

# The Role of Ethnic Social Capital in the Operation of Entrepreneurs in Transcarpathia, Ukraine

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## Abstract:

*Owing to its geopolitical position, the history of shifting borders and multiethnic-multilingual population, Transcarpathia provides a convenient environment to study how ethnicity interplays with economy. The aim of the present research is to examine the role of formal and informal ethnic social capital in the life of Transcarpathian enterprises. The research is based on mainly semi-structured interviews conducted with foreign investors in Transcarpathia and with local Transcarpathian Hungarian entrepreneurs as well as with representatives of business organizations related to the given community. I also conducted analysis of economic data bases and statistical data. The results of the research imply that informal relationships are essential in the operation of enterprises, however, these relationships are not always organized on an ethnic basis. I argue that the institutionalized relations have not played an important role in the case of foreign enterprises. However, among Transcarpathian Hungarian entrepreneurs the role of formal ethnic relations has increased due to the financial support provided by Hungary.*

## Keywords:

**Transcarpathia, Ukraine, ethnic social capital, entrepreneurship, transnationalism**

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## 1. Introduction

Related international scholarship has shown that people and communities having widespread social networks get by easier in their lives, gain faster access to information or complete their everyday tasks more successfully. This characterises the business sphere in particular as well. Social capital is a crucial resource for business enterprises (Kovály 2019; Kovály, Čermáková 2016; Light, Dana 2013; Light, Gold, 2000; Perreault et al. 2007). Communities that have acquired social capital produce economic growth faster (Putnam 1993a; 1993b; 2007),

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and companies have the potential to gain economic advantages with using their social capital effectively (Light 1984; Light, Dana 2013), mainly due to decreasing transaction costs<sup>2</sup>, faster information flow and management of administrative issues (Allen 2000, Waldinger et al. 1990).

In the former Soviet member states (including Ukraine), during communism, due to the oppressive impact of planned economy, informal economies<sup>3</sup> had become widespread (eg. avoiding certain tax payments, hiding profit or certain statistical data such as the turnover of goods, or non-compliance with contracts, etc.) (Feige 1990), that have continued to exist after transition (Borbély 2015; Sik, Surányi 2015). In countries experiencing severe socio-economic problems like Ukraine, where democratic institutions malfunction due to widespread corruption techniques, embedded informal economy and over-bureaucratized state administration (Fedinec et al. 2016), economic actors seek additional sources of guaranteeing their contracts, for which they rely on ethnic and/or family kinship ties (Sereda 2013). These are the main resources in such an opaque market environment while starting up and managing enterprises (Bálint 2008; Czakó et al. 1995; Sik, Wellman 1999.). These enable simpler coordination, lower transaction costs for companies' operation (Landa 1991), thus the role of informal social networks gains an even higher value.

The present study examines the role of a special element of social capital, which is ethnic relational capital<sup>4</sup>, in the westernmost region of Ukraine, within the operation of companies, concerning also cross-border ethnic kinship relations. Transcarpathia is an especially suitable site for examining transnational ethnic kinship relations. Frequent changes in ruling powers paralleling changes in state borders<sup>5</sup> in addition to the geopolitical situation of the region have resulted in a multiethnic regional landscape. This diversity has gone through a homogenisation

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2 Transaction costs are costs of research, information, bargaining, controlling, and enforcing (Orbán, Szántó 2005).

3 It is important to distinguish between illegal and informal economic practices. The former embraces the production and distribution of goods that are illegal (eg. drugs, prostitution, gambling, etc.), the latter mostly covers business production, transactions and interactions that are legal (Portes, Haller 2005).

4 The term ethnic relational capital has been introduced into Hungarian academic discourse by the author of the present study. See in details: Kovály 2019.

5 Present-Day Transcarpathia has been under the rule of the Kingdom of Hungary since its foundation until 1918, nearly for a millennium in total. After the Peace Treaty of Trianon, it passed under Czechoslovak rule under the name Podkarpatská Rus. During World War II, it was re-attached to Hungary, then in 1945 it became part of the USSR, in particular of the Ukrainian Soviet Socialist Republic. Consequently, the region has remained under the rule of Ukraine since the collapse of the Soviet Union in 1991. At present, it is part of independent Ukraine.

process, still, it has been present until nowadays. Beside the Ukrainian ethnic majority, mainly Hungarians increase ethnic diversity, but Roma, Romanians, Russians and Slovaks also live there in considerable numbers<sup>6</sup> (Kocsis et al. 2006). In this way, cross-border interpersonal relations have special impact on socio-economic processes. Consequently, the main aim of the present analysis is to reveal the correlation between social-ethnic relations and economic efficiency, paying special attention to the role of informal and formal ethnic relations in the activities of business actors and in their access to certain resources.

The present paper attempts to answer the following questions: (1) What is the impact of formal and informal ethnic kinship ties on examined business actors' operation? (2) What is the role of ethnically based social capital in founding and operating business enterprises in the focus of the present research, and in their access to resources? (3) How do ethnic relations influence the economic development of examined business enterprises?

Ethnic diversity can namely have both negative (instead of cooperation, considerably closed communities may produce opportunist, self-directed individual behaviours that may increase transaction costs, while lacking cultural and language skills, such communities may experience handicaps in economic competition compared to other market actors) and positive impacts (creativity, language skills, social loyalty, etc.) on the economy as a whole (Csata 2015).

In the analysis of business enterprises' success, embeddedness<sup>7</sup> became also a key factor that has been broadly known due to Granovetter's works. Granovetter (1973; 1985; 1995) states that strong bondings within a given ethnic group are crucial for successfully starting a business enterprise, however they do not contribute to the enterprise's business development beyond the community. Therefore, those business entrepreneurs that intend to develop must have weak bridging ties within their own ethnic group, while having a broad social network expanding beyond their ethnic kin group. The stabilising power of weak ties can

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6 The last census in Ukraine dates back to 2001, thus the ethnic composition of the Transcarpathian population is based on only this outdated statistical source. The data showed that 80.5% of the local population is Ukrainian. The largest minority are Hungarians (12.1%), they are followed by Romanians (2.6%), Russians (2.5%), Roma (1.1%), Slovaks (0.5%) and other ethnicities (0.7%) (ukrcensus.gov.ua).

