Entrepreneurial orientation in the emerging Russian regulatory context: the criticality of interpersonal relationships

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Abstract: The present research examines the understudied impact of the regulatory environment on the manifestation of Entrepreneurial Orientation (EO) among firms within an emerging market context. Results from an exploratory sample of 432 Russian Small and Medium-Sized Enterprises (SMEs) suggest that key aspects of the regulatory environment may deserve further attention in future research. Controlling for the level of compliance by a given Russian SME, the perceived protection of private property rights was observed to have a marginally significant direct positive effect, whereas the perceived strength of contract law is shown to exhibit a marginal negative relationship with EO among Russian SMEs. In terms of operating within this emerging regulatory context, the perceived availability of governmental contracts had a marginal positive effect on EO. Finally, stressing the importance of ‘who you know is more important than what you know’, relationships with government officials had a very strong positive effect on EO.

Keywords: entrepreneurial orientation; strategic posture; Russia; regulatory environment; emerging markets; psychometric measurement.
1 Introduction

Entrepreneurial Orientation (EO) has become one of the most influential topics in entrepreneurship research (Covin and Lumpkin, 2011). Over the past three decades since the emergence of the concept (Miller, 1983), numerous studies have explored EO in order to better understand its significant role in firm development and success (Rauch et al., 2009). Mainly, prior research has been interested in exploring how EO influences firm performance indicators, such as firm profitability, market share and sales...
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growth (Alegre and Chiva, 2013; Lechner and Gudmundsson, 2014; Rauch et al., 2009; Su et al., 2011; Wales et al., 2013). In this regard, most studies have shown that EO generally leads to improved firm performance (Covin and Slevin, 1991; Rauch et al., 2009; Zahra and Covin, 1995). However, the antecedents which drive the manifestation of EO are less fully understood. Although some research has investigated EO antecedents, such as external environment influences (Becherer and Maurer, 1997; Tang and Hull, 2012; Yordanova, 2011; Zahra and Neubaum, 1998), the psychological characteristics of entrepreneurs or top managers (Poon et al., 2006; Simsek et al., 2010; Van Doorn et al., 2013), knowledge exchange and social relationships among managers (De Clerg et al., 2013), financial, organisational and social capital (Iakovleva, 2010), and strategic processes (Green et al., 2008), little is known about how the regulatory aspect of the institutional environment may drive the manifestation of EO.

Institutional theory suggests that institutions impact the range of actions available to a firm and may shape the firm’s strategic orientation (Hitt et al., 2004; Scott, 1995). Outside of the context of EO, the broad influence of institutional factors on the development of entrepreneurial firm behaviour has gained increasing interest across a wide variety of national contexts in recent years (Ahlstrom and Bruton, 2002; Aidis et al., 2012; Descotes et al., 2007; Kalantaridis, 2014; Mathews and Stokes, 2013; Yamakawa et al., 2008). This interest is in part the result of the increased attention of researchers from different countries to the specifics of firm behaviour in emerging markets, where the institutional environment differs significantly from the conditions of doing business in more developed markets. In emerging markets, institutions have particularly notable influences upon entrepreneurship (Ahlstrom and Bruton, 2010; Puffer et al., 2010; Shirokova and McDougall-Covin, 2012; Wright et al., 2005). Institutional constraints or poorly developed institutions in emerging markets can limit the set of viable strategic alternatives (Hoskisson et al., 2000; Puffer et al., 2010). Because of these potentially strong influences, emerging markets offer a particularly relevant context to explore the effects of institutional factors on EO. Despite this observation, Wales et al. (2013) note that studies of EO among firms in countries with emerging markets are very limited, especially in such “strategically important countries as Brazil, India, and Russia” (p.15).

According to Scott (1995) and Kostova (1997), the regulative pillar, or the policy of the state in relation to business operations as indicated by rules, laws and sanctions, represents an important dimension of the institutional environment affecting business development at the national level. As an emerging economy, Russia provides ample opportunity for a wide range of strategic choices by Small and Medium-Sized Enterprises (SMEs) within its borders, including many illegal options not typically observed in more developed western economies. Russia has developed a significant ‘shadow economy’ that has historically offered alternatives to dealing with more formal institutions. However, accompanying corruption and weak legal institutions has the potential to result in an unproductive ‘dark side’ of entrepreneurship which forces out productive entrepreneurship and impedes economic development (Bruton et al., 2013). Thus, Russia provides an interesting setting in which to explore the influence of several important regulatory factors upon the manifestation of EO within an emerging economic context.

Therefore, the present study seeks to address the call for greater research on the antecedents of EO by exploring the impact of several aspects of the regulatory environment on the manifestation of EO among SMEs within Russia. We adopt a conceptual framework of institutional hierarchy developed by Estrin et al. (2013), which
builds upon Williamson (2000). Specifically, we focus on the protection of private property rights and the protection of the firm by contract law. In terms of operating within this emerging regulatory context, we also explore how relationships with governmental officials, as well as the availability of governmental program funding, may impact the manifestation of firm EO. To this end, we adopt a strategic choice perspective to analyse how Russian SME perspectives of their emerging regulatory environment, as well as avenues of operating within this context through governmental contracts and relationships, may influence the manifestation of firm EO. In doing so, we address the recent call for greater research on the factors which drive the manifestation of EO in the strategically important BRIC countries (Wales et al., 2013).

