Spatial variations in the character of off-the-books entrepreneurship: lessons from a study of contrasting districts in Moscow

Colin C Williams, *University of Sheffield*
Spatial variations in the character of off-the-books entrepreneurship: lessons from a study of contrasting districts in Moscow

Colin C. Williams*

School of Management
University of Sheffield
Sheffield S1 4DT, UK
E-mail: C.C.Williams@sheffield.ac.uk

John Round

School of Geographical Sciences
University of Birmingham
Birmingham B15 2TT, UK
E-mail: J.Round@bham.ac.uk

Abstract: Although there is growing recognition that many entrepreneurs start up trading partially or wholly off-the-books, few have evaluated whether the character of this hidden enterprise culture varies spatially. To begin to do so, this paper evaluates whether and how the nature of off-the-books entrepreneurship differs across an affluent, a mixed and a deprived district of Moscow. Drawing upon 313 face-to-face interviews, the finding is that wholly legitimate enterprises represent just the tip of the iceberg in Moscow. Beneath the surface in all the districts is a large hidden enterprise culture. However, off-the-books entrepreneurship in the affluent district is composed more of registered businesses trading partially off-the-books and conducted as a voluntarily chosen spin-off from their formal employment. In the deprived district, meanwhile, it is composed more of unregistered wholly off-the-books businesses and such entrepreneurship is largely a survival tactic and last resort. The paper concludes by discussing the theoretical and policy implications of these findings.

Keywords: entrepreneurship; enterprise culture; enterprise development; informal economy; shadow economy; underground sector; tax compliance; Moscow.


Biographical notes: Colin C. Williams is a Professor of Public Policy in the School of Management at the University of Sheffield in the UK. His books include The Hidden Enterprise Culture (2008, Edward Elgar), Re-thinking the Future of Work (2007, Palgrave-Macmillan) and Cash-in-Hand Work (2004, Palgrave-Macmillan). His interests are in entrepreneurship, the informal economy and livelihood practices.
1 Introduction

In recent years, a new stream of thought has emerged in the entrepreneurship literature which recognises that many entrepreneurs start-up trading partially or wholly off-the-books, and that many persist to do so when they become more established (Antonopoulos and Mitra, 2009; Llanes and Barbour, 2007; Rehn and Taalas, 2004; Small Business Council, 2004; Williams, 2006; Williams, 2007c; Williams, 2009a). Until now, nevertheless, few have evaluated whether there are spatial variations in the nature of off-the-books entrepreneurship, such as across affluent and deprived districts. This paper starts to fill that gap. Potentially, this is an important policy issue for entrepreneurship and small business. If a large number of enterprises and entrepreneurs are operating wholly off-the-books in particular areas-types, such as deprived urban neighbourhoods, then these communities might be more enterprising and entrepreneurial than currently recognised and legitimising this off-the-books entrepreneurship could well be an important means of nurturing enterprise and economic development in these areas.

In Section 2, therefore, this paper will review the small but burgeoning literature that explores the relationship between the off-the-books economy and enterprise creation and development. Highlighting how there are few, if any, evaluations of the spatial variations in the nature of off-the-books entrepreneurship, Section 3 will then present a survey of the character of off-the-books entrepreneurship in a mixture of districts in the global city of Moscow in Russia. The fourth section will then report the findings. This will reveal that entrepreneurs in deprived districts commonly trade on a wholly off-the-books basis, suggesting that such communities are more enterprising and entrepreneurial than currently recognised and consequently, that legitimising this hidden enterprise culture might be an important means of promoting enterprise and economic development in such communities. The fifth and final section concludes by calling for a repositioning of off-the-books entrepreneurship more centre-stage in discussions of enterprise and economic development, and briefly outlines how public policy might start to harness this hidden enterprise culture.

