Explaining the off-the-books enterprise culture of Ukraine: reluctant or willing entrepreneurship?

Colin C Williams, University of Sheffield

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Explaining the off-the-books enterprise culture of Ukraine: reluctant or willing entrepreneurship?

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

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

Peter Rodgers
Aston Business School
Aston University
Birmingham B1 4FD, UK
E-mail: P.Rodgers1@aston.ac.uk

Abstract: In recent years, there has been a growing realisation that beyond the realm of legitimate entrepreneurship is a large, hidden enterprise culture composed of entrepreneurs conducting some or all of their trade off-the-books. Until now, however, few have evaluated how many entrepreneurs start-up their ventures trading off-the-books and why they do so. Reporting face-to-face interviews conducted in Ukraine during 2005–2006 with 331 entrepreneurs, the finding is not only that the vast majority (90%) operate partially or wholly off-the-books, but also that they are not all driven by necessity, as a last resort and as a survival strategy into entrepreneurship. Revealing how many are willing rather than reluctant entrepreneurs; and that even those who were initially reluctant and ventured into it out of necessity, became more willing entrepreneurs over time as their business became established – the paper concludes by discussing the implications of these findings for both further research and public policy.

Keywords: entrepreneurship; necessity entrepreneurs; enterprise culture; informal economy; shadow economy; underground sector; tax compliance; Ukraine.


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1 Introduction

Over the past few years, it has started to be recognised that the legitimate entrepreneurship recorded and measured in national accounts by governments is only perhaps the tip of the iceberg so far as total entrepreneurship in many societies is concerned, and that beneath the surface, hidden from view and so far largely ignored, is perhaps a vast off-the-books enterprise culture composed of entrepreneurs trading wholly or partially on a cash-in-hand basis (Evans et al., 2006; Katungi et al., 2006; Small Business Council, 2004; Snyder, 2004; Williams, 2007a, Williams, 2007b, Williams, 2007c; Williams, 2008b). One prominent outcome of this emergent depiction is that whereas the cash-in-hand economy was previously depicted as a realm of low-paid waged employment conducted under sweatshop-like conditions, it is now increasingly common for it to be represented as a ‘hidden enterprise culture’ (De Soto, 1989; Smallbone and Welter, 2001; Williams, 2006). Until now, however, few have sought to evaluate how many businesses start-up trading off-the-books and even fewer have evaluated the motives of off-the-books entrepreneurs. The aim of this paper is to begin to fill this void.

To achieve this, the first section of this paper will review how there has been a gradual shift away from depicting cash-in-hand work as low-paid ‘sweatshop-like’ waged employment that needs to be deterred and towards a recognition that it is more a hidden enterprise culture and important platform for enterprise creation and development that needs to be harnessed. Despite this widespread rereading, it will be here revealed that few studies have so far evaluated the proportion of new business ventures that start up on a cash-in-hand basis or determined whether these off-the-books entrepreneurs are all necessity-driven or whether an element of choice is present. In the second section, therefore, a survey conducted in post-Soviet Ukraine in 2005–2006 is reported that evaluates the importance of the off-the-books economy as a seedbed for new business creation and why people engage in off-the-books entrepreneurship. Finding that the vast majority of entrepreneurs start-up operating either wholly or partially on an off-the-books basis and that by no means all are driven purely by necessity into this sphere, the final section then turns towards a consideration of the implications of these findings both for further research and for public policy.
At the outset, however, it is necessary to define both off-the-books work and entrepreneurship. With regard to off-the-books work, or what is variously called ‘cash-in-hand’ work, ‘informal employment’, the ‘underground sector’, ‘shadow work’ and the ‘hidden economy’, this paper follows the strong consensus and defines the off-the-books economy as the paid production and sale of goods and services that are legal in all respects besides the fact that they are unregistered by, or hidden from the state for tax and/or benefit purposes (European Commission, 1998; European Commission, 2007; Feige, 1999; Grabiner, 2000; ILO, 2002a; OECD, 2000a; OECD, 2000b; OECD, 2002; Sepulveda and Syrett, 2007; Thomas, 1992; Williams and Windebank, 1998). As such, only transactions that are illegal because of their non-declaration to the state for tax and/or social security purposes are included. Transactions in which the good and/or service itself is illegal (e.g., drug trafficking, gun-running) are excluded, as is unpaid work.

