

# 1. Introduction

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Little is known about innovative and successful enterprises in countries that until 1990 belonged to the Soviet Union. Most previous research has focused extensively on the barriers to entrepreneurship and innovation that exist in these countries, some of which undoubtedly represent a hostile and harsh environment for any entrepreneurial activity. In this book, we offer a different perspective, shifting the focus to the innovative potential that these environments provide, demonstrating how entrepreneurs have been able to convert possibilities arising even in hostile business environments into successful businesses. Through this collection of in-depth case studies, we illustrate how successful and innovative businesses have been able to develop in six of these countries. The idea for such a book emerged from our research in Central and Eastern Europe and our interests in how enterprises developed during the transition period. Both editors have come across fascinating stories that show the enormous adaptability of entrepreneurs in these countries and that are not reflected in statistical research. We hope that in sharing some of these stories with a wider audience this collection will contribute to deepening our understanding of what constitutes entrepreneurship and innovation in countries that are neighbours to the enlarged Europe.

Each case study highlights specific aspects of the interplay between the institutional setting, the environment and the individual characteristics of the entrepreneur which created an 'enabling context' for innovative behaviour to develop and grow, drawing attention to the opportunities and constraints offered in each environment. Additionally, each case study presents an overview of the country's key economic indicators and the broader role of small and medium-sized enterprises (SMEs) in the economy.

Below we briefly introduce the case studies contained in this book. This is followed by a summary discussion comparing the main themes raised in the individual case studies.

## SUMMARY OF THE CASE STUDIES

In Chapter 2, Alexander I. Naumov, Irina A. Petrovskaya and Sheila M. Puffer explore the emergence of Biocad, an innovative biotechnology company in Russia founded and headed by a forward-thinking and risk-taking banker, Dmitrii Morozov. Biocad is a leading Russian biotech company, developing, producing and distributing generic pharmaceuticals and new medicines. It began as a distributor of popular generic drugs for the Russian market, later moving into the development of new medications. The company is a success story in the field of academic and scientific entrepreneurship, as it demonstrates how scientific research can be transferred from the ivory tower and applied to the commercialization of products in the competitive marketplace.

Biocad was initiated in September 1999 as an investment project of the Tsentrocredit Bank. Dmitrii Morozov, then vice president of the bank, created an investment fund for a biotechnology company which would be the first brand-new enterprise producing genetically engineered products in Russia since the breakup of the Soviet Union in 1991. The privatization of the economy in 2001 provided Dmitrii with the additional opportunity of acquiring a leading state-owned biological research institute at a very modest price. Staffed by a pool of talented scientists, the institute was an established resource base that had the potential to be transformed into a private company commercializing new drug discoveries. All this contributed to Biocad's development in a challenging business environment and its ability to overcome the difficulties connected with the transition period.

In Chapter 3, David Smallbone, Anton Slonimski and Anna Pobel discuss the case of a new technology-based enterprise in Belarus. Sinta has been operating for 14 years in what might be reckoned as one of the harshest business environments in the world. In terms of success, the enterprise is solvent, it has not been subsidized by government loans or grants, and nor is it currently indebted to its employees (through unpaid wages), which is a common feature of small business development in transition conditions. It is a privately owned innovation-based enterprise, albeit one that has yet to achieve sustained commercial success. Sinta was founded by a group of scientists who had been engaged in research activities related to the defence industry during the Soviet period.

Like Biocad, Sinta is a good example of scientific entrepreneurship. One outcome of the scientists' research into high explosives was the discovery of a new superhard material produced when explosives are detonated. These ultra-dispersed diamonds subsequently became known as nano-diamonds. The results of this research encouraged the company to undertake pilot

production of nano-diamonds and to develop the appropriate industrial technology. Overall, the picture that emerges is that of an innovative, knowledge-based company, with a series of new product applications being identified and developed over time.

For Kazakhstan (Chapter 4), Gül Berna Özcan focuses on the Independent Businessmen's Group (IBG), a consultancy firm that took advantage of the demand for business services and day-to-day problem solving. The IBG case shows how energetic and imaginative entrepreneurship can turn business consultancy and lobbying into a successful venture by forging relational politics into a business for enterprise protection in Kazakhstan. This case study also illustrates that a new diversification of power structures and business consolidation is taking place, with long-term consequences for the former hierarchical and vertical structures of the Soviet economy and society. As the author demonstrates, entrepreneurs widen their opportunities in relation, not in opposition to, the ruling elite in the market; and the prevailing business norm is to accommodate the dominant powers that control economic resources as well as political incentives and tools. The IBG built on this assumption, forging political and patrimonial alliances through the vertical and horizontal relations that its founder enjoyed as a close ally of the ruling elite as well as an old comrade of the president of Kazakhstan.