7 The term was created by Polányi (1944), who found in a critical analysis of capitalist systems that the functioning of the economy is determined not only by market factors but also by the structural and cultural dimensions of society. In his interpretation the main forms of economic integration in pre-capitalist, archaic societies were primarily reciprocity (exchange, returning of favours) and redistribution (redistribution of goods), which were embedded not in economic relations but in the culture or politics (e.g. religious, moral, legal or political sanctions, kinship and acquaintance relations).

be even harmful, for if the network is over-stabilised, it is incapable of growing (Barabási 2013).

Orbán and Szántó (2005) group the two types of social capital according to a similar concept, depending on the quality and strength of relations. They differentiate between (a) connecting or exclusive social capital, characterised by strong bondings (eg. bondings within the family or ethnic kin group), and that has the potential to create homogenous group and community consciousness; (b) bridging or inclusive social capital, that is characterised by weaker, less dense, but rather bridging intergroup relations. This kind of social capital is rather suitable for establishing relations across groups or social strata (Putnam 2000).

## **2. Theoretical background**

Hanifan (1916) was among the first ones to use the expression of social capital, while Bourdieu introduced it in the academic discourse. He used the terms of cultural, symbolic and social capital, expanding beyond the traditional definition of economic capital. In his approach, social capital is a set of resources that depends on individuals' belonging to certain groups, and that is used by certain actors for establishing a network of relations (Bourdieu 1983). According to Bourdieu, the volume of individuals' social capital depends on the scope of social networks they are able to mobilize. Later Coleman made the term of social capital more widely known. He determined it as a resource that appears within the structure of relations between various actors, and supports their actions within this structure (Coleman 1988). Bourdieu and Coleman have viewed social capital as a form of private good, albeit the latter also represented its characteristics as public good: he calls attention to the phenomenon that certain types of social capital are not only utilized by those who produce them, but in parallel in the whole community, as the members of the community cannot be excluded from utilization (see also: Sik 2012). In contrast, according to Putnam (1993a; 2000), social capital is obviously a form of public good that consists of bondings, trust, reciprocity, solidarity and institutions, and that can be transferred from one social environment to another. "According to Putnam, the most important aspect of social capital is that social networks represent a value originating from them, and that it is created by trust, reciprocity, information and cooperation." (Putnam 1993a, quoted by Gödri 2010: 40).

Fukuyama (1997) defined trust as the main indicator of social capital, and while defining it, he emphasised two components of it: cooperation and mobilisation. According to him, the main criterion of utilisable and expandable

resources (meaning social capital) is, if social norms are activated in a given social relationship, and mobilised in order to achieve mutually beneficial cooperation. This means that Bourdieu and Coleman viewed the most significant role of social capital in the prosperity of individuals, while Putnam and Fukuyama considered it as an important factor in socio-economic progress. According to Lin (2001), social capital can be acquired from embedded social relations. Bolino et al. (2002) approached social capital as a resource that stems from relationships between individuals, organisations, communities or societies, and is reflected in the close interpersonal relationships of those. According to Portes and Sensenbrenner (1993: 284) social capital is created within a group if: (1) members share common beliefs and value introjections; (2) they cooperate in a regime of reciprocal exchanges; (3) members of the group share common challenges, and consequent bounded solidarity; (4) if there is social control within the group that disciplines group members and keeps them within the group, i. e. if there is enforceable trust within the group.

There is a wide range of international scholarship dealing with the role of social (and relational) capital in the field of business enterprises as well. Bosma et al. (2002) state that relational capital — similarly to human capital<sup>8</sup> — increases the efficiency of business enterprises, mainly for the reason that social relations results in a desirable (usually more convenient than real) image of a given company for competitors, potential business partners or customers (see also: Sik 2006). According to Light and Dana (2013) the economic role of social capital lies in individuals' relations, in the characteristics of these and in individuals' potential to mobilise them in order to acquire resources. Fafchamps and Minten (2002) conclude that the usefulness of relational capital in an imperfect market environment is that entrepreneurs realise benefits from knowing others. This can occur through growing trust in others and the community, stemming from personal relations. New relationships created due to growing trust may support entrepreneurs in acquiring cheap and credible information in the spheres of the market, potential economic partners or customers, etc. (see also: Sik 2006: 81). Demianchuk (2016) states that the social capital of business enterprises results crucial outcomes such as profitability or efficiency. Smoliar (2010) stresses that the social capital accumulated in given enterprises has a positive impact on the innovative potential of companies, training and faster adaptation of employees, and decreasing transaction costs. Hricaenko (2017) defined social capital as

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8 The first recorded use of the term is related to Petty (1690). It means the acquired knowledge that enables individuals to create material goods and services, or to increase the value of those.

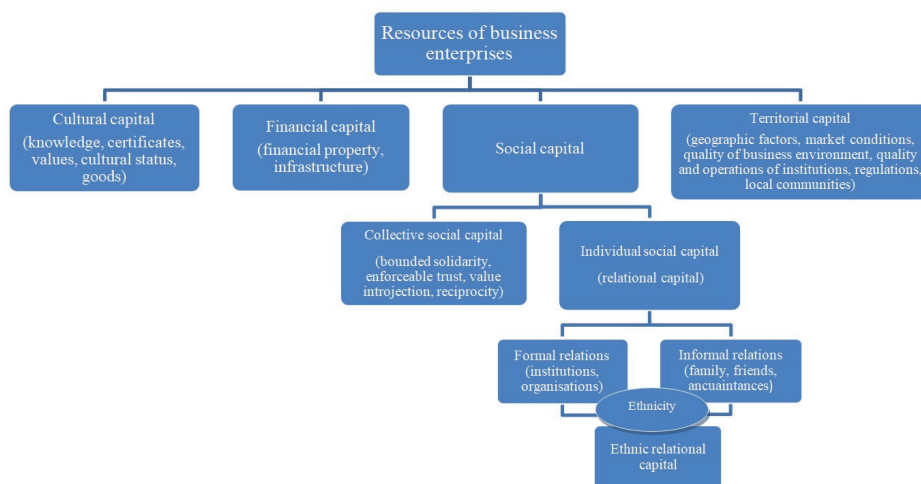
relationships resulting in economic benefits and income, being created within the network of a given social group, and being formed along norms and trust within the group. According to him, social capital is created within those social groups in which members, who maintain informal relations among each other for mutual benefits and providing support, are bound by common interests. Balanda and Nadraha (2013) measures the development level of a given business enterprise's social capital — among others — with the development level of informal relations.

