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Peculiarities of emerging rural entrepreneurship in a post-socialist economy

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Abstract

We take a qualitative snapshot of rural entrepreneurs in Bulgaria aiming to shed light opportunities and barriers they face in post-communist rural communities. Utilising ethnographical methodology, we capture the complex interplay with the institutional environment. Rural entrepreneurship may be seen as one anchor to address the uneven distribution of economic activity across territorial space, one of the complex rural livelihood pathways. We find that the rural business climate is dominated by distrust in formal institutions: a culture of informality is accompanied by widely-accepted corruption.

Keywords: rural Bulgaria, entrepreneurial intentions, on-farm diversification, transition, inefficient institutions

Rural entrepreneurship and transition: a brief introduction

Rural entrepreneurship in the former socialist countries has been shaped by factors different from those in the western developed economies. More than four decades of central planning changed the working habits and the culture of whole generations in Eastern Europe.

During communist times, the economic make-up of rural areas was mainly a combination of agriculture with big non-farm state-owned enterprises. However, after 1990 the rural state-owned enterprises collapsed due to the disappearance of markets with other socialist countries. Rural people were left alone, the state was in political, institutional and economic crisis and no social policy could buffer the shock – individuals had to adapt, to learn on the go, to take risks and to make choices about their livelihoods. For a large number of rural people, small-scale or subsistence agriculture was the last resort after being laid-off, and many were unable to find alternative non-farm employment thus remaining in the farming sector (Möllers, Buchenrieder and Csaki, 2011). Others left the rural areas and almost 25 years after the beginning of transition, out-migration has left scars on the face of the Eastern European rural areas; an aging population and comparatively low education are just two of the issues (European Commission, 2012).

Rural entrepreneurship nowadays is one important facet of the diverse and complex rural livelihood strategies, because in this harsh economic environment any viable economic activity is badly needed. In this study we ask: Who are these rural transitional entrepreneurs? What drives them to found new businesses? What are the problems they face? How do they perceive the state and its institutions? The study might help to fine-tune their research on rural entrepreneurship accordingly by paying more attention to the institutional specifics of transition.

Data and methodological approach

In a recent essay, Aldrich (2012) noted a tendency in entrepreneurship research for concentrating on aspects which can be quantified. Jayawarna et al. (2013) share similar concerns and advocate for more qualitative work on revealing the motivational drivers of entrepreneurs, especially considering the fact that motivation may change over time. They

show that motivation may develop in the career, household and business life courses. It is important that a holistic perspective goes beyond the entrepreneurial decision itself and considers how it is embedded in a rich social, environmental, economic, political and cultural context (Kalantaridis and Bika, 2006, Korf and Oughton, 2006): rural entrepreneurship cuts across all these domains (Jack and Anderson, 2002), and the local context is needed to explain rural entrepreneurship In our view, a livelihood perspective applied with ethnographical methods achieves just that – it helps to enter the perceived reality of the individual rural decision-makers.

The data presented here were collected in 2009 in the native language complementing a bigger quantitative survey.[1] Forty qualitative cases, more precisely verbal narratives from farmers, were obtained through semi-structured interviews. Although not representative, these data give a good idea of the diversity of rural entrepreneurial strategies in rural Bulgaria. Existing theoretical literature on entrepreneurship was used to determine which aspects to cover. But we also pursued some new lines, suggested as important by the respondents themselves. This method belongs to the traditional toolbox of entrepreneurship researchers (Neergaard and Ulhøi, 2007). The recorded life stories of the rural entrepreneurs document their attempts to make sense of the past. The literature has already recognized that the assumptions of pure rationality and perfectly informed economic agents are reasons for the low predictive validity of many statistical models (Cassar, 2010, Cooper, Folta and Woo, 1995, Dequech, 2006). We therefore follow the call of Arenius and Minniti (2005) for more consideration of the perceptual aspects in economic models.

Although we believe that our cases reflect certain features that are typical for the transitional world, generalisations should not be made without caution. Internal realities may differ even between our target group, farmers, and other rural inhabitants. Furthermore, although the ethnographical approach delivers a very fine-grained and rich picture of the real world situation, it is *per se* idiosyncratic. We advocate a combined application of qualitative and quantitative methods and see our own qualitative study as a first step in this direction.

