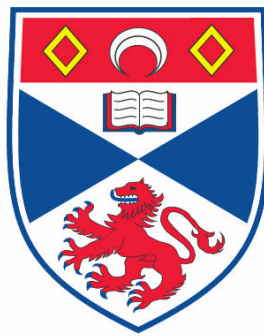


**UNDERSTANDING BARRIERS TO SMALL BUSINESS GROWTH  
FROM THE PERSPECTIVE OF OWNER-MANAGERS IN RUSSIA**

**Rachel R. Doern**

**A Thesis Submitted for the Degree of PhD  
at the  
University of St. Andrews**



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**Understanding Barriers to Small Business Growth from the  
Perspective of Owner-Managers in Russia**

**By:**

**Rachel R Doern**

**Submitted for the requirements for the degree of  
Doctor of Philosophy in Management**

**At:**

**University of St. Andrews, Scotland**

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## Declarations

I, Rachel Ruby Doern, hereby certify that this thesis, which is approximately 100,000 words in length, has been written by me, that it is the record of work carried out by me and that it has not been submitted in any previous application for a higher degree.

Date: Signature of candidate:

I was admitted as a candidate for the degree of PhD in October 2001; the higher study for which this is a record was carried out in the University of St. Andrews between 2001 and 2008.

Date: Signature of candidate:

I hereby certify that the candidate has fulfilled the conditions of the Resolution and Regulations appropriate for the degree of PhD in the University of St. Andrews and that the candidate is qualified to submit this thesis in application for that degree.

Date: Signature of supervisor:

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## **Abstract**

Small businesses, particularly growing small businesses, are regarded by policy makers and academics alike as being important sources of wealth creation, employment generation and innovation. Yet, few small businesses grow. One potential way of explaining why so many businesses do not grow is through the notion of 'barriers'. Previous studies on barriers typically identify and predict what kinds of barriers affect business growth, rather than attempt to explain how or why this is the case, if indeed it is the case at all. This thesis aims to elaborate on our understanding of barriers to small business growth. Two qualitative inductive interview-based studies were conducted in St. Petersburg Russia; the first was conducted in 2003, the second in 2005. Using semi-structured interviews in the second study (the main study), 27 owner-managers of small businesses in Russia were asked if they had intentions to grow the business, how they grew their businesses or intended to do so, and what, if anything, interfered with this process. The purpose of the study was two-fold: first, its purpose was to examine barriers from the perspective of individual owner-managers, with an emphasis on the meaning of barriers and the context in which they are perceived, and second to explore and examine how or the ways in which perceived barriers may influence owner-managers' growth intentions and behaviours. Data were analysed using template analysis mainly, drawing on interpretive phenomenological analysis and matrix analysis. Based on the accounts of owner-managers, barriers were found to work in different ways to shape intentions to grow or not to grow, and as well to shape intention realization. How this occurred depended partly on owner-managers' perceptions of the institutional environment. Findings suggest that the relationship between barriers and small business growth is complex. It is, nevertheless, a relationship which purports to be a fruitful area of study, one in which future research might further our understanding of small business growth from a continuing examination of barriers, particularly in relation to intentions, in relation to how meaningful barriers are perceived to be, and in relation to the context in which they are perceived.

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# **1 Introduction**

A perennial question for Management is why businesses do or do not grow. One potential way of explaining why so many businesses do not grow is through the notion of 'barriers'. Barriers have been broadly defined as those internal and external factors or conditions that constrain growth potential in those firms that wish to grow (Storey, 1994). The central aim of this thesis is to elaborate our understanding of barriers to small business growth. To achieve this aim, two qualitative studies were conducted with small business owner-managers in St. Petersburg Russia.

This brief introductory chapter provides an overview of the thesis. It begins with a discussion of the significance of the research topic, within the broader context of research on small businesses – a 'small business' being that which is independently owned and managed and has a small market share (Bolton Report, 1971). The chapter then situates the topic within the relevant literatures, and identifies the gap addressed by the current research. It follows with a discussion of the aims of research, its boundaries, and a chapter by chapter overview of the thesis structure.

## **1.1 The significance of research**

The significance of the current research is in providing a more complete picture of small business growth. This is accomplished by elaborating on our understanding of barriers to small business growth, and by extending this understanding beyond the context of mature market economies to formerly planned transition economies.

