ENTREPRENEURSHIP IN POST-SOCIALIST ECONOMIES: LESSONS FOR CUBA

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The elimination or reduction of the excessive bureaucratic regulations that restricted private economic activities under the classical socialist model is one of the principal forces behind the expansion of the non-State (or private) sector under market (or "reform") socialism (Kornai, 1992; Szelényi, 1988). During this stage of the transition process, a growing share of the economically-active population joins the emerging non-State sector, motivated by the prospect of higher earnings and autonomy from the State (Lavigne, 1999; Kornai, 2008). This emerging entrepreneurial class represents a source of tax revenue for the State, and its expansion contributes to output growth, job creation, and improved economic efficiency (González-Corzo, 2013).

Typically, the forms of private economic activities tolerated under market or reform socialism are limited to after-hours, "moonlighting," activities such as small appliances repair, construction, and other activities, small-scale agricultural production that allows farmers to sell any excess output in "free" agricultural markets, after contracted production quotas with the State have been met, the operation of small-agricultural plots for auto-consumption by the producer household or family, and limited forms of self-employment, mostly in family-operated, household-based, microenterprises (Lavigne, 1999; Kornai, 2008). Some limited forms of intermediation, mainly in areas such as agriculture and transportation services, are also tolerated under market socialism, as long as they do not compete directly with the State and operate on a small-scale (Kornai, 1992).

Despite enjoying greater flexibility and openness under market socialism, the emerging non-State (or private) sector remains under the "shadow of the State," and its interactions and relations with the State are full of ambiguities and contradictions (Kornai, 2008). In some areas of the economy, and at some points in time, the State authorizes, facilitates, and supports the growth and expansion of the non-State (or private) sector, while at other times, and often without previous warning, it restricts or prohibits previously-sanctioned activities that are now considered to undermine its prospects for long-term survival (Kornai, 2008).

CHARACTERISTICS AND PRINCIPAL CONTRIBUTIONS OF ENTREPRENEURS

Entrepreneurs are characterized by their desire for economic independence, capacity to tolerate risk, perseverance and self-confidence. They are also characterized by their ability to adapt, learn, innovate, and achieve success by disrupting established patterns of behavior and creating their own new order (Gilder, 1984). Brockhaus (1982) associates entrepreneurship with enterprise ownership and risk taking. Jennings (1993) defines an entrepreneur as someone who forms a new enterprise or launches a new business venture. According to Howorth *et. al.* (2006) entrepreneurs are innovators, risk takers, who operate and organize resources (or inputs), recognize opportunities and establish one or more businesses (or ventures). Entrepreneurs also develop, build, and sustain business ventures to satisfy unmet customer needs, while maximizing utility and profits (Bitzenis and Nito, 2005).

According to Aidis and Sauka (2005), small and medium enterprises (SMEs) play a crucial role in transition economies for several reasons. They provide positive externalities by extending their benefits beyond the physical boundaries of the firm due to their tendency to experiment, innovate, learn, and adapt (Aidis and Sauka, 2005). SMEs contribute to the productive utilization of human capital during the transition process by offering alternative employment opportunities for highly skilled workers, who are underemployed or unemployed as a result of State enterprise restructuring (Aidis, 2005). Newly-created SMEs contribute to economic growth in transition economies through their dynamism and ability to use well-connected business networks to create new enterprises capable of meeting the population's growing demand for goods and services (Aidis, 2005).

Job creation is the most important contribution of (newly-formed) private enterprises in transition economies (Aidis, 2005). As a result of the distortions and inefficiencies inherited from the classical socialist model, State-Owned Enterprises (SOEs) are forced to restructure their operations and reduce payrolls during the transition; newly created (private) enterprises emerged as an alternative to State sector employment. Newly-formed private enterprises accounted for most of the employment growth in Central and Eastern Europe, particularly during the early stages of the transition process. Small, privately-owned, firms created most of the new jobs in Estonia between 1989 and 1994 (Aidis, 2005). Between 1994 and 1996, 86% of newly-formed, privately-owned, manufacturing firms in Poland created new jobs, compared to only 13% of privatized SOEs (Aidis, 2005). Newly-created private enterprises grew faster than privatized SOEs in Bulgaria, Hungary and Romania during the 1990–1996 period (Aidis, 2005).

