

Does Catholicism function as “beneficial constraint” for small and medium-sized companies confronted with the shadow economy? Some evidence from Poland¹

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Czy religia stanowi „użyteczne ograniczenie” dla małych i średnich firm w konfrontacji z szarą strefą? Doświadczenia polskie

Artykuł podejmuje próbę sprawdzenia, czy zachowanie motywowane religijnie może stanowić „użyteczne ograniczenie” w sensie zaproponowanym przez Streecka, czyli jako potencjalne powstrzymanie woluntarystycznych działań aktorów ekonomicznych i zwiększanie tym samym produktywności analizowanych małych i średnich firm wystawianych na pokusę szarej strefy czy korupcji. Źródłem efektywności ekonomicznej w formalnie funkcjonującej sferze ekonomicznej są zwykle nowe struktury organizacyjne pozwalające na wprowadzenie na rynek konkurencyjnych produktów czy usług lub znalezienie niszy dla tych produk-

tów. Artykuł poszukuje odpowiedzi na pytanie, czy przedsiębiorcy katoliccy, przechodząc ze strefy nieformalnej do formalnej, tworzą innowacyjne strategie gospodarcze. Okazuje się, że postawy religijne badanych przedsiębiorców są współdeterminowane przez kontekst strukturalny, w którym ci przedsiębiorcy działają (np. typ branży ekonomicznej, wielkość firmy, zakres czynników nieformalnych w danej branży, umiejętności menedżerskie itp.).

Słowa kluczowe:

nieformalna gospodarka w Polsce, przedsiębiorcy zorientowani religijnie, małe i średnie przedsiębiorstwa, normatywne ograniczenia efektywności ekonomicznej

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Defining the problem

This paper can be considered as a follow up of the earlier research (Smoczyński 2012, 2015) that aimed to expand the problem of contemporary markets’ normative infrastructure through discussing the mediating role of Catholic organizations in Poland, which potentially may constrain shadow economy activities. While analysing shadow economy activities, this research followed Packard et al. (2012: 4) definition: “Market-based production of goods and services that are in essence legal under prevailing laws, which is concealed to avoid payment of income taxes and social insurance contributions and to escape product and factor market regulation.” Although this study’s major focus has been on informal economy activities (e.g. avoidance of payment of income taxes, social security contributions or avoidance of meeting certain legal labour market standards), it indicates, where appropriate, examples of corruption given that informal economy and corruption overlap to some extent (Dreher, Schneider 2006; Johnson et al 1999). The research concerned specifically small and medium-sized companies which – as shown in the literature – are more prone to be found in the informal economy sphere, which is partly determined by their specific organizational culture (e.g. lack of quality managerial competence of the owners) and structural uncertainty affecting activities undertaken by ventures of this size (Stawosz 2008: 66–67). They demonstrate a significant vulnerability to the impact of market downturn, frequent problems maintaining capital assets. High-risk business environment of small and medium sized enterprises is sometimes reduced by shadow economy activities, which in certain situations may improve the price competitiveness of these companies (Głodek 2008: 28).

In earlier contributions (Smoczyński 2012, 2015) it was argued that a religious agency, understood as an intermediate social structure between market and state plays an ambivalent role in providing the moral discipline in business, specifically, in blocking shadow

economy activities and its control efficiency is considerably determined by the integrative potential of religious organization the analyzed entrepreneurs were associated with. For example, Smoczyński (2015) following the “moral community” assumption (Regnerus 2003; Stark 1996) pointing to the religious organization’s integrative efficiency in constraining deviant behaviour demonstrated that entrepreneurs associated with the more integrated Catholic revival organizations produce by and large ethically stable world-views that substantially contribute to blocking informal economy activities. This capability was less relevant in the case of the respondents who were associated with the Catholic civil society associations, or with the respondents who were regular church goers. What the previous studies have not examined however is the question of the impact of attitude driven by value rationality on the efficiency of economic outcomes of the companies run by the religiously informed entrepreneurs. Thus this paper expands the question as follows: whether value rationality oriented action forced entrepreneurs to seek advantage in innovativeness and strengthened their economic productivity or, conversely, religious resources acting in a specific historical context of post-communist Poland proved “maleficent” or acted as a Walzerian “moral blockage” (Walzer 1983) leading to suboptimal economic results or even brought market failure of the analysed companies. The question was posed within a narrow perspective of the interplay between religiosity and shadow economy activities and analysed the results of the hindrance of informality for the companies’ economic efficiency².

² There is some literature mapping the question whether the involvement of personal ethics or religious ethics may contribute to the increase of efficiency of firms run by religious-oriented entrepreneurs, which generally yields ambiguous results thus as Lam and Hung (2005) notice economic efficiency and religious ethics remain largely an empirical issue that needs to be tested in different settings. Steen (1996) argues that religious ethics, through harbouring various virtues related to the integrity in the workplace, improves income of religious individuals, though Lipford and Tollison (2003) showed that devoted religious practitioners are discouraged from actively searching for high income since religion put emphasis on revival aspects, which sometimes fail to help achieve economic gains. More-

This paper’s objective is narrow. Given that social sciences are historically bound (Portes 2010), this paper based on qualitative interviews does not seek for universal laws regulating the impact of Catholicism on economy, neither discusses Catholic social teaching that has been explored in earlier contribution (Smoczyński 2012)³, but is concerned with the local and historical perspective of the possible influence of Catholic organizations representing different type of integrative potential in shaping attitudes towards the shadow economy of the Polish entrepreneurs running small and medium-sized companies. It should be also emphasized that Catholicism is understood in this study not normatively but as an empirical variable that is not perceived according to its metaphysical veracity. This study that represents a series of papers has firstly analyzed merely the efficiency of Catholic organizations in constraining involvement in informal economy activities of their co-religionists (Smoczyński 2012, 2015), and secondly this paper explores consequences of this value-oriented behaviour for economic outcomes of the analysed companies.