The benefits of small business growth are wide-ranging. The greater economic benefits are well known and include the creation of wealth, jobs and innovation (e.g. Carter and Jones-Evans, 2006; Carter et al., 2000). At the level of the firm, the benefits accrued to the firm from increasing either employee numbers or sales, serve to expand its resource base and improve its competitive position (Cardozo, Elder and Harmon, 1996). At the level of the individual, owner-managers may benefit from the greater 'capability', 'opportunity' and 'esteem' business growth brings (Cardozo et al., 1996). In spite of the benefits however, few small firms grow (Storey, 1994; Kirchoff, 1994; Storey et al., 1987; Gallagher and Miller, 1991; Birch, 1987) and the

majority of new firms, stay small or fail (Loveman and Sengenberger, 1990); that is, “most firms die young” (Cressy, 2006: 113). In their review of research on small business growth, Davidsson, Achtenhagen and Naldi (2004) suggested that the reasons so few firms grow were varied and include the fact that many firms operate in mature industries where the potential to grow is absent; alternatively, they fail to grow because their founders are unwilling or do not have the skills to encourage growth, or because certain factors in the environment prevent growth. For these reasons, growth was said to be determined by both internal and external factors and these factors were sometimes difficult to separate. In their review, ‘barriers’ were regarded as those factors that acted as “deterrents” to growth (p. 11). However, despite their potential influence on growth, barriers were given only modest attention in the review. Similarly, barriers have been given only modest attention in other reviews of the literature on small business growth, despite providing an ‘alternative perspective’ or ‘approach’ to understanding small business growth (e.g. Storey, 1994; Deakins, 1999), and despite constituting a third ‘strand’ of research in the small business literature, after characteristics and stage model research (Freel, 2000).

It is also the case that much research on small business growth has focused on mature market economies, mainly the economies of North America and Western Europe, while less is known about this topic as it relates to formerly planned transition economies. Transition economies are defined here as former centrally planned economies once part of Socialist system for an “extended period of time”, economies which included the Former Soviet Union, Albania, Bulgaria, the Former Czechoslovakia, Hungary, Poland, and Romania (Peng, 2000: 14). Over the last decade, the bulk of research on transition economies has concentrated on management issues relating to previously state-owned enterprises (e.g. Meyer and Peng, 2005; Uhlenbruck, Meyer and Hitt, 2003). However, increasingly attention is turning towards the development of the small business sector. There is a growing body of evidence in the transition literature to suggest that the development of entrepreneurship and small business is important in transition economies, but that the conditions for this are less than optimal, and this can be attributed to underdeveloped market institutions (e.g. Smallbone and Welter, 2006; Estrin, Meyer and Bychkova, 2006). Even so, very little is known about how entrepreneurs think and act in transition economies (Bruton, Ahlstrom and Obloj, 2008).

## 1.2 Situating the research within the literatures

The current research was situated in several bodies of literature including the general growth, small business/entrepreneurship<sup>1</sup> and transition literatures, and the literature on entrepreneurial cognition research and its parent discipline cognitive psychology.

Initially the general growth literature (e.g. Penrose, 1959), small business/entrepreneurship literature (e.g. Storey, 1994; Davidsson, 1991) and transition literature (e.g. McMillan and Woodruff, 2002) were examined to investigate the current understanding of barriers and their relationship to small business growth in both mature market economies and transition economies. This examination revealed that prior research rests largely on the assumption that some businesses aspire to grow but cannot because barriers prevent growth. Studies have tended to look at *what kinds* of barriers have been identified from surveys of small firms and how important or intense these barriers are to these firms, such that important barriers are believed to be significantly related to a lack of actual growth (Bartlett and Bukvić, 2001). However, these studies have not explained *why* or *how* barriers affect business growth, if indeed they do so at all. Hence, this review revealed several gaps in the literature, one of which was to understand more about why or how barriers impact on behaviour.

In addition to the previous literatures, the literatures on entrepreneurial cognition and its parent discipline, cognitive psychology, were also examined at a later stage in the thesis for insights into the relationship between intentions and barriers. It was found that barriers may affect different stages of the entrepreneurial process, particularly the antecedents of intentions (e.g. Ajzen, 1991) and the relationship between intention and behaviour (e.g. Krueger, 2003). However, similar to the previous research on barriers to small business growth, studies on the growth intentions of small business owner-managers (e.g. Kolvereid and Bullvåg, 1996) tend to marginalize agency, with few exceptions (e.g. Dutta and Thornhill, 2007); also they tend to examine variables in isolation (Berglund, 2005), and they tend to engage in little, if any, discussion

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<sup>1</sup> While not all small businesses are entrepreneurial, it has been argued that business growth is relevant to the field of entrepreneurship when the decision to grow involves some choice on the part of the owner-manager (Davidsson, 1989), and/or the decision involves the introduction of new products or services (Davidsson, Achtenhagen and Naldi, 2004).

about the relationship between intentions and barriers or how barriers affect growth intentions.

And so it seems that our current understanding of barriers to growth is limited by a rather narrow perspective of the research phenomenon in terms of the research approach and research questions utilized, by absent or coarse descriptions of barriers, particularly a lack of meaningful descriptions, and by context.

