By law and by custom: Factors affecting small and medium-sized enterprises during the transition in Lithuania
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Chapter 5: Barriers to Legitimacy: Interviews with small and medium-sized enterprise owners and officials

5.1 Introduction

Lithuania is like a bag of cement, some bricks, and wood planks. It is not yet a built house — so we can’t expect it to act like a house (Jonas* – an SME owner).

There is a growing body of literature on private enterprise development in transition countries (Johnson & Loveman 1995; Smallbone & Piasecki 1995; Roberts & Tholen 1998, Slonimski 1999; Bateman 2000; Glas et al. 2000; Roberts & Zhou 2000; Pissarides 1999; Pissarides et al. 2000; Hashi 2001; Muent et al. 2001; Bartlett & Bukvic 2001; Anderson & Pomfret 2001; Smallbone & Welter 2001a). Though a number of studies use interviews or case studies as a method to gain insight as to the situation for business owners and managers (Hashi 2001; Smallbone et al. 2001b), there have been few, if any, studies which present the perspectives not only of small and medium-sized enterprise (SME) owners but also those of governmental officials, non-governmental organization (NGO) representatives and related actors. In this chapter we allow not only the individual ‘voices’ of SME owners to be heard but also the opinions of governmental and NGO representatives as related to SMEs and SME development.

Drawing on a number of studies, Nada Kobeissi (2001) argues that the long exposure to the communist ideology and institutional practices that occurred in countries like the Soviet Union, has created an environment adverse to private business practices that in effect hampers entrepreneurial development. Kobeissi calls this phenomenon ‘residual communism’ and identifies a number of negative consequences it has on present and future entrepreneurs. This negative legacy can be directly related to institutional theory where personal attitudes and preferences are seen as important catalysts or deterrents to change (North 1997a:7).

The aim of this chapter is to analyze the effects of ‘residual communism’ especially as they influence formal and informal institutions with regards to the development of SMEs in Lithuania. These issues are explored while addressing the following question:
What are the main barriers to SME legitimacy in Lithuania?

By legitimacy we understand public and official acceptance, appreciation as well as lack of barriers to the development and support of SMEs. Our analysis is based on qualitative information collected through twenty-two semi-structured informal interviews with SME owners, governmental and NGO officials and experts (see Chapter 3.14).

In general, we find that though the formal environment (laws and regulations) now allows for legal entrepreneurial activities, the legacy of Soviet mentality i.e. residual communism, continues to shape the attitudes of not only governmental officials but also of SME owners, SME employees and society as a whole. Hence ‘residual communism’ in the form of embedded and ‘outdated’ attitudes still forms an important barrier to SME development. Further, the diversity of SME owner experiences indicates that individual adherence to the values and norms of the Soviet system before transition is an influencing factor on the attitudes expressed and activities undertaken by SME owners after transition.

5.2 Sample Characteristics

SME owners. We interviewed an equal number of male and female SME owners engaged in a variety of sectors. A high proportion of them worked in either retail or wholesale trade. The businesses were located in both urban and rural areas. The vast majority of SME owners were university educated and most worked full-time at their businesses. Typically the SME owners interviewed were in their thirties with the average age being 38 years old. All our respondents had hired employees and the average number of staff was approximately 26 employees. Also all of our respondents had been in business for a number of years, on average approximately six years. As a general characteristic, most of our respondents under-report their business earnings.

SME-related actors. Governmental officials, NGO representatives and several SME-related individuals were interviewed in order to gain their perspectives. The interviews with governmental officials included a representative from the SME division of the Ministry of Economic Affairs, a representative from Lithuania’s social security office (SoDRA) and a representative from the Vilnius tax office. The interviews with representatives from Lithuanian NGOs included high ranking officials from: two offices
of the Lithuanian Chamber of Commerce, Industry and Crafts (LCCIC), an independent Lithuanian SME Association, the Lithuanian Development Agency for SMEs (SMEDA), an independent regional entrepreneurship association focusing on SMEs, the Lithuanian Business and Professional Women’s Association and a Lithuanian consultant specializing in SMEs. Our interviews with local experts included a management and business consultant from the US who had been working in Lithuania for over two years and an entrepreneur from the US who had been living and working in Lithuania for over four years.