When defining entrepreneurship, however, no similar consensus exists. Instead, it has long proven a problematic and elusive concept which Hull et al. (1980) likened to ‘hunting the heffalump’. Here, therefore, a working definition is adopted. An entrepreneur is defined as somebody actively involved in starting a business or is the owner/manager of a business that is less than 36 months old (Harding et al., 2006; Reynolds et al., 2002). This definition, although excluding aspects sometimes included (e.g., intrapreneurship) is fit for the purpose for which it is intended, namely evaluating whether those starting-up business ventures participate in off-the-books transactions and their motives.

2 The off-the-books economy and entrepreneurship

There are two separate sets of literature with a potential interest in whether business start-ups operate wholly or partially off-the-books. On the one hand, this is of interest to the large and growing field of entrepreneurship and on the other hand, it is also of interest to the equally voluminous and burgeoning literature on the off-the-books economy.

Starting with an analysis of the field of entrepreneurship, it becomes quickly apparent that until very recently, little was written on whether entrepreneurs engage in cash-in-hand practices. In major part, and as Williams (2006) and Jones and Spicer (2005) explain, this is doubtless because the field of entrepreneurship has been dominated by a wholesome, virtuous and positive portrayal of the entrepreneur (Burns, 2001; Cannon, 1991). This is the case in near enough all theoretical approaches to entrepreneurship. Whether the ‘great person’ school is adopted that views them as born (rather than bred), or the more socially constructed approaches of the classical, management, leadership or intrapreneurship schools are pursued, all portray the entrepreneur as a positive and wholesome figure possessing virtuous attributes, traits and/or qualities that ‘lesser mortals’ do not (Cunningham and Lischeron, 1991). The outcome is that types of entrepreneurship that do not conform to this ideal are either placed outside the boundaries of entrepreneurship ‘proper’, ignored, depicted as temporary or transient, or asserted to have little to do with ‘mainstream’ entrepreneurship. The result is that the entrepreneurship literature has paid little attention to off-the-books entrepreneurship and enterprise culture.
Recently, however, this has begun to change. For some decades, a small tributary of the entrepreneurship literature has highlighted the negative attributes of entrepreneurs. Perhaps best known is the Kets de Vries (1977) study which argues that they are the product of unhappy family backgrounds, particularly situations in which the father is a controller and manipulator, remote and often seen as a deserter. A classic study of entrepreneurs not abiding by the rules and conducting illegitimate transactions, meanwhile, is Collins et al. (1964), partially corroborated by Bhide and Stevenson (1990), and since then, numerous other studies have tarnished the wholesome depiction of entrepreneurs (e.g., Armstrong, 2005; Deutschmann, 2001; Fournier, 1998; Jones and Spicer, 2005). One particularly prominent strand is the literature highlighting how entrepreneurs operate wholly or partially off-the-books (Evans et al., 2006; Katungi et al., 2006; Lazaridis and Koumandraki, 2003; Llanes and Barbour, 2007; Small Business Council, 2004; Williams, 2006; Williams, 2007a; Williams, 2007b; Williams, 2007c; Williams, 2008b). This small but rapidly literature, however, is not the major source of knowledge on off-the-books entrepreneurship and the hidden enterprise culture.

Separate to the field of entrepreneurship is an equally large and similarly rapidly growing literature on the off-the-books economy. Whether entrepreneurs operate wholly or partially off-the-books has become a core issue. It is now widely recognised that in most countries and global regions, a large proportion of all work off-the-books: some 48% of non-agricultural employment in North Africa, 51% in Latin America, 65% in Asia and 72% in sub-Saharan Africa (ILO, 2002b). Conventionally, it was assumed that much of this off-the-books work was low-paid waged employment conducted under sweatshop-like conditions. Recently, however, it has been shown that most off-the-books work is conducted on a self-employed basis: 70% in sub-Saharan Africa, 62% in North Africa, 60% in Latin America and 59% in Asia (ILO, 2002b). Rather than view off-the-books workers as low-paid waged employees working under ‘sweatshop’ conditions, therefore, off-the-books workers have started to be reconceptualised as entrepreneurs and as displaying entrepreneurial attributes, traits and qualities.

