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**EXPLORING THE ANTECEDENTS
OF ENTREPRENEURIAL ORIENTATION
IN RUSSIAN SMES:
THE ROLE OF INSTITUTIONAL ENVIRONMENT**

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Abstract: The concept of entrepreneurial orientation attracts a lot of attention in empirical studies on entrepreneurship and is recognized as an important factor enhancing firm performance. The paper examines the impact of the institutional environment on the development of entrepreneurial orientation (EO) in SMEs from emerging markets, on example of Russia, on the dataset of 500 SMEs. This study contributes to research on EO on emerging markets, considering the institutional factors as antecedents of EO development in SMEs. Executive summary is available at p. 30.

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Introduction

Nowadays the concept of EO is one of the most popular topics in empirical studies of entrepreneurship. Over the past nearly three decades since the emergence of the concept rather many researches devoted to antecedents and consequences of EO were held in order to better understand the role played by EO in firm development and success (Rauch et al., 2009). Mainly, the scholars are interested in how EO influences the firm performance indicators, such as profit, sales growth rate and market share growth rate, etc. (Rauch et al., 2009; Wales et al., 2011). Most studies show that EO leads to improved firm performance results, usually translated into greater profits and firm growth (Covin & Slevin, 1991; Zahra, 1991, 1993; Zahra & Covin, 1995).

The studies of antecedents of EO are devoted to lighting the genesis of the concept and are designed to expand our understandings of the reasons why some firms are entrepreneurial and others are not. As EO antecedents scholars consider top management team, strategic processes and organizational resources of the firm, different factors of business environment (see e.g., Li et al., 2008; Miles et al., 2000; Tan, 1996). However, it seems that the question of what in essence calls for the development of EO as organizational phenomenon is still not fully investigated. For example, Wiklund and Shepherd (2003) encourage scholars to study EO as a dependent variable in order to better understand the origins and development of EO.

It's also necessary to notice the increasing popularity of research in EO outside of the U.S., where the concept was developed. Back in 1996, Lumpkin and Dess stressed the need and importance of studying the national context and its influence on EO and testing the concept of EO in other countries (Lumpkin & Dess, 1996). Though EO is one of the most popular concepts in research on entrepreneurship around the world Wales, Gupta, Mousa (2011) show that studies of EO in countries with emerging markets are very limited¹, especially in such "strategically important countries as Brazil, India and Russia" (p. 15). Research of EO in Russian firms started to emerge in recent years, however, the amount of those remains small. The small number of works we found are devoted to different aspects of corporate entrepreneurship (see e.g., Shirokova et al., 2008; Shirokova & Ezhova, 2012), entrepreneurial intentions among employees of Russian companies (Croucher & Rizov, 2011) and the role of EO, financial and social capital and opportunity recognition and their influence on performance expectations on the women-led family and non-family owned businesses in Russia (Kickul et al., 2010). However no study has been devoted to investigating the antecedents of EO in Russian SMEs.

¹ The exception is China (see e.g., Li et al., 2008; Tan, 1996).

Institutional theory suggests that institutions impact the range of actions available to firm (Scott, 1995; Hitt et al., 2004). In recent years, more and more attention of scholars from various countries is aimed at studying the influence of institutional context and national business environment on the process of entrepreneurship development and firm behavior (Ahlstrom & Bruton, 2002; Descotes et al., 2007; Yamakawa et al., 2008; Cieslik & Kaciak, 2009). This interest is also explained by the increased attention of researchers from different countries to the specifics of firm behavior in emerging markets, where the institutional environment differs significantly from the conditions of doing business in more developed countries in terms of the speed of change, the unpredictability of these changes, and the impact of institutions on the development of entrepreneurship in these countries (Ahlstrom & Bruton, 2010; Wright et al., 2005; Puffer et al., 2010). In emerging markets institutional constraints or poorly developed institutions constrain the set of strategic business alternatives (Hoskisson et al., 2000; Puffer et al., 2010). However, the empirical research on EO in the context of emerging markets is rather limited. Even among the general research on entrepreneurship in emerging economies, according to (Bruton et al., 2010) the main focus is only on the cultural component of the institutional environment and regulatory and legislative institutions are largely ignored.

Russian SMEs emerged recently on the global economy are becoming increasingly important in the global marketplace. Although Russian SMEs are often compared to their counterparts from other emerging economies, they differ in many respects, reflecting the specific path of their formation in post-soviet Russia. For example, in Russia, the growth rate of SMEs is much lower than in other emerging economies (Kihlgren, 2003). At the same time, the nature of entrepreneurial activity in Russia changed as well (Chepurensko, 2011). More and more start-ups in Russia are becoming opportunity-driven rather than necessity-driven (GEM: Russia, 2011). The crisis in 1998 opened new opportunities for the development of ‘free entrepreneurship’, meaning entrepreneurship based on recognition and implementation of opportunities rather than on ways to pay the rent. Contrary to companies from developed economies, Russian SMEs do not possess competitive advantage at the home base, well-recognized brands and lack international market experience (Zhang & Van den Bulcke, 1996). Also the competition has intensified as multinational companies have introduced new management practices and operations that challenge conventional norms and routines (Zhou et al., 2006). To cope with these changes Russian SMEs must seek new ways to improve their managerial efficiency in order to compete in the new global environment.

In entrepreneurship research there are two approaches to studying interaction between entrepreneurial firms and their environment. Contingen-

cy theory views environment as a set of objective external conditions to which the organization has to adapt (Aldrich, 1979; Hannan & Freeman, 1977). On the other hand, the strategic choice perspective conceptualizes environment through perceived opportunities and threats which influence the strategic choice of the firm (Astley & Van de Ven, 1983; Child, 1972; Tang & Hull, 2012). In our study of EO of Russian SMEs we adopt strategic choice perspective to analyze the influence of perceived characteristics of the regulatory aspects of the Russian institutional environment. We decided to focus our study on regulatory environment as we believe that for the emerging economies this aspect is the most dynamic in terms of speed of change and unpredictability of these changes.

The purpose of this paper is to study of the influence of institutional environment factors on the development of entrepreneurial orientation of SMEs in emerging markets. As an emerging market we study Russia, as we believe that the Russian institutional context of business is poorly understood in terms of its impact on the strategic choice and behavior of the firm. The paper is organized as follows. In the next section we present theoretical background and the research hypotheses. The second part contains the methods for the empirical study and the third — the main results of the analysis. The forth part provides discussion and the final part — the limitations of the study and suggestions for further research.

Theoretical Background and Hypotheses

Entrepreneurial orientation and institutional environment in Russia

EO is evidenced through an organization's simultaneous exhibition of innovative, risk-taking, and proactive firm behaviors (Covin, Slevin, 1989; Miller, 1983). Innovativeness reflects a firm's willingness to support new ideas, creativity, and experimentation in the development of internal solutions or external offerings. Risk-taking is associated with a firm's readiness to make bold and daring resource commitments towards organizational initiatives with uncertain returns. Proactiveness represents a forward-looking and opportunity-seeking perspective that provides the firm an advantage over competitors' actions by anticipating future market demands. Prior research suggests that the appropriateness of exploring the dimensions of EO separately or in unison is a matter of theoretical perspective (Covin, Green, & Slevin, 2006; Covin & Wales, 2012). This choice is largely dependent on whether the primary research objective necessitates assessing the unique influence of the dimensions of EO (e.g., Lumpkin and Dess, 1996) or assessing EO as an over-arching strategic approach indicated by the positive co-variance of these dimensions (e.g., Covin & Slevin, 1989; Miller, 1983). Since the research

question being investigated in this study concerns how the level of EO—as a firm-level strategic approach—is dependent on the perceived institutional environment, we adopt a composite view of EO.

EO is an important factor for young growing SMEs that compete with large well-established companies because it allows companies to achieve the necessary growth rates and the desired level of competitiveness (Antoncic & Hisrich, 2001). Large Russian companies with an autocratic management style often lose effectiveness as they attain their large size; they develop conservatism that restrains creativity and initiatives (Filimonova et al., 2010). Corporate entrepreneurship, according to Bagiev and Asaul (2001) allows company to overcome problems of inertia, loss of flexibility and inefficient adaptation to changing environmental conditions. According to Zahra et al. (2000) corporate entrepreneurship is the key for firms in emerging economies to revitalize, reconfigure resources, and transform into market-oriented firms that are ready to compete in the global economy. Thus, EO and entrepreneurial culture are the primary mechanisms that are needed in the dynamic Russian business environment for SMEs to achieve growth and improve their performance, because EO has a larger positive effect on performance in hostile environments than in benign ones (Covin & Slevin, 1989; 1991; Zahra & Covin 1995; Covin and Lumpkin, 2011).

We believe that Russian entrepreneurs and top-managers of SMEs are able to develop entrepreneurial culture in their firms. According to the theory of entrepreneurial convergence the entrepreneurs share a common experience during the conceptualization of entrepreneurial ideas and business growth regardless of culture and geography and therefore have a similar scenario when establishing new businesses and promoting their ideas within a company and creating an entrepreneurial culture (Mitchell et al., 2002). This theory supports the argument that despite the many difficulties faced by Russian entrepreneurs, successful entrepreneurs will reject the traditional authoritarian approach to management and will use a more open and entrepreneurial management style (McCarthy et al., 2010). For example, between 1995 and 2004 employees' entrepreneurial contribution grew in Russia, and top-management showed positive tendencies in the creation of entrepreneurial mechanisms in Russian firms (Croucher & Rizov, 2011). This approach to management becomes a competitive advantage of Russian SMEs in attracting talent and developing innovating atmosphere encouraging corporate entrepreneurship (Kickul et al., 2010; Shirokova & Yezhova, 2012), which in turn also leads to firm growth.