Recognized peculiarities of emerging rural entrepreneurship

One of the facts that strike one as researcher is the **educational mismatch,** common for the transitional generations. It puts the middle-aged and the elderly in the position of "beginners". Only rarely can they use the training they have. Instead, necessity pushes them to take any employment. The younger generation (aged 25 plus) does not appear to have recognised any adequate promising local sector, which could provide them with the possibilities for professional development. In the long term, this might fuel further rural poverty and/or out-migration. In the short term, this condemns many rural people of an active age to **job hopping**. The lack of long-term perspective also diminishes the motivation of employers to invest in the human capital of their employees. If the relationship between worker and employer is short term, then there is little incentive for the employer to invest in loyalty, trust and social benefits. **Informality** is one outcome of this situation Informal employment contracts are one source of the low productivity of many activities undertaken in transitional rural areas. On the other hand, the desire to take control of the situation and protect oneself from being exploited is a common start-up reason. In the first two decades after the fall of the socialist system, the **family strengthened its role as "the safe harbour"**

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offering moral support, stability and protection in the hostile transitional environment. Employment strategies (including entrepreneurship) cannot be fully understood without analysing the context of the general family livelihood situation.

Farming appears to be just one of many income-generating alternatives in the highly diverse household portfolios we observed. Subsistence agriculture has a long tradition in rural Bulgaria, and the change to market participation is a rather big step for most households. In its small-scale version, farming usually does not provide enough as the main income source. Seasonality, climatic shocks, price fluctuations, insecurity of informal contract enforcement, all these make the need for diversification obvious. In addition, transitional rural entrepreneurs have to deal with **inefficient institutions.** These are an obstacle not only for expanding farm activities, but also to the advancement of all kinds of business ideas especially of small players.

Opportunity-driven entrepreneurial ambitions in our sample faced **unfair competition from the already-established mafia structures**. These hinder a fragile business from developing into something sustainable. Public money is directed towards a few big players. The lack of transparency in the awarding of contracts and the scarce information about bidding procedures seem to be "installed" for this purpose. Public institutions including the police and courts are sometimes even seen to be part of this. Against the seemingly omnipresent agents of the powerful, the **courts are considered useless in resolving disputes**. Rural transitional entrepreneurs need to adjust to this tough reality. Some tried to do this by switching from the "wild" private sector to the more regulated and predictable public one. But state money cannot be acquired without confronting the unfriendly and inefficient interface of the bureaucracy. The issue of **maladministration** is a typical side-effect of the drastic reforms of the administrative system in transitional countries. Still, for those who are willing to confront it, it offers some advice and public funding.

Corrupt practices dominate the **institutional environment**. From an economic point of view, corruption may increase transaction costs – but also decrease them for some, for instance, those who manage to get a permit by paying a bribe. Post-socialist rural entrepreneurship researchers should control for the perceived quality of the legal system, the trust in the formal institutions (e.g. police, courts, permit issuing authorities, banks). Also the common practice for doing business should be analysed: is informality the norm? Does everybody rely on connections to get things done? Is tax evasion stigmatised? These are just a few starting points.

Discussion and conclusion

By delving into the perceived realities of interviewed farmers, we identified a complex combination of capital endowment, preferences and institutional incentives as important factors for the development of rural entrepreneurship in post-socialist context. Our main contribution is that we center our analysis on the perception of actors. The perceived reality is reflected in concrete important barriers and motives which our study makes explicit for the use in future quantitative studies. We firmly believe that a combined qualitative-quantitative perspective which accounts for these perceptions is best-suited for revealing the mechanisms suppressing the development of rural businesses.

Currently the rural business situation can be best described by a prevalence of mostly necessity-driven business ideas with small growth potential. As for the time of the study, those struggling to make ends meet, are ready to stay informal in order to avoid paying taxes. Even if rural entrepreneurs manage to create jobs, they usually do not provide the social

benefits foreseen by the law and thus do not contribute to providing the social security of the employed workers in the longer term. Those few entrepreneurs who work on pull-motives may partly be motivated on the possibility of acting without the knowledge of the official authorities and the prospect of evading taxes easily. We believe that classical policy measures which offer funding, training and education may not be effective, because the problem is rooted deeper in the culture and the political, administrational and juridical system. Instead, transparency, reestablishing the rule of law, effective anti-corruption measures and more effective administration would allow those who have recognized an opportunity in rural areas to have a fair chance to pursue it and hopefully create jobs. Our study is an attempt to help policy makers "feel" the problems, understand the motivations of rural entrepreneurs, and ultimately contribute to provide better governance.

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