The rerereading first emerged in a majority (‘third’) world context (Cross, 2000; Cross and Morales, 2007; De Soto, 1989; De Soto, 2001; ILO, 2002a; Rakowski, 1994). As the ILO (2002a, p.54) assert, the off-the-books economy represents ‘an incubator for business potential and … transitional base for accessibility and graduation to the formal economy’ and off-the-books entrepreneurs display ‘real business acumen, creativity, dynamism and innovation’. In more recent years, its depiction as a hidden enterprise culture and therefore an asset has also begun to take hold in western economies and post-socialist societies (Evans et al., 2006; Renooy et al., 2004; Small Business Council, 2004; Snyder, 2004; Williams, 2004; Williams, 2006; Williams, 2007a; Williams, 2007b; Williams, 2007c; Williams, 2008b).

The outcome is that a more positive stance has emerged amongst policy makers towards off-the-books work. Rather than seek to eradicate such work through the use of penalties and improved detection (Gallin, 2001; Grabiner, 2000; Hasseldine and Zhu Hong, 1999), the recognition that it might well represent an important seedbed for enterprise creation has led to a more positive approach and a view of this sphere as an asset to be harnessed rather than eradicated. This is argued firstly by neo-liberals who view the hidden enterprise culture to result from state over-regulation (Minc, 1980; Sauvy, 1984; De Soto, 1989), off-the-books work as the ‘essence of liberalism’ (Sauvy, 1984) and off-the-books workers as heroes casting off the shackles of an
over-burdensome state (e.g., Sauvy, 1984; De Soto, 1989). The result is that they advocate a laissez-faire approach towards off-the-books enterprise and entrepreneurship and a de-regulatory approach towards the formal economy. The off-the-books economy is also seen as a principal platform for enterprise and entrepreneurship and an asset by some of a social democratic persuasion, but only if this entrepreneurial endeavour is harnessed and moved into the legitimate realm (European Commission, 2007; Renooy et al., 2004; Small Business Council, 2004; Williams, 2004; Williams, 2006; Williams, 2008a; Williams, 2008b). The growing appreciation is that pull initiatives (‘carrots’), namely a simplification of the business environment and the provision of appropriate incentives in the tax and benefits system, need to be used alongside conventional push initiatives (‘sticks’) in the form of improved law enforcement and the application of sanctions (European Commission, 2007; Evans et al., 2006; Renooy et al., 2004; Small Business Council, 2004; Williams, 2008a).

Until now, however, despite the growing recognition of the existence of off-the-books entrepreneurs, few have sought to evaluate how many entrepreneurs start-up their business ventures trading off-the-books. The one exception is a study of English localities which reveals that 77% of all entrepreneurs work off-the-books (57% partially and 20% wholly). Attempts to explain the motives underpinning the decision to engage in off-the-books entrepreneurship are equally rare, as will now be shown.

2.1 Off-the-books entrepreneurs’ motives

Despite earlier warnings not to over-simplify the complex rationales of entrepreneurs (Rouse and Daellenbach, 1999), a classificatory schema has come to the fore that builds on the work of Bögenhold (1987) who differentiated between entrepreneurs motivated by economic needs and those driven by a desire for self-realisation. It has become increasingly common to distinguish between ‘reluctant’ (or ‘necessity’) entrepreneurs pushed into entrepreneurship as a survival strategy in the absence of alternative means of livelihood, and ‘willing’ (or ‘opportunity’) entrepreneurs pulled into this endeavour more out of choice (Aidis et al., 2006; Harding et al., 2006; Maritz, 2004; Minniti et al., 2006; Perunović, 2005; Smallbone and Welter, 2004). This structure/agency binary that views some entrepreneurs as ‘reluctant entrepreneurs’ and others as ‘willing’ entrepreneurs has begun to move ever more centre-stage in studies of entrepreneurs’ motives.

A principal driving force for this has been the Global Entrepreneurship Monitor (GEM) survey (Bosma and Harding, 2007; Harding et al., 2006; Minniti et al., 2006). Finding that the ratio of ‘willing’-to-‘reluctant’ (or what it calls opportunity-to-necessity) entrepreneurs is greater in higher-income countries, and that nations dominated by willing entrepreneurs have a lower rate of early-stage business failure, the growing tendency has been to depict willing entrepreneurs as more desirable than reluctant entrepreneurs (e.g., Minniti et al., 2006). Indeed, this dichotomous classification is now being widely adopted and the common assumption is that post-Soviet economies have higher ratios of reluctant-to-willing entrepreneurs than western advanced economies (Perunović, 2005). However, Smallbone and Welter (2004) find in Ukraine, Belarus and Moldova that the most common reasons for starting a business were ‘to increase income’ (73%), ‘independence’ (71%) and ‘personal fulfilment’ (61%). Only a minority referred to ‘unemployment’ as a reason for start-up, although a further 26% referred to the push
factor of ‘dissatisfaction with their previous employment’. Their finding was therefore that most are willing entrepreneurs. However, they point out that this is overly-simplistic because in ‘early stage’ transition economies, well-educated people can be presented with limited opportunities for satisfying and sufficiently rewarding formal jobs, thus intimating that both push and pull factors are often involved in entrepreneurs’ motives. The same conclusion was reached by Aidis et al. (2006) in their survey of 297 women and 81 men in four Ukrainian cities.