2 Theoretical background and hypotheses

2.1 Entrepreneurial orientation among Russian SMEs

EO is evidenced through an organisation’s simultaneous exhibition of innovativeness, risk-taking and proactiveness within its strategic actions and behaviour (Covin and 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 organisational initiatives with uncertain returns. Proactiveness represents a forward-looking and opportunity-seeking perspective that provides the firm with 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 et al., 2006; Covin and Wales, 2012). This choice is largely dependent on whether the primary research objective necessitates assessing the unique influence of the dimensions of EO (i.e. Lumpkin and Dess, 1996) or assessing EO as an overarching strategic approach indicated by the positive co-variance of these dimensions (i.e. Covin and Slevin, 1989; Miller, 1983). Since the research question in this study concerns how the level of EO – as a firm-level strategic approach – depends upon managerial perceptions of the institutional environment, we adopt a composite view of EO in line with the theoretical work of Miller (1983).

EO is an important factor for SMEs to develop because it helps enable these companies to achieve above-average growth rates and firm competitiveness (Antoncic and Hisrich, 2001; Brettel and Rottenberger, 2013). According to Zahra et al. (2000), entrepreneurial firm behaviour allows companies in emerging economies to entrepreneurially configure their resources and transform themselves into market-oriented organisations that are ready to compete in the global economy. Further, EO has been shown to more strongly contribute to improvements in firm performance within hostile environments than within stable or benign competitive contexts (Covin and Lumpkin, 2011; Covin and Slevin, 1989; Covin and Slevin, 1991; Zahra and Covin, 1995). Thus, EO is a potentially suitable strategic orientation within less stable business environments, such as emerging markets in the case of Russia.

In emerging markets, uncertainty and hostility in the institutional environment can pose an obstacle to business development as entrepreneurs may not fully trust the formal
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Although Russia continues to adopt new laws intended to create a more stable business environment, Russia still has a relatively underdeveloped institutional environment. Transparency International categorises Russia as a ‘hostile environment’ for businesses, along with many of the least developed countries of Africa and the Middle East (Riaño et al., 2009). According to the Global Corruption Barometer (Riaño et al., 2009), corruption within Russia is widespread. Some scholars suggest that Russia’s weak institutional environment, indicated by perceived corruption, helps explain why it has relatively low levels of entrepreneurial activity (Aidis et al., 2008; Lim et al., 2010; McCarthy and Puffer, 2013). Moreover, starting new businesses requires excessive documentation, lengthy registration, redundant and complex formalities and, at times, artificially imposed regulatory obstacles (Luo and Junkunc, 2008).

Nonetheless, top managers of Russian SMEs may still pursue entrepreneurial strategic orientations in their firms. Following the notion that entrepreneurial cognitions are universal, entrepreneurs share a common experience during the conceptualisation of entrepreneurial ideas and business growth regardless of culture and geography, and therefore experience similar scenarios when establishing new businesses and promoting their entrepreneurial ideas and behaviours within a company (Mitchell et al., 2002). This perspective supports the argument that many top managers within Russia will reject the traditional authoritarian approach to management and will use a more open and entrepreneurial management style despite the many difficulties faced by Russian entrepreneurs (Filippov, 2012; McCarthy et al., 2010; McCarthy et al., 1993). For example, between 1995 and 2004, employees’ overall entrepreneurial contribution grew within Russia and top management showed positive tendencies in the creation of entrepreneurial initiatives (Croucher and Rizov, 2011). Similarly to their Western counterparts, this orientation may yield a competitive advantage for Russian SMEs in attracting talent and encouraging corporate entrepreneurship (Kickul et al., 2010; Shirokova et al., 2013).

However, within such a hostile and uncertain organisational environment the institutional factors which contribute to the manifestation of EO are unclear. As such, the question of whether and how institutional factors encourage Russian SMEs to increase their entrepreneurial strategic orientation remains unanswered. As mentioned, Russian SMEs have become adept at operating within less than ideal conditions and within a significant ‘shadow economy’ (Williams, 2009; Williams and Round, 2009). This ‘shadow economy’ comprises mostly SMEs which have developed informal, and generally illegal, solutions to the regulatory and legislative inefficiencies present within their country which allow their business to function (Bruton and Ahlstrom, 2003). The emergence of a ‘shadow economy’ suggests that many Russian firms are comfortable with developing entrepreneurial ways of running their business operations within an imperfect and often hostile, or difficult to predict, institutional context. It is possible to regard observed behaviour patterns of entrepreneurs in emerging markets, such as Russia, as a result of not only various exogenous factors such as bad laws and corruption, but also a complicated endogenous behaviour model (Williams and Round, 2009). This behaviour includes both a reaction of business owners to external pressures and their own wilful actions of avoiding formal rules.

Thus, the emerging Russian economy provides an interesting setting in which to explore the effects of institutional regulatory factors on EO. It is within this context
that we now examine the impact of several distinct institutional factors upon the manifestation of EO in line with the conceptual framework of institutions offered by Estrin et al. (2013).

2.2 Property rights protection

It has long been suggested that property rights are an important regulatory consideration which may influence entrepreneurial investments. Regulatory protection of property rights, including intellectual property, can motivate entrepreneurial action (Bowen and De Clercq, 2008; Schumpeter 1934). The rationale is that entrepreneurs will not invest in an opportunity if they cannot secure a return on their investment (Ben-Amar and André, 2006; Commander et al., 2008; Dolgopyatova, 2007). As such, a stable legal framework and the existence of well-protected property rights are important considerations for entrepreneurially oriented behaviour because property rights protection directly affects the firm’s ability to capitalise on its innovations. Without the protection of property rights, entrepreneurial firms may avoid investing in the development of new products and services, due to fear of expropriation of their property. With high levels of property rights protection, firms have more incentive to develop innovations as the financial returns to the developer are better protected by the country’s legal system.