In conclusion there is not a single explanation of social capital. Most definitions, however, are centred around the role of relations and trust, which result in benefits. It is noteworthy that while Anglo-Saxon and Eastern Slavic scholarship usually does not separate relational or relationship capital from social capital — often uses these terms as synonyms, and observes relations as central elements of social capital, in contrast, relations in Hungarian scholarship are interpreted merely as an element of social capital, and authors often use the term relational capital.

### **3. Methodology and conceptual framework**

First and foremost, I need to clarify the concepts of social and relational capital, as applied in the present paper. As the previous subchapter has shown, various scholars defined them in various ways, and an exclusive definition of it does not exist. Similarly, there is no consensus regarding the question which types of capital constitute social capital and which are the ones that can be defined independently from it (see in details: Kovály 2019). Still, scholars of various disciplines have concluded consensually that the central elements of social capital are trust-based relations. Therefore, during the research I used a particular approach to social and relational capital, relying on existing academic publications, but adapting it to the research field (Chart 1). In alignment with Hungarian scholarship, I view relational capital as an element of social capital, emphasising the role of individual and collective resources (Gödri 2007) that can be acquired through relations embedded in personal networks and through network relationships. Based on Gödri's (2007), as well as on Portes and Sensenbrenner's (1993) definition, in my approach, relational capital consists of those formal/professional (eg. business relations, banks, professional organisations) and informal/personal (eg. family, friends, acquaintances) relations, that enable individuals to interact with each other. Based on the definitions of Sik (2012) and further authors (Coleman 1988; Gödri 2010; Ligh, Karageorgis 1994; Portes, Sensenbrenner 1993) I define ethnic relational capital as the aggregate of relational capital's formal and informal relations, that can be acquired through one's belonging to a given ethnic

group, and that is accessible for all members of the group, thus it serves the benefit of the whole community. It means that in the present research I observe ethnic social capital within the framework of formal and informal relations, focusing on the aspect of trust and cooperation.



**Chart 1: The definition of ethnic relational capital as used in the study**

Author's own contribution

The second central term of the present paper is transnationality. For the reason that similarly to social capital, a consensual definition of transnational social capital does not exist either, hereby I define it along Vertovec' (1999) broader definition of transnationalism, furthermore Nahapiet and Ghoshal's (1998) definition: Transnational relational capital means relations and interactions between individuals or institutions and potential and actual resources embedded in these or acquirable through these, that transcend the borders of nation states. If such cross-border relations and interrelations emerge within an ethnic group, I define it as transnational ethnic relational capital (Chart 2).

The empirical basis of the present research consists of 47 semi-structured interviews. I conducted these with representatives of local Transcarpathian Hungarian and foreign business enterprises, heads of economic organisations and experts in the field between 2015 and 2019. Regarding local Transcarpathian Hungarian business enterprises the Berehove (Hungarian: Beregszász) district provided the geographic scene of the research, as it is the only district in Ukraine and in Transcarpathia as well, where Hungarians constitute the ethnic majority (Kovály et al. 2020), and where Hungarian business enterprises are present in



considerable numbers. Those business enterprises classify as local Hungarian of which the founder/owner is Hungarian by ethnicity and/or by native language. In terms of foreign investors, I focused on Hungarian, Romanian, Slovak and Russian investors, based on the ethnic composition of the local population. I attempted to ask representatives who had had local entrepreneurial experience for several years, aiming to represent the local ethnicities and (economic) sectoral diversity proportionally.

**Chart 2: Relational capital concepts defined in the research**

Level of realisation	Type of relations	Type of capital
Individuals	Interpersonal networks of relations (trust, cooperation)	Relational capital
Ethnic groups	Intraethnic networks of relations (trust, cooperation, solidarity, assistance)	Ethnic relational capital
Nation states	Transnational intraethnic networks of relations (cross-border cooperation)	Transnational ethnic relational capital

Source: Author's own contribution

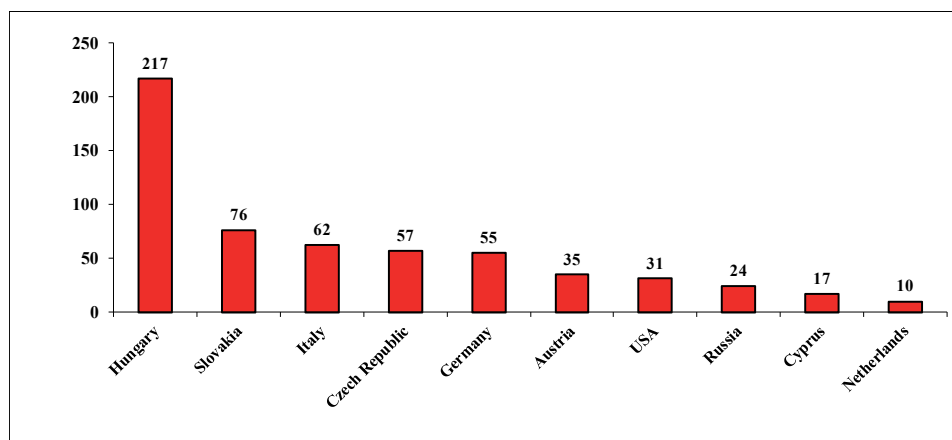
The main data source about foreign investors was the register of companies, detailed at the level of settlements, provided by the Transcarpathian Regional Main Statistical Office that contained the name of the company along with the address of the companies' seats, and the citizenship of locally investing foreign legal or natural persons. On this base, it was possible to map the seats of locally operating foreign business enterprises according to their home countries. With the help of mapping – completed with the opinion of informants – I attempted to unveil the role that formal and informal networks of ethnic relationships play in the process of choosing examined business enterprises' seats, and how these factors had influenced launching and operation of business enterprises. In the case of local ethnic Hungarians' companies it was not possible to complete the mapping process, for registering companies in Ukraine does not require the indication of owners' ethnic background. In this case I assessed the role of ethnic social capital in business enterprises with the help of other statistical data and qualitative methods.