### **1.3 Rationale for the current research**

Extant research provides an incomplete picture of small business growth by neglecting to elaborate on the role played by barriers in the growth process. Further, the functionalist perspective (Burrell and Morgan, 2003) often taken in studies in small business/entrepreneurship research (Grant and Perren, 2002) including research on barriers to small business growth, limits our understanding of these issues by “writing individuals out of the story” and ignoring the “emotion and personal angst of entrepreneurs” (Jennings, Perren and Carter, 2005: 147), which would seem pertinent to research on barriers. The current research takes steps towards resolving these issues by examining barriers from the perspective of small business owner-managers.

Taking an interpretive approach to empirical research, two qualitative inductive interview-based studies were conducted. The first was exploratory and the second was descriptive; the studies broadly followed what Davies, Hill and LaForge (1985) have referred to as a ‘stream of research’ method, in which results from the first study influenced the way the second study was conducted. The current research can be described as being inductive to begin with; this is followed by some deduction between the first and second study, and finally it becomes inductive once again. Both studies were conducted in St. Petersburg Russia. Russia was considered a suitable location for research because numerous barriers to the formation and growth of small businesses are said to exist (e.g. CEFIR, 2005; OECD, 2002; Kihlgren, 2002).

### **1.4 Thesis aims and contributions**

This thesis has *one* general aim and *two* sub-aims that evolved over the project:

1. To elaborate our understanding of barriers to small business growth. In particular -
  - i) To examine barriers to small business growth from the perspective of the individual owner-manager, with an emphasis on the meaning of barriers and the context in which they are perceived.
  - ii) To explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours.

## **1.5 Research boundaries**

Research was bounded in several ways, three of which are discussed here. First, empirical research was conducted in Russia, primarily in St. Petersburg. Second, during interviews discussions of small business growth were delimited to the period of time between the birth of legally recognized small businesses in Russia, 1987, to the second period of data collection, the summer of 2005. And third, during data collection and analysis, barriers to growth were regarded as those factors internally or externally generated that were identified by owner-managers, thereby ruling out 'hidden' barriers (Kouriloff, 2000). Other limitations and delimitations of this research are discussed throughout the thesis.

## **1.6 Thesis structure**

This thesis is divided into two main parts, the focus and content of which is briefly mentioned here:

### Part One

The first part of the thesis examines extant research on barriers to small business growth, and describes the context for empirical work and the method and findings of an initial exploratory study. A case is made for elaborating our understanding of barriers by looking at intentions to grow. Part One covers Chapters 2 to 5.

*Chapter 2* reviews the small business/entrepreneurship literature, the general growth literature and the transition literature to investigate our current understanding of barriers to small business growth. In particular it focuses on how research on barriers to small business growth evolved, what barriers are (how they have been defined conceptually and empirically in the literature), what kinds of barriers affect growth, and how barriers affect growth. The chapter reveals that prior research is underdeveloped both conceptually and empirically.

*Chapter 3* explains why Russia was selected as the main context for study and creates a brief historical and contemporary profile of entrepreneurship and small business development in the country, the latter of which emphasizes the conditions for small business growth. This profile assists the interpretation and understanding of results from studies one (Chapter 4) and two (Chapters 6-9), particularly the latter.

*Chapter 4* reports the findings from an exploratory study (study one) involving interviews with ten owners and/or managers (owners/managers) and eight small business stakeholders (stakeholders referring to policy makers, research funders and providers, and providers of funding, training, and other small business services); informal conversations were also conducted with business professionals and students, friends and acquaintances in the field. This study provided the impetus for refining the research phenomenon and aims to be pursued in this project, later addressed in the main empirical study (study two).

Chapters 2, 3 and 4 were conducted concurrently. The study described in Chapter 4 was initially intended for another purpose: to broadly explore the effects of the external environment on strategic planning activities in small-to-medium sized firms in Russia. However, in collecting and analysing the data, it was revealed that, the accounts of owner/managers about small business development revolved around the challenges, difficulties and problems facing firms. Through further analysis it was found that barriers were used by owner/managers to make sense of the conditions for small business development generally, and specifically their unique experiences. It was also found that accounts of barriers were often related to specific growth intentions, and that accounts of barriers could be simple or elaborate. This created the

need to examine the literature on barriers to small business growth, and to examine the conditions for entrepreneurship and small business development in Russia.

*Chapter 5* looks more closely at research on intentions to grow, and the relationship between intentions and barriers. Intentions were regarded as one way of thinking more deeply about barriers to growth. Based on this review, a model depicting possible relationships between barriers, growth intentions and behaviours, was devised. The model draws from other intentions models and the first empirical study. The model was used to guide data collection in the second empirical study.

## Part Two

The second part of the thesis addresses the research aims. It first describes the method and results of the second main study, before presenting and then discussing the findings; followed by some conclusions. Part Two covers Chapters 6 to 10.