A review of research conducted in the West countries found that in hostile environment entrepreneurial firms were generally more proactive, took more risks and more innovative (Miller & Friesen, 1982; Covin & Slevin, 1989; Covin & Covin, 1990). These studies suggest that in general,

Western entrepreneurial firms view a challenging, hostile environment as an opportunity to improve their market position via aggressive or innovative strategies (Tang & Hull, 2012). A possible explanation for this behavior of firms can be the fact that, despite the intense competition in the advanced economies, this competition is regulated and therefore risky innovations are protected by the laws on the protection of intellectual property rights, and the small and medium business is under the patronage of the government and receives significant support (Li & Atuahene-Gima, 2001; Li & Zhang, 2007). All of these support factors are generally not available in countries with developing economies, including Russia, so SMEs in these countries often develop not an optimistic view but a heightened perception of environmental hostility (Tang et al., 2008) and that's why they can respond to this environment in a manner different from their Western counterparts (Tang & Hull, 2012).

Actions of entrepreneurs are not only limited to the institutional and cultural forces in their environment (North, 1990), but also supported by the new opportunities opening up for those who understand and can use the local institutional regime. In the absence of normal access to certain resources entrepreneurs in emerging economies can develop a replacement for the weak legal structures and capital markets (Bruton & Ahlstrom, 2003). Tracey and Phillips (2011) analyze the impact of the institutional environment on the creation and development of entrepreneurship in emerging economies. Unlike many authors (Aidis, 2005; Luthans & Ibrayeva, 2006), who perceive uncertainty of the institutional environment as an obstacle to business development in these markets, Tracey and Phillips (2011) focus on the opportunities for entrepreneurs to use a low level of development of institutions through three strategies based on finding ways to reduce institutional uncertainty, solving institutional problems and application of solutions from other areas.

The regulatory environment is composed of laws, regulations, and codified government policies that provide support and reduce risks for businesses (Ahlstrom & Bruton, 2002; Buzenitz, Gomes & Spencer, 2000; Scott, 1995). Ahlstrom and Bruton (2010) identify the important role of regulatory institutions in the firm growth, as it is directly related to its relationship with the government. Despite the fact that in recent years, Russia has seen many new laws regulating competition and supporting the development of SMEs, these efforts remain insufficient and limit the expected return on innovative projects

Both corruption and significant participation in the 'shadow economy' (Williams & Round, 2009; Williams, 2009) play an important roles in the performance of the Russian SMEs. According to the Annual Global Competitiveness Research (Sala-i-Martin, 2009), Russia experienced a decline

in performance in comparison with other BRIC countries. Another global research project conducted by the international civil society organization Transparency International places Russia in a “hostile environment” (Riaño et al., 2009), along with the least developed countries of Africa and Middle East. According to the Global Corruption Barometer research (2009), corruption is seriously widespread in Russia.

Issues of SMEs development in Russia remain a priority for national economic development, as evidenced by activity and state support of various political and social associations and the ongoing legislative activity of the Russian government. However, in an historical perspective, entrepreneurs and their firms in Russia have never received support either from the government, the Russian business environment, or from cultural traditions comparable to the level of support observed in most developed economies of the world (Zhuplev & Shein, 2008; Ahlstrom & Bruton, 2010). There are numerous administrative barriers for starting new businesses in Russia, including excessive documentation requirements, a lengthy registration period, artificially imposed regulatory obstacles, redundant complexity of formalities, and unsupportive attitudes from public and government institutions (Luo & Junkunc, 2008). According to Global Entrepreneurship Monitor results, only 4.6 percent of the adult population in Russia was involved in the process of starting a new business in 2011 (GEM: Russia, 2011). With frequent changes in the regulatory bodies, the Russian companies prefer to abandon the formal registration until the situation stabilizes.

Property rights protection

A stable legal framework and well-protected property rights are the foundation of business: entrepreneurs will not invest in a business if they cannot secure return on their investment (Dolgopyatova, 2007; Ben-Amar & André, 2006; Commander, Svejnar, & Tinn, 2008). In countries with less secure property rights, investment in business is lower and the speed of economic growth is slower (McMillan & Woodruff, 2002; Puffer & McCarthy, 2001). Since the break-up of the Soviet Union, entrepreneurs in most transition countries have witnessed the incapability of the courts and the police in enforcing property rights and legal decisions (Aidis & Adachi, 2006; Radaev, 2004; Volkov, 1999). Puffer et al. (2010) examine the impact of undeveloped formal institutions such as property rights protection on entrepreneurship development in China and Russia. They come to the conclusion that a full transition to formal institutions in Russia and China is complicated by the widespread use of the developed informal institutions that previously compensated underdeveloped formal institutions. Although Russian government has adopted written legal framework similar to those of the more developed economies, e.g., laws which related to property rights,

bankruptcy, commercial activities and taxes. but it has proven inefficient in implementing them (Aidis et al., 2008; Smallbone & Welter, 2001) and private property as an institution has a fragile existence in Russia (Tonoyan et al., 2010). For example, entrepreneurs and their property is often the subject of corporate raids in which larger businesses or independent raiders seize their property illegally. Moreover, the void of formal institutions, including private property, meant that the property could be expropriated by the federal or regional governments (Bruton et al., 2008).

High level of protection of the property rights gives more incentives for the development of innovations in SMEs that will be protected by the legal system. Without the protection of property rights entrepreneur will not invest its resources in the development of new products and services, if there is a threat of expropriation of the property. Therefore, we believe that the Russian SMEs are less likely to invest heavily in research and development when the level of protection of property rights is low. Innovativeness dimension of EO reflects a tendency to engage in and support new ideas, novelty, experimentation, and creative processes (Lumpkin, Dess, 1996), which means for a firm the need to invest in innovations. Proactiveness refers to a posture of anticipating and acting on future wants and needs in the marketplace, so proactive firms have the desire to be pioneers, thereby capitalizing in emerging opportunities (Wiklund & Shepherd, 2005). Risk taking is associated with a willingness to commit more resources to projects where the cost of failure may be high (Miller & Friesen, 1982). So due to the need to invest resources in the development of EO, because EO is a resource-consuming strategic orientation (Covin & Slevin, 1991), an entrepreneur and a top-manager of the Russian SMEs will evolve only if they believe that the right to property protected by law Thus:

Hypothesis 1. The level of protection of private property rights is positively related to EO in Russian SMEs.

Protection of contract rights is an important factor of predictability of contract agents' behavior. In Russia and China personal relationships and dependencies on the firm reputation are strongly developed (Puffer et al., 2010). Western institutions are generally built on the basis of trust in the government, regulatory agencies and especially judicial system, as well as other formal institutions (Puffer et al., 2010). These institutes in Russia are not fully developed, including the institution of contract law. In addition, Russia has a traditional distrust to formal institutes and distrust to outsiders (people who do not belong to their personal network) (Ayios, 2004). Moreover, Russia has traditionally been regarded as a low-trust society (Kuznetsov & Kuznetsova, 2008). That is why the Western approach when the trust is the basis of formal institutes and the connected belief that they will support trustworthy behavior among business parties,

is not applicable in Russia. All of that leads to Russian tendency to rely instead on relational trust (Puffer et al., 2010).

Despite the fact that Russia has a contract law, the use of relational contracts dominates the business environment. These contracts contain implicit agreement on the expected behavior, based on trust, built up over a long time. Given the lack of well-developed institutions for protecting contractual rights and allowing the normal functioning of businesses, entrepreneurs rely primarily on their networks and build “friendly” relations with the “right” people (including those in government) who can help them in business development (Ahlstrom & Bruton, 2010).

Thus, in Russia there is a low level of trust between business partners, at the same time, the formal rules are contradictory and unstable, poorly enforced, resulting in a high level of uncertainty in the business. In addition, even if entrepreneurs value honesty in business relationships in Russia, they still do not fully trust each other, because of the rather frequent violations of contractual obligations and low transparency of transactions (Radaev, 2004). Compliance with contractual obligations, accompanied by trust to business partners usually leads to lower transaction costs and reduced uncertainty. This is especially important for companies of small and medium-sized businesses, taking into account the limited resources available. Russian entrepreneurs rarely go to court to resolve business disputes, often, most of them try to negotiate informally (Radaev, 2004). Among other reasons why entrepreneurs in Russia do not go to court for breach of contractual obligations, it is the perception of the courts as a corrupt institution that is widely used as an instrument of unfair competition (Tonoayn et al., 2010). Moreover, courts are time consuming and costly, and might be particularly expensive for entrepreneurs and SMEs.

Innovativeness, proactiveness and willingness to take risk, as noted above, are associated with the need to invest resources. Two major longitudinal studies of Russian SMEs found that growing their companies’ entrepreneurs depended primarily on the combination of resources and the sequence in which there were allocated (Batjargal, 2002). Taking into account extraordinary scarcity of all types of resources for SMEs in Russia (Puffer & McCarthy, 2001), entrepreneurs in Russia rely more on social capital, which acts as a source of various types of resources, including financial capital, human resources, etc. At the same time, businesses are facing great difficulties in establishing social networks, based on the relational contract, as level of trust in Russia is very low among business partners and entrepreneurs often take care to sign contracts and agreements only with people they trust (Puffer & McCarthy, 2001). Taking into account all the above, we believe that the Russian SMEs will be more entrepreneurial (innovative, proactive and willing to take the risk)

when the level of protection of their contractual rights is higher as this reduces transaction costs. Additionally, it creates an opportunity for the development of social capital through increasing the level of trust between partners, leading to development of an additional source of resources. Thus:

Hypothesis 2. The level of contract law protection is positively related to EO in Russian SMEs.