Value rationality action and companies’ economic outcomes

Economic literature of classical figures as Adam Smith (1776) asserted that morally oriented behaviour hindering instrumental rationality may bring ambiguous or even adverse results in terms of economic efficiency for individual enterprises as well as for broader markets. Recently, for instance Beckert (2005) demonstrated how “restriction of the monetary exchange of certain objects or services based on moral codes towards some sort of market exchange relations” may block economic growth and the differentiation of the

over, high ethical standards may constrain the potential of struggle in some cut-throat competition markets.

³ For detailed discussion on state-of the-art that covers the interplay between particular Christian denominations and business ethics see Smoczyński (2012)

markets, which could be potentially “beneficial for at least some market participants”. Besides blocked exchange, the same controversy – Beckert continues – applies to various altruistic attitudes that assume, among other possible forms “the voluntary inclusion of the otherwise externalized costs” (e.g. fair trade), leading in certain situations to suboptimal outcomes in terms of individual welfare. Precisely, altruism may increase costs of products or result in a lower rate of return but it may also affect the macroeconomic level insofar as “a particularization of exchange undermines competition” and prevent efficient allocation of assets. Importantly, what was also established in this study, morally oriented behaviour produces unintentional consequences that are unpredictable in terms of their utility for individuals as well as for broader social systems (e.g. as Beckert notes it may prevent functional differentiation of economy or trigger emergence of underground markets as a consequence of blocked exchange). Value-rationality action, coupled with economic action also produces positive consequences. Beckert listed reduction of child labour (Zelizer 1987), slavery or political corruption, Smoczynski (2012, 2015) adds the capability of reduction of the scope of the informal economy/corruption. But, at the same time, religious constraints may, potentially, hinder the development of efficient economic outcomes as it will be further discussed in more detail.

Secondly, given that value-rationality oriented constraint is potentially ambiguous, the question remains whether the movement out of the shadow economy to the formal economy or consistent compliance with formal rules, led to the substitution with other resources which protected the analyzed enterprises from market failure. We have to remember that this movement in the case of a number of small and medium-sized enterprises may pose a risk of jeopardizing their hidden advantage of operating at lower costs of informal production/services/employment against formal competitors. To be efficient in the formal sphere apart from employing price competition strategies the entrepreneurs are also expected to

introduce efficient organizational structures, bringing new products or services into the market, thus finding a niche for their products. The potential value-rationality driven re-definition of enterprises’ market strategies allows to examine, on the individual company level, the “beneficial constraints” hypothesis formulated by Streeck (1997) about traditional or political resources on which modern capitalist societies develop their strength to hinder the intrinsic voluntaristic logic of markets⁴. Namely, following Streeckian concept it is explored whether religious convictions may function as beneficial constraints which block voluntaristic activities of the shadow economy/corruption, and through this blockage stimulate the search for formally available options of running business which are innovative and efficient.

Within such a conceptual terrain Streeck (1997: 200) provides us with examples of employers who, contrary to the common policy of “cost cutting flexibility” exercise for instance an employment protection policy or broaden the decision making processes to employees. Such self-constrained policy – Streeck (1997: 200) argues – improves the economic performance, which contributes to “long term beneficial arrangements” of the company. Employees are better integrated with the company, are loyal to its policy, committed to its objectives and willing to certain extra efforts when the situation demands such sacrifice. Thus these enterprises which

⁴ I am perfectly aware of different usage of the concept of beneficial constraints in this study and in the Streeckian original model; the latter did not provide any detailed empirical analysis except for sketchy examples of industrial change studied in selected Western European countries. What is important, though, for a major conceptual framework of my study the Streeckian assumption is located within a broader Durkheimian insistence on society understood as a third party between contracting partners. Society understood in this manner as Merton (1934: 322) put it, constrains “the accord of individual wills” and this control is exercised “for the consonance of diffuse social functions”. Through this necessary social involvement for the contract we are not only confronted with individualistic agreement but, as Schoenfeld and Mestrovic (1989: 124) argue, with “a moral relationship” justified by the social system understood as protector of “justice” that exceeds the meaning of interest that merely binds the contracting parties.

are constrained in their temptations of using neo-liberal employment policy may, according to Streeck, build their credibility in longer perspective, which will be beneficial for their economic standing as well as the prosperity of the workers. True, Streeck (1997: 200) notes that “economically beneficial constraints are of many kinds, and I do not pretend to have a conceptual schema to cover them all”. This study in its differently formulated categories of external constraints to voluntaristic rationality that are not exercised by political institutions but by a representative of civil society third party, that is to say, religious organizations, follow the core aspect inherent to this concept – the forced, external nature of the value rationality oriented action that potentially may hinder informal economy activity, and secondly, through this action may produce consequences changing a company’s economic and organizational strategy. In this sense my application of the Streeckian (1997: 199) model emphasizes that religious constraints “transform preferences of actors”, at least initial preferences, as in the case of some entrepreneurs, who through religiously informed self-constraint changed “the given preference” (Streeck 1997: 199) and through this discovered other options of running a business.