Before commencing, however, a working definition of off-the-books entrepreneurship is needed. Here, an entrepreneur is defined as somebody actively involved in starting a business or is the owner/manager of a business less than 36 months old (Harding et al., 2006; Reynolds et al., 2002). Off-the-books work, meanwhile, is defined as monetary transactions not declared to the state for tax and/or benefit purposes when they should be declared but which are legal in all other respects (e.g., European Commission, 2007; Evans et al., 2006; Renooy et al., 2004; Williams, 2006). In consequence, off-the-books entrepreneurship refers to those starting a business or are the owner/manager of a business less than 36 months old who engage in monetary transactions not declared to the state for tax and/or benefit purposes when they should be declared but which are legal in all other respects.
2 Entrepreneurship and off-the-books transactions

Until recently, the issue of whether entrepreneurs engage in off-the-books transactions received little attention in the entrepreneurship literature. To explain this, Williams (2006) and Jones and Spicer (2005; 2006) have argued that it is because the field of entrepreneurship has been dominated by a wholesome, positive and virtuous representation of the entrepreneur as a super-hero (Burns, 2001; Cannon, 1991). The result is that those forms of entrepreneurship tarnishing this ideal have been depicted either to exist external to the boundaries of entrepreneurship, ignored, portrayed as temporary or transient, or claimed to have little to do with mainstream entrepreneurship.

A small emergent corpus of thought in the entrepreneurship literature, nevertheless, has started to build upon an earlier tradition which highlighted the negative attributes of entrepreneurs and how entrepreneurs do not always play by the rulebook (Collins et al., 1964; Bhide and Stevenson, 1990; Kets de Vries, 1977). To do this, these commentators have started to report the various ways in which entrepreneurs participate in illegitimate acts (Armstrong, 2005; Bouchard and Dion, 2009; Deutschmann, 2001; Fournier, 1998; Friman, 2001; Frith and McElwee, 2008a; Frith and McElwee, 2008b; Jones and Spicer, 2005; Jones and Spicer, 2006; Rehn and Taalas, 2004; Sköld and Rehn, 2007; Smith, 2007; Smith and Christou, 2009; Storr and Butkevich, 2007) as well as how those conducting illegitimate practices often display entrepreneurial traits, such as drug-dealers (Bouchard and Dion, 2009; Frith and McElwee, 2008a; Frith and McElwee, 2008b; McElwee, 2009) and prostitutes and pimps (Smith and Christou, 2009).

Besides this literature on entrepreneurship in relation to illegitimate goods and services, a further literature has started to unravel how entrepreneurs trading licit goods and services do not declare all their transactions to the authorities for tax and social security purposes when they should be declared (Antonopoulos and Mitra, 2009; Ram et al., 2007; Small Business Council, 2004; Valenzuela, 2001; Williams, 2006; Williams, 2007b; Williams, 2007a; Williams, 2007c; Williams, 2008b). This literature on what Williams (2006) calls the ‘hidden enterprise culture’ of off-the-books entrepreneurship has begun to reveal that these off-the-books transactions are not some minor marginal practice existing in just a few small corners. Instead, many early-stage entrepreneurs and established self-employed are shown to engage in off-the-books transactions. It is not only in the entrepreneurship literature however that this hidden enterprise culture of off-the-books entrepreneurs has started to be studied in greater depth.

For a decade or so, the literature on the off-the-books economy has gradually taken an ever greater interest in the relationship between entrepreneurship and off-the-books work. This literature has revealed that today, a large proportion of the labour force work on an off-the-books basis: some 48% of non-agricultural employment in North Africa, 51% in Latin America, 65% in Asia and 72% in sub-Saharan Africa (ILO, 2002b). Many, moreover, are self-employed. In sub-Saharan Africa, some 70% of off-the-books workers are self-employed, 62% in North Africa, 60% in Latin America and 59% in Asia (ILO, 2002b). The outcome is that these off-the-books self-employed have started to be reread as a “hidden enterprise culture” (Williams, 2006).

This resignification of the off-the-books economy as a hidden enterprise culture, and off-the-books workers as entrepreneurs, initially occurred in a third (majority) world context (Browne, 2004; Cross, 2000; De Soto, 1989; De Soto, 2001; ILO, 2002a; Ilahiane and Sherry, 2008). As the ILO (2002a, p.54) for example state, the off-the-books
economy represents ‘an incubator for business potential and ... transitional base for accessibility and graduation to the formal economy’ and the off-the-books self-employed display ‘real business acumen, creativity, dynamism and innovation’. Since the turn of the millennium, this representation of off-the-books work as a hidden enterprise culture has also been applied to countries in the western world (Evans et al., 2006; Lazaridis and Koumandraki, 2003; Renooy et al., 2004; Small Business Council 2004; Snyder, 2004; Williams, 2006; Williams, 2007c; Williams, 2008b; Williams, 2009a; Williams, 2009b) as well as post-Soviet ‘transition’ economies (Chavdarova, 2005; Rehn and Taalas, 2004; Round et al., 2008; Williams, 2008b).