Since the break-up of the Soviet Union, entrepreneurs in transition countries have often witnessed the ineptitude of courts and the police to enforce property rights and legal claims (Aidis and Adachi, 2006; Radaev, 2004; Volkov, 1999). Although the Russian government has now adopted a written legal framework similar to the systems present within more developed economies (i.e. laws which relate to property rights, bankruptcy, commercial activities, etc.), the government has proven inefficient and often ineffective in protecting these rights (Aidis et al., 2008; Smallbone and Welter, 2001). As such, private property as an institution has a fragile existence in Russia (Tonoyan et al., 2010).

However, we expect that when property rights are perceived by Russian SMEs as being more stringently protected, they will be more likely to make investments into the manifestation of EO. As discussed, entrepreneurial behaviour requires a significant investment of resources (Covin and Slevin, 1991). SMEs are likely to be more willing to dedicate resources to innovative product-market development efforts if they believe that their right to their developed property is protected. Thus, despite the inefficiency of the current Russian legal system, we expect that higher perceived levels of protection of private property rights will be more facilitative of EO than lower perceived levels by managers of SMEs. Therefore, we posit the following:

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

2.3 Protection of contract rights

Like property rights, entrepreneurs are unlikely to invest in business relationships if they believe that they are unable to secure a return on their investment from engaging in that relationship. In more developed countries, there is significant trust in the government, regulatory agencies, the judicial system and other formal institutions to enforce business contracts (Puffer et al., 2010). However, many regulatory institutions in Russia are not
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highly trusted by its citizens, including those pertaining to contract law. In Russia, formal contractual laws are often unclear and poorly enforced, resulting in a high level of uncertainty for contractual participants. Contractual obligations are frequently violated and transparency is low (Radaev, 2004). Moreover, courts are generally perceived as corrupt and often have rendered decisions which many view as unfair (Tonoayn et al., 2010). Perhaps it is not surprising that Russia has traditionally been regarded as a low-trust society (Kuznetsov and Kuznetsova, 2008) and that Russian entrepreneurs take special care to only sign limited contracts and agreements with people they trust (Puffer and McCarthy, 2001). While managers of Russian SMEs typically distrust contracts, to the extent that they perceive that their protection of contract rights is stronger, we would expect their firm to engage in more contractual business arrangements which facilitate the manifestation of EO behaviour.

Through contracts, firms may develop their network-based resource capital which has been shown to constitute an important factor in the innovative capacity and performance of the firm (Fitjar et al., 2013; Yiu and Lau, 2008). Network-based resource capital often takes the form of social capital or strategic inter-firm ties (Yiu and Lau, 2008). The relationship between forms of network-based resource capital and EO has been examined in the literature. For example, in a study of entrepreneurial high-technology ventures, Yli-Renko et al. (2001) found that social interactions in networks facilitate knowledge acquisition and subsequent knowledge exploitation for new product development. In an empirical study of Thai manufacturing firms, Butler et al. (2003) observed that business networks provide entrepreneurial firms with key pieces of information required to recognise opportunities. Additionally, the skills and information necessary to make strategic decisions in emerging markets are often unavailable in codified form and cannot be easily gathered in real time. Firms with more resource capital from their business networks therefore are more likely to have needed information for entrepreneurial behaviour (Yiu and Lau, 2008).

Thus, we would expect that when operating within markets in which contractual protection is perceived to be stronger, Russian SMEs have more opportunities to develop network-based resource capital and engage in EO firm activities. Therefore, we propose the following hypothesis:

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

2.4 Availability of government contracts

The pursuit of entrepreneurial strategies requires resource availability (Turro et al., 2013; Wiklund and Shepherd, 2005) and, as discussed, EO has been described as a resource-consuming strategic orientation (Covin and Slevin, 1991; Romanelli, 1987). Financial resources are especially important for SMEs as they are the most flexible firm resource (Greene and Brown, 1997). While SMEs may lack other non-financial resources, if financial resources are plentiful, then these firms can often develop or acquire other needed resources (Dollinger, 1999). Furthermore, greater financial resources have been linked to higher levels of EO because slack resources help guard against the potential financial downsides of ‘gambling’ on new and uncertain entrepreneurial initiatives, thereby stimulating firm risk-taking (Bourgeois, 1981; Wiklund and Shepherd, 2005).
Thus, financial capital provides a buffer against unforeseen difficulties and provides the resources that allow firms to innovate and change, thereby enabling the SME to identify and create new market opportunities (Kickul et al., 2010; Zahra, 1991).

In Western countries, SMEs have access to financial capital through well-developed debt and equity-based capital markets. However, in emerging economies like Russia, the avenues to financial capital access are more underdeveloped. For instance, a weak legal framework has inhibited growth in the venture capital industry leading to the importance of more organic methods of firm growth in Russia (Verkhovskaya and Dorokhina, 2012). As such, Russian firms have been forced to find stable customers to fund their growth and expansion. Therefore, one way in which Russian SMEs may deal with perceived regulatory challenges is to secure government contracts as a means of funding their entrepreneurial goals.