*Chapter 6* discusses why the methodological approach adopted in the current research was mainly interpretive. It also describes the research design in some detail. This includes a discussion of how data were collected through semi-structured in-depth interviews with 27 owner-managers and analysed by template analysis mainly; matrix analysis and interpretive phenomenological analysis were also drawn upon. It also elaborates on some of the reflexive activities undertaken throughout the research process. The chapter closes with an evaluation of the quality of data interpretation.

*Chapters 7 & 8* report the findings from the main study (study two). Chapter 7 provides a description of the main participants and the kinds of barriers they identified during the interviews. An extended description is given of those barriers that were particularly salient to participant accounts – i.e. those that featured in discussions of how perceived barriers influence growth intentions and behaviours, the focus of Chapter 8. Two higher-order themes and six sub-themes emerged as ways in which perceived barriers influence owner-managers' growth intentions and behaviours.

*Chapter 9* summarizes and discusses the research findings. It evaluates the extent to which the current research was successful in addressing the research aim and sub-

aims. This chapter also summarizes the contributions of this research and describes its limitations. It also provides some implications of this research for policy, practice and research. Finally, some recommendations for future research are put forward.

## **2 Review of the literature on barriers to small business growth**

### **2.1 Introduction**

The significance of the research examined and discussed in this thesis lies in providing a more complete picture of small business growth by elaborating our understanding of barriers to small business growth, and extending this understanding beyond the contexts of mature market economies. This chapter investigates the current understanding of barriers and their relationship to small business growth. Because barriers mainly represent those factors that act as “deterrents” to business growth (Davidsson, Achtenhagen and Naldi, 2004: 11), and because these deterrents are either specifically mentioned or alluded to throughout the small business/ entrepreneurship literature (e.g. Storey, 1994; Davidsson, 1991), the general growth literature (e.g. Penrose, 1959), and the transition literature (e.g. McMillan and Woodruff, 2002), organizing the literatures in a meaningful way proved to be challenging. It was also challenging because prior research tends to identify *what kinds* of barriers to growth may exist, resulting in long lists of barriers, and culminating in research with little or no emphasis on conceptual or theoretical issues. Combined, these factors have produced a fragmented body of research.

This chapter is organized into three main sections:

*Section One* lays the foundation for investigating the current understanding of barriers. *Section one* has three parts. The first part provides some background on the topic of barriers to small business growth and clues as to why policy makers and academics became interested in such. Part two provides an overview of research conducted on the characteristics of small business growth and research on stages of growth; it highlights the relationship between this research and the study of barriers to growth. Further, it establishes reasons why these studies are relevant to our understanding of barriers. Finally, part three briefly introduces the development of entrepreneurship in formerly planned transition economies. The focus here is on explaining why entrepreneurship and small business development are important to transition economies, and how they have fared in this context.

*Section Two* more directly examines the literature on barriers to small business growth and is divided into three parts. The first part discusses how the concept of barriers has been defined in the literature and introduces themes that appear in part two. Part two examines several kinds of barriers identified in the literatures - the small business/entrepreneurship, general growth and transition literatures. Part three examines the ways in which barriers have been identified and defined, and ways in which the impact of barriers on growth has been measured. In short, section two begins to make a case for adopting a different approach to the study of barriers to growth.

*Section Three* critiques some of the issues raised in the review; it concentrates primarily on the apparent weaknesses or limitations of prior research. Section three reveals that prior research has not provided meaningful descriptions of barriers nor has it shown how or why they prevent business growth. This conclusion provided the impetus for devising research aims and an approach which would highlight the rich, contextual, dynamic, and experiential features of barriers to growth hitherto ignored.

But first, as part of an extended introduction to this chapter, the next couple of sub-sections unpack the growth concept, examining how growth is defined and measured in research and discussing internal and external influences on small business growth.

### *2.1.1 Barriers to what? Definitions and measures of business growth*

This thesis is focused on barriers to small business *growth*. A description of business growth at this juncture therefore serves to orientate research.

Business growth is regarded as a complex, ‘multidimensional’ phenomenon (Delmar, Davidsson and Gartner, 2003; Scase and Goffee, 1989). This multidimensional aspect of growth is well captured by Bridge, O’Neill and Cromie’s (2003) broad definition of the concept. These authors referred to business growth as:

“... the movement of the business into bigger premises, taking on more staff, significant increases of turnover, taking on a new product line or lines, buying another business, and so on” (p. 202).

Implicit in Bridge et al.'s (2003) definition of growth is the notion that growth represents an increase (Penrose, 1959) or *change* in amount (Davidsson, Achtenhagen and Naldi, 2004; Weinzimmer, Nystrom and Freeman, 1998), where *amount* refers to sales revenues, employee numbers, or return on assets (Liao, Welsch and Pistrui, 2001). A change in sales, for instance, was used by Eisenhardt and Schoonhoven (1990) to define business growth in their study of U.S. semi-conductor ventures between 1978 and 1988. Change usually is measured in relation to firm size (i.e. firm size is an indicator of change). Starbuck (1965) defined business growth as "a change in an organization's size when size is measured by the organization's membership or employment" (p. 451). Weinzimmer et al. (1998) referred to business growth as "a dynamic measure of change over time" (p. 235). Growth also has been conceptualised as a "process of development" (Penrose, 1959: 1). However, the *process* nature of growth has been overshadowed in the literature by the attention paid to growth outcomes, by what Davidsson et al. (2004) have referred to as the "size-change perspective" (p. 1), described above.