Chapter 5 is devoted to the case of an individual entrepreneur, Aigula, who opened a small private guesthouse in the south of Kyrgyzstan. She chose to operate in a field where she did not have any prior expertise, but she recognized the future potential of tourism. She established her business by applying to a small privatization scheme and gaining ownership of a former store. As the author of the case study, Gül Berna Özcan, points out, this example shows the way in which different forms of innovative entrepreneurship can emerge even when there is no obvious market for the goods and services provided. Aigula dealt with uncertainty by making use of her existing social networks. However, building a business in a post-Soviet state also meant coping with market distortions often linked to favouritism and unequal access to resources. In this respect, the case study also illustrates how the social status obtained in the Soviet system affected post-Soviet business survival and success through the use of exchange and patronage networks.

In Chapter 6, Elena Aculai, Natalia Vinogradova and Friederike Welter discuss the case of Knitwear Factory, a successful small company in Moldova, one of the poorest countries of the former Soviet Union. The enterprise was registered in 1994 by a husband and wife team. The owners both lost their jobs at a state factory, which forced them to look for income-generating possibilities in order to feed themselves and their three children.

This type of 'push motive' was common in the transition period in Moldova. However, the couple also showed initiative and entrepreneurial drive in choosing to open their own firm rather than trying to find new jobs in a privately-owned company.

Since it was started in 1994, Knitwear Factory has constantly been developing; sales and profits have been growing; the equipment has been updated and new jobs have been created. However, business development very much depends on available resources. Business growth is restricted by the unfavourable environment in Moldova, not by the willingness of the entrepreneur. Almost every enterprise in Moldova is involved to some degree in the shadow economy, often as a result of 'coping strategies' to deal with corrupt state structures. However, in the long run, the widespread tolerance of shadow and illegal operations may have a serious negative effect on Moldova's economic development as the ethical consequences of this kind of behaviour are felt.

Finally, Nina Isakova reports on a Ukrainian case in Chapter 7. New Substances is a technology-based small enterprise established in 1997. Now operating on a global scale, New Substances has become a well-known Ukrainian producer and exporter of organic compounds for high-performance bio-screening. Yet the Ukrainian business environment continues to pose major challenges for the firm: the registration procedure is complicated, time-consuming and expensive, there are no domestic investors to be found, and no leasing facilities are available so that major equipment has to be imported. The Ukrainian business environment is not conducive to innovative entrepreneurship development because of an underdeveloped business support infrastructure characterized by high taxes, administrative hindrances and related costs, regulatory interference, a high level of corruption and limited external finance. Despite this, however, the company has been successful. The owner attributes the success of his business to three factors: the type of innovation undertaken, the particular business sector selected and his previous work experience as a scientist. This case strongly reinforces the idea that companies emerge and develop in a hostile environment primarily as a result of individual initiative.

## **BEING INNOVATIVE IN A POST-SOVIET CONTEXT: SOME ISSUES EMERGING FROM THE CASES**

Taken together, the stories of the entrepreneurs featured in the case studies provide insights into a number of typical features that characterize entrepreneurship in transition economies as well as illustrating some of the

differences between countries. All cases illustrate both the myriad of obstacles facing entrepreneurs in post-Soviet countries and the opportunities that are there to be seized by those who have the knowledge, financial resources, and political and professional connections, as well as the determination and motivation required to realize their objectives in such a challenging environment. Indeed, entrepreneurial activities are often undertaken despite government interference and an adverse business environment. Frequently business opportunities arose out of the transition process itself, as becomes obvious in the cases of Biocad (Russia) and Sinta (Belarus). In essence, one of the characteristics that many of the entrepreneurs discussed in this book share is an ability to persevere in a turbulent environment under adverse conditions.