It is not only when studying legitimate entrepreneurs that this division between reluctant and willing entrepreneurs has been prominent. It has also been increasingly applied to off-the-books entrepreneurs. Until now, few studies have evaluated the motives of these off-the-books entrepreneurs. Instead, and as Travers (2002, p.2) puts it, ‘It is usually said that people do the work to earn extra money and left at that.’ Off-the-books entrepreneurs, therefore, have been conventionally depicted as reluctant entrepreneurs pushed into this realm out of necessity and as a survival strategy (e.g., Castells and Portes, 1989; Gallin, 2001).

Recently, however, the inverse has started to be argued. Commentators have begun to portray them as willing entrepreneurs (Cross, 2000; Gerxhani, 2004; Maloney, 2004; Snyder, 2004). As Gerxhani (2004, p.274) asserts, such entrepreneurs:

“choose to participate in the informal economy because they find more autonomy, flexibility and freedom in this sector than in the formal one. In other words, participants have the freedom of operating their own business; they have flexibility in determining hours or days of operation; they can use and develop their creativity.”

This is also the finding of Snyder (2004) in her study of off-the-books entrepreneurs in New York City’s East Village neighbourhood. She argues that although most literature assumes that external pressures (such as discrimination, economic restructuring and unemployment) force people into the off-the-books economy, most of the 50 off-the-books entrepreneurs she studied did so out of choice. Most were willing entrepreneurs using this sphere to set their careers on a new path and transform their work identity or reveal their true selves. Even those who were originally reluctant entrepreneurs, joining due to constrained opportunities in the formal economy, developed a long-term commitment to developing their off-the-books enterprises. For her, therefore, off-the-books entrepreneurs are willing rather than reluctant entrepreneurs. This is also the finding of Cross (2000) who finds that although street vendors have been conventionally represented as reluctant entrepreneurs, most he studied did so out of choice.

All these studies depict off-the-books entrepreneurs as either universally reluctant or willing entrepreneurs. One of only studies to transcend such either/or thinking is a survey by Lozano (1989) of 50 dealers at flea markets in Northern California. She differentiates between voluntary and involuntary entrants to this market. Voluntary entry occurs when an individual decides to leave their job in order to earn income through self-employment, or when informal employment is conducted as a source of additional income beyond that necessary to cover normal living expenses and levels of indebtedness. One fifth of respondents fell into this category. Involuntary entry, meanwhile, takes place when: a person loses their formal job; income from employment, pensions or welfare payments is insufficient to cover normal living expenses and levels of indebtedness; or a person leaves school to enter the formal labour market and is unable to find a job. The remaining
80% of dealers experienced one of these situations prior to their involvement in the flea market. While the former explain their participation in terms of intense dissatisfaction with the routine and authority of the formal workplace and opt for self-employment for reasons of personal autonomy and flexibility and to ‘be my own boss’, the latter involuntary joiners, however, offer very different explanations. Although a quarter claim to enjoy the autonomy of this work, none give this as a principal reason for their participation. They run such micro-enterprises because they need the money and, provided they have not been out of work for long, because their desire for a job is strong.

The only other study to explore the balance between involuntary and voluntary entry, or reluctant and willing entrepreneurship, is a study of off-the-books entrepreneurs in England (Williams, 2006; Williams, 2007a; Williams, 2007b; Williams, 2007c; Williams, 2008b). This reveals that few are reluctant entrepreneurs. However, it does not therefore argue that a large proportion of off-the-books entrepreneurs do so out of choice. Instead, a richer and more textured understanding of off-the-books entrepreneurship is produced that replaces such either/or thinking by a both/and approach that depicts not only how the majority are concurrently both reluctant and willing entrepreneurs but also how there is often a temporal fluidity in their motives, usually from reluctance to willingness. Whether this is more widely the case has not so far been evaluated. Below, therefore, a survey will be reported on off-the-books entrepreneurs in Ukraine.

