

Modern Human Capital Management Trends in Russian SMEs

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Abstract—This study aims to analyze modern trends among Russian latent and manifest entrepreneurs regarding personal qualities needed to succeed in entrepreneurship activities, their attitudes to entrepreneurship entry, business sectors with most business opportunities as well as constraints that make impact on entrepreneurship entry decision. Entrepreneurship is increasingly acknowledged as an important driver of national and regional economic development. In Russia small and medium-sized enterprises (SMEs) management makes up a considerable part of All-Russian management. Currently, in the era of scientific and technological progress, the characteristics, behavior and attitudes of this group are changing, thus, actualizing the research into the specifics of Russian present-day entrepreneurs. The authors analyse the findings of two empirical surveys into the nature of entrepreneurship in Sverdlovskaya Oblast (2017, 2018). It is concluded that the attitude to entrepreneurship has changed in the Oblast, as modern younger population perceives entrepreneurship as an essential and integral component of the national economic system and demonstrates readiness to enter this field. Overall, the analysis identified a standard set of qualities required to succeed in entrepreneurship, except for the ability to establish relationships, that can be attributed to the unique nature of entrepreneurship in Russia. Among business sectors entrepreneurs are more oriented to do business in trading, followed by manufacturing and agriculture sectors. As for constraints, imposed by the environment, the entrepreneurs mostly encounter financial problems, including taxation and lending activities.

Keywords—*entrepreneurship, entrepreneurs' survey, entrepreneurship characteristics, attitude to entrepreneurship, entrepreneurship environment, constraints*

I. INTRODUCTION

Management as management of people, processes and objects of economic activity at the country level is usually presented by two big trends: management of state-owned enterprises and management of privately-owned small and medium-sized enterprises (SMEs management). In Russia SMEs management makes up a considerable part of the all-Russian management activities. So, as of March, 2018 only in Sverdlovskaya Oblast (Ural region) there were 8,045 small enterprises and the average number of SMEs employees (excluding part-time workers), amounted to 180.5 thousand people with a turnover of 190.7 billion rubles [1].

SMEs are managed by a special social group of entrepreneurs representing a specific human capital component. The Forecast for Long-term Social and Economic

Strategic Development of the Russian Federation up to 2030 stresses that "small and medium-sized enterprises are the integral and necessary component of any developed economic system" [2]. Reportedly, entrepreneurs have distinctive characteristics regarding such qualities as independence, readiness to risk and make non-standard decisions. At the same time, they are highly likely to be driven by profit-making and are characterized by much tougher attitude towards staff. Given a shift in current historical conditions, rapid scientific and technical progress as well as social and economic situation in the country, this group is obtaining new characteristics, so there is a need to continuously study this group.

This study aims to analyze modern trends among Russian latent and manifest entrepreneurs regarding personal qualities needed to succeed in entrepreneurship activities, their attitudes to entrepreneurship entry, business sectors where they mostly see business founding opportunities as well as constraints that make impact on entrepreneurship entry decision.

II. LITERATURE REVIEW

The subject of the human and labor capital is rather widely and actively researched in science. The concept "human capital" as an economic category has gone through several stages in its development [3]. A large number of scientific works in various fields of knowledge aim to study the human capital phenomenon, analyze its structure, factors contributing to its functioning and development. The study conducted by Kim, Aldrich & Keister [4] shows that entrepreneurial entry is determined mainly by high levels of human capital rather than financial and cultural capital resources.

The concept of "human capital" in entrepreneurship discourse is considered at different level and from different perspectives. The likelihood of entrepreneurship entry is studied at individual, group and country level. The individual-level research is a long-lasting research tradition. Autio & Acs [5] argue that institutional effects on entrepreneurial action operate at multiple levels, highlighting the importance of individual and country-level determinants. Martin, McNally & Kay posit that social norms are enforced and spread at "neither the macro-social level nor at the micro-level of the individual, but rather, at a meso-level where norms and attitudes can be observed, shared, and spread in social interactions" [6]. This conclusion is based on the idea that reference groups tend to share societal norms, regardless of members' individual characteristics [7].

