased cooperation and trust.⁴⁶ Such networks also help entrepreneurs identify opportunities and obtain resources such as venture capital,⁴⁷ and, in Russia, help supplement the personal funds entrepreneurs invest. Russian entrepreneurs also engage in long-established business practices, such as *blat*, a way of gaining favors through personal relationships, with the understanding that such favors require an appropriate *quid pro quo*.⁴⁸

To navigate the unstable institutional environment, entrepreneurs in transitioning economies must develop networks characterized by urgency, intensity, and impact.⁴⁹ New networks can gain legitimacy through participation by key people. Few want to commit early, but the commitment of one can induce others to join.⁵⁰

Russian entrepreneurs needed new networks because they usually lacked access to Soviet-era groups, as well as to new networks established among large companies and government officials. Commitment and trust among network members in Eastern European business networks are typically low, the ties extremely weak, the network knowledge poor, and participants few. Management and market institutions are so weak that individuals take care to sign agreements and contracts only with people they trust.⁵¹ However, networks have traditionally been a way of getting things done in Russia, and entrepreneurs well understood their value.

Some Russian entrepreneurs developed their reputations and networks from their employment in state-owned enterprises and state institutions. BusinessLink's founders continued working as high-ranking university administrators and professors, positions that allowed them to foster valuable relationships with colleagues abroad while growing their consulting, executive search, and advertising businesses. The CEO stated: "We saw Russia opening for business, and we had lots of Western friends. More and more clients came to us." EpicRus's initial customers included Big Five international accounting firms in which the CEO had worked. Former employees working in large computer firms were valuable sources of business for Aquarius. The CEO explained:

We consider them our people there, and a number of commercial projects that we have in those companies are with our former colleagues. All of them have maintained good

relations with Aquarius. We even want to create a "union of Aquarius veterans."

Supportive networks also help combat hostile groups or hindrance networks that could disrupt the broader network through threats or sabotage.⁵² Thus entrepreneurs in hostile environments must be especially vigilant in selecting network members. For instance, Premier Bank utilized its network of influentials to retain its prime location near the Kremlin, in response to harassments from government groups that wanted its offices. Premier's founder explained: "Everything in this regard seems to work on who you know, not by the law."

Human and intellectual capital

We treat human and intellectual capital as an integrated resource base. Human capital is the source of innovation, which is "the means by which intellectual capital produces wealth," while intellectual capital is "the sum of everything everybody in a company knows that gives it a competitive edge."⁵³ Intellectual capital can include knowledge, ideas, and inventions that are often protected by patents, trademarks, and copyrights. Because of an incomplete and inconsistent legal system, much of Russia's intellectual capital is not well protected. In a survey of 50 major foreign companies investing in Russia, half estimated their annual losses from intellectual property violations to be at least \$1 million, with a third reporting \$5 to \$50 million in losses.⁵⁴

With patents and copyrights at risk, Russian entrepreneurs recognize that their intellectual capital resides primarily in their employees, and work hard to retain them. It has been difficult to attract Russians to entrepreneurial activities. Entrepreneurs have been envied, and even resented, for their success by more traditional individuals, partly because some of them, often called "New Russians," flaunted their new-found wealth. Still, attracting technical and professional talent, and individuals with international

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experience has been crucial. The CEO of BusinessLink, who recruited young professionals from universities, explained:

The only limit to the development of our firm is the shortage of the best people, which is our key resource, much more important than money. We can find specialists, and also people who speak English, but it is very difficult to find people with both skills.

EpicRus attracted top scientific talent, including a former student of Nobel laureate Andrei Sakharov. Aquarius hired and even rehired people from international computer companies such as IBM. Despite the underutilization of technical professionals in Russia, The Boeing Company's Moscow design center's staff grew during the 1990s from 10 to 650.⁵⁵ The pool of talented young people is increasing, with 1999 university enrollments rebounding to a new high of 3.7 million.⁵⁶ And, in 2001, former Soviet President Gorbachev lent his support to a not-for-profit consortium to market the country's top scientific talent abroad.

