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# **ENTREPRENEURSHIP IN A POST-SOCIALIST COUNTRY: A CONTROVERSIAL INFLUENCE ON LIFE-QUALITY**

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## **ABSTRACT**

Despite the dramatic changes in the whole post-socialist world, there are also certain obstacles in their way towards the free market. There existed only a few non-public enterprises such as those involved in the cultivation and selling of flowers. That certainly affected the mentality and life style of the people. Private entrepreneurial activity is an entirely new phenomena for these countries. The purpose of this paper is to analyse the role of entrepreneurship in the economic development of these countries and its effect on quality of life.

## **KEYWORDS:**

ENTREPRENEURSHIP, QUALITY OF LIFE, LITHUANIA

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The last decade witnessed dramatic changes in the whole post-socialist world. The old communist system in Central and Eastern Europe was destroyed and the formation of a free market mechanism was started within a few years after that. Despite the fact that Central and Eastern European countries were on different levels of socio-economic development, they had many things in common, including their problems. However, the countries of the former USSR continually encountered higher obstacles on their way towards the formation of a free market. This also applies to Lithuania, Latvia and Estonia. Unlike in East Germany, Poland, Hungary and former Yugoslavia, private property and entrepreneurship did not exist in these countries during the Soviet period. There existed only a few non-public enterprises, such as those involved in cultivating and selling flowers, etc. That certainly affected the mentality and life style of people.

Private, entrepreneurial activity is an entirely new phenomena for these countries. The possibilities for research in this area are very wide. The world literature offers a great number of studies on entrepreneurial practices. However, the implementation of these practices in various countries has its own peculiarities. The entrepreneurial activity is closely related to the conditions, culture, and values of a specific country, therefore the experience of the developed countries cannot be applied directly.

The role of entrepreneurship in the economic development of a country involves much more than just increasing per capita output and income. It initiates and stimulates the changes in business and society.

If, from an economic perspective, an entrepreneur is a person who carries out new combinations of resources, labor, and capital in order to get new greater value, and also one who introduces innovations into the process, then from a psychological point of view, he or she has a particular kind of personality. He/she is driven by such forces as need for independence, need for achievement and risk taking. An interesting concept to consider is the question of what happens when the entrepreneur's actions are dominated by economists. What matters here, is the net effect upon the general economic system of the actions of the entrepreneur, and the role he or she plays in the development of the market system (Stevenson and Jarillo, 1990). Schumpeter considers entrepreneurship the process by which the economy as a whole goes forward. It is connected with innovation, with something that disrupts market equilibrium. And after Schumpeter's work most economists and scientists in the field of management have accepted his identification of entrepreneurship with innovation and a new combination of resources. But it makes sense to look at the phenomenon of entrepreneurship from a broader perspective: instead of disrupting the market equilibrium, thus advancing the economy to qualitatively higher levels, the entrepreneur works towards the accomplishment in real life of the equilibrium.

One of the main functions of the entrepreneur is his/her destruction of pockets of inefficiency in the economical system. At the same time it influences all other systems in society, life-quality of people and all kinds of environment - physical, social, cultural and so on. It is important for well developed countries, but for developing countries which are in the process of transition. It becomes one of the most important factors and pre-conditions for improving all spheres of life.

Business environment, culture, standards of living and many other aspects are different in each country. But there are many similarities in all post-socialist countries. One of the most important factors is the lack of education among the people in most of these countries. Changes in this field require not only time, but it also creates big psychological and social problems in these societies. Entrepreneurs and entrepreneurship are one of the most important and powerful forces in this process. But in the first stages of their development, people are constantly being evaluated from the side of society. The negative attitude of some members of society could be easily explained: not all social groups welcome these changes. Other people are afraid of changes which are unknown to them. But much more dangerous in this aspect is discreditation of entrepreneurship by entrepreneurs themselves. It sounds strange but it is a very common phenomenon in post-socialist countries. It is important to discuss this problem deeper.

To correctly understand the economical and social transition that people of countries like Lithuania face, the historic approach is valuable.

The beginning of entrepreneurial practice was noticed in 1988, when after the beginning of Gorbachev's "perestroika", a new progressive movement "Sūjūdis" was established in Lithuania. It involved a large number of famous Lithuanian people: politicians, historians, writers, musicians, etc. In two years most of them were elected into the new Parliament. It was the first democratic elections in Lithuania. In March, 1990 the Parliament declared Independence. This date is considered the beginning of the new era in Lithuania.