Another important aspect of business growth, one that is pertinent to this thesis, is *how* growth is measured. Despite claims made at the beginning of the section about business growth being a multidimensional phenomenon, it should be noted that most studies employ a unidimensional measure of growth (Delmar et al., 2003). The problems resulting from use of a unidimensional measure of growth have been discussed elsewhere (see Davidsson et al., 2004), and will not be elaborated on here. For the purposes of the current research it is useful to note that *sales growth* has been the most widely adopted measure across studies generally (Weinzimmer et al., 1998), whereas *employment growth* is more common to studies where the focus is directed specifically towards small businesses (Keeble, 1993; Storey, 1994). The tendency to rely on measures of employment in small business research has been explained by Smallbone and Wyer (2006) as an indication that policy makers are keen to improve the employment opportunities provided by these firms. These authors also noted that employment figures were useful to the extent that generally they are more accessible than other measures and are less prone to incomplete or unreliable self-reported data.

Delmar et al. (2003) contribute to this discussion by noting that employment growth or sales growth either can be organic – internally generated (Penrose, 1959), and

stems from the increase in sales revenue generated from expanding activities (ACOST, 1990) – or they can occur via acquisition or merger. Most new and small firms tend to grow organically, mainly because they do not have the resources to grow in other ways (McCann, 1991). It is also the case that growth in employment or growth in sales either may be steady or it may be erratic (Delmar et al., 2003). While policy makers appear to be interested in those small firms that grow steadily and experience high growth in relative terms, it is worth restating that very few actually do grow.

### 2.1.2 *External and internal influences on firm growth*

Is business growth influenced more by external factors, internal factors, or both? Discussions of external influences on small business growth tend to revolve around the structure of industries and markets. There is some convincing evidence to suggest that firms grow more rapidly in industries and regions which are regarded as *dynamic* (e.g. Carroll and Hannan, 2000; Davidsson and Delmar, 1997) - meaning environments characterized by changing trends, industry innovation, and the unpredictability of customers and competitors (Miller, 1987). At the same time, other studies have found that growth largely depends on internal influences, mainly the willingness of owner-managers to grow, their growth motivation or goals (e.g. Baum and Locke, 2004; Delmar and Wiklund, 2003; Kolvereid and Bullvåg, 1996), and the skills of these individuals and their employees (e.g. Rauch, Frese and Utsch, 2005; Dyke, Fischer and Reuber, 1992). In some cases, it may also be difficult to determine whether influences on barriers are internal or external (Davidsson et al., 2004). After weighing the evidence, Davidsson et al. (2004) made the following claim: “the sensible conclusion is that growth is to a considerable extent a matter of willingness and skill, but that fundamental facilitators and obstacles in the environment cannot be disregarded” (p. 8). Even so, it will be revealed over the course of this thesis that prior research on *barriers* to small business growth generally assumes, but does not examine, the willingness or intention to grow, or examine how perceived barriers (both internal and external) may influence this.

## 2.2 Background

*Section One* is divided into three parts beginning with a brief historical overview of extant research on barriers to small business growth. While this overview relates mainly to the literature on small businesses in mature market economies, where relevant, the literature on formerly planned transition economies is mentioned.

### 2.2.1 *An historical overview*

Small businesses in mature market economies, particularly the United Kingdom and the United States, received very little attention from policy makers or scholars until the late 1960s when their contributions to these economies were recognized, mainly in terms of their employment generation potential; rapidly growing small firms were found to contribute disproportionately to employment generation. Several reports were thereafter commissioned (e.g. Bolton Report, 1971) to develop profiles of small businesses, investigate the problems facing these businesses, determine their needs, and make recommendations for removing those factors or barriers that were believed to discriminate against small businesses. Studies undertaken during this period revealed that the survival and growth of these businesses was dependent on certain factors or conditions (e.g. access to capital). This led to the development of numerous supportive initiatives.

By the early-to-mid 1990s, a budding trend in policy research in the UK was identifying and examining the *characteristics* of growing small businesses. Because resources available to these firms were limited, it was argued that the government could maximize returns by focusing efforts on those firms most likely to grow (e.g. Holmes and Zimmer, 1994); a strategy known as ‘picking winners’. This trend in policy research followed mounting empirical evidence from the United Kingdom and the United States that few small firms grew (e.g. Storey, 1994; Gallagher and Miller, 1991; Birch, 1987). While the notion of ‘picking winners’ was later challenged by some researchers as being ineffective (e.g. Freel, 1998, 2000), a preoccupation with identifying characteristics of growing firms persisted. Along with identifying characteristics of growing businesses, studies aimed to identify those factors or conditions internally and externally determined that constrained growth potential,

particularly those external, factors or conditions that are responsive to government intervention (Barber et al., 1989). These constraining factors or conditions have been referred to, often interchangeably, as *barriers*, *constraints*, *problems*, *impediments* and *obstacles* (Kouriloff, 2000).