5.3 Main themes: SME Owners
The main issues that emerged from our interviews with SME owners are presented under the categories: mentality, location, institutions, skilled labor and environmental changes.

5.3.1 Mentality
Flies and spiders. SME owners reflect a spectrum of post-Soviet profiles that can be categorized into three general types: the flies, the spiders and the entrepreneurs by default. In general, ‘the flies’ are SME owners are independent thinkers who resisted the Soviet ‘web’ of central planning and felt ‘caught’ in a corrupt and bureaucratic system. Private business ownership provided a vehicle to exit the formal bureaucracy of state employment as well as the opportunity to apply their skills to generate personal welfare. The ‘flies’ approximate Baumol’s ‘productive’ entrepreneur profile and our definition for productive entrepreneurship (see chapter 2.4.4) since they are individuals interested in turning their idea and/or skills into a profitable business, that results in welfare benefits for themselves and society as a whole. For the most part, these individuals follow the regulations, engage in less bribery and combat what they experience as ‘injustice’ through legal action instead of succumbing to bribery and corruption. Some of these SME owners were already involved in private trading activities informally (and illegally) during the Soviet period. Many of these SME owners chose to start businesses in sectors outside of their previous employment experience.

The ‘spiders’ are private business owners who still subscribe to the Soviet mentality and way of doing things, applying these methods to the current situation. In general, they functioned well within the Soviet ‘web’ of corruption and bureaucracy. They
approximate the 'predatory', 'unproductive' or 'destructive' entrepreneurs according to Baumol's classification i.e. increasing their own wealth through business activities to the detriment of other's welfare. For these entrepreneurs, intimidation, bribery, corruption and all forms of tax evasion are fair game in the process of personal enrichment.

One other clear type of SME owner was the 'entrepreneur by default'. These were individuals that may or may not have had entrepreneurial aspirations but the turning point to their 'entrepreneurial' decision was the privatization of their workplace. They became owners (often co-owners) of the new private businesses that used to be state-owned and operated. Though initially pushed into entrepreneurship, the interviews revealed that some of these individuals have also become committed to entrepreneurship. However, no matter what their orientation, the SME owners interviewed complained about governmental policies, regulations and intervention.

'Warriors' of justice: Most SME owners interviewed believed that the court system in Lithuania is corrupt. As Zigmas* commented: The judges almost always side with the government and so it doesn't matter if I am right, they will support the government's position. Those who took their cases to trial mainly did so to make a point and out of idealistic convictions (i.e. the 'fly-type of SME owner). Court cases can take years and a number of SME owners interviewed had cases that have been sitting in the courts for two to three years or more. Winning a court case is a symbolic victory because the time, effort and costs involved are substantial. In addition, the SME owners commented that the costs of legal intervention for the government are high and do not correspond to the amount and type of fines that lead to court cases. In essence, the SME owners believe that the government always loses through legal intervention on the SME level due to petty or ungrounded charges and because the costs incurred (judges, government officials, transportation, etc.) far exceed the fine that is ultimately collected if the state wins. Other less idealistic SME owners simply pay the fine regardless of whether it was issued fairly. As Snaige* noted: ...it's easier to pay the fine than go to court, which takes more time, energy and money.