3 Studying off-the-books entrepreneurship in Ukraine

Ukraine, the second largest successor state of the former Soviet Union, is a country where all of the indicators suggest that the off-the-books economy is rife. As the 2004 New Europe Barometer reveals, although two-thirds of people in new EU member states state that most public officials are corrupt, 92% in Ukraine believe this is the case – the highest figure in all 13 East-Central European countries studied (Rose, 2005). The outcome is low ‘tax morality’: few Ukrainians believe in paying tax since they do not trust the state to use it for redistributive or collective purposes. When coupled with the fact that official employment declined by about one-third between 1990 and 1999 (Cherneyshev, 2006) and that 73% of Ukrainians assert that they receive insufficient from their main income to buy what they really need (Rose, 2005), it would be surprising if off-the-books work was not rife and if entrepreneurs did not operate off-the-books.

Indeed, numerous surveys reveal the prevalence of off-the-books work in Ukraine. Using indirect proxy indicators of its size, off-the-books work has been variously estimated to be equivalent to 47.3%–53.7% of GDP using physical input proxies (Schneider and Enste, 2000) and 55%–70% using currency demand (Dzvinka, 2002). Indeed, this is perhaps why the official government statistics for Ukraine identify that the official unemployment rate in 2006 (using the ILO definition) is 7.9% when only 57.1% of the total population aged 15–70 in 2006 were in employment (State Statistics Committee of Ukraine, 2006).

Until now, however, no studies have evaluated the proportion of businesses in Ukraine that start-up trading partially or wholly off-the-books, or the entrepreneurs’ motives for doing so. In late 2005 and early 2006, therefore, 600 face-to-face interviews were conducted. Grounded in the recognition that the extent and character of the off-the-books economy varies markedly across both affluent and deprived populations,
as well as urban and rural areas (Jensen et al., 1995; Renooy, 1990; Williams, 2004; Williams and Windebank, 1998), a maximum variation sampling method was employed to select four contrasting localities. Firstly, and in the capital of Kiev, an affluent area was chosen, namely Perchersk, along with a deprived neighbourhood, namely Vynogardar. Continuing the process of maximum variation sampling, a deprived rural area near Vasilikiv was then chosen, and finally, a town on the Ukrainian/Slovakia border was selected, Užhorod. Within each locality, a spatially stratified sampling methodology was then employed to select households for interview (Kitchen and Tate, 2001). In each of the four localities, 150 households were interviewed (600 in total). In consequence, if there were 3000 households in the area and 150 interviews were sought, then the researcher called at every 20th household. If there was no response and/or the interviewer was refused an interview, then the 21st household was visited, then the 19th, 22nd, 18th and so on. This provided a spatially stratified sample of each area.

To gather data, a relatively structured face-to-face interview schedule was designed. Firstly, background information was gathered on the households in terms of the age, gender, employment status and work history of household members as well as the gross household income, including whether any household member had started-up a business venture in the past 36 months. Secondly, and adopting a gradual approach to addressing this sensitive topic of participation in off-the-books work, questions were the asked about the type of labour the household last used to complete a range of common domestic tasks followed by questions on whether they had conducted any of these tasks for other households and if so, whether they had been paid or not, and whether they had been paid ‘cash-in-hand’. Third and finally, a range of open-ended questions were then asked on off-the-books work concerning its nature, including for those who had started-up a business venture in the past 36 months, whether their transactions has been wholly or partly conducted on an off-the-books basis and their reasons for operating on an off-the-books basis. Although this interview schedule therefore collected data on a whole array of off-the-books work, such as informal waged employment, the more established self-employed who operate off-the-books as serial users of such practices and people who conducted paid favours on a one-off basis for kin, friends and neighbours and who are not seeking to expand this into some business venture, the focus below is solely upon those who have started-up business ventures in the past 36 months, whether they engage in the off-the-books economy and the motives underpinning their participation in off-the-books entrepreneurship.