Indeed, many changes have been happening in the country's social and economic life since spring 1990. From an economic, it was then that private property rights and legitimacy of private business were re-established. Although some forms of entrepreneurial activity could have been in Lithuania before 1990 (so-called co-operatives were legitimized in 1988, along with economic liberalization, introduced by Gorbachev), real development of the private sector started after the regaining of its independence. The important role in this process was played by privatization and restitution of the property rights. Privatization was carried out in

most sectors of the economy, in the beginning - by means of so-called investment checks or vouchers. Each citizen of Lithuania was issued with a number of these vouchers, according to his or her age. They could use them for buying shares of enterprises being privatized, or for buying land and real estate. However, the major share of the former state-owned enterprises was acquired not only by these small investors, but also for those rich people who accumulated capital in co-operative business, mainly selling goods in the Russian and other ex-Soviet markets. In the process of privatization they had an opportunity to increase their capital by some hundreds or even thousands percent age points. Because of insufficient legislation it was possible to buy State property, sometimes paying only 10-20% of their real price for it. The biggest part of the capital used in privatization, was accumulated without paying any taxes. Most people who worked in state owned companies were left outside this process. It would not have been a big problem, especially from an economical point of view but now one can see that the biggest part of formerly owned state property usually belongs to people who are not educated on how to conduct business in a quite different situation from what they had become accustomed to.

At the beginning of the formation of market economy and new economic structure, there existed many possibilities for investment into various areas of the economy. In addition, business environment at that time was not very demanding to the professional qualifications of managers and entrepreneurs (R.Jucevičius, 1995). This phenomena can be explained by the situation in the market at that time. After many years of economic stagnation and unsatisfied consumer demand, accompanied by long queues and constant shortages, consumers were offered new goods and services by the private sector. The potential market for this sector at that time was very large, and not only in Lithuania, but also in the countries of the former Soviet Union. The political circumstances were quite favorable for trade with former Soviet Republics. The links with Russia and other regions in the East were still tight, and Lithuanian companies did not experience any significant difficulties in doing business in these countries. Moreover, they could compete successfully enough with their much lower than Western prices and satisfactory quality of goods.

The newly emerging market was ready to absorb any goods that satisfied two main conditions: they had to be cheap and of good enough quality. Although we should note that quality was not the key issue at that time. After a long period of state monopoly in all areas of production and services, Lithuanian consumers were willing to prefer goods and services supplied by the private sector. They acted according to the simple economic principle that "private companies are motivated by profit therefore they must produce high quality products". However, this principle did not apply to the first activities of newly established businesses, which made good use of the situation where it was possible to sell almost everything at almost any price because of the high demand.

The overall economic situation at that time was quite favorable for the development of small business enterprises. Most of them were involved in reselling consumer goods purchased in other countries of Western and Eastern Europe. Particularly close links related Lithuanian tradesmen with Poland. Because of the short distance, comparatively low travel expenses and modest custom tariffs, making business with goods imported from Poland was quite profitable. It did not require particularly high investments and any professional skills except some toughness and intuition. Those few private companies which were involved in production activities were also operating in a favorable environment. The Eastern and local markets provided them with cheap raw materials and labor force (the perspective of growing unemployment was obvious). In addition, small business enterprises involved in production were eligible to certain tax concessions. Taking into account comparatively low requirements to the quality of goods, it is not surprising that most of these businesses made good profits at that time. Service providing companies were also doing well; customers, who were tired of

negligence and low quality of service in the state owned enterprises, willingly shifted to the private sector with hopes of finding better services and different attitudes.

Now the situation changes radically. Faced with an open market, many of these new entrepreneurs and the former top-level managers of the state enterprises, who became the new owners of the large companies, shops, restaurants, hotels, realized that the experience they acquired working for the state or doing business in Russia, was not enough for survival and development in the new situation.

However, along with changes in an economic situation and with the development of new links to the international market, most of the new Lithuanian entrepreneurs were faced with different operating conditions and were forced to review their strategies and their role in society. The major problem they face is the small market which became limited to the local scope after Russia introduced an unfavorable economic policy towards Lithuania. The companies doing business with Russia and other former Soviet Republics very often have problems with receiving payment for the goods and services provided and with high import tariffs in these countries. In the local market it is no longer easy to make high profits by offering goods and services of the quality that cannot compete with that of the Western substitutes, since a number of foreign competitors have entered the market. The only advantage could be the prices but they reached the world level due to some political and economic factors, primarily the increase in prices of raw materials and distortion of economic relations with Russia. In addition, the purchasing power of consumers in the domestic market dropped considerably, along with a significant decrease in income and growing unemployment.

It should be mentioned here that recently, trade business with the former Soviet Union and Western countries was still relatively profitable. At the same time, for production companies it was difficult to compete in the market with a given quality and efficiency level. Therefore the owners of privatized companies chose the easiest way by investing production profits into trade or service businesses instead of developing its production technology. As a consequence, many employees were fired and some plants were closed down. It could not have a positive influence on attitudes against entrepreneurship.

The other reasons for the unfavorable view of entrepreneurship by ordinary members of the society are increasing differentiation and flaws of business ethics. The result of the differentiation is an increasing number of poor people and the formation of the new rich class which constitutes only a small proportion of the population. There is no considerable middle class, which would be the main consumer and supporter of entrepreneurship, as in other countries of the Western world. In addition, a number of new Lithuanian businessmen were involved in criminal activities. That is also an important factor influencing negative views of society on entrepreneurship.