## 4. Results

### a) Foreign investments in Transcarpathia

In Transcarpathia (and in Ukraine as a whole), foreign investors usually encounter a business environment that considerably differs from that of their (usually Western European) home countries, and where uncertainty looms in the legal, political, economic field along with corruption, and other similar potential influence factors. These, completed with the lack of knowing the local language, seriously hinder foreign investors in starting up and managing businesses (Kovály 2018). Entrepreneurs' informal, personal relations play a distinguished role in this uncertain investment environment. In 2017, 625 foreign founded business enterprises operated in the region (Chart 3) that had foreign direct investment (FDI) from more than 50 countries. For the reason that Hungarians, Romanians, Russians and Slovaks constitute the most sizable minority ethnic groups in Transcarpathia, I am going to more thoroughly examine the FDI that is related to them.



**Chart 3: Foreign-related companies in Transcarpathia in 2017, according to major investing countries**

Source: Author's own contribution based on the data of the Transcarpathian Regional Main Statistical Office

Hungary is traditionally one of the main foreign trade partners of Transcarpathia, it realises the largest turnover of goods (35.4% of total turnover of goods in 2020), and it has been leading the list in registered foreign companies since decades. In contrast, Hungary has a share of only 3.5% of investments in the region, which means that small and medium-sized enterprises dominate among

the companies with Hungarian ownership. Beside the entirely Hungarian-owned companies, relying on Transcarpathian Hungarian economic actors, there are several Ukrainian-Hungarian joint ventures<sup>9</sup> in the region that involve members of the Transcarpathian Hungarian minority (Ludvig 2008).

The Transcarpathian Hungarian minority, consisting of nearly 150 000 persons, has always had strong ties with its kin state. Business and friendly relations have not ceased to exist despite the changes of borders, various political regimes and strict border crossing protocols. There is hardly any Hungarian family in Ukraine that has no relatives in Hungary or that is not in business relationship<sup>10</sup> with kinspeople in Hungary. I have encountered several informants investing from Hungary, who had started to operate business enterprises already during the Soviet period in Ukraine, and who launched business enterprises again, already in independent Ukraine reviving their earlier connections. In conclusion, it can be stated that cross-border ethnic kinship ties, and transnationality play a crucial role in the everyday life of locals.

Analysing the territorial distribution of enterprises in Transcarpathia with investors from Hungary (Chart 4), it can be stated that most of the seats they founded are concentrated in Hungarian-inhabited settlements along the Ukraine-Hungary state border. According to my respondents, this is due to the presence of the local Hungarian minority, the lack of language barriers along with the geographical proximity to the border. Quantitative data also show that in parallel with other investors, business actors from Hungary also prefer larger cities (Uzhhorod, Mukachevo, Berehove, Khust). However, respondents from Hungary almost exclusively launched their business enterprises in Transcarpathia relying on their earlier business, family or friendly relations with local Hungarians in Transcarpathia, confirming the significance of informal ethnic kinship ties. Furthermore, there were several respondents that were born in Transcarpathia, had been residing for a longer period in Hungary, but were still bound to the region with family relationships, thus they desired to repatriate their capital to their home. According to them, the primary motivations for these investments were not based on financial, rather on emotional considerations:

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9 In such enterprises it is usually the foreign investor that possesses more developed technologies and higher volume of capital, while local business partners ensure market-related knowledge and familiarity with the political and legal environment (Imre 2013: 23).

10 Meaning both official cross-border economic cooperations between companies operating in Hungary and ethnic Hungarian entrepreneurs in Transcarpathia [hereinafter referred to as Hungarian-Hungarian economic cooperations], and business relations based on illegal fuel- tobacco or swopping that have been characteristic since the Soviet period along the Ukraine-Hungary state border.

Now what shall I tell you? My father is buried here, in this place. I already have my own life, my own business. But I am still bound here, I have many friends, good acquaintances here. I wanted to bring back something to my native land. (Elderly investor from Hungary)

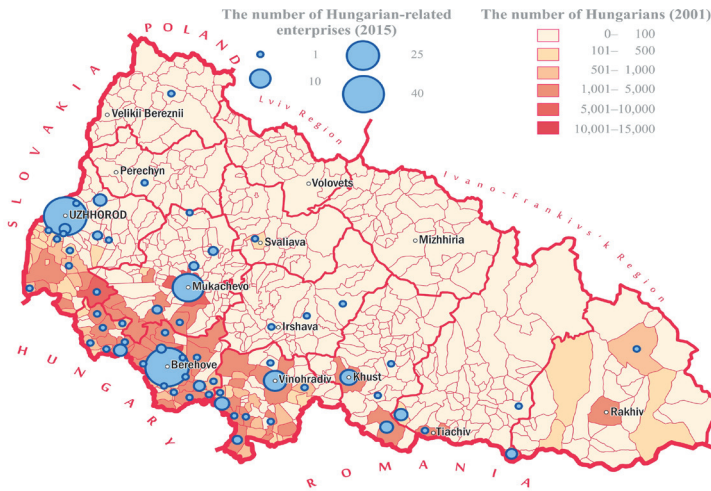
I also asked my respondents whether ethnic belonging plays a role when choosing their business partners and employees. Based on their answers it can be stated that this was not a significant factor – besides micro-enterprises – when choosing employees, but when selecting business partners and direct colleagues they preferred ethnic Hungarians. This can be clearly explained with the shared language and cultural similarities, however, informants also said that they trust ethnic Hungarians more. This is supported also by the finding that interviewed investors from Hungary all had chosen local “right hands” (lawyers, accountants, executives) of Hungarian ethnicity, who assisted them during starting up and later managing their enterprises.

The importance of informal economic relations is also supported by the phenomenon that however investors from Hungary establish connections with official local Hungarian organisations (eg. Alliance of Transcarpathian Hungarian Entrepreneurs, Hungarian National Trade House), but these connections are rather achieved relying on already existing friendly or business relations.

Romanians are the second largest examined minority ethnic group in Transcarpathia. Despite the fact that the Romanian community in Transcarpathia, consisting of 32 000 persons having strong ethnic and political consciousness (Serhienko 2013), their relationship with their kin state is much looser than that of the Hungarian minority. This is the result of the historical process of drawing respective state borders<sup>11</sup> on the one hand, and the limited and complicated border crossing procedures on the other (Kovály 2018). Visiting friends or relatives across the Ukraine-Romania border is not a significant motivation in crossing the border, thus its ethnic aspects are not predominant. Regarding formal economic cooperations between Ukraine and Romania, these are not too intensive in practice, despite several official framework agreements (Cheipes 2010).