At the individual level the research focuses on individual's personality characteristics [8], educational background [5], [9] attitudes to entrepreneurship [10]. The researchers investigated this question thoroughly and came up with a well-known set of entrepreneurship-prone characteristics. It includes ability to create, take initiative, innovate, see and do something new, ability to risk, readiness for losses in business, flair for freedom, independence, aspiration to self-expression and self-realization, leadership skills (charisma, will) and others. In recent studies, the authors argue that personal abilities and characteristics can impact their entrepreneurial intention through the effect caused by self-efficacy and attitude toward entrepreneurship. [11] posit that the entrepreneurial entry decision is also positively associated with self-confidence in entrepreneurial skills (perceived ability). Recently, authors also tend to be increasingly concerned with the contribution of entrepreneurship education and training into effective human capital formation. Kim, Aldrich & Keister [4] mostly highlight the impact of advanced education and managerial experience. Martin, McNally & Kay [6] examined the interplay between human capital investments (time and money invested into the entrepreneurial course), human capital assets (knowledge and skills obtained) and entrepreneurship outcomes (starting or growing a new business) and arrived at the conclusion that entrepreneurship outcomes are impacted mostly by academic-focused rather than training-focused entrepreneurship education and training.

Yet, the growing number of researchers argue that the desire to enter the entrepreneurship can not be explained only by a set of personality traits and characteristics. The focus is shifting to the characteristics of the environment, where nascent entrepreneurs are likely to operate [12]–[16]. Although such studies are of relatively recent origin, at the end of the nineties Gnyawali & Fogel [17] highlighted the role of external conditions in developing the ability to enterprise. Kallas [18] also states that a higher satisfaction with the external environment and a higher level of readiness lead to higher entrepreneurship intention. The regional characteristics such as knowledge creation, the economic context and an entrepreneurial culture indirectly impact the individual perception of founding opportunities, which in turn predicted start-up intentions and activity [19]. The empirical evidence also links the distinct regional cultural identity to their entrepreneurship spirit [20]. The studies conducted by Audretsch, Obschonka, Gosling, & Potter [21] suggest the dynamic interplay between the region's cultural identity and its latent and manifest entrepreneurship.

The fact that business environment strongly impacts entrepreneurial behaviours is manifested in the effect of formal institutions on the degree of entrepreneurship development in a society [10], [22]. SMEs tend to respond sensitively to changes in the business environment, as a result, the number of SMEs can vary considerably within a certain historic period of time [23].

III. EMPIRICAL BASE

This paper is based on the analysis of the published statistical data, results of the studies, conducted by other scientists, and the findings of the two surveys, carried out by the authors. In 2017 we interviewed 256 owners of small and medium-sized enterprises (SMEs) of the Ural region by request of the Sverdlovsk Business Support Fund. The

distribution of SMEs across business sectors was as following: production – 20.5%; goods and services – 63.8%; agriculture – 15.6%. In 2018 the Oblast Youth House initiated the research into “The Youth Enterprise Activity in the Sverdlovskaya Oblast”. During the survey we managed to interview 555 young people aged 18–30 years old, who live in the territory of Sverdlovskaya Oblast. The selection was based on the spatial and settlement factor: quotas depended on settlement type (small, medium-sized and big cities, the largest city – Yekaterinburg). Besides, all respondents were subdivided into two age groups: the youth aged 18–24 and 25–30 years old respectively. One more division was into those who already have their own business and those who only plan to become engaged in entrepreneurship. In this selection the entrepreneurs totaled at 99 people (about 18% of all respondents), 56.6% of them are sole traders, 5% - legal entities, 21% are at the stage of their business legal registration, 17.2% – did not indicate their business legal type. Based on the findings, we identified the current trends in entrepreneurs' characteristics, their behavior and attitudes to entrepreneurship entry as well as factors that impact their decision to enter entrepreneurship.

IV. RESEARCH FINDINGS

1. The general conclusion concerning entrepreneurship activity: if at the beginning of the 90ies Russian people regarded doing business as a criminal and illegal activity [24], nowadays, as our studies showed, the bulk of youth (69%), living in Sverdlovskaya Oblast, assesses it quite positively, 28.5% – give a neutral assessment, and only 2% – negative. The research findings allow to draw an unambiguous conclusion: the attitude to entrepreneurship in the region has changed, the modern young population recognize entrepreneurship as an important and necessary element of the economic system and is ready to work actively in entrepreneurship field. Our data correspond to the findings of the survey conducted by PwC in 75 different countries, including Russia: “Millenials at Work, Reshaping the Workplace”. In this survey 59% of the interviewed young Russians stated that they consider the possibility of being engaged in their own business, while the average world's figure makes up just 43% [25].

2. Qualities needed to enter entrepreneurship. What are characteristics shared by entrepreneurs? We tried to compare entrepreneurs' desirable (ideal) and real (manifest) characteristics that were revealed on the basis of entrepreneurs' self-assessment. The findings are presented in Table 1.