The dependence on personal relationship with people in power

Political power was found to be the most significant single resource in predicting survival and growth of Russian SMEs in 1990s (Puffer & McCarthy, 2001). Personal relationship with people in power has traditionally served as the main source of resources for Russian entrepreneurs. The historical roots of this tradition derive from the centrally-planned era in which the ‘blat network’ served as an informal barter system, where the exchange of favors was built on such favors as access to goods and services (Michailova & Worm 2003). “Blat” have historically played a key role in gaining access to generally unavailable goods, especially in Soviet times (Bashkirova, 2001). After the collapse of the Soviet Union and the movement to create a market economy, the importance of personal relations with people in power did not decrease, but rather changed its nature as these “connections with right people” became important in the entrepreneurial process and new venture development (Batjargal, 2005). “Whom you know” determines the success of the economic actions: entrepreneurs without ties to state bureaucrats have significant barriers to entry and face more difficulties when growing their businesses (Guseva, 2007).

Access to power for Russian entrepreneurs is important for obtaining permits to start companies, export, and conduct other activities. Also, the relations with the government create a competitive advantage in terms of getting government grants, participation in government programs to support business, obtaining real estate, etc. Most new entrepreneurs do not have access to authorities and government officials, and forced to develop other ways of obtaining resources and the development of competitive advantage. In modern Russia in the absence of regulatory protection institutions perceive the company in the first place high level of dependence on personal relationships with people in power rather than the opportunities arising from increased competition. At the low level of regulatory institutions development firm believes that it has little control over its own destiny (Barr & Glynn, 2004).

Thus, we believe that SMEs in Russia, which do not have such personal informal contacts with representatives of the official governing

bodies, experience a more hostile business environment and are forced to look for other ways to improve the business performance, including developing EO and entrepreneurial culture within the firm. Also, the converse is true — in the case of such bonds, the firm may receive a competitive advantage by relying on personal relations with people in power, who can solve any problems faced by SMEs, ensure patronage in government. Thus:

Hypothesis 3. The dependence on personal relations with authorities is negatively related to EO in Russian SMEs.

Compliance with tax law

Not only regulatory aspects of environment define business conditions of firms. Findings by Meek, Pacheco and York (2010) suggest that the effect of regulatory environment is influenced by social norms that prevail in the business environment. The dependence of business operations on illegal schemes such as tax evasion, bribery, and other corrupt methods for the sake of survival or growth (Aidis & Adachi, 2006) in a regular violation of existing rules creates a legitimate threat to a business and its owner, but also increases the likelihood that authorities themselves will engage in semi-legal or illegal predatory behavior (for example, in a form of selective police raids officially aimed at financial fraud crimes but informally aimed at money extortion). According to Hibbs and Piculescu (2009) the way taxation and regulation is done in certain country conditions and the way institutional benefits are supplied by government to firms has influence on likelihood of firms' tax compliance and tax toleration.

Russian studies show that about 20 percent of the Russian economy is unobservable or “shadow” (Smolyakova, 2010). This means that at least every fifth company operates in the illegal sector or practices tax evasion. According to Yevgeniya Shkolova, Deputy Minister of Home Affairs of Russian Federation, SMEs in Russia are the main “bribers,” and the amount of bribes to officials grows annually. For example, the amount of bribes in 2009 tripled over that in 2008 (Arsyukhin, 2010).

Compliance with the tax regime in the emerging markets does not always lead to a competitive advantage, but on the contrary, often leads to the loss of the market due to increased costs. For example, in Russia, despite the declared government programs to support small and medium businesses, the tax burden remains disproportionately heavy, especially for young firms. According to the results of the expert survey by the Global Entrepreneurship Monitor in Russia, the new Tax Code, which came into force in 2011, not only increased the tax burden on small and medium enterprises, but also introduced additional confusion in the in-

terpretation of some articles (GEM: Russia, 2011). Thus, the social tax that employers pay for each employee can reach more than 30%, which leads to the fact that in Russia, the official wage is very low and most of the wages paid to employees in an envelope. In a survey of 999 enterprises in the five regions of the Russian Federation (Moscow, Vladimir, Nizhny Novgorod, Novgorod, Tomsk), held by ICC "Business Thesaurus" in 2001, commissioned by the Fund "Eurasia", among the three main problems identified by small businesses in relation to their own business on the stage of start-up, the first issue was also named the "high taxes" (49.1% of respondents)².

Many companies from emerging markets complain that even they pay all taxes in time and according to the laws and rules, tax inspection's visits and communications with them, however, finish with the revealing of some offences in the company's operations and consequent fines. Therefore while the tax policies obviously influence on the SMEs performance in negative direction, nevertheless, we believe that if the company complies with the tax regime and pays all taxes, it is forced to look for other ways to increase competitiveness, also by developing level of proactiveness, innovation and willingness to take risks. Thus, compliance with tax regime leads to higher levels of EO in emerging economies, including Russia. Therefore:

Hypotheses 4. Compliance with tax law is positively related to the level of EO in Russian SMEs.

Compliance with administrative rules

Nowadays, not only tax official's inspections exist, but there is a variety of different inspections, which business units have to meet. The main goal of these inspections is to verify the compliance of the business to administrative norms. Many entrepreneurs from emerging markets claim that the complex system of business inspections include many unnecessary and duplicated each other inspections (Huber, 2009). Annual set of inspections are performed in order to assess the conditions and level of affordability of company's operations. Also the goal of the inspections is to reveal potential dangers and to provide safety to the company's employees and the clients of the firm. These business inspections may vary in type and frequency, depending on the laws and rules, and also inspections vary from country to country.

While these inspections are perceived in a negative way by many companies, these inspections benefit and care about business units, em-

² Source: http://www.nisse.ru/business/help/magazine/gildia/articles_40.html

ployees, consumers and country environment. The importance of inspections, especially life-safety is crucial and obvious (Frangiamore, 2009). The goal of the inspections is to reveal weak points, in order to avoid problems in the future, to decrease losses of the company, connected with the consequent fines and accidents, in case of unrevealing them on the core. Such practices could afford to decrease the insurance premium, for instance fire and life-safety inspection, which will allow giving evidence that the probability of the accident is near zero. However in the emerging markets, due to high level of the corruption and not stable and clear inspection system, SMEs perceive these inspections negatively. While the main goal of the inspections to support business and entrepreneurial activity, by providing well conditions for operating, many SMEs perceive these business inspections as an obstacle for their operation and every day activity.

In such situations, when the company does not comply with administrative rules, due to the need for significant investment, top management of SMEs is often involved in informal relationships with the inspection and pays bribes. According to the results of the survey of 963 Russian SMEs, conducted by World Bank and EBRD in 2009³ on average a firm has 100 inspections annually and for bribes to officials it spends an average of \$ 20,000. Such a violation of the laws, on the one hand, increases the risk of closure of business, on the other hand — reduces the level of commitment among employees, as they perceive such behavior of the top-management as the violation of their rights to a safe environment in the workplace. At the same time, if the company complies with all the requirements and business rules, this can lead to an increased cost of doing business and reduce its competitiveness. In this regard, the company will be more focused on the search for other sources to increase the competitiveness, also through increasing the level of proactivity, innovation and willingness to take risks. In addition, compliance with administrative standards will increase the loyalty and commitment of employees, which is a prerequisite for improving EO of the

³ The European Bank of Reconstruction and Development (EBRD) and the World Bank conduct a study on the impact of state policies on business development and investment climates in Central and Eastern Europe (including Turkey) and countries of the Commonwealth of Independent States (CIS). This study has been conducting for 28 countries by the European Bank for Reconstruction and Development and the World Bank since 2000 every 3 years. The goal of the surveys to get feedback from companies from emerging markets, about business environment and conditions, in which firms are operation. Overall one of the goals also is considered to collect data period by period, in order to monitor changes in the business conditions and environment over the time. <http://www.ebrd.com/country/sector/econo/surveys/beeps.htm>

company. Thus, if the level of compliance with tax laws and administrative regulations is high, the company will focus on EO.

Hypotheses 5. Compliance with administrative rules is positively related to the level of EO in Russian SMEs.

The availability of contracts with state

The pursuit of entrepreneurial strategies requires resources (Wiklund & Shepherd, 2005) and EO is a resource-consuming strategic orientation (Covin & Slevin, 1991; Romanelli, 1987). That is why access to large volumes of resources facilitates EO and fosters a culture of experimentation because it protects firms from the uncertain outcomes of those projects (Wiklund & Shepherd, 2005; Bourgeois, 1981). Access to finance is particularly important for small and medium enterprises. The availability of sufficient financial resources lowers the lack of other resources, as others may be purchased with funds (Dollinger, 1999). According to (Greene & Brown, 1997), SMEs involved in innovation activities have great need for financial resources. In Western countries, SMEs often have access to capital through venture capital industry, but in the emerging economies, this industry is still underdeveloped, so companies have to find other sources of funding. In emerging economies, the main source of financing is the personal equity of the trader, supplemented by funds from government programs, at least – bank loans, and with rare exception – financial support of professional investors.

In Russia, access to financial resources is very limited, especially for small and medium enterprises. According to the results of the project GEM, financial support is traditionally among the factors that affect the development of entrepreneurship in Russia (GEM: Russia, 2011). The weakness of the legal framework in the field of venture capital, as well as the closure of state subsidy systems are among the critical factors for Russian SMEs for a number of years. For many SMEs in Russia the possible access to financial resources is contracting with the state, where the government agency acts as the primary client of the firm. In Russia, there are many cases a business that serves only one client – the state and often loss of access to state contracts meant for the Russian SME bankruptcy and death.