McMillan and Woodruff (2002) found that sales (revenues) and employment grew faster at newly-created (private) firms, compared to privatized and state-owned firms in a sample of firms from 25 transition economies. The authors also found that newly-formed private firms offered other key benefits such as opportunities to apply experiential learning, innovative businesses practices, and adopt new technological developments, and best business practices (McMillan and Woodruff, 2002).

BARRIERS TO ENTREPRENEURSHIP

Even though some (limited) forms of private enterprise were tolerated under the classical socialist model, most transition economies did not have an "entrepreneurial tradition," and private enterprises still confronted a hostile business environment, particularly during the early stages of the transition process (Smallbone and Welter, 2001). The lack of an "entrepreneurial tradition" in the majority of the transition economies resulted in an absence of business infrastructure, and the lack of private business support services (Smallbone and Welter, 2001; Aidis, 2005).

According to Gros and Suhrchke (2000), the environment under which newly-formed private firms had to operate, particularly during the early stages of the transition process, is also characterized by the disproportionate concentration of firms in the industrial or manufacturing sector, underdeveloped financial institutions, a primitive financial system, and a relatively weak regulatory framework. The lack of adequate financial resources (e.g., microcredit, commercial loans, etc.) represents another key barrier to the development of private enterprises during the transition process (Pissarides, 1999; Hashi, 2001; Pissarides, 2004; Aidis, 2005). Other environmental barriers confronted by newly-formed private enterprises during the transition period include low purchasing power, insufficient availability of qualified workers, limited access to equipment and facilities, and delayed payments by clients (Bohata & Mladek, 1999; Barlett and Bukvic, 2001; Radaev, 2003; Aidis, 2004).

Newly-formed private enterprises also face several skill-based barriers during the transition period (Aidis, 2005). The most notable include: the lack of business-related skills (inherited from classical socialism), insufficient familiarity with or knowledge of best business practices, technological backwardness, etc. (Roberts and Zhou, 2000). During the transition period, newly-formed enterprises are also confronted

Table 1. Selected Transition Economies Share of the Unofficial Economy as a Percentage of GDP

Country	1989	1990	1991	1992	1993	1994	1995
Central and Eastern Europe							
Bulgaria	22.8%	25.1%	23.9%	25.0%	29.9%	29.1%	36.2%
Czech Republic	6.0%	6.7%	12.9%	16.9%	16.9%	17.6%	11.3%
Hungary	27.0%	28.0%	32.9%	30.6%	28.5%	27.7%	29.0%
Poland	15.7%	19.6%	23.5%	19.7%	18.5%	15.2%	12.6%
Romania	22.3%	13.7%	15.7%	18.0%	16.4%	17.4%	19.1%
Commonwealth of Independent States (CIS)							
Azerbaiijan	12.0%	21.9%	22.7%	39.2%	51.2%	58.0%	60.6%
Belarus	12.0%	15.4%	16.6%	13.2%	11.0%	18.9%	19.3%
Estonia	12.0%	19.9%	26.2%	25.4%	24.1%	25.1%	11.8%
Georgia	12.0%	24.9%	36.0%	52.3%	61.0%	63.5%	62.6%
Kazakhstan	12.0%	17.0%	19.7%	24.9%	27.3%	34.1%	34.3%
Latvia	12.0%	12.8%	19.0%	34.3%	31.0%	34.2%	35.3%
Russia	12.0%	14.8%	23.5%	32.8%	36.7%	40.3%	41.6%
Ukraine	12.0%	16.3%	25.6%	33.6%	38.0%	45.7%	48.9%

with several institutional barriers such as onerous taxes, frequent, unpredictable changes in tax policies, and an uncertain regulatory environment, primarily characterized by a hostile attitude towards the private sector (Bohata & Mladek 1999; Hashi, 2001; Aidis 2004; Aidis, 2005). In addition, newly-formed private enterprises face "informal barriers" such as a complex bureaucratic apparatus, excessive regulations, corruption and unfair competition from a large informal sector (Barlett and Bukvic, 2001; Radaev, 2003; Aidis, 2004).