One of the major debates surrounding off-the-books entrepreneurship has revolved around whether people engage in such endeavour out of choice or necessity. Off-the-books entrepreneurs, that is, have tended to be represented either as ‘necessity’ entrepreneurs pushed into entrepreneurship because other options for work are absent or unsatisfactory, or ‘opportunity’ entrepreneurs doing so out of choice such as to exploit some business opportunity or due to their desire for independence or to own a business (Gerxhani, 2004; Snyder, 2004; Williams, 2007b; Williams, 2007c; Williams, 2008b).

The perhaps dominant view has been that off-the-books entrepreneurs are driven out of necessity into this realm as a survival strategy and last resort (Gallin, 2001; Sassen, 1997). Off-the-books entrepreneurship is this depicted as ‘involuntary’, ‘forced’, ‘reluctant’ or ‘survivalist’ (Hughes, 2006; Valenzuela, 2001). Others, however, have argued the inverse. As Gerxhani (2004, p.274) contends, many self-employed “choose to participate in the informal economy because they find more autonomy, flexibility and freedom in this sector than in the formal one”. Similarly, Snyder (2004) in her study of 50 off-the-books entrepreneurs in New York City’s East Village contests the view that external pressures (such as discrimination, economic restructuring and unemployment) force people to work off-the-books. All the off-the-books entrepreneurs she studied were doing so out of choice, such as to set their careers on a new path, to transform their work identity or to reveal their true selves. This is also the finding of Cross (1997; 2000) studying street vendors in Latin America.

Rather than simply portray off-the-books entrepreneurs as either universally necessity- or opportunity-driven, however, others particularly in North America (Edgcomb and Thetford, 2004; Lozano, 1989; Valenzuela, 2001) have adopted a more nuanced approach and unraveled the necessity-to-opportunity ratio of off-the-books entrepreneurs. These, nevertheless, continue to portray individual entrepreneurs as either necessity- or opportunity-driven. Recently, however, and reflecting pioneering studies on legitimate entrepreneurs’ motives (Aidis et al., 2006; Smallbone and Welter, 2004), the separateness of opportunity- and necessity-drivers in off-the-books entrepreneurs’ motives has begun to be questioned. In a small but important literature, that is, both necessity and opportunity have been shown to be often co-present and motives are revealed to change over time, often from being more necessity- to opportunity-driven (Snyder, 2004; Williams, 2007b; Williams, 2007a; Williams, 2008b).

Despite these advances in understanding the prevalence and nature of off-the-books entrepreneurship, few studies have so far sought to evaluate whether there are spatial variations in the nature of the hidden enterprise culture, such as between affluent and deprived communities, and the implications for economic and enterprise development. Here, in consequence, an attempt is made to start to fill this gap.
Examining the spatialities of off-the-books entrepreneurship in Moscow

Moscow, the capital city of Russia, with its 10.4 million inhabitants, is not only one of the few global cities located in the post-Soviet bloc but is also in a country with some economic, social, cultural and institutional particularities (Brooke, 2006) that lead to its enterprise culture being configured rather differently to elsewhere. As Clarke (2002) has shown, there were numerous services in Russia during the Soviet period that no state enterprise provided and which were wholly delivered on a private basis by individuals off-the-books, such as small construction and decorating jobs, repair of radios, televisions and washing machines, clothing repairs, care for the elderly and sick, private transport and private tuition. Indeed, until 1987 in Russia, conducting these odd jobs for financial reward was illegal despite citizens having no other way of obtaining these services. The outcome was the existence of a large hidden enterprise culture composed of off-the-books entrepreneurship in the so-called ‘second economy’ (Ledeneva, 1998). Off-the-books enterprise in the contemporary era, in consequence, has a very different historical legacy for Muscovites in particular and the ex-Soviet bloc more generally, compared with those in the west and much of the third world.