Given the newness of the private enterprise sector in these countries, it is not surprising that most of the enterprises were started 'from scratch'; indeed this is a common occurrence in transition countries. The privatization trend might also be seen as indicator for the entrepreneurial drive that individuals in these countries showed once such entrepreneurship was allowed. Privatization played a role in some of the technology-based companies, for example, Biocad (Russia), or more indirectly where scientists used their research results where they perceived a business opportunity. This reflects not only entrepreneurial drive, but also an environment where employment opportunities for highly qualified persons are lacking. In particular this explains the emergence of scientific entrepreneurs. In the early 1990s, the most active researchers set up their own businesses as a means to provide much-needed income since, although they were officially 'employed', in reality they received no salary or a salary that was insufficient for survival (that is, they represented the so-called 'hidden unemployed'). In many cases creating a new venture was the only way to preserve scientific expertise and knowledge. Successful innovative companies thus played a role in the implementation of research results as well as the formation of the nascent small business sector.

The challenges overcome by the entrepreneurs in the transition countries depicted in this book also demonstrate the way in which in spite of the obstacles it is possible to be successful in a turbulent and often hostile environment. One such 'turbulence' is caused by weak institutions that allow corruption, informal networks and bribery to influence private business development. It is here that networking takes on particular importance as demonstrated in most of the case studies. Having contacts, knowing someone, or being an 'old' comrade helps in overcoming obstacles in the environment, in accessing resources and in exploiting opportunities. However, in an environment where property rights are not fully secured, legal and institutional structures are weak and enforcement is arbitrary,

social networks retained from the Soviet period often offer the most reliable and efficient ways of dealing with pervasive uncertainty and the day-to-day business problems encountered by entrepreneurs. Indeed, in turbulent environments, such networks provide a degree of stability and opportunities which provide the conditions necessary for private businesses to develop.

Thus the transition environment simultaneously posed significant challenges to business development and provided tremendous opportunities. It also provided additional benefits that have aided the successful development of the companies highlighted here. All the case studies mention the important and positive role played in their business development by human capital in the form of education inherited from the former centrally-planned system. As in many new technology-based firms, the knowledge base underpinning the unique selling point of such companies resides in the founders and employees. Biocad (Russia), New Substances (Ukraine) and Sinta (Belarus) all represent situations in which founders and/or employees brought in broad scientific knowledge and qualifications obtained prior to the start-up of the new private firm.

While Biocad, Sinta and New Substances are examples of innovative enterprises in a narrow understanding of the concept – new sector or product development, also characteristic of mature Western economies – the case studies taken more broadly highlight the various forms of innovation that have taken place in transition countries as well as the innovative behaviour of entrepreneurs in dealing with the constraints of the business environment. Most commonly, innovation in transition countries occurs through the introduction of a product familiar to Western economies but new to the ‘developing’ domestic market (such as Aigula’s guesthouse in Kyrgyzstan). Here, innovation takes place by ‘creating something new’; through taking ‘the risk’ of introducing a completely new product or service into a turbulent, ever-changing environment. In many cases, these entrepreneurs had to be forward-looking risk-takers in terms of the demand that would develop for their products.

‘Learning by doing’ can be seen as a form of innovation especially relevant to the turbulent environments that characterize early transition. In all of our cases, previously neglected areas of products and or services (however familiar in mature economies) were introduced into the domestic economy for profit. There are additional dimensions to entrepreneurial risk in starting a new business in a transition economy: macroeconomic instability and the uncertainty of demand are coupled with an ever-changing regulatory environment. Moreover, successful innovation in transition countries can have less to do with technological and product development than with the ability of individuals to deal with uncertainty in the business environment by developing a successful survival strategy. One might question, therefore, whether

the factors contributing to the relative success of businesses such as Knitwear Factory in Moldova or Aigula's guesthouse in Kyrgyzstan will also result in their long-term business development. It may be the case that many of the strategies and factors which have positively influenced business growth so far may in fact have a transient, transition-specific component, which works well in a hostile and adverse environment, but restricts sustainable business growth once the business environment has matured. In these cases, it will be the entrepreneurs' ability to reorient their business strategies to adapt to a more stable environment that will become paramount, as can perhaps already be detected in the cases from the Ukraine and Russia.

To conclude, the cases in this book illustrate the diversity of innovation and entrepreneurial behaviour in environments where entrepreneurship was severely restricted during Soviet rule and which have taken different developmental paths since transition. In this, the case studies also demonstrate a need – both for researchers and policy-makers – to take into account the specifics of not only the country environment, but also the transition process and its impact on entrepreneurship development and innovation. This is crucial if entrepreneurship is to be analysed 'correctly' and support measures are to be targeted in such a way that these innovative firms can contribute to further economic growth and the development of a healthy market-oriented system.