In formerly planned transition economies of the Former Soviet Union (FSU) and Central and Eastern Europe (CEE), small businesses did not exist in significant numbers nor command much attention from policy makers or academics until the early-to-mid 1990s. Increasingly, the evidence has found that, as was the case in more mature market economies, small firms in transition economies contribute disproportionately to net employment (e.g. Drnovsek, 2004), despite low levels of small business development in some transition countries as compared to levels in the West (Bartlett and Bukvić, 2001; Hanley, 2000; Broadman, 2000); and this has brought attention to the development of the small business sector. The identification of problem factors or conditions facing such businesses in this context has been regarded as one way to monitor the overall health of the private small business sector and the government's commitment to reforms targeting the sector (e.g. Bohatá and Mládek, 1999).

It is from these policy initiatives that an interest in barriers to small business growth was borne, and upon which the following literature review is based.

### 2.2.2 *Barriers as embedded in research on characteristics of growth, and stage models of growth*

Research on small business growth is often divided into *two* research streams: 1) characteristics that predict firm growth, and 2) stages of firm growth. A brief discussion of these research streams is warranted for three reasons. First, because it appears that barriers are frequently part of empirical studies on characteristics and stages of firm growth. Second, it appears that it is difficult to investigate the current understanding of barriers and their relationship to growth without drawing on research about characteristics of growth. And third, research on the characteristics and stages of growth has shaped the way barriers have been studied empirically, and this will become evident in Sections 2 and 3 of this chapter. The purpose here in this sub-

section is not to provide a comprehensive or even general review of each research stream as other researchers already have done this adequately (see Deakins 1999, Smallbone and Wyr 2006; Bridge, O'Neill and Cromie 2004). Rather, the purpose is to outline how each relates to the study of barriers to growth.

#### 2.2.2.1 Characteristics that predict firm growth

The focus of these studies is on identifying *what kinds* of characteristics – those of owner-managers (e.g. education, experience), those of firms (e.g. age, size, type of ownership), those of management strategies (e.g. market position, management recruitment), those of the environment (e.g. sector, location, competition) - can be used to predict rapid growth in small firms or, to distinguish growing firms from their non-growing counterparts, (e.g. Hambrick and Crozier, 1985; Cragg and King, 1988; Storey, 1994; Barkham, Gudgin, Hart and Hanvey, 1996; Davidsson, Kirchoff, Hatemi-J, and Gustavsson, 2002). This research is relevant to barriers insofar as the presence or absence of certain characteristics has a negative effect on growth. For, characteristics themselves may serve as barriers to growth. For instance, Storey (1994) found that fast growth in small businesses was related to, among other things, the willingness of owner-managers to share equity with outside entities such as banks or business angels, and that a reluctance to share equity was a constraint on growth.

The logic behind research focused on what kinds of characteristics predict growing firms, lies in creating profiles of growing firms so that government interventions can be tailored to these firms to assist them in growing. However, across studies on small business growth, relationships between characteristics and growth are often inconsistent. Furthermore, within studies these relationships may be unrelated or only weakly related. Inconsistencies were evident in Storey's (1994) examination of 18 studies designed to predict characteristics of small business growth in the UK and US. Storey was unconvinced that industry experience was a key determinant of business growth and argued that it was unclear as to whether it was better for entrepreneurs to understand industry norms and practices or better if they did not and offered something new to the industry. Nevertheless, other studies have found that prior industry experience does have a positive effect on firm growth (e.g. Cooper, Gimeno-Gascon and Woo, 1994; Baum, Locke and Smith, 2001). Therefore, this research has

been criticized on the basis that it fails to yield consistent results in terms of identifying what kinds of characteristics affect business growth, but also because it is deterministic and does not have strong predictive power (Curran and Blackburn, 2001; Freel, 2000).

#### 2.2.2.2 Stages of growth

Barriers are more integral to the second group of studies which focus on a) identifying characteristics of firms at different stages of the organizational life-cycle – e.g. management style, formal systems, organizational structure and strategy – and b) examining relationships between these stages and identifiable problems (e.g. Churchill and Lewis, 1983; Gartner, 1985; Scott and Bruce, 1987; Kazanjian, 1988; Greiner, 1972, 1998; Miller and Friesen, 1984). Phelps, Adams and Bessant (2007) described these studies as being part of the ‘problems perspective’ of stage model research. This area of research was used as a point of departure for a fairly recent review of the literature on barriers to growth in small firms (see Barth, 2004).