Before turning to the findings, a note is required on the validity of this method needs since it might be believed that collecting reliable data on off-the-books work is a difficult, if not impossible, task. Akin to many previous studies (Leonard, 1994; MacDonald, 1994; Pahl, 1984), the finding was that respondents displayed little reticence in openly talking about their off-the-books practices when it is set in the context of their overall livelihood practices. Although such endeavour might be hidden from the state authorities for tax and social security purposes, it was openly discussed by respondents in much the same manner as they discussed their volunteering. Reinforcing this, the total customers reported spending on off-the-books work in each locality approximated to what suppliers of cash-in-hand work reported they received. There is thus little evidence either of suppliers under-reporting such work, or of customers falsely allocating economic activity to off-the-books work when this was not the case. Below, therefore, the results are reported.
Explaining the off-the-books enterprise culture of Ukraine

4 Off-the-books entrepreneurship in Ukraine

Despite the widespread recognition that the off-the-books economy might represent an important seedbed for new enterprise creation, few have evaluated how many new businesses start-up off-the-books, or what motivates off-the-books entrepreneurs to engage in such endeavour. Here, therefore, firstly, the proportion of new enterprises engaged in off-the-books transactions will be evaluated and secondly, the motives of off-the-books entrepreneurs.

4.1 How many entrepreneurs start-up their ventures trading off-the-books?

The 600 face-to-face interviews revealed a high-level of entrepreneurship in Ukraine. Some 331 individuals asserted that they had started-up an enterprise in the past three years. Of these, just 33 (10%) stated that their business ventures were wholly legitimate operations registered with the state, in possession of the required licenses and conducting all of their transactions on a declared basis. The remaining 298 entrepreneurs (90%) stated that the some or all of their transactions were off-the-books; 39% had registered businesses conducting a portion of their trade off-the-books and 51% operated wholly off-the-books. Although this is obviously a very small sample of all entrepreneurs in Ukraine and not nationally representative, the finding that 90% operate off-the-books nevertheless suggests that the off-the-books economy might well be an important seedbed for enterprise creation and development in Ukraine.

Comparing these findings with the only other similar study conducted (Williams, 2006), the finding in England was that of the 91 entrepreneurs interviewed, 23% were wholly legitimate (10% in Ukraine), 57% registered by working partially off-the-books (39% in Ukraine) and 20% not registered and working wholly off-the-books (51% in Ukraine). In consequence, in England most have registered their enterprises with the tax authorities and conduct only a portion of their trade off-the-books. This is not the case in Ukraine where half had not registered their business and were operating totally off-the-books.

Who, therefore, are these off-the-books entrepreneurs? As Table 1 displays, they are not on the whole the unemployed. Most already have formal employment or self-employment and operate their start-up business venture as an ‘on-the-side’ business venture. This reinforces the finding elsewhere that those starting-up enterprises tend to be in waged employment, and often at the outset straddle the legitimate and off-the-books economy as a ‘risk-reduction strategy’ (McCormick, 1998), and only later become fully self-employed and leave their waged employment (Reynolds et al., 2002).

Table 1 Employment status of off-the-books entrepreneurs

<table>
<thead>
<tr>
<th>Entrepreneurs</th>
<th>Employees in employment</th>
<th>Self-employed</th>
<th>Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage (%) of off-the-books entrepreneurs (n = 298)</td>
<td>55</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td>Percentage (%) of wholly off-the-books (n = 169)</td>
<td>55</td>
<td>18</td>
<td>27</td>
</tr>
<tr>
<td>Percentage (%) who work partly off-the-books (n = 129)</td>
<td>55</td>
<td>45</td>
<td>0</td>
</tr>
</tbody>
</table>

Examining the employment status of those operating unregistered wholly off-the-books enterprises compared with those operating legitimate enterprises and conducting a portion of their trade off-the-books, the latter as might be expected are concentrated amongst the self-employed, whilst those working wholly off-the-books are not largely the unemployed as might be assumed but, rather, those in formal waged employment who operate an additional self-employed business ‘on the side’.

Moreover, and as Table 2 reveals, off-the-books entrepreneurs are polarised at the two ends of the income spectrum, concentrated in both the poorest and most affluent households in terms of gross household income. In the lowest quartile of households surveyed in terms of gross household income, one finds clustered 35% of the off-the-books entrepreneurs in Ukraine, whilst in the highest-income quartile, one finds 41% of off-the-books entrepreneurs.