Two things need to be clarified at this stage, given the varied parameters of the Streeckian model and its revised application. This paper is concerned mainly with the question of constraining voluntarism of individual economic actor, the detailed question whether religion may inhibit informal economy activities for the sake of improvement of public morality, or business ethics in a society at large exceeds the scope of this research. It is important to add also in line with Streeck that although external constraints in a longer run may turn out to be potentially beneficial for the economic actors and for broader social systems, it does not mean that this agency is a priori beneficial since as the empirical findings evidenced, the inherent unpredictability of value rationality may drive economic actors to market failure.

Analysis and research up to date

The data analysis draw on the previous studies approach, for more detailed description of the role of the religious organization’s integrative potential in constraining deviant behaviour in the business realm see previous contributions (Smoczyński 2012, 2015). A sample was divided into two organizational categories: 1. The respondents associated with the Catholic revival groups (e.g. the Charismatic movements), whose religiosity measured by such criteria as church attendance, activity in religious organizations, self-perceived religiosity allows to define them as Catholics informed by the Catholic revival principles (on Catholic revivalism see e.g. Csordas 1997; Casanova 2001; Siekierski 2012)⁵. These organizations’ integrative potential proved to be relatively strong (28 respondents). 2. The respondents associated with the Catholic civic society groups, which gather self-declared Christian entrepreneurs (e.g. associations of Christian entrepreneurs, participants in pastoral meetings specializing in providing „biblical expert knowledge” for entrepreneurs). These organisations engage in activities supporting social issues in the sphere of business, politics, and public life. Their integrative potential proved to be less vital compared with revivalist organisations (23 respondents). In both organizational categories the multi-affiliated respondents (from revivalist and civic society movements) were also included (10 respondents). In the sample a few organizationally non-affiliated regular parish goers were also included (5 respondents). The research was initiated in 2011; 56 interviews were conducted in 16 relatively large urban areas in Poland (e.g. Warsaw, Cracow, Poznań, Gdańsk, Gdynia, Bydgoszcz, Bielsko-Biała) with the companies’ owners who declared harbour-

⁵ The Catholic revival movements (e.g. Charismatic movements) represent different ecclesiastical profiles and are usually characterised by a shared belief in a personal relationship between God and man, a relatively demanding moralism, the powerful experience of conversion that separates the sinful past and the present Christian life, and an intimate face-to-face relationship among co-religionists (for a detailed discussion see Smoczyński 2015, on broader Christian revivalism see Robbins 2004).

ing the moral values of Catholicism in their professional activities. Only to a limited extent snow-balling methodology was used while collecting data, instead efforts were made to select respondents from different regions of Poland and various Catholic organizations to represent a possibly broad variety of the Catholic entrepreneurial environment.

Following Wuthnow's (2005) suggestions, this study considers qualitative data as proper for understanding the meaning of market actions that are being explored within the interplay between Catholicism and the informal economy. In-depth interviews have been employed while carrying out this research. This method can determine the presence of „non-economic factors” in the processes that shape the business conduct of the respondents, such as their incentives in engaging/blocking informal economy activities or issues related to prohibitions of certain market exchanges based on religious convictions. The use of the qualitative method also seems appropriate for another reason. The interaction between religious and economic factors constitutes complex field in which decisions made by the respondents are not immediately apparent, and the motivations of actors are partly obscure. Such dynamics as a number of authors (e.g. Miles, Huberman 1994) suggest, should be explored through use of qualitative inductive techniques. Further, in line with Swedberg (2003), who, drawing on Bourdieu's scholarship, argued that economy, industry and enterprises can be conceptualized as fields with their own logics and interests, in this study I view enterprises run by respondents as fields that embrace not only material but also symbolic, cultural, and social-capital. In other words, the company's field, as Bourdieu, perceived it constitutes a certain space where the rules of the game are present and economic actors obey to them through their habitus, or in other words actor's field position. The aim of the study is to decipher these rules of the game, reveal their topology and understand if such a structured field can influence economic conduct.

Interviews were recorded, (in some cases notes were taken since sensitive content of the conversation on the shadow economy might be distorted by the usage of the recorder), transcribed, coded and analysed according to Berg’s (2004) qualitative schema. The sample represents mainly small and medium sized companies, which are diverse in terms of sector activities. The largest group of companies belongs to the service sector (33 respondents), followed by the trade activities sector (23 respondents). The smallest number of respondents is engaged in mass production (7 respondents).⁶ Micro-entrepreneurs prevail in the sample, which includes employment ranging from one self-employed owner to 5 employees (25 respondents),⁷ followed by small enterprises employing from 5 to 49 employees (22 respondents) and medium-sized enterprises employing between 50 and 499 employees (9 respondents) and large companies employing from 499 to 1999 employees (2 respondents)⁸. Given the sensitive nature of the study, the multi-organizational affiliation of some respondents, the possible bias

⁶ The figures do not make up 100 percent, given the limited number of respondents represented different type of sector activities.