In contrast to the previous stream of research, which has been referred to elsewhere as the characteristics or predictive-modelling stream (e.g. Freel, 2000), the purpose of research in this case is to isolate *what kinds* of problems firms are likely to encounter at different stages of growth, suggesting that problems are likely to be different at different stages (Terpstra and Olson, 1993). Similar to studies in the preceding section, these studies assist policy makers in identifying the kinds of assistance and skills that firms may require in order to grow the business, and in this case, in order to manage or overcome the problems that stand in the way of growing the business; a failure to respond to problems or crises (Greiner, 1972, 1998) at each stage of development will constrain growth. Widely referred to research carried out by Scott and Bruce (1987) and Kazanjian (1988) provides a useful illustration.

Scott and Bruce (1987) theorized that small businesses may pass through the following five stages of development: inception, survival, growth, expansion and maturity. An overview is provided of the characteristics and problems describing these stages of development, with an emphasis on the first three. During the *inception* stage, the authors argued that the focus of the firm is on establishing a “commercially

acceptable product” (p. 49). They described formal planning systems at this stage as being absent and resources as being limited, particularly financial resources which are derived mainly from personal sources. For these reasons, demands on finances at this stage were said to be high. To pass through to the next stage of development, *survival*, Scott and Bruce explained that management was required to formalize systems, delegate decision-making, and change management style. Upon reaching the *survival* stage, a business was, in their view, likely to be “profitable but it is unlikely to generate cash for the owner” (p. 50). Furthermore, at the *survival* stage the product line was said to be limited and the business also may experience liquidity problems. In order to transition to the *growth* stage, the business had to be attentive to changes in competition. This could be accomplished by investing in product/service development. The firm’s resources would be stretched at this stage and growth must be managed carefully. In the remaining stages of *expansion* and *maturity*, different issues were encountered including financing growth and niche marketing respectively. Control was regarded as an issue at both stages.

A more empirical illustration of research on characteristics of firms at different stages of growth is based on the work of Kazanjian (1988). Kazanjian examined the growth patterns of two technology-based new ventures using a multi-method research design. Two studies were conducted. Taking a case-based approach in the first study, four stages of development were identified: conception/development, commercialisation, growth, and stability. Each of these four stages was linked to dominant problems. Findings from the first study suggested that problems played an important role in understanding growth *patterns* of the firm. In the second study, relationships between the stages of development and the dominant problems were investigated. Although problems were not defined conceptually, they were operationalised according to the perceived importance as judged by CEOs. Surveying 105 American firms, CEOs were asked to rate problems identified in the first study on a 7-point scale. To measure the stage of growth, CEOs were told to select one of four descriptions, each describing their current stage of development. To determine whether problems differed across stages, a multivariate analysis of variance was performed followed by factor analysis. Support for the predicted links between certain dominant problems and life-cycle stage had mixed results. That is, support for a link between predicted problems and stages was not found across all four stages. Further, not all stages

exhibited different dominant problems; this was also found to be the case in Moy and Luk's (2003) study on Hong Kong SMEs and the barrier competition.

It appears from research in this stream that external problems are more dominant in the early stages of the organizational life-cycle while internal problems tend to dominate in later stages (Dodge and Robbins, 1992). However, as indicated in studies conducted by Kazanjian and Moy and Luk, there is some evidence to suggest that certain problems persist across several stages. Explanations as to *why* some problems persist across stages are limited. It is also the case that many of these studies tend to use closed-ended problem categories and *a priori* problem categories which do not allow new problems to emerge (Terpstra and Olson, 1993). Furthermore, stage models have been criticized for lacking consistency in terms of the components of stages and the kinds of problems they identify, and often "suffer from being linear, unidirectional, sequenced and deterministic" (Phelps, Adams and Bessant, 2007: 17).

### 2.2.3 *Entrepreneurship and small business development in transition economies*

In this third and final part of *Section One* it is argued that entrepreneurship and small business development are important but limited features of transition economies; limited mainly by underdeveloped market-based institutions. As discussed in the introductory chapter (Chapter 1), the term transition economies will refer in this thesis to those former centrally planned economies once part of Socialist system for an "extended period of time" (Peng, 2000: 14); economies including the Former Soviet Union, Albania, Bulgaria, Former Czechoslovakia, Hungary, Poland, and Romania (Peng, 2000). A discussion of barriers in transition economies herein meets one of the central aims of the thesis, to provide a more complete picture of small business growth. It does so by extending this understanding beyond mature market economies.