Entrepreneurial Goals and Decisions

The overall goals of entrepreneurship in transitional economies are said to stem from the lure of capitalism as a pull factor, and the failure of state-owned enterprises as a push factor.⁵⁷ Many individuals in the public sector chose entrepreneurship to increase their wealth and exercise long-stifled leadership potential, and in the early years of the transition, Russian entrepreneurs reported their goals to be profits, wealth, independence, and economic security.⁵⁸

However, growth was often interrupted by external circumstances, requiring entrepreneurs to focus on survival and tighter internal controls. This happened to the profitable Premier Bank after the financial crisis of 1998, when the government defaulted on its loans. Like many entrepreneurial firms, the bank reverted to goals and strategies of the survival or startup stage. At Aquarius, the original founders regained control and refocused on computers, retrenching from the overdiversification pursued by other owners. After their trading company failed, Vybor's founders started new companies since their primary goal was to run profitable businesses. The CEO of EpicRus, after the country's 1998 financial crisis, replaced her growth strategy with a near-term goal:

To become one of the few survivors in the industry thanks to the quality of [our] products, services, people, and reputation.

These entrepreneurs, like many during the 1990s, exhibited strategic leadership, changing their strategic goals as the turbulent environment changed. Their decisions can be considered strategic actions taken with an entrepreneurial mindset.⁵⁹

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In the mid-1990s, many Russian entrepreneurs shifted their goals from making profits to utilizing skills, being their own boss, and feeling a sense of accomplishment. The early emphasis on profitability and wealth could well have been due to the Russian tradition of seeing things as being achievable without sufficient effort or resources.⁶⁰ Additionally, profit was likely misunderstood at the outset, since the concept had a different meaning under communism.

Entrepreneurs rely more than managers on vivid incidents as decision criteria rather than systematic data.⁶¹ Russian entrepreneurs do so because they view more formal sources of information as unreliable. Other heuristics common to entrepreneurs include relying on their own ideas rather than seeking the advice of experts.⁶² For instance, Aquarius's executives needed to decide what types of activities to pursue when they regained control of the company. The CEO stated:

We had a lot of discussions about what was missing in Aquarius. We didn't have a marketing service. We had a pretty good idea what it was but, as we say, we know everything but we don't do it. That, unfortunately, is our weakness.

Outcomes: Survival, Growth, and Profit

The extremely hostile environment and scarce resources, coupled with a distinctive mindset, help explain why the goals, decisions, and outcomes of Russian entrepreneurs differ in various ways from those of entrepreneurs in other countries. The entrepreneurs in the five ventures we followed focused on firm survival, growth, and profit, with varying degrees of emphasis, and their decisions reflected constantly changing circumstances.

Premier Bank had to focus on survival rather than growth, primarily because the government defaulted on bonds the bank held in 1998. The new CEO, a son

of one of the founders, stated that the country had been thrown into an economic morass, and that banks and businesses could expect little help from the government. Yet he did not see the situation as hopeless. Premier continued to serve its clients, and cut salaries by 40 percent rather than laying off employees.

Aquarius emerged as the leading Russian computer company, having expanded its product line, distribution channels, and service-center network. It partnered with other Russian distribution firms, and with Newbridge Networks of Canada, to land major contracts, including one with the Russian social insurance fund. The company also focused in 2001 on expanding its trademarked Aquarius brand throughout Russia.

BusinessLink also grew throughout the decade and weathered the 1998 financial crisis. It cut personnel, rationalized its businesses, and lost some key international clients, but forged ahead optimistically because of its solid financial condition and business base. All business units continued to operate in 2001, with an emphasis on advertising and real-estate development. The advertising unit included a new Web-based business, Media International, and the personnel search unit's Web site advertised many managerial positions with leading international and Russian clients.

EpicRus, known as Platinum Russia until late 2000, was ranked that year as the best Russian software company in a Moscow International Accounting Forum survey. The company continued to grow profitably by following its strategy of providing localized versions of its licensed enterprise-resource-planning systems. By 2001, EpicRus offered software and systems development, technical support, training, and customization services for more than 200 international and domestic customers. Among its many partners were Microsoft, the Big Five U. S. accounting firms, and many well-known Russian systems integrators and consulting companies.