For some new to studying off-the-books traders, it might be assumed that conducting a survey on this topic in Moscow might be difficult due to its hidden nature and perhaps even dangerous. Numerous previous studies conducted in other countries, nevertheless, display that just because off-the-books endeavour is hidden from the state for tax and social security purposes, does not mean that entrepreneurs are unwilling to openly discuss such work with academic researchers (Leonard, 1994; MacDonald, 1994; Pahl, 1984; Williams, 2004; Williams, 2006).

To gather data, maximum variation sampling was used to select three districts in Moscow for investigation. Firstly, an affluent district in the west of Moscow okrug, namely Krylatskoe, was chosen, secondly, one of the most deprived districts located in the South-east okrug of Moscow and third and finally, a mixed area located to the west of the Moscow region, about 25 km out from the Moscow ring road (which is the Moscow city border), namely Leshkovo, where ‘new Russians’ live in large expensive houses alongside benefit-dependent pensioners and the ‘working poor’. In each district, a spatially stratified sampling methodology was then employed to select households for interview (Kitchin and Tate, 2001). If there were some 1000 households in the district and 100 interviews were sought, that is, the researcher called at every 10th household. If there was no response and/or an interview was refused, then the 11th household was visited, then the 9th, 12th, 8th and so on. This provided a spatially stratified sample of each district. In total, 313 face-to-face interviews were conducted in the three districts (see Table 1).

Table 1  Overview of Districts Studied in Moscow

<table>
<thead>
<tr>
<th>Area-type</th>
<th>District</th>
<th>No. of interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affluent urban</td>
<td>Krylatskoe, west Moscow</td>
<td>100</td>
</tr>
<tr>
<td>Deprived urban</td>
<td>South-east okrug, Moscow</td>
<td>100</td>
</tr>
<tr>
<td>Mixed</td>
<td>Leshkovo, outer Moscow</td>
<td>113</td>
</tr>
</tbody>
</table>
To collect evidence on off-the-books entrepreneurship, a household survey was conducted using face-to-face interviews based on a gradual approach to the issue under investigation. First of all, background data was gathered on gross household income, the employment status of household members, their employment histories, ages and gender, whether they engage in any self-employment, and the practices they most relied on to secure their livelihoods. Secondly, they were asked about the source of labour the household last used to conduct 24 common domestic service activities (e.g., home maintenance and improvement tasks, caring activities, routine housework) followed by whether they had undertaken each of these tasks either on a paid or unpaid basis for others. Thirdly, they were then asked open-ended questions about other forms of self-employment in which they engaged and whether they had started-up some enterprise and if so, how long ago they had commenced this venture, whether they conducted some or all of their transactions off-the-books and a range of further questions (detailed below) on why they had decided to start-up this business. Although data was collected on a multiplicity of work practices, below, the findings are reported on the prevalence and nature of off-the-books entrepreneurship in these three districts of Moscow.

4 Off-the-books entrepreneurship in Moscow

In the 313 households interviewed comprised of 702 adults, 81 respondents were identified who had started-up a business in the past 36 months and 21 who had more established business ventures. Of all respondents, therefore, 11.5% were early-stage entrepreneurs and a further 3% ran more established enterprises. This is a higher participation rate in entrepreneurship than identified in the 2006 Global Entrepreneurship Monitor (GEM) of Russia which identifies that 4.9% of the population of working-age are early-stage entrepreneurs and 1.2% established business owners (Bosma and Harding, 2007), although the ratio of early-stage entrepreneurs to established business owners is broadly similar (3.8 times more early-stage entrepreneurs to established business owners in this Moscow survey compared with 4.1 in the GEM survey). Given the small size of the Moscow survey, however, it cannot be assumed that entrepreneurship is more prevalent in Moscow than Russia in general. Rather, it perhaps tentatively reveals that studies which explicitly investigate the existence of off-the-books enterprise might capture higher levels of entrepreneurship than those that do not.

Here, firstly, the prevalence and nature of off-the-books entrepreneurship in the three districts will be evaluated and secondly, the contrasting motives underpinning off-the-books entrepreneurship across the three districts.