### Table 2  Distribution of off-the-books entrepreneurs: by gross household income

<table>
<thead>
<tr>
<th>Entrepreneurs</th>
<th>Householder by gross income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lowest quartile</td>
</tr>
<tr>
<td>Percentage (%) of sample</td>
<td>25</td>
</tr>
<tr>
<td>Percentage (%) of all entrepreneurs (n = 331)</td>
<td>34</td>
</tr>
<tr>
<td>Percentage (%) of off-the-books entrepreneurs (n = 298)</td>
<td>35</td>
</tr>
<tr>
<td>Percentage (%) of wholly off-the-books (n = 169)</td>
<td>46</td>
</tr>
<tr>
<td>Percentage (%) working partly off-the-books (n = 129)</td>
<td>21</td>
</tr>
</tbody>
</table>

**Source:** Ukraine off-the-books entrepreneurs survey (2005–2006)

Those running registered enterprises but conducting a portion of their trade off-the-books are clustered in the highest-income quartile of households whilst those operating unlicensed wholly off-the-books enterprises are heavily concentrated in the lowest income households.

Those off-the-books entrepreneurs in the highest-income quartile, furthermore, usually had formal jobs or were registered self-employed (98% of them), frequently using their formal occupation to engage in relatively well-paid off-the-books self-employment related to their formal job. Often, this includes professions such as lawyers, doctors and IT specialists. However, it is not just professional people. Often people remain in relatively low-paid formal jobs because of the off-the-books earnings they can make. A Ukrainian cleaner in a meat processing plant, for example, remained in her job because she sold the waste meat products to local retail butchers on a daily basis and this enabled her to triple her formal wage.

Off-the-books entrepreneurs in the lowest-income quartile of households, in contrast, usually have no formal occupation that can be used to engage in off-the-books self-employment. Instead, entrepreneurs in this quartile generally conducted lower-paid endeavour. Examples are a pensioner who supplemented her state pension by selling cigarettes at a train station, an illegal street vendor who sold flowers just outside a market which she grows on her dacha, and a security guard at the block of flats where he himself lives who was paid by the formally employed security guard 10% of his salary to provide 24-hour cover for him.
4.2 Motives of off-the-books entrepreneurs

Why, therefore, do they engage in off-the-books entrepreneurship? Are they all reluctant entrepreneurs as conventional wisdom assumes doing so out of necessity due to the absence of alternative means of livelihood? Or is voluntarism present? Analysing the responses to the initial open-ended question, ‘why did you decide to set up this enterprise?’, the 298 off-the-books entrepreneurs appear to be mostly ‘reluctant entrepreneurs’ (see Table 3). Some 55% initially stated that they did so in order to generate sufficient income to survive and some 34% to increase their income, whilst just 11% cited factors normally associated with ‘willing entrepreneurship’ such as the desire to have one’s own business, to fill a gap in the market or to be independent. Indeed, just 11% explained their entrepreneurship more as a choice.

Table 3 Initial reason given for starting up a business, Ukraine off-the-books entrepreneurs (2005–2006)

<table>
<thead>
<tr>
<th>Motive</th>
<th>Percentage (%) (n = 298)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To generate sufficient income to live/survive</td>
<td>55</td>
</tr>
<tr>
<td>To generate additional income</td>
<td>34</td>
</tr>
<tr>
<td>Desire to have own business</td>
<td>4</td>
</tr>
<tr>
<td>To fill a gap in the market</td>
<td>2</td>
</tr>
<tr>
<td>Independence</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>


Moving beyond the initial question, and considering the response to further probes which involved firstly, repeating the answer with an inflexion (e.g., ‘to earn sufficient money?’) and secondly asking ‘any other reasons?’, it becomes apparent that delineating these off-the-books entrepreneurs as either reluctant or willing obfuscates more than it clarifies. The complex ways in which these off-the-books entrepreneurs explained their rationales cannot be easily squeezed into one side or the other of this reluctant/willing dichotomy. As Table 4 reveals, when their fuller explanations are analysed, the majority of respondents (80%) explain their decision to start up a business venture using a mixture of both push and pull motives.

Table 4 Fuller motives of Ukrainian off-the-books entrepreneurs (2005–2006)

<table>
<thead>
<tr>
<th>Motive</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solely necessity entrepreneurship</td>
<td>13</td>
</tr>
<tr>
<td>Mostly necessity but also opportunity entrepreneurship</td>
<td>56</td>
</tr>
<tr>
<td>Mostly opportunity but also necessity entrepreneurship</td>
<td>24</td>
</tr>
<tr>
<td>Solely opportunity entrepreneurship</td>
<td>7</td>
</tr>
</tbody>
</table>