Government contracts represent a source of steady capital in the uncertain regulatory context of Russia. Government contracts can provide entrepreneurial firms with a secure and stable large client which enables the SME to access financial resources on an ongoing basis. Indeed, recent amendments to the Russian public procurement law have been designed to encourage additional participation and competition from SMEs (http://www.gov-zakupki.ru/, accessed on 13 September 2013). This additional competition may also spur SMEs to pursue higher levels of EO to differentiate themselves in the pursuit of securing lucrative government contracts, and moreover these contracts in turn provide the capital necessary to engage in the proceeding entrepreneurial behaviour. Therefore, we would expect government contracts to play an important role in encouraging entrepreneurial activity in countries with underdeveloped capital markets, such as Russia. Thus, we propose:

Hypothesis 3: The perceived availability of government contracts is positively related to the level of EO in Russian SMEs.

2.5 Relationships with government officials

In the absence of reliable regulations, firms in emerging economies may strongly benefit from establishing relational trust with government officials (Yiu and Lau, 2008). Knowing Russian government officials is important to entrepreneurs who frequently need permits to start companies, export products and services, and conduct a wide range of other entrepreneurial activities. Following the collapse of the Soviet Union, and while Russia continues to transition into a more market-based economy, the importance of connections with government officials has remained relatively consistent. It has been argued that in this emerging economy it is still very much the case that knowing ‘the right people’ is vital to the success of entrepreneurial behaviour (Batjargal, 2005). Entrepreneurs without ties to state bureaucrats face significant barriers to entry and a generally more hostile business operating environment (Guseva, 2007). Also, recent studies show that because formal business-supporting institutions in emerging markets are underdeveloped (London and Hart, 2004), network ties, including entrepreneurs’ social ties with governmental authorities, may be a major facilitator of the effectiveness of firms’ strategic orientation activities (Boso et al., 2013). Given that governmental officials in emerging markets tend to hold tight control of local resource allocations, building network ties with such authorities may enable the entrepreneur to better deal
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with a challenging regulatory environment by fostering preferential access to market information, greater financial support for innovation development and fewer bureaucratic delays (Luo et al., 2008).

Relationships with government officials also provide opportunities for competitive advantage by opening up opportunities for a given firm to participate in hitherto unavailable government grants, business support programs and real estate transactions. Without these connections, Russian SMEs face greater difficulty securing the resources necessary to foster and sustain EO firm activities. In this regard, political power was observed to be the most significant resource in predicting the survival and growth of Russian SMEs in the 1990s (Puffer and McCarthy, 2001). Therefore, we hypothesise the following:

**Hypothesis 4:** Stronger personal relationships with government officials are positively related to EO in Russian SMEs.

These hypotheses and their relationships with EO are presented in Figure 1.

**Figure 1** Hypothesised relationships

3 Methods

3.1 Sample and data collection procedure

To examine these hypotheses, we collected data on 500 SMEs operating in Moscow or St. Petersburg in 2007 and 2008. The data were collected through face-to-face survey-based interviews with top managers by the Russian Public Opinion Research Center (VCIOM®). The decision to bring in an outside organisation to help collect data was made based upon the difficulty of obtaining cooperation from Russian SMEs using more common survey-based approaches. Our target firms appear much more willing to participate and provide information through face-to-face interactions.
Representatives of VCIOM conducted structured face-to-face survey-based interviews with the heads of each SME from November 2007 to August 2008. These interviews were based on a survey questionnaire developed by the research team. This questionnaire focused on various managerial aspects with questions focusing on firm activities in 2007. Interviews were done in the Russian language and generally lasted between 60 and 90 minutes. Respondents were guaranteed anonymity. To ensure sample integrity, we tested for indifference in responses from study participants by intentionally posing two essentially identical questions during the interview to see if the respondents’ answers were consistent. Respondents whose answers were inconsistent across these questions were removed from the sample.

The SPARK-Interfax database which includes information on more than 5,000,000 companies registered in the territory of Russia provided the base population of the study. Within this population, SMEs were concentrated in the two largest Russian cities: Moscow and St. Petersburg. These two cities have historically had the densest concentrations of SMEs in Russia, 275 SMEs per 100,000 people in Moscow and 337 SMEs per 100,000 people in St. Petersburg (Saydullaev and Shestoperov, 2009). Given our face-to-face survey-based data collection method, we limited our sample to SMEs in these two cities. We surveyed 500 firms using the method of proportional sample selection where firms were randomly selected in proportion to their region, industry and company size. The companies selected represented three major Russian industries: wholesale and retail trade (Trade), Hotels, Restaurants and Cafes (HoReCa) and Information Technology and Telecommunication (ICT). Our sample was reduced to 432 firms owing to a lack of responses on the highly sensitive question regarding the dependence of an SME on personal connections to government officials. Non-response bias was examined and not observed to represent a significant threat to validity of the findings of this study.

Descriptive statistics indicate that 25.1% of the companies within our sample are firms with fewer than 50 employees, 32.7% are firms with 50–99 employees, 25.1% are firms with 100–199 employees and 17.2% are firms with 200–500 employees. In our sample, 79.4% are limited liability companies, 19.5% are closed joint-stock companies, 4.1% are open joint-stock companies and 1.5% unitary enterprises. The average age of the companies in the sample is 9.47 years.