Vybor went bankrupt in 1996. Remaining true to their objectives of running businesses as long as they remained economically viable, they immediately started an imported shoe-distribution business, and one brother also became the head of a plastic-pipe plant.

Strengthening Russian Entrepreneurship

Strengthening Russian entrepreneurship is an obligation for some, and an opportunity for many. Drawing upon the framework in this article, we suggest actions for Russian entrepreneurs and Westerners who might do business with them.

Russian entrepreneurs

Work with the Russian government and other groups to build a positive image of entrepreneurs. Russian entrepreneurs must emphasize that their reputation can be a critical resource to counteract the traditional Russian disdain for and suspicion of entrepreneurs. Working with the government and other Russian organizations, as well as respected entrepreneurs from other countries, entrepreneurs should publicize positive messages and incidents of legitimate entrepreneurial activities.

Demonstrate an ethical approach to doing business. Russian entrepreneurs can demonstrate the positive aspects of their entrepreneurial mindsets by doing business according to guidelines for ethical business behavior. They can utilize guidelines developed by the U.S.-Russia Business Development Committee and the Russian Chamber of Commerce and Industry, as well as publications by other Russian and international experts in business ethics.⁶³

Attend seminars and programs at home and abroad. Such activities can confirm for Russian entrepreneurs the effectiveness of their mindsets and provide opportunities to compare themselves to other entrepreneurs. They can also develop personal relationships with other Russian and international entrepreneurs to expand their networks and skill sets, and possibly connect with potential investors in such arenas as Harvard's annual Russian Investment Symposium.

Become involved in far-sighted organizations like Club 2015. Building a positive reputation for entrepreneurship can enhance the resource base for individuals and their ventures. A prominent group of progressive Russian business people founded Club 2015, based on a new social-contract scenario, with the goal of building trust among the Russian government, citizens, and the business community. Membership in such groups is a signal of reliability to potential partners and other sources of resources and support.

Western business partners

Develop relationships with Russian entrepreneurs built on trust and action with those who warrant that commitment. Becoming involved in partnerships can provide participants with additional resources such as networks that may produce mutual benefits. However, they must have reasonable assurance that the risk-return proposition makes it attractive to do so. A fundamental way of building

trust is by treating partners with respect and following through on commitments.

Provide valid sources of information to supplement Russian entrepreneurs' more typical reliance on single incidents for information. Doing so can help strengthen relationships and build trust. Because trust is a two-way street, Western partners might approach members of respected organizations like Club 2015, and select entrepreneurs who do business according to ethical guidelines.

Look beyond short-term results achieved, which may be temporary. It is helpful to understand decision-making processes and their associated goals and outcomes from the Russian entrepreneurial perspective. Entrepreneurs who appear to be inconsistent in following their goals may, in fact, be guided by a vision, but must adapt quickly to their ever-changing and hostile environment.

Navigating the Hostile Maze

The framework developed in this article can be utilized as a tool for assessing entrepreneurship in Russia. For instance, the environment is beginning to show signs of becoming less hostile, with judicial and tax reforms underway, as well as progress in corporate governance and transparency. The objective for all stakeholders should be to help create the positive scenario articulated by Dmitry Kozak, the deputy head of the Russian presidential administration:

I hope there comes a time—and on our part we will do everything for it to come as soon as possible—when there will be no obstacles to cooperation in conducting business within the USA or Russia—neither for Russian nor American entrepreneurs.⁶⁴

Appendix

The framework presented in this article was developed from a longitudinal study of five professionally oriented entrepreneurial ventures that we and a Russian colleague conducted from 1993 to 2001. (See endnote 2.) We conducted annual interviews with founders, other senior managers, and employees, in Russian or English, on site and by telephone. All interviews were taped, and covered a consistent set of open-ended questions, as well as specific data about the firms and their founders and the environments in which they operated. The research team toured company facilities, ate meals and socialized with executives and staff members, and developed a strong rapport leading to trust and an open atmosphere during interviews. Between each set of annual inter-

views, team members analyzed and interpreted responses, and drew conclusions. Using the replication logic methodology, we analyzed information about the founders and the firms to draw conclusions about their similarities and differences. We then developed our framework for understanding Russian entrepreneurship and integrated it with the research literature on entrepreneurship and strategic management.

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