Availability of contracts with state means that firm has access to financial resources on a constant basis. Greater access to financial capital can mitigate the chance of risky projects becoming fatal, stimulating risk-taking (Wiklund & Shepherd, 2005). Also company can afford to withdraw resources from operations and invest resources in new products and processes stimulating firm's innovativeness and proactiveness.

Hypothesis 6. The availability of contracts with state is positively related to EO in Russian SMEs.

The general model of research is presented on the figure.

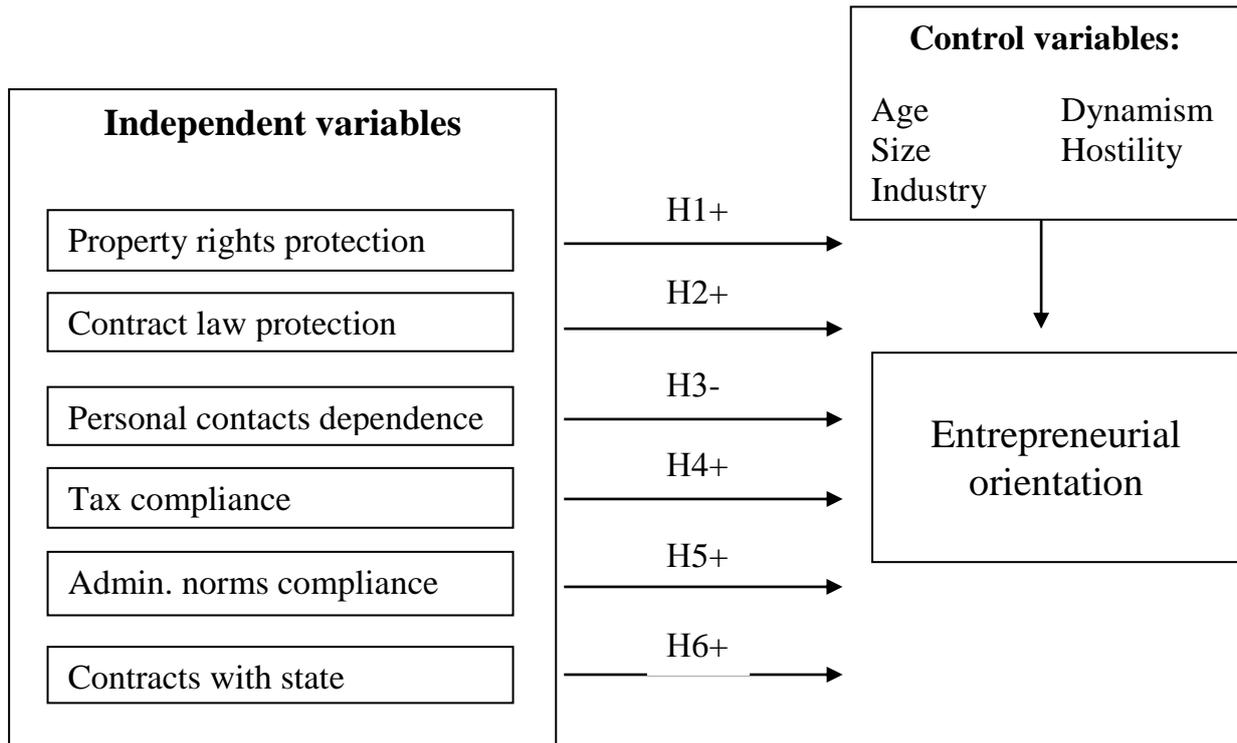


Figure. Research model

Research Design

Sample and Data Collection Procedure

Data collection took place in 2007-2008, resulting in 500 firms from Moscow and St. Petersburg interviewed. The sample included firms with personnel from 3 to 500. The size of the sample was chosen by the research team to provide considerable reliability for quantitative research while not consuming too much time and resources in terms of data collection.

We used the method of proportional sample selection. The SPARK-Interfax database which includes information on more than 5,000,000 companies registered in the territory of Russia was used as the general population of the study. Using the appropriate target sample characteristics made it possible to distinguish two subgroups of the population of Russian entrepreneurial companies (all private companies registered in Moscow or St. Petersburg up to 500 employees in three fast-growing industries.) Next, from the general population firms were randomly selected in proportion of the region, industry and company size. The companies selected represented the three industries in Russia: (1) wholesale and retail sales, (2) hotels, restaurants and cafes (HoReCa), (3) ICT-industry (information technologies and telecommunication, digital television, software, etc.).

In the research two cities of the Russian Federation with the highest entrepreneurial activity – Moscow and St. Petersburg – were selected for the survey. The decision to limit the sample only by companies in Moscow and St. Petersburg was caused by the fact that in Russia SMEs are distributed unevenly. Historically, in the two largest Russian cities, Moscow and St. Petersburg, most of the Russian SMEs were concentrated (Saidullayev & Shestoporov, 2009) According to the report of the National Institute for System Studies of Entrepreneurship in February 2009, as of October 1, 2008 Moscow and St. Petersburg had one of the most significant indicators of the number of small and medium enterprises by 100 thousand inhabitants: 275.1 companies – Moscow and 337.1 companies – St. Petersburg (Saidullayev & Shestoporov, 2009)⁴. In addition, it should be recognized that the survey of SMEs in Moscow and St. Petersburg is a task much easier than collecting data and conducting interviews in SMEs throughout the country.

The data were collected through face to face interviews with top managers by a research company: Russian Public Opinion Research Center (VCIOM⁵). This company was contracted to collect data by the research team. The decision to bring in an outside organization to collect data was made for several reasons. First, we acknowledged the difficulties in conducting such research of SMEs, not only in Russia but in other countries as well, as SMEs are usually reluctant and unwilling to provide desired information. And second, the research team could check the quality of data as it selected the companies for the sample based on the general population. We had all contact details of each firm through an access to SPARK–Interfax dataset.

Representatives of VCIOM conducted structured interviews with the heads of firms (general directors, owners or top management members) from November 2007 to August 2008 face to face. These interviews were based on a survey questionnaire developed by the research team. This questionnaire focused on various aspects of company management with questions related to firm activities in 2007. Interviews were done in the Russian language and lasted from 60 to 90 min. In the survey a guarantee of anonymity for the companies was provided, and the respondents were assured that only summarized test results would be released. Furthermore, we controlled for indifference in answering questions by purposefully posing two essentially identical questions in dif-

⁴ http://www.nisse.ru/business/article/Article_383.html

⁵ Russian Public Opinion Research Center (VCIOM) is the oldest and the leading marketing and opinion research company in the post-Soviet space. See more information about it: <http://wciom.ru/>

ferent places and in different formats to see if the respondents' answers were consistent, rejecting those whose answers were not.

In the sample 27.8% of companies are the firms with fewer than 50 employees, 31.2% of the companies are firms with 50 to 100 employees, 24.2% of firms with 100-200 employees, 16.6% are firms with 200-500 employees. As for the distribution of the sample on the organizational and legal forms: 79.4% are limited liability companies, 17.4% – companies in the form of closed joint-stock, 3.2% – joint stock companies. Distribution of companies by industry in the sample is as follows: wholesale and retail trade – 71.8%, hotels and restaurants – 15%, communications and IT – 13.2%. The average age of the companies in the sample is 11.3 years.

Measures

Dependent variable – EO. In this study, entrepreneurial orientation is measured on a scale of questions (Covin & Slevin, 1989): three questions for each factor of the concept – innovativeness, proactiveness and risk-taking. Cronbach's alpha of the entrepreneurial orientation scale is 0.799, which indicates a high level of consistency of the scale. Weighted average of the scale is 3.3, standard deviation – 0.91.

Independent variables. Independent variables include the characteristics of the perceived regulatory institutional environment, such as protection by private property rights and contract law, dependence on personal relations with authorities, the level of compliance with the tax law firms and existing administrative rules, availability of contracts with state. The perception scale applied in this study was operationalized using items from BEEPS (Business Environment and Enterprise Performance Survey) study⁶. The questions used for the study are given in the Appendix.

Control variables. In previous studies it was shown that the level of EO of a firm depends on the *size* of the firm estimated by the number of employees (Lumpkin & Dess, 1996; Walter, Auer & Ritter, 2006; Wiklund & Sheperd, 2005; 2004). The effect of increase of number of employees by 1 is different for a company with 3 people or with 500 people, so the logarithm of number of employees is taken in order to estimate the increase in growth of sales when number of employees increases by 1% (Wooldridge, 2003). Thus, we control the size of a firm using the logarithm of the number of employees. *Age* of firm as also proven is a significant factor in relation to strategic behavior of a firm. The older is a firm the more hierarchical and inertial and thus less motivated to change and innovation (Huergo & Jaumandreu, 2004; Tang &

⁶ <http://www.ebrd.com/country/sector/econo/surveys/beeps.htm>

Hull, 2012). In addition, the *type of industry* that the firms competed in was considered. Industry setting has been shown to exert an influence on entrepreneurial strategy making in past research (Covin & Slevin, 1991; Kreiser et al., 2010). Variable *industry* is represented by the values 1 – Wholesale and retail Trade, 2 – HoReCa, 3 – ICT.