3.2 Dependent variable

EO. We asked each top manager in our sample to evaluate their firm on a scale of 1 to 5 across nine questions about their entrepreneurial orientation. Using the most widely adopted measure of EO, we asked three questions for each of the three factors of the construct: innovativeness, proactiveness and risk-taking (Covin and Slevin, 1989). Cronbach’s alpha for their responses is 0.80, which indicates a high level of consistency. The average firm-level EO was moderate at 3.3, with a standard deviation of 0.91.

3.3 Independent variables

The independent variables include protection of private property rights and business contracts, personal relationships with government authorities and the availability of governmental contracts. The scales applied in this study were operationalised using items
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from the Business Environment and Enterprise Performance Survey (BEEPS) study (http://www.ebrd.com/country/sector/econo/surveys/beeps.htm). To provide an anchor for responses, the items were asked either within the context of the market in which the firm operates or, for more sensitive questions such as governmental relationships, in terms of perceptions of companies similar to the respondent firm. All items were measured on a Likert-type scale with a response range of 1–5. Property rights protection assesses the perceived level of property rights protection of a firm within the respondent’s principal market. Protection of contract rights assesses the perceived strength of contracts within the market in which the firm operates. Governmental contracts assess, from the viewpoint of the respondent’s company, the availability of contracts from the state. Finally, governmental relationships assess the perceived level of dependence of similar companies upon personal contacts with officials and regulatory bodies and agencies. Descriptions of the Likert scale variables examined in this research were provided to respondents to decrease their degree of subjective interpretation.

3.4 Control variables

The control variables included in the study are the following:

- **Firm size.** Previous studies have shown that the level of firm EO depends on many factors. Most notably, the size of the firm may affect EO (Lumpkin and Dess, 1996; Walter et al., 2006; Wiklund and Sheperd, 2005). Consistent with prior research, we define the size of the firm as a log of the number of employees (Wooldridge, 2003) to control for the relative impact of company size on the dependent variable.

- **Age.** The age of a firm has also been shown to significantly influence its strategic behaviour. Younger firms are more open to change and innovation (Huergo and Jaumandreu, 2004; Tang and Hull, 2012). Age is measured by the number of years from creation to the year when survey was carried out. It is included as a control variable.

- **Industry.** The industry that a firm competes in may similarly influence its level of EO (Covin and Slevin, 1991; Kreiser et al., 2010). As such, we control for industry using three major Russian industry groups: wholesale and retail trade (Trade), hotels, HoReCa and ICT.

- **City (St. Petersburg).** As the SMEs studied are concentrated in the two largest Russian cities, Moscow and St. Petersburg, we controlled for city by coding a 1 for St. Petersburg and a 0 for Moscow.

- **Environmental dynamism and hostility.** Prior research has shown that dynamism and hostility within the external environment may influence the firm’s EO (i.e. Covin and Slevin, 1989; Khan and Manopichetwattana, 1989; Smallbone et al., 2010; Tan, 1996). Therefore, we also include these variables as control variables. These variables were operationalised using items based upon the work of Miller (1987). Dynamism is measured using four questions querying the perceived level of changes within the behaviour of customers, suppliers, competitors and government. Means are used to merge the four estimates into one scale, e.g. the item responses were summed and divided by the number of items per variable. Cronbach’s alpha of the
dynamism scale is 0.79. Similarly, hostility is measured using the means for four questions which examine the perceived hostility of customers, suppliers, competitors and government. Cronbach’s alpha of the hostility scale is 0.86.

- **Compliance with tax law and regulations.** These aspects of compliance control for whether the organisation is operating within a more (or less) legitimate institutional environment. As discussed, a significant portion of firms prefer to operate within the ‘shadow economy’. **Compliance with tax law and compliance with regulations,** respectively, assess the perceived tax and regulations compliance of companies similar to the respondents firm.

4 Results

4.1 Summary statistics

Table 1 summarises the means, standard deviations and correlation coefficients of the key variables in this study. The mean values of the control variables ‘compliance with tax law’ and ‘compliance with regulations’ are notably high (4.28 and 4.23, respectively, out of a maximum of 5), suggesting that the firms in our study are generally operating in environments where firms are perceived to be legally compliant. Analysis of correlations shows that these two variables are highly correlated \( r = 0.748, p = .000 \), supporting the notion that firms which are perceived as complying with one aspect of the regulatory environment are likely to be perceived as complying with other aspects. The levels of protection by property rights and by contract law are also highly positively correlated (at 0.716, \( p = .000 \)), suggesting similarity in perceptions among respondents concerning the level of Russian legislative protections. As a robustness check, we examined the variables’ Variance Inflation Factors (VIFs) for any indication of potential issues of multicollinearity. The VIFs were all below recommended cut-offs (i.e. less than three for all variables), suggesting a lack of significant multicollinearity issues in our present regression analysis. The descriptive study statistics are offered in Table 1.

4.2 Tests of hypotheses

To test the hypotheses, we used hierarchical linear regression analysis to estimate the added impact of our theorised independent variables in Model 3 after taking into account the general control variables in Model 1 and the additional core control variables of environmental dynamism and hostility as well as compliance with tax law and administrative regulations in Model 2. The hierarchical approach is appropriate when analysing independent variables with moderate to high correlations (Cohen and Cohen, 1983; Wiklund and Shepherd, 2005). The results of the regression analysis are presented in Table 2.