A number of commercial banks appeared in Lithuania at that time. They offered high interest rates on deposits and attracted many small private investors who were not aware of the basic economic principle - high interest rate implies high risk. Thus it is not surprising, that most of these banks went bankrupt depriving their investors of their last personal savings. That was one of the key factors in the formation of the negative attitude towards business and entrepreneurship in society.

Entrepreneurs and entrepreneurship have become a crucial factor in the improvement of life-quality and wealth of society. They are the real job creators. All these business leaders can be classified into five groups:

- "Old-Timers"
- "Whales"

- "Young Sharks"
- "Challengers"
- "Small Fish"

The "**Old-Timers**" are mostly elderly people who occupied important positions in the former Soviet hierarchy, political and economic. They are losing their positions in business and society because their knowledge and style of behavior do not correspond to the new reality. A part of former directors and specialists of state organizations could be devoted to the same group. Even if these people participated in privatization of state property, in most cases they do not play an important role in companies or in independent business.

"**Whales**" is perhaps the most important and powerful group in the economy of post-socialist countries. Most "Whales" consist of people aged 45-55, usually former directors of successful companies, sometimes leaders of different levels of the Communist party. Because of very tight personal relations with each other they created extremely favorable conditions for privatization of the state property which was under their control. In many cases, they became the owners of these companies and other property, established banks and now they are the most respectable businessmen. They do not need re-education because most of them were trained by foreign and local consultants in different seminars. Representatives of this group understand the importance of development of their work-force better than others because they are concentrated in strategic businesses. They are rich and feel themselves safe from competition with some qualified employees.

"**Young Sharks**" are the new, successful, dynamic entrepreneurs. In most cases they are younger than "whales" but not necessarily less rich. The biggest part of them left the state sector to create their own business. A small percentage of 'young sharks' did not have a business practice before establishing their business. They used extremely aggressive strategy in privatization. The typical way to create property for them was the establishment of the cooperative and private companies. Furthermore they encouraged the investing of cash into privatization of state property.

The main businesses of "young sharks" are trade and service thereby less production. They represent very different people - former sportsmen, engineers, scientists. Their education is very different but all of them pay attention to the development of their personal competence, and thus participate in seminars. At the same time, they do not care much for business ethics. They ignore the human side of their employees, considering that good salaries are the most important. Such categories like mission, culture or philosophy of organization usually mean nothing to them. On the other hand, now, when conditions for business are radically changing, they started paying far more attention to quality of service which requires development of personnel. But in fact it does not have much in common with Human Resource development. Efforts are concentrated on staffing better prepared employees.

"**Challengers**". There is a rather a large chunk of the entrepreneurial segment who started their business during the last 5-6 years and have developed a comparatively successful small or medium sized company. Most of them came from state organizations. Very often they established their private companies in the same industry where the state owned ones were operating. They not only tried to use opportunities to accumulate capital in trade but also invested in production, service or new strategies for Lithuanian market businesses. They use higher ethical standards, are more sensitive to their employees, and try to develop their skills. But very often they have problems with employing highly competent employees because it is difficult for them to compete in this aspect with the "whales" and "young sharks".

"**Small Fish**". This class consists of two very different types of people - small entrepreneurs

and managers of privatized companies. Their influence on the business society is similar but style of behavior is very different. Most of such small entrepreneurs do not have a good understanding of the future of their business. They try to use every small opportunity to make money and easily go from one business to another. In the development of their own competence they are exceptionally concerned with the practical issues of training. "Learning by doing" is considered one of the best ways for the development of practical skills.

According to statistical data, 116507 enterprises were registered in Lithuania in 1995. Individual enterprises (or sole proprietorships) made up 68% of all businesses. Twenty one percent of businesses were joint stock companies, 20% of which had a status of small business enterprise. The number of small companies is constantly increasing - 20,000 new small businesses are registered in Lithuania every year. Changes in the business environment and in the market itself forced dynamic private companies to change their attitudes towards the quality of their goods, customer service and qualification requirements. At present, one can notice the signs of the new business culture coming to Lithuania. Most of the firms increased their demands for qualification of people being recruited. The successful companies employ efficient marketing strategies and pay much attention to customer service. Most of them use the help of external experts, consultants and lawyers. Business infrastructure now creates more favorable conditions for small and medium-sized companies in Lithuania. Dynamic private enterprises that have good long-term development strategies, have possibilities of getting credits on favorable terms from the World Bank, PHARE Program, USA Baltic Foundation, etc. In co-operation with PHARE, Lithuanian Investment Agency and Agency for Development of Small and Medium Sized Companies were established. The number of foreign companies, joint ventures and franchised companies is increasing rapidly. It not only changes the business environment but it also stimulates the development of new business culture and serves as a good example of how the quality of life can be improved.

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