Yearning for recognition: Many SME owners commented that they are frustrated by the general societal view and media image of entrepreneurs as criminals and speculators. Algis noted: ... everyone looked at you as a 'speculator' and almost a criminal for
making a profit. The government's continuously changing regulations and policies also irritate many SME owners. Though the government officially declares that it supports SME development, most SME owners commented that they have not seen any real steps taken to put these words into action. Algis commented, *even a symbolic gesture by the government to reduce the tax burden on SMEs would have a great impact in increasing the legitimacy of the economic contribution made by SME owners in Lithuania.* As Jonas further noted: *Entrepreneurs are not lying when they say nothing has changed and that they haven't seen any assistance from the government.*

Rasa* was especially frustrated by the lack of accountability displayed by government officials: *Government lives off the labor of businesses but does not take responsibility for its actions. Politicians come and go but are not responsible, they are not inspected like businesses are and they are not expected to pay penalties for misbehavior like businesses, they can simply walk away.* Currently, SME owners suffer from a negative image as individuals involved in ‘extracting’ wealth from society. In general, society still maintains a suspicious and wary view towards private business owners who are more often regarded as ‘greedy speculators’ than positive economic agents.

The legacy of Soviet mentality: Many SME owners complained about the continuing Soviet mentality of officials, employees and society in general. Often governmental officials continue to adhere to an inflexible, demotivating and inspection/fining oriented bureaucratic culture. Snaige noted that up until 1998 tax officials used to receive commissions based on the number of fines they collected. In general, inspection officers from different governmental departments are evaluated on their performance according to the total number of fines that they collect from business owners. The sheer number of inspection agencies that can show up at a business’s door is daunting, according to Zigmas*: *there are 68 inspection bodies in Lithuania and about 34 of them are directly related to business.* Many SME owners were frustrated by what they perceived as the ‘incompetence’ of national and local officials. The constantly changing regulations form a main barrier, but dealing with officials who were not well-informed and compensate for their lack of knowledge through arrogant and condescending behavior was a source of great psychological frustration amongst SME owners. For example, Zigmas called the fire department and asked how many fire extinguishers he would need for his store given its size. The fire department official told Zigmas that he needed one extinguisher. Some
time later several fire department officials inspected his store and told Zigma he needed two extinguishers and proceeded to fine him.

In the past, Soviet employment meant ‘working’ exclusively for the state; private enterprise was associated with speculative capitalism and was severely frowned upon and in some cases punished (Feige 1997). This has resulted in a generation of individuals who harbor negative attitudes towards private enterprises and especially for working for a private ‘capitalist’. Some individuals are even reluctant to seek work at private businesses because they find working for the benefit of an entrepreneur unacceptable and humiliating. Further, Birute* commented that in general, people do not want to work. They want life to be organized for them as it was in the Soviet system so they didn’t have to think or try. Another problem cited by Rasa is dishonesty amongst employees: Soviet culture taught employees to steal from their workplaces and that became everyday behavior. And that mentality is very hard to change.

5.3.2 The advantages of location
Contrary to our expectations, the economic welfare of SMEs in Lithuania did not depend on whether they were located in urban or rural areas. SMEs in rural areas were not automatically disadvantaged. The following conditions seem to also be important: type of business activity, local community support, and reduced competition. More common business activities such as retail stores may encounter local competition but non-traditional business activities can enjoy an environment free of immediate competitive pressure in rural surroundings. Also a SME owner’s personal ability to conjure up local support for their business has an influence on community goodwill. For example, in one business, instead of hiring trained specialists from outside the community to do the work, Algis* hired locals and trained them. As a result, Algis profited from a high level of local goodwill. In some cases, local officials in non-metropolitan areas recognize the positive benefits of small local businesses and are less inclined to interfere and even assist them by informing them about upcoming changes to regulations and policies. But not in all cases. Other SME owners in rural or less developed urban areas noted that they encountered local official harassment.

In addition, Lithuania’s relatively small size (approx. 65 thousand sq. kilometers) and the existence of five main urban areas throughout the country with a reasonably good
transportation infrastructure, results in the lack of truly isolated rural areas. A given rural enterprise is only approximately 60 to 90 minutes’ drive from a main urban center. Rural public transport is lacking but the relatively high percentage of private car ownership (43 percent of all Lithuanian households owned a private car in 19997) reduces physical barriers. One of the advantages of being located in even a medium-sized city mentioned by Snaige who owned a retail store was the lack of competitive pressures. Snaige noted that she was able to keep merchandise on her shelves longer and there was less pressure to constantly renew the selection, as is the case in the larger urban areas.