PRINCIPAL TYPES OF ENTREPRENEURS

Peng and Shekshnia (2001) identified four types of entrepreneurs in transition economies: (1) agricultural entrepreneurs; (2) individuals who operate in the "informal economy"; (3) cadre entrepreneurs; and (4) professionals.

Agricultural Entrepreneurs

Agricultural reforms and the emergence of agricultural entrepreneurs are at the forefront of the economic reform process in most post-socialist economies (Peng and Shekshnia, 2001; Kornai, 2008, González-Corzo, 2013, 2013a). This is mainly due to the fact that in many socialist countries in which private agricultural activities were not allowed, a vibrant informal private agricultural sector emerged as a vital component of the underground economy (Peng and Shekshnia, 2001; Kornai, 1992, 1998). Over time, as the transition process began to take root, a growing number of these agricultural entrepreneurs were able to expand their operations and the size of their firms (Peng and Shekshnia, 2001).

Individuals Who Operate in the "Informal Sector"

Existing limitations on private activities and under the classical socialist system provided the economic (or material) incentives for individuals to operate in the informal (or underground) economy (Pérez-López, 1995; Peng and Shekshnia, 2001; Kornai, 2008). Despite these restrictions, the underground economy was officially tolerated by the State and accepted by the population (Peng and Shekshnia, 2001; Kornai, 2008). The transition from the classical socialist model facilitated the emergence and expansion of a frontier-style accumulation of wealth through informal economic activities of a more intense entrepreneurial nature, and contributed to the expansion of the informal sector (Peng and Shekshnia, 2001). Table 1 shows the share of the informal (private) sector in selected transition countries during the 1989–1995 period.

Cadre Entrepreneurs

Former Communist Party officials and leaders emerged as one of the primary groups that benefited from the transition by morphing into entrepreneurs (Peng and Shekshnia, 2001). As privileged members of the "new class" under classical socialism, they tend to be better educated than the rest of the population

(Cooper and Dunkelberg, 1987); they also enjoy a favorable position of power and influence during the transition; and possess extensive social networks and internal knowledge of how the system (or what is left of it) functions (Kornai, 1992; Peng and Shekshnia, 2001; Kornai, 2008). The power and influence accumulated by Party leaders and officials under classical socialism "can be converted into assets of high value in a transition economy" (Peng and Shekshnia, 2001). They can "tap into their personal networks to acquire valuable resources from their former colleagues still in Government, maneuvering across different sectors as intermediaries who seek rents for their services" (Peng and Shekshnia, 2001).

Professional Entrepreneurs

According to Peng and Shekshnia (2001), professional entrepreneurs are those "who previously held professional positions not directly related to the Party State, such as lawyers, managers, engineers, and professors." Professional entrepreneurs fill unmet market needs, and increase the profile of private firms in transition economies. They play a key role in the expansion of private economic activities by enhancing the technology and professionalism of private enterprises, which, for the most part, tend to concentrate on low-tech, labor-intensive sectors of the economy such as agriculture, food services, and retail (Peng and Shekshnia, 2001).

ENTREPRENEURIAL STRATEGIES

Several studies focusing on transition economies (Tan, 1996; Charap and Webster, 1993; McCarthy *et. al.*, 1993) have identified three principal entrepreneurial strategies: (1) prospecting; (2) networking; and (3) blurring public-private boundaries.

Prospecting

In the context of transition economies, entrepreneurial firms operating in changing market conditions, with strong innovation-oriented forms, and a flexible organizational structure are commonly known as "prospectors" (Peng and Shekshnia, 2001). Private enterprises that engage in "prospecting strategies" tend to be smaller, more nimble, and more market-oriented than their larger, established and more stable competitors (or "defenders"). The less bureaucratic and entrepreneurial nature of prospectors allows them to react quickly to evolving market conditions, and capitalize on emerging opportunities. They often engage in "guerrilla warfare tactics" to grab market share from established competitors and disrupt the status quo by effectively using their "first-mover advantage" (Peng and Shekshnia, 2001).