The control variables of firm size, age, industry and city explain 7.1% of the variation in the level of EO manifested among Russian SMEs (\( p < .001 \)). Consistent with prior work, firm size is a significant factor influencing the manifestation of EO. Even among SMEs, firms with a greater number of employees are more likely to engage in EO firm behaviour.
## Table 1
Descriptive statistics and correlation matrix

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<td>2. Age</td>
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<td>3. Size</td>
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<td>7. ICT</td>
<td>.13</td>
<td>.34</td>
<td>−.38</td>
<td>−.016</td>
<td>.000</td>
<td>.000</td>
<td>.622</td>
<td>−.164</td>
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<tr>
<td>8. Dynamism</td>
<td>3.22</td>
<td>.75</td>
<td>.301</td>
<td>.081</td>
<td>.056</td>
<td>.113</td>
<td>.033</td>
<td>−.072</td>
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<td>9. Hostility</td>
<td>2.97</td>
<td>.89</td>
<td>.251</td>
<td>.015</td>
<td>.084</td>
<td>.047</td>
<td>−.025</td>
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<td>.014</td>
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<td>11. Protection of contract rights</td>
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<td>.034</td>
<td>.069</td>
<td>−.055</td>
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<td>.282</td>
<td>−.143</td>
<td>−.225</td>
<td>−.133</td>
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<td>12. Governmental relationships</td>
<td>2.86</td>
<td>1.25</td>
<td>.206</td>
<td>.072</td>
<td>.039</td>
<td>.002</td>
<td>−.131</td>
<td>.155</td>
<td>.027</td>
<td>.244</td>
<td>.373</td>
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<td>−.216</td>
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<td>13. Compliance with tax law</td>
<td>4.28</td>
<td>.84</td>
<td>.001</td>
<td>−.011</td>
<td>−.117</td>
<td>−.120</td>
<td>.258</td>
<td>−.263</td>
<td>−.057</td>
<td>−.186</td>
<td>−.334</td>
<td>.341</td>
<td>.375</td>
<td>−.227</td>
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<td>15. Government contracts</td>
<td>3.45</td>
<td>1.2</td>
<td>.150</td>
<td>.089</td>
<td>.058</td>
<td>−.166</td>
<td>.037</td>
<td>−.133</td>
<td>.091</td>
<td>−.014</td>
<td>−.035</td>
<td>.221</td>
<td>.193</td>
<td>−.100</td>
<td>.189</td>
<td>.270</td>
<td>1</td>
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Notes:  
**Correlation is significant at the 0.01 level (2-tailed); *correlation is significant at the 0.05 level (2-tailed).**
Table 2  Effect of institutional factors on manifestation of EO

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>VIF</th>
</tr>
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<tbody>
<tr>
<td>Constant</td>
<td>3.360***</td>
<td>1.862***</td>
<td>1.622***</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>-0.005</td>
<td>-0.007</td>
<td>-0.007</td>
<td>1.127</td>
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<tr>
<td>Size</td>
<td>0.107***</td>
<td>0.099***</td>
<td>0.090***</td>
<td>1.186</td>
</tr>
<tr>
<td>City (St. Petersburg)</td>
<td>-0.137</td>
<td>-0.154*</td>
<td>0.125</td>
<td>1.388</td>
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<tr>
<td>HoReCa</td>
<td>-0.549***</td>
<td>-0.506***</td>
<td>-0.538***</td>
<td>1.209</td>
</tr>
<tr>
<td>ICT</td>
<td>-0.032</td>
<td>-0.046</td>
<td>-0.117</td>
<td>1.097</td>
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<tr>
<td>Dynamism</td>
<td>0.283***</td>
<td>0.262***</td>
<td>0.262***</td>
<td>1.376</td>
</tr>
<tr>
<td>Hostility</td>
<td>0.151***</td>
<td>0.106*</td>
<td>0.163*</td>
<td>1.631</td>
</tr>
<tr>
<td>Compliance with tax law</td>
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<td>-0.096</td>
<td>-0.096</td>
<td>2.890</td>
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<td>Compliance with regulations</td>
<td>0.144**</td>
<td>0.158**</td>
<td>0.158**</td>
<td>2.772</td>
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<tr>
<td>Property rights protection</td>
<td>0.108*</td>
<td>0.108*</td>
<td>0.221*</td>
<td>2.212</td>
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<td>Protection of contract rights</td>
<td>-0.106*</td>
<td>-0.106*</td>
<td>-0.106*</td>
<td>2.208</td>
</tr>
<tr>
<td>Government contracts</td>
<td>0.076*</td>
<td>0.076*</td>
<td>0.115</td>
<td>1.155</td>
</tr>
<tr>
<td>Governmental relationships</td>
<td>0.109***</td>
<td>0.109***</td>
<td>0.109***</td>
<td>1.253</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.071</td>
<td>0.192</td>
<td>0.219</td>
<td></td>
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<tr>
<td>$R^2_{adj}$</td>
<td>0.060</td>
<td>0.175</td>
<td>0.195</td>
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<tr>
<td>$F$</td>
<td>6.522***</td>
<td>11.170***</td>
<td>9.051***</td>
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<tr>
<td>Change of $R^2$</td>
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<td>0.027</td>
<td>0.027</td>
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<tr>
<td>Change of $F$</td>
<td>4.648</td>
<td>1.219</td>
<td>1.219</td>
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</tbody>
</table>

Number of observations 432

Notes: *Significance at the level $p < 0.1$; **significance at the level $p < 0.05$; ***significance at the level $p < 0.01$. Dependent variable: EO.