Nor do their motives remain the same over time. Just because somebody starts out as a reluctant entrepreneur does not mean that they remain reluctant entrepreneurs. In response to a question about whether and, if so how, their reasons for engaging in entrepreneurial endeavour had changed, a clear pattern can be identified. As Table 5 displays, of the 57% who stated that their reasons altered the vast majority (82%) asserted that it was away from necessity and towards choice. Indeed, of those who started out as reluctant entrepreneurs, two-thirds became more willing entrepreneurs over time. This is important. For those asserting that willing entrepreneurs are more likely to make a positive contribution to economic development than necessity-driven reluctant entrepreneurs (e.g., Harding et al., 2006; Minniti et al., 2006; Reynolds et al., 2002), it shows that reluctant entrepreneurs are a seedbed out of which willing entrepreneurs emerge, meaning that it would be erroneous to write-off those starting-up as reluctant entrepreneurs from being potential future catalysts of economic development.

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

<table>
<thead>
<tr>
<th>Motives</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motives unchanged</td>
<td>43</td>
</tr>
<tr>
<td>From necessity-orientated to opportunity-orientated</td>
<td>47</td>
</tr>
<tr>
<td>From opportunity-orientated to necessity-orientated</td>
<td>10</td>
</tr>
</tbody>
</table>


5 Conclusions

This paper has reported the results of one of the first known surveys to identify the proportion of businesses that start-up in the off-the-books economy and to explore why they do so. Of those surveyed in Ukraine during 2005–2006 who had started up business ventures in the past three years, just 10% operated wholly legitimate enterprises, 39% had a license to trade as self-employed and/or had registered their businesses but were conducting a portion of their trade off-the-books while the remaining 51% operated wholly unregistered off-the-books enterprises. In consequence, this paper clearly displays how the off-the-books economy is a principal seedbed for enterprise creation in Ukraine.

In much of the recent literature on entrepreneurs’ motives, a distinction has been drawn between ‘reluctant’ entrepreneurs pushed into entrepreneurship because all other options for work are absent or unsatisfactory, and ‘willing’ entrepreneurs more pulled into entrepreneurship out of choice (Harding et al., 2006; Maritz, 2004; Minniti et al., 2006; Perunović, 2005). Evaluating critically this distinction in relation to off-the-books entrepreneurs in Ukraine, this paper reveals that squeezing entrepreneurs into one side or the other of this either/or dichotomy over-simplifies the complex motives of off-the-books entrepreneurs and obfuscates the dynamics involved. This reluctant/willing bifurcation is not only too simplistic to explain entrepreneurs’ motives since both factors are commonly involved but there is often a shift over time in their motives.

This has important policy implications especially so far as the off-the-books economy is concerned. Until now, there has been an assumption that off-the-books entrepreneurs are largely reluctant entrepreneurs and that a deterrence approach can be adopted towards them. This paper reveals, however, that if governments adopt such an approach towards
off-the-books work, then they may well find that they will with one arm deter precisely
the entrepreneurship and enterprise that with another arm through their enterprise culture
policies they are seeking to nurture. Whether off-the-books entrepreneurs should be
harnessed, as mentioned earlier however, by pursuing a neo-liberal approach based
on regulatory simplification and tax reductions (e.g., Novoseletska, 2000; Mission of
Ukraine to European Communities, 2005) so as to de-regulate the formal economy, a
social democratic approach that seeks to pull this hidden enterprise culture into the
formal economy by using a combination of deterrents and incentives to encourage
off-the-books entrepreneurs to legitimise their operations, or some new combined
approach, is beyond the scope of this paper. What is certain, nevertheless, is that
promoting entrepreneurship and enterprise culture, and tackling the off-the-books
economy, can no longer be treated as separate policy realms.

Whether it is also the case in other countries and global regions that business ventures
often start-up off-the-books, and the degree to which this is the case, now needs to
be investigated. This study of Ukraine pinpoints a potentially important facet of
entrepreneurship and enterprise culture that has been so far subject to little empirical
investigation. It is perhaps time therefore that further research was conducted to evaluate
the proportion of business start-ups in other countries and global regions that are wholly
legitimate ventures, the share that are registered enterprises conducting a portion of
their trade off-the-books and the percentage that are wholly unregistered enterprises
conducting all of their trade off-the-books. If this paper stimulates such research to be
conducted and encourages greater consideration of how to join-up public policy on
entrepreneurship and the off-the-books economy, then it will have achieved its objective.

Acknowledgements

The empirical data reported in this paper arose out of a project entitled ‘Surviving
post-socialism: evaluating the role of the informal sector in Ukraine’, funded by the
Economic and Social Research Council (RES000220985).

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