Prospecting strategies, however, have several limitations. In most cases, including post-socialist economies entrepreneurial prospectors operate in industries or sectors with relatively-low entry barriers, such as agriculture, light manufacturing, and small scale personal and professional services (Peng and Shekshnia, 2001); they often have difficulty establishing a "protected franchise" to ensure the endurance of their competitive advantage. The guerrilla warfare strategy and the first mover advantage enjoyed by prospectors during the early stages of transition disappear overtime as the economy develops and matures (Peng and Shekshnia, 2001).

Networking

Networking is another strategy commonly-used by entrepreneurial firms around the world. In the case of transition economies, networking is a consequence of the changes in the institutional environment. In the absence of market-supporting institutions, entrepreneurs are forced to develop complex networks capable of performing key functions such as obtaining market information, deciphering the evolving regulatory framework, and enforcing contracts (Peng and Shekshnia, 2001). The development of strong interpersonal compensates for the infrastructure deficiencies that characterize economies in transition by fostering economic exchanges among members, reducing informational asymmetry, and facilitating the price discovery process (Boisot and Child, 1996).

Boundary Blurring

"Boundary blurring" strategies, which primary involve the "blurring" of existing boundaries between the State and the emerging non-State sector during the transition, are closely associated with networking (Peng & Shekshnia, 2001). As Peng and Sheksnia (2001) indicate, in an environment that remains institutionally unfriendly, and in some instances, even openly hostile to private ownership and wealth accumulation, it seems reasonable for entrepreneurs to conceal, or not openly advertise, the private nature of their firms. One example of this type of "boundary blurring" strategy is to change the status of a private firm to collective status. In the case of China, for instance, due to the power and influence of local governments, changing to a collective status allowed private firms to gain better access to key resources such as loans (Peng and Sheksnia, 2001). Powerful local governments were also able to shield these "publicly-owned" firms from intrusion and harassment from other government agencies (Peng and Sheksnia, 2001). Boundary blurring strategies, of course, are unique to transition economies, and their effectiveness decreases as centralized, bureaucratic, coordination mechanisms are replaced with market-oriented ones (Kornai, 2008). As the transition from "plan to market" advances, the economic, political, and social rationale for this unique form of entrepreneurial strategy is replaced by competitive forces and the new forms of uncertain outcomes commonly-associated with market economies (Kornai, 2008).

LESSONS FOR CUBA

Cuba's private enterprises have expanded significantly since 2010, as a growing share of the country's economically-active population has joined the emerging non-State sector to improve their incomes and living standards (Ritter and Henken, 2015; González-Corzo and Justo, 2014). As a result, the availability and quantity of goods and services in the Cuban economy have notably improved (Pérez Villanueva and Vidal Alejandro, 2012). New employment opportunities have emerged for a growing share of the population, and the State's tax revenues have increased significantly since the expansion of private self-employment initiated in 2010 (Spadoni, 2014).

Despite recent advances, Cuba's entrepreneurial sector still faces several regulatory restrictions that hinder its ability to expand and make greater contributions to employment and wealth creation. The most significant include: the inexistence of wholesale input markets where private enterprises can procure essential inputs (in Cuban pesos) at market-determined prices that reflect their real (or inflation-adjusted) purchasing power, contending with the State's monopoly over trade (imports and exports) and key elements of the Cuban economy; the inability to form joint ventures with foreign investors; limited access to sources of financing (e.g., microcredits, microloans, etc.); restrictions on property rights that limit the "concentration of wealth"; high taxes and a complex regulatory (and often hostile) environment; the scarcity of suitable retail spaces; a deteriorated physical infrastructure (Feinberg, 2013); an insufficient transportation and logistics system; and a primitive financial and banking system (Spadoni, 2014; Ritter and Henken, 2015).

The policy transformations to promote entrepreneurship and self-employment implemented in Cuba since 2010 represent a positive step towards a more flexible economic model. As this process continues, the private (or non-State) sector is likely to play a greater role in the Cuban economy, particularly in areas or activities in which the State sector is unable to satisfy the needs of the population. At the present time, however, existing prohibitions, the country's deteriorated physical infrastructure, the inexistence of well-functioning wholesale input markets, and the State's monopoly over trade and other key areas and economic activities, limit the entrepreneurial sector's ability to successfully engage in employment and wealth creation.