5.3.3 Institutions as obstacles
The SME owners interviewed had more criticisms and complaints about the social security agency (SoDRA) than about tax officials or any other inspection agency. Many SME owners felt that tax officers were at least better informed about changes to regulations than SoDRA officials. Rasa provided an example of SoDRA interference: the SoDRA office called her and said they were missing an important document and that she must come to the SoDRA office and bring a copy. She told them that she had already provided them with a copy but they insisted she bring another copy. So she drove 30 km to the local SoDRA office with a copy of the document. Upon arrival she found out that in the meantime they had been able to find the original document. The SoDRA official did not apologize for Rasa’s wasted time and energy.

Other SME owners also cited the general incompetence of SoDRA officials and the double standards that exist in terms of deadlines and fines. For a number of SME owners, incompetence of officials was more irritating than the actual regulations themselves. Snaige commented about the double standard of SoDRA regulations: SoDRA demands that you pay every month but when they have to pay, such as for maternity leave, disability, or sick leave, they often pay 2-3 months late without interest. Late payments are especially difficult to manage for SME owners due to the generally lower levels of working capital and financial reserves. But if Snaige is late with her payments then she is required to pay interest. Further Jonas calculated an enormous discrepancy between the mandatory monthly social security contributions that he makes and the corresponding pension he can expect to receive if he lives to pension age: Jonas pays 4 000 Lt (approximately $1 000 USD) monthly to SoDRA which will amount to a total of 960 000 Lt by the time he retires. The maximum pension that Jonas can expect
to receive is 1 000 Lt a month, so it would take approximately 80 years for him even to receive back all his SoDRA contributions (and this takes no account of interest on the contributions). Jonas further explained how it is possible to evade these payments by declaring a lower 'official' salary.

5.3.4 Throwing hard-earned money into the wind

In addition to the desire to retain as much of the hard-earned profits as possible from their business operations, many SME owners have another compelling reason to avoid paying taxes. They experience no personal or business benefits from compliance. There seems to be a lack of incentives to comply with existing regulations. This is a classic problem encountered in many transition countries where the existing budgetary pressures are so great that collected taxes are used primarily to pay for large national concerns such as servicing pension payments, the national debt, bailing out SOEs, unemployment benefits, etc. As a result, the benefits are not evenly distributed among taxpayers. Many SME owners have the feeling that they are supporting a government and budgetary practices that not only provide SMEs with few benefits, but through the close relationship between the state and large state or privatized enterprises, only reduce an SME's competitive situation. The same opinion holds true for the local government. Snaige noted that she does not know why she is paying taxes for the municipality because she receives nothing in return. Basically, paying profit tax is equated to throwing money down a bottomless pit. In such a situation, it comes as little surprise that under-reporting of business earnings is so prevalent.

Further, many SME owners see no benefits from their compulsory health insurance payments to SoDRA. National health care standards are low and in order to get adequate care, the patient is expected to make supplemental payments to hospital staff. Often food and sometimes even blankets must be provided by the patient's family. Birute noted that she has to pay 33 percent of wages to SoDRA for each employee but this does not ensure that they will be treated well in the hospital if they get sick. Private clinics provide expensive and considerably better care yet they are not covered by the national health insurance payments.
5.3.5 Skilled labor

When starting up their businesses, many SME owners had little training. As Birute commented: "we were like monkeys trying to mimic what we saw and just did things according to what we thought was best – which did not always turn out to be so. Now that their businesses have grown, many SME owners mentioned the need for skilled labor in order to be able to grow their businesses. But in the transitional environment, prospective employees with adequate training generally do not exist. Currently, most SME owners must train their employees themselves. As a result, the re-training, re-education and re-orientation of part of the Lithuanian labor force falls on the shoulders of the SME owner in need of new employees. The government has played a minimal role in retraining unemployed individuals for prospective employment at SMEs.