Results of many research show that *dynamism* and *hostility* of external environment have positive effect on the ability of a firm to adopt innovativeness, proactiveness and risk-taking (e.g., Khan & Manopichetwattana, 1989; Tan, 1996; Smallbone et al., 2010) and EO in general (Covin & Slevin, 1989; Covin & Covin, 1990). Thus, in our model, we use these variables as control variables. Scales for the measurement of these variables were operationalized based on items from (Miller, 1987). Dynamism includes the four questions measuring perceived level of changes in behavior of customers, suppliers, competitors and government. Cronbach's alpha of the scale is 0.79. Hostility scale includes four questions on hostility of customers, suppliers, competitors and government. Cronbach's alpha of the scale is 0.86. Questions are presented in Appendix.

Findings

Table 1 summarizes the means, standard deviations, and Pearson correlations of the key variables in this study. The mean values are noticeably high for the variables “tax compliance” and “administrative norms compliance” (4.28 and 4.23 respectively out of maximum 5) which raises a concern on whether the respondents gave honest response on the sensitive questions. Analysis of correlations shows that the same variables are highly correlated (at 0.748, $p=.000$) this supports the validity of the measures as firm complying with one part of regulatory legislation is likely to comply with another. The levels of protection by property rights and by contract law are also highly positively correlated (at 0.716, $p=.000$) which indicates the validity of the variables as both of them show the level of legislative development perceived by the firms. However, it can also imply multicollinearity. In regression analysis later on, the variables didn't have high variance inflation factors so multicollinearity is insignificant in the research.

The other observation is that EO has significant correlations with most of the independent variables of the study except for “contract law”, “tax compliance”, “administrative norms compliance”, and “age” variables, which indicates the possible relation between EO and other variables in the model already on this stage of analysis.

Table 1. Descriptive statistics and correlation matrix

Variables	Mean	Std.Dev.	1	2	3	4	5	6	7	8	9	10	11	12
1. EO	3.55	.92	1											
2. Age	9.47	8.32	-.010	1										
3. Size	3.7	1.36	.124**	.235**	1									
4. Industry	1.41	.712	-.130**	.049	.029	1								
5. Dynamism	3.22	.75	.301**	.081	.056	-.005	1							
6. Hostility	2.97	.89	.251**	.015	.084	.023	.470**	1						
7. Property rights protection	3.66	1.04	.116**	.000	-.005	-.208**	-.127**	-.185**	1					
8. Contract law protection	3.67	1.04	.034	.069	-.055	-.285**	-.133**	-.199**	.716**	1				
9. Personal contacts dependence	2.86	1.25	.206**	.072	.039	.100*	.244**	.373**	-.227**	-.216**	1			
10. Tax compliance	4.28	.84	.001	-.011	-.117*	-.199**	-.186**	-.334**	.341**	.375**	-.227**	1		
11. Admin. norms compliance	4.23	.91	.081	.013	-.111*	-.168**	-.116*	-.261**	.303**	.367**	-.207**	.784**	1	
12. Contracts with state	3.45	1.2	.150**	.089*	.058	.020	-.014	-.035	.221**	.193**	-.100*	.189**	.270**	1

** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed)

We used hierarchical linear regression analysis to estimate the added impact of independent variables to the model (in Model 2) after taking into account control variables in Model 1. The hierarchical approach is appropriate when analyzing highly correlated independent variables (Cohen & Cohen, 1983; Wiklund & Shepherd, 2005). The results of regression analysis are presented in the Table 2. To test the hypotheses we first added the control variables (results reported in column 2), then the independent variables (model in column 3).

Table 2. Regression analysis results

Variables	Model 1	Model 2
	Coefficients	Coefficients
Constant	2.182***	1.314***
Age	-0.007	-0.008*
Size	0.082***	0.079***
Industry	-0.147**	-0.159**
Dynamism	0.301***	0.275***
Hostility	0.131**	0.121**
Property rights protection		0.115*
Contract law protection		-0.101*
Personal contacts dependence		0.104***
Tax compliance		-0.065
Adm. norms compliance		0.164**
Contracts with state		0.078**
R ²	0.144	0.191
R ² _{adj}	0.134	0.17
F	14.385***	9.058***
R ² change		0.047
F change		5.327
Number of observations	428	

Notes: * significance on level $p < 0.1$; ** significance on level $p < 0.05$; *** significance on level $p < 0.01$; dependent variable: EO.

The control variables of firm size, age, industry, environmental hostility and environmental dynamism explain 14.4% of the variation in the level of EO in Russian SMEs ($P < .001$). The next step of the analysis addresses the influence of different institutional factors on EO. R² in the second model is 0.191, which means that the independent variables explained 19% of the variation of the level of EO in Russian SMEs ($P < .001$). R² change from Model 1 to Model 2, including all independent variables of the study, is statistically significant at 0.001 level, which in-

dicates the high significance of the main independent variables in the model.

Firm size is a significant factor influencing the entrepreneurial orientation. Companies with a large number of employees are more prone to entrepreneurial behavior, taking into account, on average, small and medium size of the companies in the sample. The industry has significant negative relation, meaning that EO level in “trade” is higher than in ICT.

The dynamism of the regulatory bodies has a significant positive relationship with entrepreneurial orientation. Variable "dynamism" is significant at the 0.01 level. This means that the unstable and dynamic environment forces firms to be more prone to innovation and by maintaining an aggressive position in the market to remain competitive. Variable “hostility” has positive relationship on 0.05 level with EO in the both models, which shows that the level of hostility contributes to the level of EO of the firm. These results confirm previous studies that show that in a hostile and dynamic environment, the level of the EO will be higher than in a stable and supportive environment (Covin & Slevin, 1989; Wiklund & Shepherd, 2005).

Protection of private property rights has a significant positive relationship with entrepreneurial orientation of the firm. Contract law protection has a significant negative relationship. This confirms the hypothesis 1 and contradicts hypothesis 2. Dependence of business on personal relationships with regulators has a significant positive relationship with entrepreneurial orientation. This contradicts with our hypothesis 3. Compliance with the tax regime doesn't have significant estimates of its relationship with EO, while compliance with administrative standards and norms is significantly positively related, which supports the hypothesis 5. Availability of contracts with state has significant positive relation to the level of EO, which means that the possibility for a firm to participate in usually profitable contract with state leads to higher proactivity, innovativeness and risk-taking behavior of a firm, which confirms the hypothesis 6.

Discussion

The findings of this article suggest that in a dynamic and hostile environment, the SME's ability to use available resources and knowledge are limited, which makes it necessary to develop EO and create a new ways of doing business in a changing institutional environment such as Russian environment. The level of EO in Russian SMEs is also positively influenced by the high level of protection of property rights, dependence of business on personal relationship with people in power, compliance with administrative norms and availability of contracts with state. At the same time, level of contract law protection is negatively related to the level of EO in Russian SMEs.

Protection of private property rights is a prerequisite for innovation. Li, Atuahene-Gima (2001) and Tang and Hull (2012) consider the protection of private property rights as a necessary condition for the development of entrepreneurship and innovation in emerging markets. Because of the lack of clearly established and adequately enforced laws and regulations regarding private and intellectual properties, in hostile and dynamic environment when competition intensifies, opportunistic behaviors such as bribery or hijacking profits through piracy also increase (Li, Zhang, 2007). Despite the fact that in recent years, Russia has seen many new laws aimed at the development of a market-oriented economy, the application of these laws remains at a fairly low level. For example, according to the expert survey in the project GEM, experts agree that the law in the protection of intellectual property rights in Russia is not exhaustive, and enforcement – effective. It is especially difficult to count on strict copyright compliance for SMEs (GEM: Russia, 2011). The above factors limit the expected return on innovative projects, which in turn reduces the level of EO, because firms are more focused on current products and services and concentrate their resources on products and services that have proven to be effective in the marketplace.

Contract law protection has a significant negative impact on the entrepreneurial orientation of the firm. This result was a surprising to us, because we expected that the protection of contractual rights in Russia will contribute to the development of EO in the SMEs. In the absence of developed institutions of contract law informal institutions, such as social networks and trust, replacing the protection of contract law may, in emerging economy, provide more effective support for SMEs. According to Jansson et al. (2007), when building relationships with the other firms, including firms from other countries, one must take into account three important aspects of networks: *patience*, *suspicion*, and *performance*. In Russia the level of patience is quite low, which fosters a short-term orientation in business relationships. It also means that the Russian business environment expects immediate results from the new relationship. Patience is very closely linked with suspicion, which determines the level of negative perception of the relationship in the future, for example, the expectation of fraud in business deals. The Russian business environment is characterized by a high level of suspicion, regardless of the stage of development of relationships in business networks (Shirokova & McDougal-Covin, 2012). That is why the main condition of business relations is trust. Trust may be defined as an ability to predict the behavior of another person, characterized by high ethical standards (Johanson & Vahlne, 2009). Trust enables people to share information and is of particular importance in the situation of uncertainty (Johanson & Vahlne, 2009) as well as reducing the need for control in complex situations (Hohmann & Malieva, 2005). Trust can even be used to serve as a substitute

for knowledge if the entrepreneur lacks knowledge in a particular field, as the entrepreneur can transfer decision-making process to a trust-worthy middleman (Arenius & Minniti, 2005).

SMEs in Russia very rarely conduct business, relying on contract law, as even if the counterparty fails to meet its obligations under the contract, weak protection of business by judiciary forces entrepreneurs to look for other ways to solve problems. Most respondents of BEEPS project note high inefficiency of the judicial system in Russia and the slowness of the judicial processes, when you can spend a few years in litigation, solving business disputes⁷. In this situation, most of the transactions of Russian SMEs are based on trust, while in Russia, as noted above, there is a very high level of distrust to the people who do not belong to a social network and are outsiders and Russia has traditionally been viewed as a society with a low level of trust (Ayios, 2004; Kuznetsov & Kuznetsova, 2008).