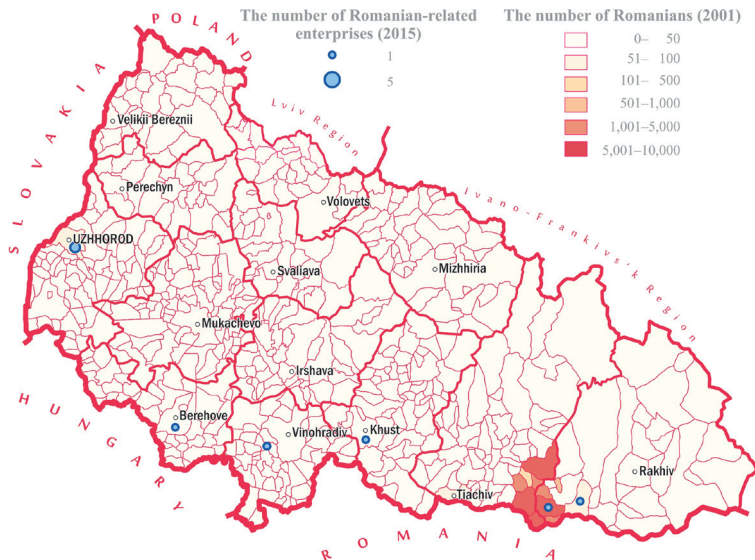
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11 Following the post-World War I border changes when Romania's state border was drawn along the Tisa river, crossing the border became complicated, the Romanian communities separated by the river had hardly gotten in touch with each other. Furthermore, it is important to note that the Romanian settlements of Transcarpathia have never been under the control of the Romanian state, thereby the Romanian nation building process did not affect local Romanians' identity (Kántor 2004).



**Chart 4: Spatial distribution of Hungarian-related business enterprises in Transcarpathia**

Source: Author’s own contribution based on the data of the Transcarpathian Regional Main Statistical Office. Cartography: Fanni Koczó



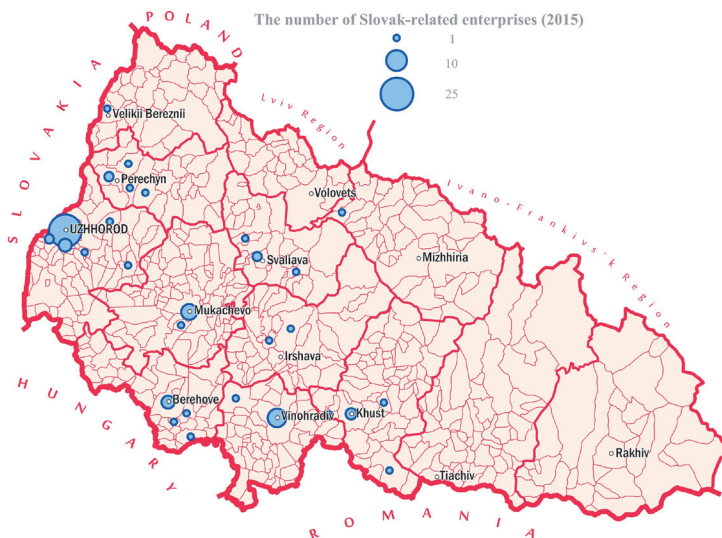
**Chart 5: Spatial distribution of Romanian-related business enterprises in Transcarpathia**

Source: Author’s own contribution based on the data of the Transcarpathian Regional Main Statistical Office. Cartography: Fanni Koczó



**Chart 6: Spatial distribution of Russian-related business enterprises in Transcarpathia**

Source: Author’s own contribution based on the data of the Transcarpathian Regional Main Statistical Office. Cartography: Fanni Koczó



**Chart 7: Spatial distribution of Slovak-related business enterprises in Transcarpathia**

Source: Author’s own contribution based on the data of the Transcarpathian Regional Main Statistical Office. Cartography: Fanni Koczó

Romania's share in Transcarpathian foreign trade is not considerable. In 2018, only 0.5% of FDI originated from Romania (TRMSO 2019), and the number of business enterprises operating with Romanian capital is also insignificant. However, the number of the latter is small, it is an important statement regarding the analysis that for ethnic Romanian investors, ethnic kinship relations did not play an especially remarkable role when choosing their seats. Based on the respondents' statements, cross-border connections between foreign entrepreneurs operating in Romania and ethnic Romanian entrepreneurs of Transcarpathia are not crucial, Romanian investors did not establish their seats according to their ethnic kinship relations. This is quite visible on Chart 5, which shows the geographic distribution of business enterprises in Transcarpathia with Romanian background. They are not concentrated around the locations where local ethnic Romanians live, but rather around settlements with stronger infrastructure and in cities that act as labour market hubs. However, it must be emphasised that my respondents from Romania had chosen their company seats through already existing acquaintances, relying on informal relational capital. In the case of these companies English was the intermediary language, while in two cases local Romanians were invited to assist as interpreters.

The third ethnic group in the focus of the present research are Russians. In spite of the continuous presence of Russian business enterprises in the region since the Soviet period, Russia's economic interactions with Transcarpathia are not significant. In 2020, merely 0.2% of total FDI arrived to the Ukrainian region from the Russian Federation (TRMSO 2021).

Based on quantitative and qualitative analysis, it can be stated that business entrepreneurs with an ethnic Russian background choose the location of the seats of business enterprises similarly to Romanians, based on available infrastructural facilities and labour market hubs (Chart 6). This may even coincide with the locations where ethnic Russians of Transcarpathia are concentrated, that means Uzhhorod and Mukachevo in the first place. Respondents stated however that due to the shared historical past of Russians and Ukrainians, resulting linguistic and cultural proximity, and similar mentality, investors arriving from Russia to Transcarpathia find the local atmosphere familiar, and do not require the assistance of local ethnic Russians.

Slovak is the last ethnic minority to be observed in the present study. According to respondents, self-organisation of local ethnic Slovaks and the intensity of their ties with their kin state are not considerable. This is mainly a result of their assimilation into the Ukrainian ethnic majority and the low level of their Slovak ethnic consciousness (Kovály 2019; Vidniainski 2003).