5.3.6 Environmental changes

Enormous environmental changes have taken place in the last six years that have had a dramatic impact on SME owners. Not only are the days of high profits and low regulations over but SME owners mentioned a decrease in racketeering and Mafia-related activities and some mentioned a decrease in bribery. As Vladas noted, in the past "nothing was done unless I gave them an ‘envelope’; this has greatly diminished and is no longer necessary under most circumstances. SME owners who had been in business for a number of years commented that initially they encountered racketeering operations that demanded informal payment for protection. However, since the mid to late 1990’s many of these racketeering operations have taken on a legal and legitimate form as private security companies. As Vladas mentioned: Most of these people have either gotten involved in the banking system or have opened up their own private security firms and are collecting payments from companies but this time officially and the sum is less. In the past it was $400 USD [per month] and now it is $100 USD and official. Many SME owners also mentioned that bribing governmental officials was commonplace in the early 1990’s but has since diminished and a number of SME owners were proud to say that currently, they do not bribe at all. However, this opinion is not shared by all SME owners; some of whom state that bribery is still commonplace.

A new positive development is the emergence of a number of officials who are reluctant to take bribes because they are worried about losing their jobs. Also bribing local officials no longer ensures a business’s safety from further inspections. Zigma told the
story of another storeowner who had bribed local officials and as a result was never fined. But one day someone snitched on him to the national tax inspection office. Soon thereafter national tax inspectors arrived unannounced at his premises. They ended up collecting 150 000 Lt (approximately $37 500 USD) in fines. Further, Egle noted that following the Russian ruble crisis in August 1998, increasing corruption amongst governmental officials resulted in a greater necessity to bribe. She suspected that this was due to the loss of alternative forms of income for many government officials who were ‘doing business’ with Russia on the side. It seems that the necessity to bribe officials is sensitive to the macro-economic situation as a whole.

5.4 Main themes: SME-related agencies

Mentality also played an influencing role amongst governmental officials and NGO representatives. Lack of transparency, NGO alliances and the role of the government were identified as important issues.

5.4.1 Mentality

Flies and spiders. Similarly to SME owners, governmental and non-governmental representatives could be identified as either ‘flies’ or ‘spiders’ in terms of their motivations and vision for assisting SMEs. In general, the ‘flies’ were individuals who were more progressive thinkers and receptive to SMEs while the spiders tended to be primarily focused on using their position for their own self-interest and benefit. Interestingly enough, we found that the probability of our interviewees subscribing to a ‘fly’ or ‘spider’ profile was not necessarily based on location. Though, our sample was limited, we were surprised to encounter progressive thinkers located not only in the larger cities but also in the medium-sized cities.

Passivity of SME owners. Many interviewees voiced their frustration regarding the high level of passivity of SME owners. In general this passivity manifests itself as a lack of socio-political initiatives with an accompanying expectation that ‘things should be organized for them by the state’. This seems to be another relic of Soviet mentality where individuals learned to not take the initiative but wait for commands that came from the top down.
5.4.2 Lack of Transparency, ‘Only the cooks in the kitchen know’

The lack of transparency of rules and regulations with regards to SMEs was seen as an obstacle both for the functioning of governmental officials as well as for SMEs. Some governmental officials commented that the lack of clarity of regulations made their jobs more difficult because they did not know themselves how they were supposed to interpret the existing regulations. In most cases, no uniform interpretation for regulations exists. The ultimate interpretation depends on the subjective attitude of a given government official. This type of situation can naturally lead to corruption and bribe taking. However, there have also been some recent improvements. In 2000, the Lithuanian tax office published a thick book containing the official interpretations of the tax laws. Up until then there had been no official standpoint as to the interpretation of tax laws.

Further, the obscurity of national rules and regulations left many interviewees suspicious that the ambiguity is intentional in order for some groups to reap personal benefits. Many believed that certain individuals (both in government or engaged in business) are enriching themselves through the frequently changing and unclear regulations. Changes to regulations are thought often to be made in order to enrich certain groups to the detriment of other groups. An example cited was the proposed legislation to enforce mandatory automobile insurance which would have enriched certain insurance companies. Further, legislation to enforce mandatory cash registers for private businesses would benefit certain other companies selling cash registers. In both cases there were suspicious links between the benefiting businesses and governmental officials.