4.1 Comparing the nature of off-the-books entrepreneurship across the three districts

Analysing all the 81 entrepreneurs who had started-up an enterprise during the past 36 months, just three (4%) had registered their business and even amongst these, all traded partially off-the-books (see Table 2). The remaining 78 (96%) had not registered their enterprise, did not have a license to trade on a self-employed basis and conducted all their transactions off-the-books. Similarly, of the 21 more established business ventures operated by the self-employed, just four (19%) were asserted by their owners to be wholly legitimate enterprises. Of the remainder, 12 (57%) had registered their enterprise
Spatial variations in the character of off-the-books entrepreneurship

or possessed a license but conducted some of their transactions off-the-books and five (24%) were wholly off-the-books enterprises. The only conclusion that can be reached, therefore, albeit from a small sample, is that it is entirely normal to start-up enterprises off-the-books in Moscow. Indeed, most entrepreneurs identified in this survey are not even on the radar screen of the state.

Table 2 Geographical variations in the nature of off-the-books entrepreneurship in Moscow:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>All areas</th>
<th>Affluent district</th>
<th>Mixed district</th>
<th>Deprived district</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample size</td>
<td>313</td>
<td>100</td>
<td>113</td>
<td>100</td>
</tr>
<tr>
<td>Percentage (%) of total sample</td>
<td>100</td>
<td>32</td>
<td>36</td>
<td>32</td>
</tr>
<tr>
<td>No. of early stage off-the-books entrepreneurs surveyed</td>
<td>81</td>
<td>27</td>
<td>33</td>
<td>21</td>
</tr>
<tr>
<td>Percentage (%) of all early-stage off-the-books entrepreneurs surveyed</td>
<td>100</td>
<td>33</td>
<td>41</td>
<td>26</td>
</tr>
<tr>
<td>Percentage (%) of early-stage entrepreneurs who are:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholly legitimate</td>
<td>4</td>
<td>11</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Registered but conducting share of trade off-the-books</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unregistered and wholly off-the-books</td>
<td>96</td>
<td>89</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>No. of established self-employed surveyed</td>
<td>21</td>
<td>8</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Percentage (%) of all established self-employed surveyed</td>
<td>100</td>
<td>38</td>
<td>33</td>
<td>29</td>
</tr>
<tr>
<td>Percentage (%) of established self-employed who are:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholly legitimate</td>
<td>19</td>
<td>25</td>
<td>29</td>
<td>0</td>
</tr>
<tr>
<td>Registered but conducting share of trade off-the-books</td>
<td>57</td>
<td>63</td>
<td>57</td>
<td>50</td>
</tr>
<tr>
<td>Unregistered and wholly off-the-books</td>
<td>24</td>
<td>12</td>
<td>14</td>
<td>50</td>
</tr>
</tbody>
</table>


There are, however, marked geographical variations in the nature of off-the-books entrepreneurship across the three districts surveyed. In the deprived district, all the early-stage entrepreneurs surveyed trade wholly off-the-books and even amongst the established self-employed, only a half had registered their enterprises although even all these continued to trade partially off-the-books. In the affluent district, meanwhile, a slightly greater proportion of early-stage entrepreneurs operate registered business and trade only partially (rather than wholly) off-the-books and amongst the established self-employed, nearly a quarter claim to be wholly legitimate, around two-thirds assert that they operate registered enterprises even if they continue to trade partially off the-books and just 12% of entrepreneurs operate unregistered enterprises trading wholly off-the-books.

There are also variations in the employment status of those engaged in off-the-books entrepreneurship between these districts. Examining the employment status of all early-stage off-the-books entrepreneurs, 60% define themselves as formal employees, 35% as self-employed and 5% as officially unemployed. In the affluent district, however, a larger proportion of off-the-books entrepreneurs (80%) are formal employees operating their business venture ‘on the side’. They also tend to be in households in the highest-income quartile of the whole sample, engaged in formal employment and using
their formal job to conduct relatively well-paid off-the-books self-employment. An example is a husband and wife who are both school teachers and earn through their formal jobs about 6000 roubles a month each. They then provide supplementary lessons on an off-the-books self-employed basis. Between them, they have four groups of 10 children who each pay 200 roubles for a 1 h 30 min lesson. Each gives three lessons per week, so they earn 24 000 per week additional income.