The next step of the analysis is aimed at revealing the interrelation of perceived dynamism, hostility, compliance with tax law and administrative regulations with EO. $R^2$ of the second model is 0.192 which means that these core control variables explain 19.2% of the variation of the level of EO in Russian SMEs ($p < .001$). The change of $R^2$ in the second model compared to Model 1 is statistically significant at the 0.001 level. The dynamism of the external environment has a positive relationship with EO, significant at the 0.01 level. This suggests that Russian SMEs have greater EO within more dynamic environments. The hostility of the external environment also has a positive relationship at the 0.05 level with EO in both Model 2 and Model 3, indicating that environmental hostility also contributes to the firm’s level of EO. These results agree with previous studies which suggest that in dynamic/hostile environments, firms may desire higher levels of EO than in more stable environments (i.e. Covin and Slevin, 1989; Wiklund and Shepherd, 2005). Compliance with tax law was not significantly related to firm EO. However, compliance with administrative regulations is significantly positively related with firm EO ($p < .05$). The variable indicating the SMEs’ location by city is not significant in Model 1, but has a significant negative interrelation with EO in Model 2. This indicates that, taking into account the control variables, the general level of EO observed among the SMEs sampled in St. Petersburg is lower than that of the SMEs located in Moscow.
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The next step of the analysis addresses the influence of the various independent variables on the manifestation of EO among Russian SMEs. The $R^2$ in the second model is 0.219, which implies that the independent variables explained 21.9% of the variance concerning the level of EO among Russian SMEs ($p < .001$). The $R^2$ change from Model 2 to Model 3 is statistically significant at the 0.01 level, which indicates a high level of significance for the independent variables in the model.

Providing limited support for hypothesis 1, protection of private property rights has a significant positive relationship with firm EO at the $p < .1$ level of significance. In contradicition to Hypothesis 2, protection of contract rights is observed to have a marginally significant negative relationship with firm EO ($p < .1$). Providing limited support for Hypothesis 3, the availability of government contracts is positively related to firm EO ($p < .1$). Finally, the most striking finding is the level of support for Hypothesis 4, relationships with governmental officials have a highly significant positive relationship with SME EO in Russia ($p < .01$), a key takeaway being that within the emerging regulatory context of Russian SMEs, relationships with government officials capture a critical driver of increased EO firm activity.

5 Discussion

The aim of this study was to provide primary insight into the influence of several factors of the perceived regulatory environment on the exhibition of entrepreneurial orientation among a challenging to study population of firms, Russian SMEs. Many Russian SMEs are reluctant to respond to traditional survey-based data collection methods. Therefore, we conducted face-to-face interviews. Herein, we examined several key aspects of the regulatory environment which may encourage Russian SMEs to pursue entrepreneurial activity such as factors which affect their perceived ability to capitalise on innovations (e.g. protection of property rights), structure inter-firm agreements for resource exchange (e.g. protection of contract rights), access financial resources (e.g. availability of government contracts) or have privileged access to governmental workings (e.g. governmental relationships) within a developing regulatory context.

The analysis of 432 Russian SMEs shows that in this emerging regulatory context, relationship with governmental officials is observed to have the most significant influence on the manifestation of EO and should thus be considered among the most important considerations for small and medium-sized firms attempting to navigate the imperfect Russian institutional environment. Moreover, factors such as the protection of property rights and the availability of government contracts were also observed to have a positive, albeit less significant impact on the manifestation of EO. Finally, the protection of contract rights is observed to have a marginal negative effect upon the manifestation of EO among Russian SMEs. As such, in this research we observe three of the four relationships examined to be approaching significance, suggesting the beginning of a new stream of research exploring the possibility of crucial moderating influences which may further explain and strengthen the direct effects. While beyond the scope of the present pioneering investigation, the discovery of unearthed critical contextual factors remains an important direction for future study at the intersection of EO and regulatory considerations.
5.1 Study implications

The contributions of this study stem from the development of a model which examines the antecedent influence that key factors from the regulatory pillar of the institutional environment may have upon the manifestation of EO among Russian SMEs. A primary implication to the broader generalised EO literature is that institutional factors can help explain the strength of EO manifested by an organisation. This research emphasises the need for emerging economies to take into account institutional considerations when encouraging the emergence of EO among their companies. Thus, a second implication is that the results of our study may be useful for governmental practitioners, as it demonstrates the potentially marginal impact of their decisions concerning key institutions, and highlights the importance of establishing governmental relationships with SMEs within developing economic contexts to foster the manifestation of their EO. We now elaborate upon each study finding.

Protection of private property rights is observed to marginally positively influence the manifestation of EO among Russian SMEs. Our findings support previous studies which consider the protection of private property rights as an influential condition for the development of entrepreneurship and innovation in emerging markets (e.g. Estrin et al., 2013; Tang and Hull, 2012). A lack of clearly established and adequately enforced laws regarding private properties creates the possibility for opportunist behaviours such as the hijacking of profits through piracy (Li and 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 GEM project, the protection of intellectual property rights in Russia is not exhaustive, and enforcement is still not particularly effective (Verkhovskaya and Dorokhina, 2012). Yet, we find that efforts to improve this institution are important as they contribute to greater EO among Russian SMEs.