Slovak FDI is not significant in Transcarpathia, either (1.8% of total FDI), however, similarly to Hungary-related business enterprises, the number of Slovak ones is also considerable (Chart 3). Regarding the latter, it can be stated that similarly to business entrepreneurs of the other examined ethnic groups, Slovak companies are also concentrated in the bigger cities offering more convenient business environments (Chart 7). In contrast to Hungarian companies that mostly seek locations for company seats near the Ukraine-Hungary state border or in settlements where their ethnic kins live in a more concentrated way, investors from Slovakia are not concentrated in the settlements where the local ethnic Slovak minority is. It must be added that unlike investors from Hungary or Romania, their peers from Slovakia easily get by with the Ukrainian language. According to them, it does not cause difficulties for them.

I speak Slovak, my executive speaks Ukrainian and we usually arrange meetings via Skype. This is not a problem, we understand each other. If I don't understand something, I infer its meaning, but basically this is not a problem. (Middle-aged investor from Slovakia)

It must be noted as well that in contrast to local ethnic Hungarians or Romanians, it is way more difficult to find local ethnic Slovak business partners, since the territorial concentration of the ethnic Slovak minority is considerably lower, and their proportion to the total population of Transcarpathia is minimal. Furthermore, only 35% of local Slovaks indicate Slovak as their native language, for most of them Ukrainian or Russian is the first language (Molnár, Molnár D. 2005).

It is noteworthy that my respondents had a mostly consensual opinion, that the majority of foreign investors arrive in Transcarpathia through informal networks, regardless of their ethnicity, and usually start their orientation in Ukrainian market conditions, gain information about the circumstances of launching and operating companies through already existing friendly/family-based information channels. Interviewed foreign investors almost exclusively established their company seats, where they had acquaintances. It is also worth mentioning that those foreign investors who have ethnic kins on the Ukrainian side of the border, also exhibit stronger mental connection to Transcarpathia. Investors from Hungary, Slovakia and Romania share the opinion that they can more easily identify with this region in terms of architecture and culture than with Ukrainian regions on the Northwestern side of the Carpathians. In this way, this mental factor also played a role in their choosing a company seat in Transcarpathia, rather than in other regions in Ukraine.



*b) Local Hungarian enterprises in Transcarpathia*

The general socio-economic conditions in Ukraine determine the framework for local Hungarian business enterprises in Transcarpathia. Local entrepreneurs have faced several problems until the very day: the general political, social and economic uncertainty pairs with growing emigration and unemployment rates (Karácsonyi et al. 2019; Karácsonyi, Kincses 2020), that has been aggravated by the covid-19 pandemic (Kovály 2021). Due to these negative tendencies, the willingness of the local population to launch new businesses is rather low<sup>12</sup>, while several business enterprises have been based on necessity as the main motivation (Kovály 2017). To counterbalance this tendency, the government of Hungary launched its Ede Egán Economic Development Program (hereinafter Ede Egán Program) in Transcarpathia, that has resulted in the creation of or providing new impetus to several business enterprises (Kovály 2021). The aim of the program is strengthening already existing business enterprises of local Hungarians in Transcarpathia in addition to encouraging the foundation of new ones in order to keep local Hungarians in their native areas and ameliorating their existential background. Since the launch of the program, it has supported almost 5.7 thousand local business enterprises, and has provided them with 50.1 million Euros of non-refundable aid along with 55.7 million Euros of soft loans. Furthermore, several other financial resources have been being provided for ethnic Hungarians in Transcarpathia (eg. infrastructural investments, salary supplements) from the kin state (Bányai 2020a; 2020b; Tátrai et al. 2016). All these forms of support made a considerable impact on the general operation of local Hungarians' business enterprises and on local economic processes. It is interesting, for example, that in a research, the response to the question posed to young ethnic Hungarian entrepreneurs living outside Hungary in 2016, whether belonging to the Hungarian minority is an advantage or a disadvantage, in comparison with the other regions, Transcarpathians assessed their situation the most negatively. 62% of respondents said that local ethnic Hungarian entrepreneurs' chances are worse than that of ethnic Ukrainians, 36% said their circumstances are equal, while only 2% responded saying that their ethnic Hungarian background is an advantage (Czaller et al. 2016). In 2017, however, a research focusing on Hungarian family enterprises showed much more positive opinions. Only 22% of the informants said that local ethnic Hungarian business entrepreneurs' chances are worse, 47% thought that there is no difference compared to ethnic Ukrainian entrepreneurs,

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12 According to a research completed in Transcarpathian settlements with Hungarian ethnic majority dating back to 2016, hardly 60% of respondents have felt willingness to launch or operate enterprises (Pataki 2016) that is also very low in comparison with their peers within the Carpathian Basin (Czaller et al. 2016).

while already 30% of respondents thought that local ethnic Hungarians' chances are better. These results most probably stem from the effect of the participation in the Ede Egán Program and the possibilities provided by other Hungarian funding sources. The program does not explicitly exclude ethnic Ukrainians, but applications must be prepared in Hungarian and applicants must prove their Hungarian ethnic background. Furthermore, the creators of the funding program declared their goal as supporting local ethnic Hungarians, consequently they target this group while distributing the funding resources, creating competitive advantage for local ethnic Hungarian business entrepreneurs compared to the ethnic majority.

Based on the present research results it becomes visible that most of the examined local Hungarian business entrepreneurs are necessity entrepreneurs. This situation evolved due to the malfunctioning of the Ukrainian state (either in the first years of Ukraine's gaining independence, or later due to low salaries). The largest obstacles for such enterprises out of necessity is that their management does not consist of professionals, they very often do not have the most basic professional knowledge to operate the enterprise: they have little idea about economic processes, they do not see through the Ukrainian taxation and legal system, generally they have not received formal education in trade or business management.

Another common feature of the examined business enterprises is that they usually operate as closed family enterprises, which open up very hardly to external partners. This has two reasons. (1) Economic: if tasks stay within the family, fewer employees are needed, therefore profit is also higher. (2) Trust-based: they really only trust their direct family members, based on their previous bad experience. Even for those entrepreneurs who do not run their companies as a family business, family members or friends are the strongest supporters, they very scarcely turn to accountants, lawyers or other entrepreneurs for assistance (Kovály 2017). It means that the most important driving force for business enterprises are their resources stemming from informal relations.