In the deprived district, meanwhile, early-stage off-the-books entrepreneurs are more likely to have no formal job (81% of them have no formal employment) and to rely on their off-the-books venture for their income rather than as an additional top-up to their formal earnings, as is more the case in the affluent district. Off-the-books entrepreneurs in the deprived district are also more likely to engage in less skilled self-employment (e.g., office- and house-cleaning). Examples include a pensioner who supplements her state pension of 2200 roubles/month by selling cigarettes at a train station, an illegal street vendor who sells flowers just outside a market and a security guard at the block of flats where he himself lives who is paid by security guard 10% of his salary.

In the mixed district, meanwhile, off-the-books entrepreneurship is more polarised. On the one hand, and amongst the higher-income quartiles, there is relatively well-paid off-the-books entrepreneurship often arising out of their formal employment and comprising ‘on-the-side’ or ‘off-the-books’ consultancy. This includes the off-the-books enterprises of not only professional formal employees but also the crafts-based self-employed (e.g., electricians, plumbers, plasterers, general builders). On the other hand, and amongst the lower-income quartiles, the work tends not to arise out of their formal jobs, and to be lower-skilled and lower-paid.

Across all the districts studied, therefore, two groups of early-stage entrepreneur can be identified, namely those whose enterprise is a spin-off from their formal employment and those whose entrepreneurial ventures derive more from some other source, such as a hobby, interest or opportunity. Similarly, two distinct groups of established off-the-books self-employed can be identified, namely serial users of off-the-books trading practices and those whose enterprises are in transition towards legitimacy. In the affluent district, a greater proportion of early-stage enterprises (80%) are a spin-off from the entrepreneurs’ formal employment and a greater share (65%) of established self-employed are in transition to legitimacy, whilst in the deprived district, entrepreneurial ventures derive from other sources and the established self-employed tend to be serial users of off the-books transactions. It is not just the nature of such endeavour that varies across districts. So too do the motives of these entrepreneurs.

4.2 Moscow’s off-the-books entrepreneurs: necessity- and/or opportunity-driven?

To understand off-the-books entrepreneurs’ motivations, those 81 surveyed who had started-up business ventures off-the-books were asked in an open-ended manner, “why did you decide to set up this enterprise?” The vast majority (80%) answered this initial question in a manner that identified them as ‘necessity entrepreneurs’ (see Table 3). Some 45% stated that it was in order to generate sufficient income to survive and 25% that it was so as to increase their income, whilst just 30% cited motives normally associated with ‘opportunity entrepreneurship’ such as the desire to have one’s own business, to fill a gap in the market or to have greater independence.
Table 3   Why did you decide to set up your enterprise? off-the-books entrepreneurs, Moscow 2005/06

<table>
<thead>
<tr>
<th>% citing motive as</th>
<th>All areas</th>
<th>Affluent district</th>
<th>Mixed district</th>
<th>Deprived district</th>
</tr>
</thead>
<tbody>
<tr>
<td>To generate sufficient income to live/survive</td>
<td>45</td>
<td>26</td>
<td>43</td>
<td>67</td>
</tr>
<tr>
<td>To generate additional income</td>
<td>25</td>
<td>26</td>
<td>40</td>
<td>18</td>
</tr>
<tr>
<td>Desire to have own business</td>
<td>6</td>
<td>11</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>To fill a gap in the market</td>
<td>15</td>
<td>22</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Independence</td>
<td>7</td>
<td>11</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


Typical responses of the 45% asserting that they had primarily set up this off-the-books enterprise so as to generate sufficient income to live or survive were “you cannot survive on state benefits, it doesn’t even pay for your food”; “if I hadn’t, I wouldn’t have enough money to be able to survive”; “it was my only option”; and “I had no choice. I wanted to buy things like clothes for my children and food”. Popular responses by the 25% asserting that it was to increase their income, meanwhile, were “my official earnings are not enough to pay for anything else other than our housing and food bills” and “I needed extra to be able to buy more than just the necessities”. Unlike in other nations where necessity entrepreneurs might pursue such ventures due to a lack of formal employment opportunities, however, this was not the case in Moscow. Instead, the necessity to pursue such a venture is often borne out of the fact that the income provided by their formal employment or state benefits was inadequate to meet their daily needs.