⁷ The size of the informal economy varies depending whether it is calculated according to the proxy of production or employment. One of the employment proxies that is used in measuring the informal economy is based on the size of the company: companies that employ five or fewer employees are considered informal (other employment proxies include whether the employee has a formal job contract and whether a given company is responsible for the social insurance burden of its employees). The size criterion, as Packard et al. (2012: 24) admit, is the simplest way to track down informal companies, but it is the “least satisfactory measure, as it can exaggerate the extent of informal work”. In particular, it seems to be a doubtful criterion in transition countries such as Poland, which are dominated by small companies that might be “fully registered, certified, regulated”. I do not use the size criterion. Two other proxies are used in this study as indicators of informal labour. Informal labour can be categorized, in line with Packard et al. (2012), as informal dependent employment (undeclared labour of employees in the firm that, for example, does not contribute to their social security) and informal self-employment (unregulated, untaxed self employment, which is different from the category of regulated and taxed self-employment used in this paper).

⁸ The figures do not make up 100 percent given that limited number of respondents represented multi-categories of companies’ sizes (e.g. they run two companies large and micro).

towards socially approved answers, reluctance to talk about shadow economy activities among some respondents, the precision of the findings discussed below should be treated with caution. A number of respondents hesitated to talk openly about the actual involvement in shadow economy activities of a given company. One of the informants, who run a consulting company that provides the training service for the enterprises confirms this observation from the other angle:

As my experience shows, people normally do not want to talk about the state of their financial standing. They do not want to show documents on their turnover and income. And this makes it hard to help them because I do not know where we actually are. ... The flow of finances in small firms is very hard to analyse. [33]⁹

The problem with collecting data on actual involvement in shadow economy practices is acknowledged in the shadow economy/tax fraud literature, and it was also reported in other papers, as for instance in Stack and Kposowa (2006) where the actual fact of the tax fraud was replaced by the indicator of the acceptability of the tax fraud. In this study, during the qualitative interviews questions were directed at both levels of declarations of the actual involvement of given entrepreneur and the declaration of the acceptability of shadow economy activities. One of the indirect sources of information on actual shadow economy activities was provided mainly by the revival-based respondents who revealed their shadow economy practices prior to their religious conversion. As this respondent running a small service company stated:

I did not issue invoices either totally or occasionally I issued invoices that covered around 5–10 percent of my turnover. ...I started do the paperwork when I converted, that is when I joined the community. I decided to clean this mess in the firm. [21]

⁹ Numbers in parentheses correspond to the record of completed interviews.

In a similar vein, another respondent demonstrates the commonality of shadow economy activities of small enterprises:

I used to do fake invoices, I played as others and I was all the time worried when it was going to end up. When I gave my life to God everything changed. I do not act as I used to do but now it is impossible to run certain businesses where it is hard to survive without unfair methods. [29]

Bearing in mind these methodological limitations, this study found a consistent tendency in the sample showing that the Catholic civil society organization-based respondents were more likely to justify the involvement in the shadow economy activities, particularly if this could support the survival of the company or they declared systematic/occasional involvement in the informal economy, especially if they were operating in the economic sectors where the shadow economy was rampant (a significant part of this group also provided ambiguous answers about their involvement in the shadow economy). It contrasted with answers provided by the Catholic revival organization-based respondents, a minor fraction of this group justified or declared involvement in the shadow economy (for more on this see Smoczyński 2015).

In turn this paper aims to examine the possible results particularly mediated by the revival perspective of Catholic groups but also by non-revival respondents on economic efficiency of the analysed companies, who carried on market game either switching into formality or remaining in the formal sector, threatened by informal competitors. It has been assumed following classic Weberian (2009) insight that religious organizations through creating a distinctive subculture may produce a change or block innovativeness. As, for instance, Finke and Wittberg (2000: 166) demonstrated, Catholic orders animated by fervour of sectarian logic promoted organizational growth, through acting as “a testing ground for new ideas, they frequently lead to new innovations in teachings, music, and religious practice. But they also can serve to prevent change by sup-

porting a distinctive subculture that guards church teachings and practices from the dominant culture”. An interesting example of ambiguities related to the revivalist spirit also comes from contemporary Protestant Evangelical communities (mainly American ones). As Robbins (2004) argues, in contrast to canonical assumptions of the Protestant inclination towards accumulation of wealth there is hardly any evidence to support this thesis, although there are some studies which argue that Evangelical ideology may contribute to the improvement of economic standards, it seems that a vast majority of empirical evidence supports the opposite interpretation: the dominant scepticism towards “the world and its pleasures” blocks the prosperity and material success of the Evangelicals.

Limits to religious voluntarism: the shadow economy’s unstable equilibrium

This study found also ambiguous results in the interview data. Apart from the respondents who due to religious convictions consistently complied with tax regulations, the interview data demonstrate that some of the respondents (mainly belonging to the revival organizational category) who were previously involved in shadow economy activities at some stage, either suddenly or gradually transformed their “preferences” (Streeck 1997: 199) what – in line with the Streeckian concept – forced them to discover formal options of running a business. This change turned out economically successful only for a limited number of respondents. The act of transformation involved a change in the style of running a given company, which could, particularly at early stage of the company’s reorganisation, undermine their economic efficiency. Some of the analysed enterprises, after blocking shadow economy activities, dropped to suboptimal economic position or faced a market failure. However, in the long run, for some of the analysed economic actors constraining themselves for other reasons than instrumental ratio-

nality, came out as a source of Shumpeterian destructive creativeness, which led to economically efficient results.