At the same time, the high level of protection of SMEs by contract law increases the predictability of the behavior of counterparties and protects the company from their opportunistic behavior. In a more predictable external environment the level of EO will be reduced, because previous studies show, in the situation of limited resources and stable market environment, the level of EO is lower than in a situation of resource abundance and market dynamism (Wiklund & Shepherd, 2005).

Dependence on personal relationships with people in power is positively related to entrepreneurial orientation. This results is also surprising for us because according to previous studies (e.g. Tan, 1996; Puffer & McCarthy, 2001) in emerging markets, SMEs in order to survive without access to this scarce resource (administrative resource) need to look for new ways of operating on the market, engaging in innovation, creating new products and technologies to compete with the players in a better position. While this result is surprising from the entrepreneurship theory perspective, it can be explained from the social network perspective as networking has long been identified as a powerful tool for the entrepreneurs in emerging markets (Yiu & Lau, 2008; Dubini & Aldrich, 1991). In emerging markets when SMEs attempt to gain access to needed resources, they often face a number of barriers in relation to “institutional voids” in their markets, resulting in the need to use informal institutions, including social networks with people in power and informal communication as compensation for deficiencies of formal institutions (Ahlstrom & Bruton, 2010). Such networks also help entrepreneurs identify opportunities and obtain resources such as venture capital and supplement the personal funds entrepreneurs invest (Puffer & McCarthy, 2001). For example, in China, various links to government and regulatory agencies are considered

⁷ <http://www.ebrd.com/country/sector/econo/surveys/beeps.htm>

as essential connections, which help firms to better manage external dependency and uncertainty (Park & Luo, 2001). Consequently, these networking would be able to develop innovative products and create new ventures and provide a platform for firms to obtain political capital needed for successful business performance (Yiu & Lau, 2008).

Despite the fact that the result looks as somewhat disappointing for us, because it appears that entrepreneurs in Russia should rely more heavily on connections with the people in power than on themselves, for the development of EO, it can be explained in terms of path-dependence perspective. As is known in the Soviet times business in Russia existed only on the "black market" and was illegal, despite the fact that it was a large segment of economic activity during 70 years of Soviet power (McCarthy, Puffer & Shekshnia, 1993). For conducting illegal business and getting access to scarce goods and services in the Soviet Union there was a "blat". 'Blat' is a culturally based activity of offering or receiving favored treatment (Puffer, et al. 2010). Blat is rooted in cultural traditions and has generally been seen as necessary, ethical, and reasonable in order to conduct business, as well as to obtain personal favors. Such practices have been deeply entrenched throughout Russian history (Ledeneva et al., 2000). Blat is sometimes even seen as entrepreneurship, or at least an entrepreneurial activity that was critical to the functioning of the shadow economy and society during Soviet times (Rehn & Taalas, 2004).

As the result of restructuring in the 1990s, entrepreneurial activity was permitted; new businesses and entrepreneurs from the informal economy also went on a legal basis. The dissolution of Soviet institutions was not followed by new ones and entrepreneurs fell back on cultural values and practices like hiding income and avoiding taxes, and relying on in-group networks to achieve goals (Puffer, McCarthy & Boisot, 2010). Currently, entrepreneurs must routinely offer favors to public officials, ranging from local police and the fire authorities to local and federal governments representatives, in order to start businesses and keep them operating. The increasing role of blat and connections with the government increases with the increased level of bureaucracy which causes the need to find ways to bypass the official and legal decisions related to the business activities. Also, it is believed that during the second term of President Putin, red tape and corruption has increased dramatically (Puffer, McCarthy & Boisot, 2010), forcing entrepreneurs to seek new relationships with the government to start-up and develop their businesses. Thus, in Russia, personal ties to the government, by contrast, will positively influence the development of EO, as they provide entrepreneurs with more opportunities, than those who don't have those relations.

Tax compliance didn't receive significant estimates of its relation to entrepreneurial orientation of the firm, while *complying with the administrative*

rules have a significant positive relationship. In countries with transition economies compliance with the law is often low. As noted by (Ahlstrom & Bruton, 2010), the Russian firms preferred to abandon formal registration until the situation with the regulation of the economy is not stable. According to Alexander Surinov, head of the Federal State Statistics Service, about 20 percent of the Russian economy is unobservable or “shadow” (Smolyakova, 2010). Waiver of tax compliance is closely linked to the assessment by a firm the level of development of formal institutions. Not respecting the tax laws, the company takes the risk and acquires additional resources for business development and innovation. Lack of significant estimates of relation between tax compliance and EO can also be a result of reluctance of respondents to report the true level of tax compliance as mentioned earlier.

Administrative norms of business practices include maintenance of fire, sanitary and other regulations relating to the safety and quality of working conditions. Failure to comply with these standards increases the risk of not only the company, but also the people working in it. The positive impact of administrative norms compliance on the level of EO of the firm can be linked to employee satisfaction with the general conditions of work and level of personal security that allows them to focus on the adoption of innovative solutions.

Despite the fact that in order to comply with all the administrative rules of business, one needs to invest some resources that for SMEs with limited resources can lead to loss of competitiveness in the short term, from the perspective of long-term results these investments will play a crucial role. In addition, in case of non-compliance and opportunistic behavior on the part of the entrepreneur, he or she will be involved in corruption schemes (Tonoyan et al., 2010), which will also increase their costs. As mentioned above, corruption rate in Russia is among the highest in the world and it continues to rise (Transparency International, 2008; Bjornskov & Paldam, 2002). For many Russian entrepreneurs it is much easier to pay a bribe to the inspector, than to comply with the requirements and laws. In addition, such illegal behavior is supported by cultural features of Russian society, and the rules of conduct that are inherited from the Soviet times such as “the end justifies the means” (Lefebvre, 2001, p. 36) and “what leads to success is always correct” (Ledeneva, 1998, p. 213). In Russia, there are quite a lot of “unwritten rules” and standards of behavior that are aimed at violation of existing laws. For example, in Russia, the behavior of the entrepreneur, who abides the law, is viewed as “irrational”, if this entrepreneur could benefit more from engaging in illegal transactions (Tonoyan et al., 2010). In addition, in societies where the majority diverges from legal norms, an illegal behavior becomes quite rational or normal (Axelrod, 1986).

However, this behavior increases the level of uncertainty for the company, which relies only on the illegal business schemes. Some Russian studies show that, for a long-term sustainable competitive advantage SMEs prefer to comply with the rules and laws, especially if they focus on innovation, proactiveness and risk-taking (Shirokova & Yezhova, 2012). Furthermore, when entering foreign markets Russian SMEs gain advantage due to fair dealing, compliance with laws and compliance with all administrative rules (Shirokova & McDougal-Covin, 2012).

Availability of state contracts represents one of the important and motivating resources for SMEs because it provides the financial resources which are needed for the SME's growth and survival. Financial capital provides a buffer against unforeseen difficulties and it provides the resources that allow firms to innovate and change, thereby enabling the SME to identify and create new market opportunities (Zahra, 1991; Kickul et al., 2010). Desire to benefit from the profitable opportunity which a state contract represents can increase the level of EO of the companies in the industry as they try to get competitive advantage over other firms on the market.

In Russia from 2005, there is a "Public procurement law", according to which all public companies must conduct procurement through tenders⁸. However imperfect execution of the laws in the country led to the fact that as noted by former Russian President Dmitry Medvedev in November 2010 in a letter to the Federal Assembly, "non-target cost in public procurement, including direct theft and "kickbacks", amount to no less than a trillion rubles a year"⁹. At the same time, the economic effect of involvement of small and medium enterprises to public procurement of natural monopolies can be up to 1% of GDP, as the Deputy Head of the Federal Antimonopoly Service Andrey Tsarikovsky noted¹⁰. Recently number of amendments to the Act was adopted; including those aimed at attracting small and medium businesses and promotes innovative companies to participate in tenders for public procurement. On the one hand, the availability of government contracts plays a positive role in the development of SMEs in Russia, on the other hand, poses a threat to the existence of long-term business. The positive influence leads to the need to meet all the requirements that are put forward to the firms participating in the tender. The negative impact can occur in dependence of the business from one major customer, which could lead to the disappearance of the firm in the event of the failure in the tender.

However, the results of our analysis showed that access to government contracts affects positively the level of EO in Russian SMEs, which means a

⁸ <http://www.gov-zakupki.ru/>

⁹ http://www.mbbash.ru/content/aprel_2011/m,12_04_2011_1/

¹⁰ <http://www.rg.ru/2012/07/24/zakupki-site.html>

more pro-active, innovative and risk-taking behavior in comparison with the competition.