There are, however, spatial variations in the motives of off-the-books entrepreneurs. In deprived areas, the ratio of necessity-to-opportunity entrepreneurship is 1.5:1 whilst in affluent areas it is 3.8:1, signifying how off-the-books entrepreneurship is more necessity-driven in deprived areas but opportunity-driven in affluent areas.

If this analysis of off-the-books entrepreneurs’ motives were to end here, then it would be one of the first studies, with the exceptions of Lozano (1989) and Williams (2006), to reveal that off-the-books entrepreneurs are not either universally necessity-driven (Castells and Portes, 1989; Gallin, 2001; Sassen, 1997) or universally opportunity-driven (Gerxhani, 2004; Snyder, 2004). Instead, it displays that there are both necessity- and opportunity-driven off-the-books entrepreneurs, and that the ratio of necessity- to opportunity-entrepreneurs varies spatially across the districts surveyed.

Here, however, and to drill down deeper into their motives, the responses to two further probes that followed this initial question are analysed. These firstly repeated the answer given by the respondent with an inflexion (e.g., ‘to earn sufficient money?’ or ‘to generate additional income?’) and secondly, asked in an open-ended manner ‘any other reasons?’. Analysing the responses, it becomes apparent that delineating off-the-books entrepreneurs in Moscow as either necessity-driven or opportunity-driven is an over-simplification. In many cases, the range of motives underpinning their decision cannot be easily squeezed into one side or the other of the necessity/opportunity dualism.
As Table 4 reveals, when the fuller range of motives are analysed in response to these additional probes, just 12% of off-the-books entrepreneurs cited solely economic necessity. The majority (83%) cited a mixture of both necessity and opportunity motivations. Some 60% emphasised mostly economic necessity but also some opportunity motives such as that they had identified ‘a need they could fill’. A further 23% focused on opportunity motives but also put some emphasis on necessity. Just 5% cited purely opportunity drivers. Again, however, spatial variations are apparent. In affluent areas, as might be expected, there is a much greater degree of agency involved in the decision to operate off-the-books while in deprived areas necessity is more predominant.

Table 4  Motivations cited by off-the-books entrepreneurs following additional probes, Moscow 2005–2006

<table>
<thead>
<tr>
<th>Percentage citing motive as</th>
<th>All areas</th>
<th>Affluent district</th>
<th>Mixed district</th>
<th>Deprived district</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solely necessity</td>
<td>12</td>
<td>4</td>
<td>6</td>
<td>19</td>
</tr>
<tr>
<td>Mostly necessity but also opportunity</td>
<td>60</td>
<td>37</td>
<td>73</td>
<td>71</td>
</tr>
<tr>
<td>Mostly opportunity but also necessity</td>
<td>23</td>
<td>56</td>
<td>21</td>
<td>19</td>
</tr>
<tr>
<td>Solely opportunity</td>
<td>5</td>
<td>7</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>


To take just one example to see how opportunity and necessity combine, a computer worker was interviewed employed by a software company. He often offered to do small jobs cheaper for the company’s clients if they paid him independently and off-the-books. For him, this was mostly necessity-driven because he said that his wages were too low to sufficiently support his family but also in part opportunity-driven since he had ready access to clients unwilling to pay the formal fees charged by the company and he saw himself as filling a gap in the market.

Neither do off-the-books entrepreneurs’ motives remain fixed over time. Asking whether and, if so how, their reasons for engaging in such entrepreneurial endeavour had altered, a clear pattern can be identified. As Table 5 displays, of the 60% who stated that their reasons had changed the clear majority (82%) asserted that the shift had been away from necessity-oriented motives and towards opportunity-oriented motivations. Again, this tendency varies across the districts studied. In the deprived district in particular, 57% has shifted away from necessity-oriented towards opportunity-oriented motivations. Indeed, of those who started out as necessity-oriented in the deprived district, some three-quarters had become more opportunity-oriented over time.

Table 5  Do off-the-books entrepreneurs’ motives change over time?