As mentioned above, informal relations first and foremost serve the amelioration of the inoperable economy's malfunctions. In those countries, where reinforcing contract law is hindered – and Ukraine undoubtedly qualifies as such –, business entrepreneurs try to reach their goals in the safety net of primordial relations, therefore the role of informal relations gain value. Making use of such relations requires lower transaction costs, this determines the limits of trust. Family members, relatives but also kin group members are embraced in such relationships. Multilayered nexuses, arranging matters “under the counter” play a distinguished role for Transcarpathians who had no choice but operating in a shortage economy (Kovály 2017, 2019, 2021). Interviewed entrepreneurs almost unequivocally

agreed with the statement that informal friendly and business relations play one of the most significant roles in the operation of their companies, simplifying bureaucratic procedures and decreasing transaction costs. Respondents' unison opinion is that they would not have been able to successfully launch and operate their business enterprises without their informal relational capital.

Concerning Hungarian-Hungarian economic cooperation, for the reason that ethnic Hungarians of Transcarpathia have not been appeared in all segments of the entrepreneurial sphere – mostly because of lacking alternatives – they cannot decide about their potential partners on an ethnic base, therefore it is very hard to determine how much economic ethnocentrism is characteristic of them. Based on interviews with entrepreneurs and experts, it can be stated that there is minimal cooperation or intra-sectorial networking among local Hungarian entrepreneurs. This can be traced back to the already mentioned lack of professional knowledge: entrepreneurs do not see through economic processes sufficiently, they do not have the professional knowledge to recognise the advantages of integration.

The other significant reason, why examined Transcarpathian Hungarian enterprises do not cooperate is the scarcity of capital. “[T]here is not a good enough economic situation in Ukraine to allow the statement that one person makes business with the other only because both are Hungarians. If it is financially beneficial, they will cooperate. But if one of the parties feels that it will not be at their own benefit, it will never transform into business.” (Young Hungarian economic expert). Hungarian enterprises are usually small, and have few business partners. Moreover, due to the tight budget they are strongly price sensitive, which narrows the space for alternative decisions further. Thus when selecting business partners, ethnicity plays a secondary role, most enterprises cannot afford to be picky, and they operate along the forced track determined by financial conditions.

The research also allows the conclusion that the willingness for Hungarian-Hungarian cooperation is evoked also by the general lack of trust besides the lack of expertise and capital. My respondents were distrustful towards people outside their direct family circles. It must be emphasised that the willingness to start new businesses in Transcarpathia is quite low (Pataki 2016), and entrepreneurial spirit, entrepreneurial cooperation does not have real traditions, either. They have been livened up somewhat only due to the effect of the Ede Egán Program. The local Hungarian elites, who became business entrepreneurs due to funding from Hungary, had gained their primary capital investment source from earlier informal transactions (smuggling, illegal trade along the border, swopping, etc.) (Borbély 2019), thus for them entrepreneurial practice, entrepreneurial thinking are both new phenomena. Those entrepreneurs that do not shape their economic

activities along informal practices fundamentally do not trust the previous group, which hinders cooperation.

Transnational Hungarian-Hungarian economic relations do not characterise examined local Hungarian business enterprises, either. Some responding entrepreneurs have business connections with partners in Hungary, but these are most frequently based on family or friendly relations, staying limited to supplier collaboration or informal exchange of experience. At the same time, state funding provided by Hungary in the recent years – that affected business entrepreneurs mainly through the Ede Egán Program – have largely contributed to creating formally based transnational ethnic social (relational) capital.

It must also be noted that although there are no obstacles such as mentioned above for cooperation with Ukrainian entrepreneurs, collaboration with Ukrainian partners from the North of the Carpathians is not common. The possible reasons are language barriers and the lack of trust. As it has been mentioned several times, interviewed entrepreneurs very rarely open up to external business partners, that is especially characteristic of Ukrainian business partners (in the North of the Carpathians), as because of negative business prejudice they fear the possibility of being cheated. Most interviewed entrepreneurs, however, could not list any certain examples of negative experience regarding Ukrainian business partners, therefore they avoid economic cooperation with Ukrainians out of fearing the other, the unknown.

Regarding observed local Hungarian entrepreneurs' formal relations, my respondents did not really consider it important to join professional organisations or other NGOs, or even despite joining these, they have not become really active. The main reason for this was the distrust of formal institutions, which generally characterises the citizens of Ukraine (see in details: Kovály 2019). Those respondents, who were members of either professional organisations, did not really benefit from their memberships, thus they do not participate in the work of these organisations either.

We have been the members of several organisations in Ukraine. There is not much benefit in them. Here one is invited only to pay the membership fee. There is no assistance in an economic sense. I absolutely don't see a plus in them. We have frequently become disappointed in such things in Ukraine. (Middle aged ethnic Hungarian business entrepreneur from Transcarpathia)

It is important to note however, that there have been remarkable changes in the field of organisational activities. The membership of the Alliance

of Transcarpathian Hungarian Entrepreneurs has increased almost tenfold<sup>13</sup>, presumably due to the participation in the Ede Egán Program<sup>14</sup>, beside the educational programs in development and management of enterprises organised by the Alliance. It is necessary to stress however, that though most informants have formally joined some professional organisation in recent years, interviewed entrepreneurs are not actively participating in the life of those. It turns out clearly from the interviews that entrepreneurs almost exclusively expect financial support: they view funding support mainly as aid and not as a source of capital. Most of them only intended to increase their chances with their membership (during the applications for the Ede Egán Program's funding, or other funding opportunities provided by Hungary.)

## 5. Conclusions

The present research has examined the role of ethnically based informal and formal relations in the operation of local Hungarian and foreign enterprises in Transcarpathia, touching upon its social geographical particularities. Results have namely shown that there are significant differences in using relational resources even at the regional level.

It can be stated that both within the activities of local Hungarian and foreign business enterprises, regardless of their ethnic background, informal relations bear crucial significance. Local Hungarian business entrepreneurs and investors from Hungary have founded enterprises based on earlier existing family, friendly or pre-transition economic relations. However, informal relational networks have also played a crucial role in the case of Russian, Romanian and Slovak entrepreneurs investing in Transcarpathia while launching and operating companies. Due to the high level of corruption present in Ukraine and the embedded informal economy, personal relational networks are inevitable for economic activities, however these informal relations are in most cases not organized on an ethnic-linguistic basis.