5.5 Non-governmental organizations - alliances

Most of the NGO representatives interviewed were actively involved in lobbying for improvements for SMEs. A number were able to report progress but commented that it is still very difficult to get the government’s attention. Though some positive steps have been taken such as the creation of a special governmental SME advisory group made up of twenty-two members representing entrepreneurship organizations and other SME-related individuals, our interviewees reported that measures such as the creation of this group have been largely ineffective. Some of our interviewees also mentioned the
difficulty for SME-related NGOs to work together due to personal conflicts, rivalry and the desire of some organizations to dominate other organizations.

A main barrier for most NGOs was the lack of adequate financial resources. Some received external funding for specific projects and others had received some governmental assistance mainly in the form of rent-free premises. Membership dues and consultancy fees should also form a main source of income for these organizations but gathering these contributions was problematic. Most SME owners do not want to pay for non-tangible services such as business counseling and will only pay for tangible services such as product certification, etc. Further a number of interviewees commented that most SME owners were only interested in their immediate business needs and would not remain members of an entrepreneurial organization after these immediate needs were met.

5.6 Governmental representatives

One of our (non-governmental) interviewees made the following observation: Lithuania is in a weird situation where the government is elected but then acts like a dictatorship; acting only in its best interest and not in the interest of the people or business. A governmental official provided a plausible explanation: Everyone is worried about losing their jobs so they will not rock the boat and so directors can act like dictators. In general there has been a lack of real change at the governmental levels in Lithuania resulting from a number of old Communist leaders retaining power and exercising Soviet-style tactics and mentality.

Further, most interviewees agreed that bribery, especially at governmental levels is widespread. As one interviewee commented: This is a culture built on bribes. Without a bribe people don’t think they will get adequate treatment; they need to draw special attention to themselves in order to be assured what is often lawfully required...a person feels compelled to bribe... But there is also a flip side to the bribing coin: one government official noted that bribing is an expression of the embedded ‘Soviet’ value system. She is given ‘gifts’ by individuals who believe that this is the only way to ensure that they will be treated fairly. She feels obliged to accept because otherwise they lose confidence in her commitment to taking their case seriously.
The lack of credible statistical data exacerbates the difficult position of many government officials. To date, there are still no reliable statistics on the number of SMEs in Lithuania, let alone more specific information regarding their characteristics. However, there are currently plans to improve and upgrade data collection on SMEs.

5.7 Discussion
The barriers mentioned in our interviews that SME owners face are depicted in figure 5.1. The main barriers to legitimacy for SMEs in Lithuania are related to ‘residual communism’ in the perceptions and actions of SME owners, governmental officials and NGO representatives. Four main informal barriers emerge related to mentality, SME recognition, official transparency and NGOs alliances.

Mentality was a barrier. We identified SME owners who continue to practice Sovietized practices such as intimidation, bribing, corruption and theft in order to increase their personal wealth to the detriment of national welfare. We also identified governmental officials with similar attitudes. Interestingly enough, urban or rural location was not the determining factor. This may have to do with Lithuania’s geographic characteristics. Mentality seems to be significantly influenced by an individual’s affinity with Sovietized values or ‘residual communism’.

Desire for recognition was an important issue for those entrepreneurs who, as independent thinkers, resisted the centrally planned Sovietized lifestyle and opted for private business ownership as a way to free themselves from state bureaucracy. Incompetence, arrogance and the condescending behavior of government officials was a main source of irritation amongst SME owners as was the double standard of regulations and fines especially from SoDRA. In addition, the lack of any return or visible improvements as a result of tax payments was another source of great frustration among SME owners and may be an influencing factor in tax evasion. The inefficiency of the current court system was also cited as a problem. It seems that SME owners go to court only out of principle and not with the expectation that a fair ruling will be made. Some SME owners noted the relatively high financial loss incurred by the state in court cases even if the state wins the case highlighting another example of serious inefficiencies. These SME owners are especially frustrated by the continuing stereotype of entrepreneurs as speculators and criminals and the government’s lack of initiative to
demonstrate an appreciation for their efforts to improve their own livelihoods and contribute to national economic growth.