The top three ideal (desirable) qualities include “ability to take on responsibility” (average score – 4.69), “ability to establish relationships” (4.67), “ability to create, initiate, innovate, ability to see and do something new” and “ability to lead people” (4.66 respectively). Some other qualities appeared to be almost equally important: “ability to anticipate possible losses and benefits” and “communication skills, ability to build a team”. In general, this set can be considered to be quite typical of entrepreneurs. At the same time the second most important indicator – “ability to establish relationships” – proves the fact that young entrepreneurs tend to recognize the Russian specifics. The surveys of those who have already entered entrepreneurship [26] indicate that to

succeed an entrepreneur requires personal qualities (45%) and useful acquaintances (27%).

TABLE I. DEGREE OF IMPORTANCE AND MANIFESTATION OF PERSONAL QUALITIES FOR ENTREPRENEURS, AVERAGE SCORE

| Qualities | Degree of importance for entrepreneurs | Degree of manifestation or entrepreneurs |
|---|--|--|
| Ability to take on responsibility | 4.69 | 4.41 |
| Ability to establish relationships | 4.67 | 4.19 |
| Ability to create, initiate, innovate, recognize and do something new | 4.66 | 4.03 |
| Ability to lead people | 4.66 | 4.00 |
| Ability to anticipate possible losses and benefits | 4.65 | 4.03 |
| Communication skills, ability to build a team | 4.65 | 4.04 |
| Leadership skills (charisma, will) | 4.57 | 4.08 |
| Ability to work hard and irregular hours | 4.55 | 4.25 |
| Flare for freedom, independence, self-reliance | 4.48 | 4.43 |
| Education, professionalism | 4.40 | 3.98 |
| Mobility in economic and personal life | 4.37 | 3.76 |
| Flair for self-expression and self-actualization | 4.34 | 4.06 |
| Cost-consciousness, thrift | 4.24 | 3.84 |
| Ability to take risk | 4.23 | 3.74 |
| Readiness to suffer losses in business | 4.19 | 3.33 |
| Honesty, integrity, law-abidance | 4.19 | 4.08 |
| Contacts with authorities, civil servants | 4.04 | 2.89 |

Source: Authors

Table 1 shows that modern entrepreneurs demonstrate a lower degree of manifestation regarding really available qualities compared to their desirable level: all manifest qualities have lower score than ideal ones. Overall, the hierarchy of the desirable and manifest qualities is identical, however, among manifest qualities the respondents rank first “flair for freedom, independence, self-reliance” that undoubtedly reflects the specifics of the interviewed group, their young age.

3. Orientation on trading rather than manufacturing activities. In the modern information era, the majority of countries, including Russia, tend to implement the idea of new industrialization, priority of the industry over other sectors of economic activity [27]. What business sectors are entrepreneurs focused on? Most young entrepreneurs want to be engaged in trading (43.4%). These findings correlate with the data obtained by other researchers who note that “retail trade proves to be most attractive for future entrepreneurs” [26]. In our research, doing business in the manufacturing sector ranks second, however, it significantly lags behind trading activities (16.2%). Respondents tend to ignore such spheres as agriculture, health care, hotel business, education, and utilities services (Fig. 1.).

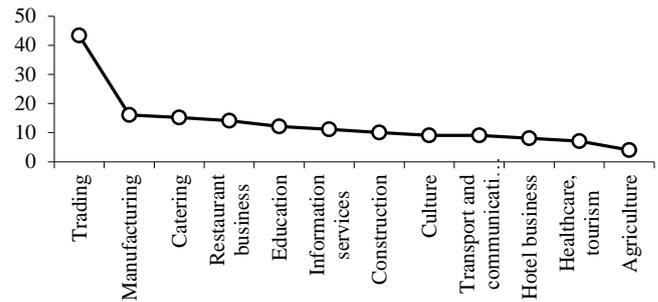


Fig. 1. Projected business sectors for entrepreneurial activities (source: authors)

We revealed that young people lack interest in such business sectors as agriculture, hotel business, health care. In addition, we also considered the data in the settlement section. Interestingly, the young entrepreneurs who live in rural areas are unwillingness to do business in the agriculture sector.