Executive Summary

In sum, hypothesis H1 (protection of property rights), hypothesis H4 (compliance with administrative norms) and hypothesis H6 (availability of state contracts) are supported. These results may indicate that some institutional factors enhance entrepreneurial orientation of the firm. While most of the factors are associated with features of emerging market, the importance of property rights for the EO of firms emphasizes the need to develop vital institutions that facilitate entrepreneurial growth. The environmental conditions in emerging markets force companies to take risks and engage in innovation, and this need to be used to their benefit. Business dependence on personal ties with government (H3) unexpectedly received positive estimations of its influence on EO. This indicates the need for further investigation of the matter through qualitative research, e.g. case study. At the same time, some factors, such as protection by contract law (H2), have unexpectedly negative impact on entrepreneurial orientation of Russian SMEs. This matter can also provide a new direction for research. It also has an impact on understanding the nature of entrepreneurial orientation. Authorities wishing to facilitate the entrepreneurial activities of the firms have to understand that it is necessary to maintain a balance, as strict regulation can also have a negative impact on entrepreneurial orientation of firms. However, even if the entrepreneurial orientation of the firm is high, the results of business activity may be low due to the unstable and hostile environment. Lack of support of hypothesis H5 regarding compliance with tax legislation requires further investigation as well. It is likely to be the result of managers being reluctant to report non-compliance. Future research directions might include the study of the specifics of EO development in different industries, different regions of Russia and in the different emerging economies countries. At the same time, further research is needed with studies using objective measures of the institutional environment, including, for example, the level of corruption in a particular area of the city, and the specific area of tax, etc. However, previous studies indicate that influence of environmental features on a firm's approaches is a perceptual phenomenon by nature (Boyd et al., 1993; Miller & Shamsie, 1999; Daft & Weick, 1984). Firm managers will only react to their perceptions of the context (Gomez-Haro, Aragon-Correa & Cordon-Pozo, 2011). Our model considers the effects of general managers' perceptions about the institutional conditions to which their firms are subjected by the decisions made in the field of innovativeness, proactiveness and risk-taking.

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Appendix

Variable	Questions	Scale
Property rights protection	Assess the level of property rights protection of a player on the market in which your organization operates	1 – 5
Contract law protection	Assess the level of protection of treaties on the market in which your organization operates	1 – 5
Personal contacts dependence	Assess the level of dependence of companies similar to yours, from personal contacts with officials and regulatory bodies and agencies	1 – 5
Tax compliance	Assess the real tax compliance level of companies similar to yours	1 – 5
Adm. norms compliance	Assess the real level of administrative norms compliance of companies similar to yours	1 – 5
Contracts with state	Please, estimate using 5-grade scale availability of contracts with state from the viewpoint of your company	1 – 5
Age	Age of company in 2008	
Size	Logarithm of the number of employees	
Industry	Wholesale of retail trade; hotels, restaurants and cafes (HoReCa) or Information technologies and communications	

Dynamism, alpha 0.79

Estimate on the scale from 1 to 5 the dynamism of the market where your company operates (changes are understood as changes in client's tastes, customer tastes, production or service technologies, and the modes of competition in the firm's principal industries)

		Very low level of changes	Rather low than high changes level	Medium level	Rather high than low level of changes	Extremely high level of changes
1.	Behavior of suppliers	①	②	③	④	⑤
2.	Behavior of competitors	①	②	③	④	⑤
3.	Behavior of customers	①	②	③	④	⑤
4.	Behavior of the government	①	②	③	④	⑤

Hostility, alpha 0.86

Hostility in the environment is evidenced by price, product, technological and distribution competition, severe regulatory restrictions, shortages of labor or raw materials, and unfavorable demographic trends.

According to a given definition estimate on the scale from 1 to 5 the hostility of the market where your company operates

		Very low level of hostility	Rather low than high level	Medium level	Rather high than low level of hostility	Extremely high level of hostility
1.	Behavior of suppliers	①	②	③	④	⑤
2.	Behavior of competitors	①	②	③	④	⑤
3.	Behavior of customers	①	②	③	④	⑤
4.	Behavior of the government	①	②	③	④	⑤

Опубликованные научные доклады

№ 1 (R)–2005	А. В. Бухвалов Д. Л. Волков	Фундаментальная ценность собственного капитала: использование в управлении компанией
№ 2 (R)–2005	В. М. Полтерович О. Ю. Старков	Создание массовой ипотеки в России: проблема трансплантации
# 1 (E)–2006	I. S. Merkuryeva	The Structure and Determinants of Informal Employment in Russia: Evidence From NOBUS Data
№ 2 (R)–2006	Т. Е. Андреева В. А. Чайка	Динамические способности фирмы: что необходимо, чтобы они были динамическими?
№ 3 (R)–2006	Д. Л. Волков И. В. Березинец	Управление ценностью: анализ основанных на бухгалтерских показателях моделей оценки
№ 4 (R)–2006	С. А. Вавилов К. Ю. Ермоленко	Управление инвестиционным портфелем на финансовых рынках в рамках подхода, альтернативного стратегии самофинансирования
№ 5 (R)–2006	Г. В. Широкова	Стратегии российских компаний на разных стадиях жизненного цикла: попытка эмпирического анализа
№ 6 (R)–2006	Д. В. Овсянко В. А. Чайка	Особенности организации процесса непрерывного улучшения качества в российских компаниях и его связь с процессами стратегического поведения
№ 7 (R)–2006	А. Н. Козырев	Экономика интеллектуального капитала
№ 8 (R)–2006	Н. А. Зенкевич, Л. А. Петросян	Проблема временной состоятельности кооперативных решений
№ 9 (R)–2006	Е. А. Дорофеев, О. А. Лапшина	Облигации с переменным купоном: принципы ценообразования
# 10 (E)–2006	Т. Е. Andreeva V. A. Chaika	Dynamic Capabilities: what they need to be dynamic?
№ 11 (E)–2006	G. V. Shirokova	Strategies of Russian Companies at Different Stages of Organizational Life Cycle: an Attempt of Empirical Analysis
№ 12 (R)–2006	А. Е. Лукьянова, Т. Г. Тумарова	Хеджевые фонды как инструменты снижения рисков и роста ценности компании
№ 13 (R)–2006	Л. Н. Богомолова	Применение этнографических методов для изучения процессов принятия потребительских решений

№ 14 (R)–2006	Е. К. Завьялова	Особенности профессионально-личностного потенциала и развития карьеры линейных менеджеров отечественных производственных предприятий
№ 15 (R)–2006	С. В. Кошелева	Удовлетворенность трудом как комплексный диагностический показатель организационных проблем в управлении персоналом
№ 16 (R)–2006	А. А. Румянцев, Ю. В. Федотов	Экономико-статистический анализ результатов инновационной деятельности в промышленности Санкт-Петербурга
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№ 19 (E)–2006	T. E. Andreeva	Organizational change in Russian companies: findings from research project
# 20 (E)–2006	N. E. Zenkevich, L. A. Petrosjan	Time-consistency of Cooperative Solutions
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№ 22 (R)–2006	Д. Л. Волков, Т. А. Гаранина	Оценивание интеллектуального капитала российских компаний
№ 23 (R)–2006	А. В. Бухвалов, Ю. Б. Ильина, О. В. Бандалюк	Электронное корпоративное управление и проблемы раскрытия информации: сравнительное пилотное исследование
№ 24 (R)–2006	С. В. Кошелева	Особенности командно-ролевого взаимодействия менеджеров среднего и высшего звена международной и российских компаний
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№ 27 (R)–2006	А. Н. Андреева	Портфельный подход к управлению люксовыми брендами в фэшн-бизнесе: базовые концепции, ретроспектива и возможные сценарии

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Ю. В. Федотов | Модели учета неопределенности при построении сводных показателей эффективности деятельности сложных производственных систем |
| № 29 (R)–2006 | Е. В. Соколова,
Ю. В. Федотов,
Н. В. Хованов. | Построение сводной оценки эффективности комплексов мероприятий по повышению надежности функционирования объектов электроэнергетики |
| # 30 (E)–2006 | M. Smirnova | Managing Buyer-Seller Relationships in Industrial Markets: A Value Creation Perspective |
| № 31 (R)–2006 | С. П. Куш,
М. М. Смирнова | Управление взаимоотношениями в российских компаниях: разработка концептуальной модели исследования |
| № 32 (R)–2006 | М. О. Латуха,
В. А. Чайка,
А. И. Шаталов | Влияние «жестких» и «мягких» факторов на успешность внедрения системы менеджмента качества: опыт российских компаний |
| № 33 (R)–2006 | А. К. Казанцев,
Л. С. Серова,
Е. Г. Серова,
Е. А. Руденко | Индикаторы мониторинга информационно-технологических ресурсов регионов России |
| № 34 (R)–2006 | Т. Е. Андреева,
Е. Е. Юртайкин,
Т. А. Солтицкая | Практики развития персонала как инструмент привлечения, мотивации и удержания интеллектуальных работников |
| # 35 (E)–2006 | T. Andreeva,
E. Yurtaikin,
T. Soltitskaya | Human resources development practices as a key tool to attract, motivate and retain knowledge workers |
| № 36 (R)–2006 | А. В. Бухвалов,
В. Л. Окулов. | Классические модели ценообразования на капитальные активы и российский финансовый рынок. Часть 1. Эмпирическая проверка модели CAPM. Часть 2. Возможность применения вариантов модели CAPM |
| № 37 (R)–2006 | Е. Л. Шекова | Развитие корпоративной социальной ответственности в России: позиция бизнеса (на примере благотворительной деятельности компаний Северо-Западного региона) |
| № 38 (R)–2006 | Н. А. Зенкевич,
Л. А. Петросян | Дифференциальные игры в менеджменте |