Lack of transparency of government regulations formed a barrier for all groups interviewed. Governmental officials expressed difficulties in applying regulations that are ambiguous and therefore difficult to interpret. Further the non-transparency of the legislative process creates suspicion as to the motives behind the ever-changing regulations.

Finally, lack of NGO alliances formed another important barrier. Currently, competition and rivalry present serious barriers to NGOs working together. Lack of grassroots experience and the lack of desire to form strategic alliances amongst SMEs is a contributing factor. Forming strategic alliances could help pave the way for increased efficiency and influence.
Figure 5.1: Barriers to SME operations

Transitional Environment

**Role of the State**

**FORMAL RULES**
- Government regulations
- Frequent changes to regulations
- Government inspections
- Lack of transparency
- No benefits for compliance

**INFORMAL RULES**
- Corrupt court system
- Negative attitude towards SME owners
- Lack of accountability of government officials
- Lack of professionalism
- Bribery culture

**Macro & Micro ENVIRONMENT**
- Lack of skilled labor
- Lack of NGO alliances

**Business Owner SKILLS**
- Passive attitude

SME Business operations
5.8 Conclusion

In terms of transitional processes, our interviews seem to indicate that Lithuania finds itself in an interim phase where productive, unproductive, and even destructive business practices coexist. With time and with the continuing interaction and orientation towards acceptable Western European practices, we can expect both Lithuania’s entrepreneurs and Lithuania’s business environment to converge with those practices established in the West. However, we can also expect the attitudes reflecting embedded Sovietized values to be resistant to change.

Our interviews highlight the continuing influence of numerous barriers to SME operations including formal, informal, environmental and skill based factors. Personal attitude, however seems instrumental for adherence to Sovietized values i.e. ‘residual communism’. A number of these outdated practices seem to interfere with the development of productive entrepreneurship in Lithuania. Four main barriers emerged related to mentality, SME recognition, official transparency and NGO alliances. The government can play an instrumental role in stimulating a positive pro-entrepreneurship environment. Policy recommendations are further presented in Chapter 9.
Chapter 5 Notes

* The names of the SME owners given are fictitious in order to protect their anonymity.

1. For a further discussion on the methodology used and table containing sample characteristics, see chapter 3.14.2.

2. These responses were obtained through a filled-in questionnaire distributed as part of the Litsme survey (see appendix chapter 3.3). The actual question in the survey asks: 'It is thought that many firms in your industry in order to survive and grow, may need to misreport their operational and financial results. Please estimate the degree of underreporting by firms in your area of activity'. Though it is assumed that SME owners will be reluctant to reveal the level of their own under reporting, we presume that SME owners will most often respond based on their own experiences, and with caution we believe the responses can be interpreted as indicating the SME owner's own behavior (for similar methodology, see Johnson et al., 2000).

3. See appendix 3.1 in Chapter 3 for further description.

4. For further description, see Baumol (1993).

5. In the USSR, there existed a criminal offence of 'speculation' that stigmatized trade and private production. In addition, 'speculators' were frequently blamed for shortages.

6. Similar findings were noted with regards to privatized agriculture in a number of transition countries. Locals were often unwilling to work for a private farmer as 'waged laborers' because of its negative connotations even if it improved their standard of living (World Bank 2000:77).

7. Thirty six percent of all rural households and forty six percent all urban households owned a private automobile in 1999 (Lithuanian Department of Statistics 2000).

8. Less than 19 percent of the SME respondents indicated that firms in their industry report 100 percent of their earnings (see Aidis 2002a).

9. See Chapter 1.5.

10. Minimal information is provided regarding the position of our interviewees in order to protect their anonymity.

11. For further discussion regarding formal and informal types of barriers in transition countries see chapter 2.2.