<table>
<thead>
<tr>
<th>Motives unchanged</th>
<th>All areas</th>
<th>Affluent district</th>
<th>Mixed district</th>
<th>Deprived district</th>
</tr>
</thead>
<tbody>
<tr>
<td>From necessity-orientated to opportunity-orientated</td>
<td>40</td>
<td>37</td>
<td>36</td>
<td>38</td>
</tr>
<tr>
<td>From opportunity-orientated to necessity-orientated</td>
<td>49</td>
<td>41</td>
<td>52</td>
<td>57</td>
</tr>
<tr>
<td>From opportunity-orientated to necessity-orientated</td>
<td>11</td>
<td>22</td>
<td>12</td>
<td>5</td>
</tr>
</tbody>
</table>

This has important implications. For those asserting that opportunity-driven entrepreneurs are more likely to make a positive contribution to economic development and growth than necessity-driven entrepreneurs (e.g., Harding et al., 2006; Minniti et al., 2006; Reynolds et al., 2002), it reveals that many necessity-driven off-the-books entrepreneurs are a seedbed or platform out of which opportunity-driven entrepreneurs emerge. It would be a mistake, therefore, for economic and enterprise development practitioners to write-off necessity entrepreneurs operating off-the-books as unworthy of support.

5 Conclusions

This paper has sought to understand how the nature of off-the-books entrepreneurship varies spatially across deprived and affluent urban districts. This is important to understand because if there is a large hidden enterprise culture lurking in the shadows of deprived urban neighbourhoods for example, then such communities may well be far more enterprising and entrepreneurial than so far assumed. Indeed, evaluating the results of face-to-face interviews with 313 households in an affluent, mixed and deprived district of Moscow, the finding is that wholly legitimate enterprises are just the tip of the iceberg. Hidden beneath the surface is a large off-the-books enterprise culture of entrepreneurs operating wholly or partially off-the-books.

Indeed, early-stage entrepreneurs and the established self-employed were found to be more likely to operate wholly off-the-books in the deprived rather than the affluent district. In the deprived district, that is, all the early-stage entrepreneurs and half of the established self-employed operate unregistered enterprises and wholly off-the-books so are not even on the radar screen of the state. In this type of district, in consequence, entrepreneurship and enterprise culture appears to be larger than currently measured by official statistics.

This has important implications for both research and public policy. In terms of future research, this study adds further weight to the growing demand to better understand the lived practices of entrepreneurship and enterprise culture. Having started to show the relationship between entrepreneurship and the off-the-books economy in three contrasting districts of Moscow, further studies in other post-socialist nations as well as advanced economies and the majority (‘third’) world, would now be useful. They would enable understanding of whether these findings regarding the spatial variations are more widely valid or not.

This study also has potentially important policy implications. Until now, the widespread assumption has been that enterprise culture and entrepreneurship is lower in deprived urban neighbourhoods and therefore that there is a need to encourage entrepreneurship in such communities. This paper, however, suggests that entrepreneurship and enterprise culture might not be quite as low as recorded in official statistics and that another way of nurturing entrepreneurship, besides fostering new entrepreneurs, is to help existing entrepreneurs who presently operate off the radar screen of the state to become more legitimate. This includes the many necessity-driven off-the-books entrepreneurs who are often ignored in current economic and enterprise
development as unworthy of support, but who this paper reveals become more opportunity-driven over time and thus might well be the seedbed of future growth enterprises.

How these off-the-books entrepreneurs can be brought into the legitimate realm is thus an important issue. Initiatives might involve firstly, the establishment of local advisory agencies to provide information, advice, loans and support services to off-the-books entrepreneurs on how to legitimise; micro-finance to fledging businesses as well as training to the potentially self-employed on creating a formal business; the creation of local agencies to coordinate the actions of the multiplicity of organisations who might develop programmes and initiatives to help facilitate the transition from the off-the-books to the formal economy; and publicity campaigns to promote tax morality and engender a commitment (rather than compliance) culture (Small Business Council, 2004; Williams, 2006; Williams, 2008a). Which type of measure would be most effective at legitimising off-the-books entrepreneurship, however, is beyond the scope of this paper.

In sum, if this paper brings about greater recognition and investigation of the spatial variations in the character of off-the-books entrepreneurship, then it will have achieved its main objective. If it also facilitates more serious consideration of how to legitimise off-the-books entrepreneurship so as to promote enterprise and economic development, especially in deprived urban communities, then it will have fulfilled all of its objectives.

References