Regarding the protection of contract rights, a surprising result was observed as the protection of contract rights was observed to have a marginal significant negative relationship with the EO of Russian SMEs. This result seems counterintuitive since stronger contract protection should better enable firms to structure inter-firm agreements for resource exchange. To speculate, it might be the result of informal mechanisms, such as social networks and trust, replacing reliance on more formal protections of contract law in the emerging economic context of Russian SMEs. In this regard, frustrated by historically poor legal enforcement of contracts rights, entrepreneurs may develop a preference for informal norms for security (Ahlstrom et al., 2000), and actively seek to establish alternative governance structures and contractual arrangements (Peng, 2006; Bruton et al., 2010). To further speculate, given the costs and difficulties of making use of courts to dispute claims, stronger perceived contractual protections may actually cause many managers of Russian SMEs to avoid inter-firm relationships in such institutional environments. This is an interesting possibility as it would suggest that entrepreneurial behaviour in emerging economic contexts such as that of Russian SMEs may flourish more readily when relational trust as opposed to more formalised, institutionally enforced trust is the norm (Puffer et al., 2010; Rehn and Taalas, 2004).

The availability of governmental contracts provides the financial funds these firms require to enhance their growth and survival (Kickul et al., 2010; Zahra, 1991). Yet in a developing economy, it is conceivable that government contracts may also be linked with corruption and perhaps not benefit entrepreneurs. For instance, past Russian President
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Dmitry Medvedev wrote a letter to the Federal Assembly in November 2010 stating that “non-target cost in public procurement, including direct theft and ‘kickbacks’, amount to no less than a trillion rubles a year” (http://www.mbbash.ru/content/aprel_2011/m,12_04_2011_1/, accessed on 12 September 2013). However, our data suggest that such corruption in government contracts is not a deterrent to EO among Russian SMEs. Indeed, our study finds that even given these issues with bribery, etc., the additional financial resources provided by government contracts play a limited role in encouraging EO. To speculate, perhaps corruption in certain aspects of the regulatory environment, such as the provisioning of government contracts, is a relatively certain ‘cost of doing business’, whereas corruption in other institutions may have more uncertain consequences.

The importance of relationships with governmental officials to the manifestation of EO among Russian SMEs is emphasised by the strength of its connection to firm-level EO. This result supports the social network perspective that has long identified networking as a powerful tool for entrepreneurs in emerging markets (Dubini and Aldrich, 1991; Yiu and Lau, 2008). Despite recent efforts to improve formal institutions in Russia, gaps still remain and others may even widen. It is believed that during the second term of President Putin, red tape and corruption increased (Puffer et al., 2010), further deepening the need for entrepreneurs to have relationships with government officials to facilitate the development and expansion of their businesses. Our findings support the assertion that in Russia, personal ties to the government is a critical influence to the development of EO, as they position Russian SMEs to have greater access to opportunities and resources than those without such relations.

5.2 Study limitations and future research directions

The present findings should be considered in the context of its limitations. To begin, our sample includes companies operating in three industries across two major Russian cities. As with most research, this limits our ability to broadly generalise our conclusions. Different emerging economies may have their own unique institutional pressures. Yet, Russia has its own unique and understudied cultural, political and social climates. As such, the present research represents a meaningful investigation into a specific, understudied, national institutional context. Future research is encouraged to extend the present findings by exploring and contrasting the institutional antecedents of EO within different economic contexts.

Second, because of the difficulty in collecting data on SMEs in Russia, we used an interview methodology to collect self-reported information from firm top managers, which has the potential to contribute to common method bias (Podsakoff et al., 2003; Tang and Hull, 2012). Given this possibility, and following recommendations provided by Podsakoff et al. (2003), we adopted various approaches within our study design to control for this possibility such as assuring respondents before they participated that the data reported were completely anonymous and that only summarised results would be released. Despite the limitation of a single top managerial informant within each sampled firm, previous studies indicate that the influence of external environmental aspects on a firm’s behaviour is in large part a perceptual phenomenon which is suited to perceptual approaches of measurement (Boyd et al., 1993; Daft and Weick, 1984; Miller and Shamsie, 1999). In short, firm managers react to their perceptions of the context within which they operate (Gómez-Haro et al., 2011) and therefore it is reasonable to model
how top managers’ perceptions about their institutional context may affect their decision to pursue more EO strategies. While beyond the present scope, future research may also explore the possibility of employing more external and objective measures of the institutional environment to complement the perceptual evidence provided herein.

6 Conclusions

To conclude, while the present research marks only the beginning of a promising new area of investigation between institutional factors and entrepreneurial orientation within the understudied context of Russian SMEs, it nonetheless represents a cornerstone upon which future research exploring the institutional antecedents of EO within emerging economic contexts may build. Moreover, it is our hope that our work will lead to greater incorporation of institutional considerations within the broader EO literature in general, which to date has been relatively agnostic towards institutional factors. This study finds a number of institutional factors linked to the manifestation of firm entrepreneurial orientation among Russian SMEs. It is our sincere hope that these findings serve to inspire additional scholarly enquiry linking institutional factors to the manifestation of EO and spark further discussion concerning the differences and considerations that exist when encouraging EO among SMEs in developing economies.

References


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**Notes**

1 With the notable exception of China (see, for example, Li et al., 2008; Tan, 1996, etc.).

2 VCIOM is the oldest and the leading marketing and opinion research company in the post-Soviet space. More information about it can be obtained from ‘http://wciom.ru/’ (accessed on 12 April 2013).