Before proceeding to a more detailed description of the change of preferences, we have to identify firstly the structural limits to religious voluntarism impacting the economic realm. Although the size of the informal economy may fluctuate along economic cycles, nevertheless as Packard et al. (2012) notice, this movement is limited by the segmentation of the labour market, also the shadow economy, sometimes intertwined with corruption, tends to create a “bad equilibrium” in certain sectors of the economy, as in the Polish construction sector (38,2 percent of the shadow economy share, Koettle, Weber 2012), according to the logic of organizational isomorphism (Deephouse 1996; DiMaggio, Powell 1983). To grasp the significance of this “deadlock”, which structurally limits the space for the religiously informed will to run a business in a formal way it is helpful to describe the importance of “initial conditions” of transacting informally drawing on the Andvig-Bardhan (Andvig 1991; Bardhan 1997 in Packard et al 2012) model of “frequency dependent equilibrium”. This model was used by Packard et al (2012) in explaining reproduction of gains of informal/corrupt operations in new EU member states, including Poland. The deadlock of informality is determined by the actual volume of informal transactions undertaken in a given economic niche which set specific “initial conditions” (Advig 1991) of imitating efficient ways of doing business at given time. If the analysed niche – as the proposed model shows – is embraced by prevalent informal activity “it will move fairly relentlessly toward the high-informality, stable equilibrium” (Packard et al. 2012: 66), and it is less likely to gravitate back to the level of less informality which was corroborated by the respondent:

Your chances to get out of the informal business depends on how deep you have submerged in this. If you are deep in this, it is very hard to change anything. I gave up with shadow things without being very much into this, just part of my activities were informal, rather not substantial part of it, but I know

some colleagues who cannot basically leave it, they entirely depend on this. [16]

Given the insignificant capital assets, little profit margin obtained in highly competitive markets (e.g. retail), a limited number of customers, sometimes low management skills, which typically characterise the small and medium-sized sector (Stawasz 2008) — leaving the shadow economy meant placing a number of the analysed enterprises below the level of optimal profits which drove some of them out of business. It is instructive to cite one of the respondents:

When I was trading shoes it was virtually impossible to work legally, because the competitors almost completely do not pay taxes, they do not contract legal labour, hence their costs are low, if I had complied with totally formal procedures I would have gone bankrupt. When I converted I had to leave this industry. [29]

Another respondent who has run a cloth manufacturing company adds:

I used to run a cloth manufacturing business, at some point I have come up with an idea that if I am supposed to run it fairly and pay all taxes, employees' social security and so on, I will have to go bankrupt. I closed it down. It was better to earn less but stop struggling with dilemmas...You cannot win with the slavery-like workforce from China. Chinese competitors will be always cheaper than you are. I gave up with the cloth business. [40]

The threatening situation particularly relates to the construction sector, as evidenced by the respondent from the construction industry:

In the public bidding usually rubbish wins because it is cheap. These firms are so cheap, because they have informal employees, they do not pay ZUS... The shadow economy kills us. The

state’s regulations would be needed, but inspection on the construction site is hard to be exercised therefore the shadow economy wins. [49]

In a number of cases moral constraints also contributed to maintaining an unproductive small scale businesses, especially when these were located in highly competitive and heavily “informalized” submarkets, as it happens in the construction industry, which was expressed by one of the respondents:

I have always tried to outsmart the state, which has changed since I converted. Now I get 20 percent less profits, I had to collect more than 400 thousand zlotys for the state. There is a large number of construction firms like the one I own, and the market is tight. I employ 35 people and need 10 million zlotys of turnover per year to keep things going. It is really hard now, I think it is quite likely that I will go bankrupt....The financial situation has severely deteriorated when I converted and started to comply with all regulations. My business strategy might be described as a survival strategy. [28]

Given the insufficient number of formally/not corrupted transacting partners in a “bad equilibrium” environment doing a business may also raise transaction costs that impact poor economic outcomes as evidenced, for instance, by the respondent running an electronic supply company:

In order to not get corrupted I diversify subcontractors in order to reach the end-users. I have more sub-contractors than I need. All these measures are invented in order not to get involved in corruption, when one sub-contractor asks me for bribes and I am under time pressure I can switch to another one... I am very careful how to talk to them, what words should be used and what words should not be used, I know all these games. It takes more time and energy to remain uncorrupted in my industry. [42]

Only in a situation – as Andvig-Bardham model shows – when the initial history of a given niche represents an “unstable equilib-

rium”, there is a higher probability of detection of informal activity, and the costs of finding other informal transaction partners are getting higher, “the benefits of informal economy decline” (Packard et al. 2012: 65). Consequently, entrepreneurs are confronted with a more ambiguous environment in shaping their expectations concerning transacting partners, and the economy may gradually start returning to the formality level, thus the chances of movement out of informality for individual enterprises grows. On the other hand, indicating the structural conditions of the prevalence of the shadow economy in a given economic niche in which entrepreneurs run their businesses does not a priori preclude the possibility of a successful shift into formality. Eventually, decisions made in the market are never completely “rational” and never spell success or failure given e.g. the contingent habits of market actors. The possibility of overcoming the informal/bribery transactions equilibrium, as this study demonstrates is possible, particularly for those entrepreneurs who are exposed to strong revival normative pressure, intertwined with community-based networking. Sometimes the “irrational” potential is required to interrupt the “bad equilibrium” that is untenable for instrumental rationality. The revival perspective creates the right conditions that introduce a greater potential of risk-oriented decision making which hinders informal transactions not in order to achieve companies’ higher market performances but quite often as a decision to please deity. Some of the analysed respondents, whilst shifting to formality or consistently complying with tax regulations were not deliberately searching for “innovativeness”, “productivity” or “good customers”, instead they were acting according to the logic of value-oriented rationality, some of their decisions in retroactive perspective might be understood as an efficient market solution. For instance, it is evidenced by the owner of a construction service company:

I approach the customers in a fair way and I get good customers, they pay invoices on time, do not put things down... I separate good guys from the bad ones when we have a preliminary talk,

those who want to get fake invoices are not good customers... Sometimes I lose large projects, but maybe other bad things do not affect me if have started with these folks, that is, I do not have to go to court, chase up people and so on. In the last 8 years only one customer did not pay me for the job. [16]

Similarly, what proved inefficient at the initial stage of blocking bribery, in the long run, sometimes unexpectedly, for some companies turned out to be a source of beneficial outcomes as evidenced among others by an advertisement sector respondent:

I used to bribe different institutions and it did not work out. They did not pay on time, they claimed products we offered them. Since I do everything legal, it came out that in time we have somehow attracted people who pay timely and so on. [53]

Another respondent also relates to this deterred logic of unpredictability:

These customers who want you to participate in improper activities, for instance, they want you to upload them illegal maps, they are not good customers. When you stop trading with them you do not lose much. It is not worth uploading this illegal stuff since it may compromise our legal safety. [51]

The dialectics of the shadow economy/corruption and religiosity described above does not support the thesis of the universal applicability of efficient solutions related to the shift from the informal to the formal sphere. As this research notes, the shift into the formal sphere had eliminated some of the analysed enterprises, which were unable to supplement the “paradigm turn” with added value that might enhance their market advantage. Also the impact of the religiosity of the revival respondents on the shadow economy should be understood as a qualified concept of “beneficial constraints”, namely, the efficiency of economic action of this category of respondents is enhanced by socially embedded constraints only in combination with a number of other contingent factors, to men-

tion just a few instances detected during this research as flexible entrepreneurial skills, available assets, the scale of the shadow economy/corruption prevalence in a given type of market requiring an active strategy of avoidance which sometimes raises transaction costs.

The efficient strategies of the analyzed companies: niche, diversification, innovation

Religiously informed self-constraint upon the shadow economy (mainly exerted by revival respondents, but it also applies to lesser extent to non-revival respondents) – given earlier mentioned specificity of the industry, the size of the company which all determine the company's strategy – may also bring efficient results. The self-choice-limiting obligation in the Streeckian example taken from industrial relations of not welcome implementation of obligatory social standards in a company (e.g. costly training programs) enforced by an external authority (in Streeck's (1997: 203) example by governmental policy), closes certain options of running the business (e.g. ban on outsourcing the labour) and by this action forces enterprises to discover new forms of market advantage, particularly through searching for niches, introducing quality products, finding efficient means of production etc. We have to bear in mind the difference between data. Streeck (1997) uses as examples rather large corporations that have significant capital assets to sustain the transformation process and which have time to implement new "learning mechanism", which is not necessarily the case of small and medium-sized enterprises, which do not have significant assets and their chances of survival sometimes ranges a few weeks ahead. Thus analysed constraining may lead to different results in both cases; the second case perhaps more often leads to disadvantageous consequences. Also, for Streeck constraints are enforced by existing industrial regulations, collective bargains between trade unions and employers, which are then enforced by public authorities, but

Streeck admits that constraints might be also enforced in an informal way. This is precisely what this study found. Following Streeck, but also some earlier studies as Zelizer’s (1983) in which it was demonstrated how moral concerns shape market rationality to the degree where the boundaries of value-rationality action and market materiality cannot be separate in empirical practice, this study argues that the fact of belonging to the religious organisations acts as informal means imposing a constraint on instrumental economic action. Namely, being cut off from informal profit making practices through self-constraining deepens focus on current development strategies and prevents entrepreneurs “from spending time and resources on exploring suboptimal options” (Streeck 1997: 2004). This logic was identified in the interview data, for instance in the case of a respondent who runs a factory producing glass utility objects:

I pay all taxes, and if they were higher I would also pay them, I do not waste time thinking how to hide these 20 percent taxes, I want to invest 80 percent. [25]

Similar tones as related to bribery were revealed also by a respondent who runs the printing house:

Bribery is omnipresent in publishing school textbooks, those who do not bribe get out of business, given that I did not bribe teachers I had to leave this industry. In order to survive I focused on printing services where the competition is fair and market set up standards of the game. [12]

Another respondent emphasizes a similar logic of switching to a sub region of industry after being confronted with morally unacceptable bribery:

Our TV documentary production firm relied on contracts with National TV, one day we learned that we have to pay some extra bonus in the envelope if we are about to remain in the TV. We rejected this proposal and lost contract overnight...This

situation forced me to find a business solution, we return to X and started to work on projects related to audio-sound offers, related to music. [35]

The external constraint, in some instances, triggers what Streeck calls the “learning process” of owners, which may lead to “yet unknown opportunities” of a novel restructured company as respondent put it:

When the company does not expand, it means it risks being wiped out from the market. The development and the growth of the company is necessary and it is also a Christian duty as in the Gospel passages about the talents that need to grow, because this is the way to salvation ...Thus we are searching actively for new ways to find new products, every month we put something new in our offer, we analyze the conditions of the electronic market. [51]

Another respondent from the trading business, demonstrates the notion of flexibility and autoreflexivity:

Development of the firm is possible only when you change all the time, when necessary. We used to have more stores and warehouses but we sold them when we realised that it may compromise our existence... All the time we refine the quality of our products, in time we came into situation where products based on fat we produce and sell, paved the way to a niche, and we dominated the market in the X region, we have 20 percent of the market share here. [14]

We have to acknowledge the lack of religious exclusivity in triggering the learning process especially in regard to trade industry. The cut-throat price competitiveness of the trading market, in contrast to other industries which are more likely to come up with product/service niches produces a necessity of learning process that is a condition for company’s survival regardless of religious inclination of the entrepreneurs. Religion acts as one of the available motivational scripts, which are clearly not only limited to nor-

mative scripts, instrumental ones are probably as much feasible to trigger learning process in the market. Nevertheless, this study found in a number of analyzed instances that religiously informed self-constraining towards the shadow economy or corruption triggered an efficient form of redefinition of company's identity. In order to systemise this line of argument, it is appropriate to note that the interview data, in general, have identified two basic types of efficient outcomes of religiously oriented moral constraints on economic action: a) the diversification of economic activities and seeking competitive advantage through setting up a niche for the company's products and services, b) creating new processes, products, novel business organization models. And third potentially efficient type: c) shutting down the company and changing the industry if the entrepreneur and/or supporting community do not see the chances for running a fair business in a prevalent shadow economy environment.

The simplest example of a company's reorientation of its market profile implies the diversification of services and products as this respondent's statement evidences within the perspective of retail store:

In our retail store industry profit margins used to be low, thus we have to fight hard to increase quantitative sales, we have to diversify our sale offer. We have introduced a large scale of electronic gadgets on our shelves what creates an effect of synergy. [51]

Or another respondent:

If you want to survive as a formal firm that is surrounded by the shadow competitors you have to diversify your business endeavours. You cannot get a way of it. When you are located in one business and the situation deteriorates you need to switch to something else, otherwise you might be tempted to act unethically, and you will have no big problems to justify your unethical behaviour. Therefore you have to have a strategic imagination. [29]

Some respondents also indicated that the diversification is a way to defend their enterprises against the risk of being impacted by the inconsistency of the Polish legal system:

We have a number of activities we do *lege artis* – industrial tools, auto repair, steel manufacturing. This helps in a situation when the state unexpectedly surprises us with ambiguous regulations. [26]

Another type of dialectics between the shadow economy and religiosity, which represents an efficient type of shift from the informal into the formal sphere (or consistently complying with formal rules), involves the practice of setting up a niche for the company's products and services. A certain number of respondents in different instances, those who shut down their enterprises and set up new ones, those who re-organized their enterprises, but also those who have remained in the formal system for a long time, started seeking competitive advantage by creating a market niche, which allowed them to increase a profit margin for their products. Their enterprises were thus able to obtain a market equilibrium without resorting to informal means. In the first two types of the interplay between informality/corruption and religiosity, economic change comprises two elements – destructive potential at the initial stage of the company's organizational reconstruction, which a given company shares with the examples of inefficient enterprises described above, but there is another element that the unsuccessful enterprises are lacking – shifting into formal sphere also provoked the emergence of innovative entrepreneurship mode, namely it forced enterprises to implement new productive measures that eventually stabilized their market position. We are again returning to the Streeckian perspective of the analysis. Religious constraint closes certain options of running the business, sometimes the extent of this closure is large and no many options left are available. Examples of the analysed shift that comprises the two step logic vary across trade and industries, as for example in the respondent's

efforts of re-profiling his company’s expertise from a civil construction market into an industrial construction market that is much less affected by the corruption:

I left these segments of construction industry that were related to communal citizens buildings. In this segment you have to deal with different sort of public authorities, and where there are public officers who can use public funding, it means corruption. We therefore started to systematically explore industrial construction niche, in which you are assessed according to your competences, thus you may expect higher wages. [49]

Similar efforts were detected in other enterprises’ manoeuvres to change sub-regions of particular markets, for example one respondent dropped the corrupted national roads construction market and placed his company on a foreign construction market. A re-location into sub-market with different customers also occurred in the analysed case of the TV sets repair company, whose owner dropped his interest in petty customers and instead reoriented his services into large institutional customers:

I cannot compete with informal firms. I pay VAT and all taxes, thus my turnover must be significantly higher in comparison with informal firms, I need large firms to provide them with my services. [9]

Market re-orientations require improvement of knowledge and skills, sometimes external investments, and bank loans. Especially, the latter might be obtained only under the condition of being formal, hence the respondent claims:

In order to get a corporate customer I had to develop my abilities, you know, I had to understand more complex technologies. It has paid off, quite recently I have established a cooperation with X. Now I am expanding my services and am rebuilding my office. [9]

The possibility of setting up a niche is not only limited to a large type of ventures, the interview data also detected small enterprises that seek for advantageous results in the niche as one self-employed owner of the electric repair company claims:

I found a niche for my services, I cannot develop this into a full blown large business but I feel relatively safe while doing this, there is no competition in repairing batteries for computers, since the profits are rather low and you have to have a specific expertise in this field. [17]

The making of a niche, apart from novel technological input, is based upon common market measures as a systematic improvement of quality of goods and services, which creates a chance of raising the prices especially in the competitive trade and services markets. Of course, the quality competition is not an exclusive feature of the businesses run by religious oriented entrepreneurs, it is rather argued that religious motivation functions as the ethical source of informality avoidance, which triggers the search for a niche, which uses common quality competition means. The trading strategy, based on provision of quality product/services is a universal technical approach itself, what was noted by one of the respondents:

Our firm is based on the well done services and products. I always encourage my employees: treat the customer as you would treat yourself, people will appreciate this. But I would not say that it is related to the Catholic faith. If you are solid then customers want to do business with you. [19]

There were also respondents, though just a few, who as a result of religiously informed ethical decision brought a new technological product or unique service that constitute a proper example of technical advantage in a niche. For example one respondent runs a company which designed a system to measure the temperature in the tanks storing grain, which is a cheaper option than comparable products of the competitors:

We do not want to save money on medical examinations for employees and their social insurance. These are our fixed costs so we have to charge higher profit margins, therefore our company was looking for a niche...We specialize in unique technological projects, linking electronics with technological projects. As a consequence, we have come up with this measuring engine of gas in tanks, we also patented a cooling system in cellular phones; all our systems are cheaper than similar foreign technologies. [56]

Another respondent who left a job in international corporation in order to devote his time to his family and deepen his religious life, set up a micro company that succeeded with producing an IT programme to monitor stock markets:

The program I have come up with optimises firms listed on the stock market. To my knowledge there are no other comparable products with mine, so you may say that I found a certain niche and I am not overwhelmed by competition.... This product in a way protects my religious life style. [39]

A niche that is linked with advancing the knowledge-based innovation was implemented in a private hospital that focuses on scientific development and research. According to its founder:

We are avoiding contracting with the National Health Fund for health services, as this might involve bribery, so we had to secure other sources of funding and we have invented our distinctive profile, that is, we have started developing a research-based hospital which makes us popular with our customers. [34]

Another respondent who owns a security company adds in this vein:

When you pay taxes and you act entirely legal it means that you have to be expensive. In such a situation it is crucial to propose something new, what other firms in your industry are unable to propose. In my case I do specialize in a knowledge-based preventive strategy. Our firm tries to study a specific origin of criminal activity in given area and propose adequate solutions for the customers. [41]

Conclusion

This paper explored whether religiously motivated behaviour may function as the Streeckian beneficial constraint in its potential of hindering voluntaristic action of economic actors and through this increase the productivity of the analyzed small and medium-sized enterprises, challenged by the informal economy/corruption. It was found that the religious attitude of the analysed entrepreneurs is strongly co-determined by the structural context in which the economic actors were set in (e.g. type of sector, the size of the company, the degree of informalization of given sector, managerial skills etc). It was also indicated that revival informed constraints aiming at ethical goals may produce numerous ambiguous effects, which were, to large extent, related to intrinsic uncertainty of the value rational action that rarely if ever was perceived by the respondents with pure intention of economic efficiency. As the interview data demonstrated religiously informed entrepreneurs are capable of making risky decisions to stop informally contracting and move into more universalistic “impersonal relationships” with “unknown” trading parties. This clearly involves a potential of uncertainty regarding future outcomes. Therefore the movement out of informality in terms of economic efficiency is successful just for a limited number of companies, since the underlying contingent market processes are far too complex to be open to the instrumental control of actors. It is also not suggested that only religious motivation may facilitate a movement out of informality, nor that religiously motivated behaviour necessarily opens towards efficient universalistic exchange relationships. In fact, as Smoczynski (2015) demonstrated there were observed a number of instances where religiosity as intertwined with familial type of companies strengthened particularistic networks and deepened economic stagnation of the analyzed enterprises. Given the profound ambiguity of the possible outcomes of the interplay between religiously oriented behaviour and informality/corruption in a transition economy, it is rather

suggested that a future research should consider a careful differentiation of empirical data that includes various religious integrative forces of religious organizations, which often need to be analyzed in their sub-denominational specificity, historical context of given region, socio-cultural path dependency that shapes perception of informality and possible ways of coping with it, the specificity of the industry and prevalence of informality, the size of company, or managerial skills to name but a few contingencies.

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Summary

This paper explores whether religiously motivated behaviour may function as the Streeckian “beneficial constraint” in its potential of hindering voluntaristic action of economic actors and thus increases productivity of the analyzed small and medium-sized enterprises, challenged by the informal economy/corruption. Efficient performance in the formal economic sphere usually demands that entrepreneurs who enter formality introduce new organizational structures, which bring competitive products or services into a market or find a niche for their products. The study inquired into the question whether Catholic-oriented entrepreneurs, while shifting to formality from informality or maintaining legal compliance created innovative economic strategies. Whilst examining this problem it was found that the religious attitude of the analysed entrepreneurs is co-determined by the structural context in which the analyzed actors operated (e.g. type of economic sector, the size of the company, the degree of informalization of given sector, managerial skills etc).

Key words: informal economy in Poland, religious-oriented entrepreneurs, small and medium-sized companies, normative constraints of economic efficiency