№ 39 (R)–2006	В. Г. Беляков, О. Р. Верховская, В. К. Дерманов, М. Н. Румянцева	Глобальный мониторинг предпринимательской активности Россия: итоги 2006 года
№ 40 (R)–2006	В. А. Чайка, А. В. Куликов	Динамические способности компании: введение в проблему
№ 41 (R)–2006	Ю. Е. Благов	Институционализация менеджмента заинтересованных сторон в российских компаниях: проблемы и перспективы использования модели «Арктурус»
№ 42 (R)–2006	И. С. Меркурьева, Е. Н. Парамонова, Ю. М. Битина, В. Л. Гильченко	Экономический анализ на основе связанных данных по занятым и работодателям: методология сбора и использования данных
# 43 (E)–2006	I. Merkuruyeva, E. Paramonova, J. Bitina, V. Gilchenok	Economic Analysis Based on Matched Employer-Employee Data: Methodology of Data Collection and Research
№ 44 (R)–2006	Н. П. Дроздова	Российская «артельность» — мифологема или реальность' (Артельные формы хозяйства в России в XIX — начале XX в.: историко-институциональный анализ)
№ 1 (R)–2007	Е. В. Соколова	Бенчмаркинг в инфраструктурных отраслях: анализ методологии и практики применения (на примере электроэнергетики)
№ 2 (R)–2007	С. П. Куш, М. М. Смирнова	Управление поставками в российских компаниях: стратегия или тактика
№ 3 (R)–2007	Т. М. Скляр	Проблема ленивой монополии в российском здравоохранении
№ 4 (R)–2007	Т. Е. Андреева	Индивидуальные предпочтения работников к созданию и обмену знаниями: первые результаты исследования
№ 5 (R)–2007	А. А. Голубева	Оценка порталов органов государственного управления на основе концепции общественной ценности
№ 6 (R)–2007	С. П. Куш, М. М. Смирнова	Механизм координации процессов управления взаимоотношениями компании с партнерами
# 7 (E)–2007	D. Volkov, I. Berezinets	Accounting-based valuations and market prices of equity: case of Russian market

№ 8 (R)–2007	М. Н. Барышников	Баланс интересов в структуре собственности и управления российской фирмы в XIX – начале XX века
# 9 (E)–2007	D. Volkov, T. Garanina	Intellectual capital valuation: case of Russian companies
№ 10 (R)–2007	К. В. Кротов	Управление цепями поставок: изучение концепции в контексте теории стратегического управления и маркетинга.
№ 11 (R)–2007	Г. В. Широкова, А. И. Шаталов	Характеристики компаний на ранних стадиях жизненного цикла: анализ факторов, влияющих на показатели результативности их деятельности
№ 12 (R)–2007	А. Е. Иванов	Размещение государственного заказа как задача разработки и принятия управленческого решения
№ 13 (R)-2007	О. М. Удовиченко	Понятие, классификация, измерение и оценка нематериальных активов (объектов) компании: подходы к проблеме
№ 14 (R)–2007	Г. В. Широкова, Д. М. Кнатько	Влияние основателя на развитие организации: сравнительный анализ компаний управляемых основателями и наемными менеджерами
# 15 (E)–2007	G. Shirokova, A. Shatalov	Characteristics of companies at the early stages of the lifecycle: analysis of factors influencing new venture performance in Russia
# 16 (E)–2007	N. Drozdova	Russian “Artel’nost” — Myth or Reality? Artel’ as an Organizational Form in the XIX — Early XX Century Russian Economy: Comparative and Historical Institutional Analysis
# 1 (E)–2008	S. Commander, J. Svejnar, K. Tinn	Explaining the Performance of Firms and Countries: What Does the Business Environment Play'
№ 1 (R)–2008	Г. В. Широкова, В. А. Сарычева, Е. Ю. Благоев, А. В. Куликов	Внутрифирменное предпринимательство: подходы к изучению вопроса
№ 1A(R)–2008	Г. В. Широкова, А. И. Шаталов, Д. М. Кнатько	Факторы, влияющие на принятие решения основателем компании о передаче полномочий профессиональному менеджеру: опыт стран СНГ и Центральной и Восточной Европы

№ 2 (R)–2008	Г. В. Широкова, А. И. Шаталов	Факторы роста российских предпринимательских фирм: результаты эмпирического анализа
№ 1 (R)–2009	Н. А. Зенкевич	Моделирование устойчивого совместного предприятия
№ 2 (R)–2009	Г. В. Широкова, И. В. Березинец, А. И. Шаталов	Влияние организационных изменений на рост фирмы
№ 3 (R)–2009	Г. В. Широкова, М. Ю. Молодцова, М. А. Арепьева	Влияние социальных сетей на разных этапах развития предпринимательской фирмы: результаты анализа данных Глобального мониторинга предпринимательства в России
# 4 (E)–2009	N. Drozdova	Russian Artel Revisited through the Lens of the New Institutional Economics
№ 5 (R)–2009	Л. Е. Шепелёв	Проблемы организации нефтяного производства в дореволюционной России
№ 6 (R)–2009	Е. В. Соколова	Влияние государственной политики на инновационность рынков: постановка проблемы
№ 7 (R)–2009	А. А. Голубева, Е. В. Соколова	Инновации в общественном секторе: введение в проблему
# 8 (E)–2009	A. Damodaran	Climate Financing Approaches and Systems: An Emerging Country Perspective
№ 1 (R)–2010	И. Н. Баранов	Конкуренция в сфере здравоохранения
№ 2 (R)–2010	Т. А. Пустовалова	Построение модели оценки кредитного риска кредитного портфеля коммерческого банка (на основе методологии VAR)
№ 3 (R)–2010	Ю. В. Лаптев	Влияние кризиса на стратегии развития российских МНК
№ 4 (R)–2010	А. В. Куликов, Г. В. Широкова	Внутрифирменные ориентации и их влияние на рост: опыт российских малых и средних предприятий
# 5 (E)–2010	M. Storchevoy	A General Theory of the Firm: From Knight to Relationship Marketing
№ 6 (R)–2010	А. А. Семенов	Появление систем научного менеджмента в России
# 7 (E)–2010	D. Ivanov	An optimal-control based integrated model of supply chain scheduling
№ 8 (R)–2010	Н. П. Дроздова, И. Г. Кормилицына	Экономическая политика государства и формирование инвестиционного климата: опыт России конца XIX — начала XX вв.

№ 9 (R)–2010	Д. В. Овсянко	Направления применения компонентов менеджмента качества в стратегическом управлении компаниями
# 10 (E)–2010	V. Cherenkov	Toward the General Theory of Marketing: The State of the Art and One More Approach
№ 11 (R)–2010	В. Н. Тишков	Экономические реформы и деловая среда: опыт Китая
№ 12 (R)–2010	Т. Н. Клёмина	Исследовательские школы в организационной теории: факторы формирования и развития
№ 13 (R)–2010	И. Я. Чуракова	Направления использования методик выявления аномальных наблюдений при решении задач операционного менеджмента
№ 14 (R)–2010	К. В. Кротов	Направления развития концепции управления цепями поставок
№ 15 (R)–2010	А. Г. Медведев	Стратегические роли дочерних предприятий многонациональных корпораций в России
№ 16 (R)–2010	А. Н. Андреева	Влияние печатной рекламы на восприятие бренда Shalimar (1925 – 2010)
№ 17 (R)–2010	В. Л. Окулов	Ценность хеджирования для корпорации и рыночные ожидания
№ 1 (R)–2011	А. А. Муравьев	О российской экономической науке сквозь призму публикаций российских ученых в отечественных и зарубежных журналах за 2000–2009 гг.
№ 2 (R)–2011	С. И. Кирюков	Становление и развитие теории управления маркетинговыми каналами
№ 3 (R)–2011	Д. И. Баркан	Общая теория продаж в контексте дихотомии «развитие – рост»
# 4 (E)–2011	К. V. Krotov, R. N. Germain	A Contingency Perspective on Centralization of Supply Chain Decision-making and its Role in the Transformation of Process R&D into Financial Performance
№ 5 (R)–2011	А. В. Зятчин	Сильные равновесия в теоретико-игровых моделях и их приложения
№ 6 (R)–2011	В. А. Ребязина	Формирование портфеля взаимоотношений компании с партнерами на промышленных рынках
№ 1 (R)–2012	А. Л. Замулин	Лидерство в эпоху знаний

# 2 (E)–2012	I. N. Baranov	Quality of Secondary Education in Russia: Between Soviet Legacy and Challenges of Global Competitiveness
№ 3 (R)–2012	Л. С. Серова	Микро-предприятия в экономике России: состояние и тенденции развития
# 4 (E)–2012	G. V. Shirokova, D. M. Knatko, G. Vega	Separation of Management and Control in SMEs from Emerging Markets: The Role of Institutions
№ 5 (R)–2012	Г. В. Широкова, М. А. Сторчевой	Влияние социальных сетей на выход на зарубежные рынки: из опыта трех российских предпринимательских фирм
№ 6 (R)–2012	А. К. Казанцев	Инновационное развитие университетов: аналитический обзор ведущих российских вузов
№ 7 (R)–2012	Д. В. Муравский, М. М. Смирнова, О. Н. Алканова	Капитал бренда в современной теории маркетинга
# 8 (E)–2012	E. B. Samuylova, D. V. Muravskii, M. M. Smirnova, O. N. Alkanova	The role of brand characteristics in brand alliance engagement with different types of partners: an exploratory study
№ 9 (R)–2012	Е. Ю. Благоев	Факторы ценообразования многосторонних платформ: современное состояние и перспективы исследований
# 10 (E)–2012	E. K. Zavyalova, S. V. Kosheleva	Assessing the efficiency of HRD technologies in knowledge-intensive firms
# 11 (E)–2012	E. K. Zavyalova, S. V. Kosheleva	Human potential as a factor of developing national competitiveness of Brazil, Russia, India and China
# 12 (E)–2012	D. M. Muravskii, S. A. Yablonsky	Determining disruptive innovation potential of multi-sided platforms: case of digital books
№ 13 (R)–2012	В. Ю. Аршавский, В. Л. Окулов	Контролируемый эксперимент по принятию решений в условиях неопределенности и риска
№ 14 (R)–2012	А. А. Муравьев	К вопросу о классификации российских журналов по экономике и смежным дисциплинам