4. How do entrepreneurs interact with authorities and other administrative bodies? What difficulties do they experience in this interaction? 63.7% of entrepreneurs pointed out that they have no difficulty interacting with other organizations. Yet, entrepreneurs experience problems when they deal with municipal organizations (administration bodies of the cities and settlements) – 15%; various supervisory authorities (e.g. Federal Service for Supervision of Consumer Rights Protection and Human Welfare) and other organizations which are engaged in similar business activity – nearly 14%. The regional organizations (tax authorities, municipal services offices, etc.) caused problems only to 5.5% of the respondents. The research revealed the rating of the most crucial issues for entrepreneurs today (Table 2).

TABLE II. RATING OF ENTREPRENEURS’ CURRENT ISSUES IN SVERDLOVSKAYA OBLAST, %

| Indicators | % |
|---|------|
| 1. Taxation (high taxes, annual tax increase) | 29.3 |
| 2. Lending activities (high interest rates, difficulties to receive microloans) | 11.3 |
| 3. Economic crisis, decline in the population standard of living | 10.9 |
| 4. Holes and contradictions in Russia’s laws | 9.0 |
| 5. Interaction with authorities (periodic checks) | 9.0 |
| 6. Competition (pressure from network companies and natural monopolies) | 8.6 |
| 7. Bureaucratic barriers (documentation, reporting) | 7.4 |
| 8. Staffing problems | 4.7 |
| 9. Authorities’ innovations (online cash desk, changes in documentation) | 3.5 |
| 10. Authorities’ corruption | 2.7 |
| 11. Collateralized property | 2.0 |
| 12. Lack of clear business support policy | 0.4 |

Source: Authors

The sum of answers is not equal to 100% as it was an open question, and not all respondents answered it.

Judging by the responses, the major difficulties include financial problems connected with the taxation system (high taxes, annual increase in taxes) and lending activities (high rates, difficulties to receive microloans), followed by economic problems (economic crisis, decline in the population standard of living).

V. DISCUSSIONS

Russia inherited from the Soviet Union the economy based on the command and administrative relations where the key emphasis was on developing large enterprises and supporting mass production. Today the government and municipal administrative institutions tend to pursue a policy aimed at engaging young people into entrepreneurship activities and creating optimal conditions for this purpose. Russian researchers Kozina & Zangieva [28] consider engagement in entrepreneurship as a least-evil solution, as Russia's SMEs experience high job insecurity and low quality of jobs themselves. We agree with the authors that the public sector provides much higher job security than the SMEs. However, our findings show that the attitude to entrepreneurship activities shifts to the positive pole. Soboleva [29] also points out that Russia's "forced entrepreneurship" is not a thing of the past. We share the author's point of view that entrepreneurs still aim to make profit or survive rather than develop, while SMEs suffer from informal relationships and off-the-books employment. Yet, there is an emerging trend – entrepreneurs are starting to think about their development. We can make such a conclusion based on the entrepreneurs' environment assessment as well as entrepreneurs' emphasis on the necessity to develop it. Our findings correlate with the results of the study conducted by VCIOM (Russian Public Opinion Research Centre) in 2016 [26]. According to this study, in the last 25 years there has been an increase in the number of latent entrepreneurs convinced that their start-up plans can be successfully implemented. This is indicative of the effective infrastructure created to support entrepreneurship in Russia. As a social group, the youth is characterized by a high proactivity and risk appetite and demonstrates readiness to enter entrepreneurship. However, the survey revealed the fact that young people underestimate the importance of entrepreneurship-prone personality qualities and the ability to show initiative for successful entrepreneurial career. This is a negative trend as it can prevent young people from maximizing their entrepreneurial potential to the full.

VI. CONCLUSIONS

Summing up the findings, we can note that the youth of Sverdlovskaya Oblast have a positive attitude to enterprise activity, considers it to be a priority in comparison with hired labor (including employment in government institutions), understands the importance of the qualities required for doing business and perceives this activity as rather complicated. Overall, the analysis identified a standard set of qualities required to succeed in entrepreneurship, except for the emphasis on the ability to establish relationships that can be attributed to the unique nature of entrepreneurship in Russia. Among business sectors entrepreneurs are more oriented to do business in trading, followed by manufacturing and agriculture sectors. As for constraints, imposed by the environment, the entrepreneurs mostly encounter financial problems, including taxation and lending activities. Regarding conditions for doing business in Sverdlovskaya Oblast as generally positive, young entrepreneurs, however, have little knowledge about the organizations which interact with SMEs and can assist in its formation.

The overall results of the empirical research point to the positive current trends in entrepreneurship in Sverdlovskaya Oblast. These findings can be of interest for government

bodies, scientists and experts, involved in developing policies for entrepreneurship human capital management at national and regional level.

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