The research has also made it clear that in the case of foreign investors the role of informal ethnic relations and the volume of their potential benefits

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13 While in 2015 there were a bit more than 200 registered members, this number exceeded even 2000 in 2018. At the same time, in the nearly twenty-year period between founding the organisation in 1997 and the launch of the Ede Egán Program, new members' number has not reached even 100.

14 Those applicants, who bear membership in any professional organisation, acquire one more score in the evaluation of applications.

depends on the investment environment: The more the language and cultural environment is different from the domestic one, the more importance it gains. This statement is the most relevant for investors from Hungary in Transcarpathia, who primarily seek business relations with local Hungarians in order to bridge language gaps, and they start and operate companies relying on local Hungarians. Hungarian-Hungarian cross-border relations and developed transnational ethnic relational capital significantly ease these processes.

In contrast, non-Hungarian investors usually made their decisions about choosing the location of their company seats generally based on the presence of infrastructural elements and labour market hubs. For business actors from Slovakia and Russia investing in Transcarpathia, linguistic proximity makes communication, access to information and arranging administrative processes easier, thus the role of ethnic relational capital in their business enterprises is not significant. In their case, due to the small number of ethnic kins present in Transcarpathia and their less active relations with respective kin states, transnational ethnic kinship relations are also undeveloped.

Consequently, ethnic informal relational capital's utilisation prevailed along Hungarian-Hungarian relationships. Everybody uses their relational capital, but ethnic-based organisation is stronger in the case of investors from Hungary, therefore ethnicity and informal cross-border relationships merge into collective social capital. In the case of other investors, relational capital is only utilised as an individual resource.

Among local Hungarian enterprises, despite the fact that for them personal relationships are an essential element of entrepreneurial activities, the role of informally based ethnic relational capital in their business enterprises is insignificant. They mostly manage their business-related activities in closed conjunctures based on family ties that parallel with economic disadvantages stemming from entrepreneurship out of necessity (non-recognition of the benefits of integration) and frustrations due to language barriers, therefore they open up difficulty to external partners. For the very reason they are not only poor in informal ethnic relational capital, but also in social capital in general, thus they cannot mobilise such relations for business purposes. This affects local Hungarian companies' competitiveness within the Transcarpathian (and Ukrainian) economic sphere negatively. On the one hand local ethnic Hungarian businessmen cannot make use of economic cooperation with each other: faster exchange of information, common action for ameliorating negotiation positions or optimising sales prices. On the other hand, isolation from ethnic Ukrainian peers and resulting narrow economic perspectives hinder their further development, which causes their inability to enter the national market.

The same characterises business entrepreneurs from Hungary investing in Transcarpathia, who chiefly rely on their ethnic peers to manage their economic activities. Establishing business enterprises by entrepreneurs from Hungary may run faster and easier due to utilising Hungarian-Hungarian cross-border relations than by entrepreneurs from other host countries, but the possibility to cooperate with ethnic Ukrainian (and other) business actors decreases in parallel. Separation from Ukrainian markets results in a narrower customer base, dropping out of the ethnic Ukrainian entrepreneurial environment determines a shrinking sphere of potential business partners. The low level of knowledge related to the Ukrainian business environment, the lack of exchange of knowledge evokes the lack of relational capital. Thus economic opportunities are also narrow, for the system lacks (or only partially embraces) those weak bridging ties that are inevitable for entrepreneurial success, for a better knowledge of the business environment in Ukraine and for a competitive participation in the latter. Thereby, local ethnic Hungarian business entrepreneur's role as bridging social capital as defined by Orbán and Szántó (2005), that enhances intercultural (not only) economic networking between the ethnic majority and minority, does not prevail, either. In accordance with Granovetter's (1973) statements, local ethnic Hungarian business entrepreneurs and investors from Hungary in Transcarpathia should strive for keeping a balance in their relationships, meaning to establish a system in which they cooperate within their ethnic kin group, using the advantages of networking, but at the same time also for staying open to cooperation in the broader business environment.

A further important conclusion of the research is that institutional relations, meaning various entrepreneurial and other professional organisations have not played an especially remarkable role during the establishment of business enterprises, nor during later business operations. Local ethnic Hungarian entrepreneurs of Transcarpathia are an exception to this, as in their case formal ethnic relational capital seems to have gained value in the recent four-five years. These business entrepreneurs have joined Transcarpathian Hungarian entrepreneurial and professional organisations chiefly because of the participation in the Ede Egán Economic Development Program launched by the Hungarian state, and for accessing other economic benefits. Furthermore, in order to reach these benefits, several new business enterprises have been established or gained new impetus along formal relations within the sphere of such organisations. Besides launching the already mentioned program, Hungary has invested other large-scale funds in the region primarily targeting ethnic Hungarians in Transcarpathia. In addition, the government of Hungary introduced the simplified naturalisation process that makes Hungarian citizenship accessible (see in details: Tátrai



et al. 2017). These advantages largely contributed to the unfolding of a formally organised transnational ethnic social capital that provides ethnic Hungarians of Transcarpathia with socio-economic advantages in comparison with the ethnic majority, including business entrepreneurs as well. In this sense, ethnicity, one's ethnic Hungarian background can also be evaluated as a kind of social capital. It has been repeatedly told by informants during the research that “nowadays it is worth being a Hungarian entrepreneur in Transcarpathia.” In this sense, ethnic relational capital plays an important role in the operation of Transcarpathian local Hungarian business enterprises, which makes a direct impact on economic development in Transcarpathia as a whole.

It is important to note, however, that due to the Ede Egán Program, the role of ethnic kinship relations have gained some more value, still, due to its being a relatively new process, it is not possible to draw far-reaching conclusions. Namely, with the support of opportunity structures established by the Hungarian state, Hungarian-Hungarian cross-border kinship relations can become more vivid and ethnicity may become a social capital that can connect atomised Hungarian small entrepreneurs contacting each other, but establishing their networks needs long term strategies that require sufficient professional knowledge and assigning further resources that need conceptual deliberation. This may be hindered further by the economic crisis and its consequences in Ukraine.

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