The experiences of the post-socialist economies of Central and Eastern Europe (CEE), Asia (i.e., China and Vietnam), and the Former Soviet Union (FSU) suggest that eliminating existing barriers and addressing the challenges and limitations presently confronted by Cuba's rapidly-expanding entrepreneurial sector are essential requirements to ensure the revival of the Cuban economy and bring much needed prosperity to the Cuban people.

Entrepreneurs are innovative risk takers who manage resources in an effort to meet unsatisfied customer needs. They are driven by a strong desire to maximize profits, while achieving economic independence. Entrepreneurs are often associated with risk-taking behavior, discipline self-confidence and perseverance. Their role and experiences in the post-socialist transition economies of Central and Eastern Europe, and the Independent Republics of the FSU offer valuable and relevant lessons for Cuba. Innovation and entrepreneurship are key elements of a country's competitiveness, and the experiences of the post-socialist economies demonstrate that they should be officially supported. Private enterprises play a key role in employment creation during the transition process. Private enterprises provide positive externalities as a result of their experimental, innovative and adaptive nature. Newly-formed privately-owned firms also play a key role during the transition from a Centrally-Planned Economy (CPE) by offering alternative employment opportunities for highly skilled workers displaced as a result of the privatization or restructuring of State-Owned Enterprises (SOE). In this sense, they contribute directly to a more rational utilization of one of the most under used resources during the transition: the country's human capital. Private enterprises are also able to meet increasing consumer demand for goods and services in areas in which the State is unable to meet such needs.

While some limited forms of (small-scale) private enterprises were tolerated under classical socialism, the elimination of legal prohibitions and the desire by many individuals to achieve greater economic independence and increase their incomes and living standards contribute to the rapid expansion of private enterprises and entrepreneurial activities during the transition period. The most common types of entrepreneurs in transition economies include farmers (or agricultural) entrepreneurs, individuals who operate in the informal sector, cadre entrepreneurs (or former Communist Party members and officials, who engage in entrepreneurial activities), and professional entrepreneurs (or professionals, who apply their knowledge and skills in private entrepreneurial ventures).

Emerging self-employed entrepreneurs and small and medium enterprises (SMEs) in post-socialist transition economies generally adopt three main entrepreneurial strategies during the transition: (1) prospecting; (2) networking; and (3) boundary blurring strategies. While useful, and economically-justified, during the early stages of the transition process, these strategies become less relevant as the economy moves closer to a full-fledged market economy.

The experiences of entrepreneurs and small-scale private enterprises in the transition economies of Central and Eastern Europe, and the former Soviet Republics offer valuable lessons for Cuba's emerging entrepreneurial class as it confronts the socioeconomic turbulence that characterizes the transition from the classical socialist model. First, as Peng and Shekhnia (2001) indicate, it is essential for entrepreneurs to establish alliances with larger and more influential players. Joint venture, or strategic alliances, with globally-competitive foreign partners can facilitate access to financial capital, exposure to managerial and business best practices, and direct access to new (and improved) production and distribution processes and technology (Peng and Shekshnia, 2001). This, of course, requires the support of the State, particularly with regards to fostering wider (official) support for private enterprises, promoting the development of an entrepreneurial culture, creating more flexible, and less onerous, regulatory and tax frameworks, enforcing contracts, and supporting the rule of law (Smallbone and Welter, 2010). Entrepreneurs and private enterprises can also play a direct role in promoting entrepreneurial development in a transition economy like Cuba. The can organize and mobilize resources to form business associations, and participate in other civic organizations, to influence State policies and public attitudes towards the private sector.

Private enterprises in transition economies should focus on developing capabilities that would allow them to differentiate themselves and grow their businesses and address the inherent disadvantages resulting from increased foreign competition (Peng and Heath, 1996). This is particularly important in small, open, transition economies with high levels of external sector dependency such as Cuba. Finally, as the post-socialist transition process accelerates and domestic small-scale private enterprises face increased competition from established foreign firms, they need to focus on the development of strategic leadership by developing a long-term strategic vision, building dynamic core competencies, focusing on human capital, and effectively using new technologies (Peng and Shekshnia, 2001).

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