Entrepreneurship and small business development are important to transition economies for a number of reasons, some of which are tied to the unique transition environment whereas others are more general. The creation and growth of new firms in transition economies is said to be a critical component of the successful economic transformation of these countries (Kornai, 1990; McMillan and Woodruff, 2002; Wells, Pfantz and Bryne, 2003). Newly formed businesses, it seems, assist the

restructuring process in transition economies by providing some relief from economic recession, by de-monopolizing industry structures and re-deploying labour (Winiecki, 2003; Kontorovich, 1999; d'Andrea Tyson, Petrin and Rogers, 1994). Along with job creation, new firms, more so than state-owned enterprises or spin-offs<sup>2</sup>, encourage good work practices; moreover, they are more likely to respond to poor work practices with “retraining, sanctions or dismissals” (Winiecki, 2003: 13). Similar to the benefits entrepreneurship imparts on the more mature market economies, new firms in transition economies contribute to wider product choice and service availability (Scase, 1997; Smallbone and Welter, 2001); and create employment opportunities for those who may be socially marginalized otherwise (Scase, 1997).

Arguably, newly created small businesses in transition economies have been unable to achieve their growth potential and have failed to play the expected transformative role (Acs and Audretsch, 1993; Johnson and Loveman, 1995), as outlined prior. The development of entrepreneurship in transition economies is said to be sensitive to the *institutional environment* (Estrin, Meyer and Bychkova, 2006). Institutions provide the ‘rules of the game’ that shape economic activities (North, 1990, 1994). They include legal and regulatory institutions, customs and norms. According to Kolodko (2000), institution building is the “core” of economic transition (p. 273); it represents one of three parallel processes of economic transition from a centrally planned to market economy, in conjunction with the liberalisation of prices and microeconomic restructuring of existing capacity. However, institution building is a gradual process and for this reason institutions tend to be “partially installed” in transition economies (Smallbone and Welter, 2006: 196). In turn, underdeveloped institutions have been blamed for slowing down the pace of transition in some countries (Kontorovich, 1999); for variations in private sector development between countries such as Central and Eastern European (CEE) countries and Former Soviet Union (FSU) countries, variations which may be attributable to state interference (Aidis, 2003; Estrin et al. 2006); and for the failure of small business development to reach Western levels (Bartlett and Bukvić, 2001; Hanley, 2000; Broadman, 2000).

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<sup>2</sup> Small businesses in formerly planned transition economies developed as part of state-owned enterprises as spin-offs of these enterprises or as newly formed private businesses (Chepurensky and Vilensky, 1996).

Because small businesses in transition economies have to contend with weak or underdeveloped institutions in addition to other barriers, some of which are discussed in the next section, research in this context may elaborate our understanding of the research phenomenon. The next section discusses barriers to small business growth in more detail. Among other things, it compares those barriers identified in transition economies with those identified in more mature market economies.

#### *2.2.4 Section summary*

To summarize the key points from this section, first, it was noted that research on barriers to small business growth advanced in parallel with the discovery made by policy makers in mature market economies mainly, that growing small businesses are a key source of employment generation potential. As a result, it was concluded that factors or conditions seen as preventing these firms from growing, and therefore contributing to employment generation, should be identified and removed. Second, barriers to growth are frequently embedded in studies that aim to identify and predict characteristics of growing firms and studies that identify problems at different stages of development. Third, in transition economies, levels of entrepreneurship and small business development are limited due to underdeveloped market-based institutions and corresponding institutional barriers. For these reasons, it has been argued that small businesses in this context have been unable to make the contributions to economic transformation envisioned, including employment generation.

*Section Two* investigates more closely the current understanding of barriers and their relationship to business growth.

### **2.3 Barriers to growth**

*Section Two* is divided into three parts. Part one introduces the concept of barriers and discusses how barriers have been conceptualised in the literature. Part two then examines research on barriers to small business growth, looking specifically at financial, institutional, skills-related and market-related barriers. Drawing on those studies reviewed in part two mainly, part three examines how barriers have been defined and identified, and how the impact of barriers on growth has been measured.

### 2.3.1 *The concept of barriers*

What are barriers exactly, and how have they been described in the literature? The concept of barriers to growth, has been described in four ways: as factors or conditions 1) that represent a perceived discrepancy between those conditions for growth that exist and those that are desirable, 2) have a negative influence on business growth, when growth is desirable, 3) are internal and/or external to the firm, and 4) can be managed or overcome. While these features of barriers are discussed separately below for the purposes of clarification, they are in fact related.

#### 2.3.1.1 Barriers as perceived differences between real and desirable conditions

The concept of barriers implies a *perceived discrepancy* between an individual's conception of the current reality and the desired state of reality (Barth, 2004). Perceptions of problems or barriers to growth are said to be influenced by characteristics of the individual including knowledge and motivation (as indicated by background, education and experience), as well as by external characteristics such as stage of growth, location, and national environment (Huang and Brown, 1999). The idea that barriers embody a perceived discrepancy between real and desirable conditions appears in other kinds of studies about barriers (not just studies on business growth), including those on barriers to internet usage (e.g. Grant and Waite, 2003) and barriers to career development (e.g. Albert and Luzzo, 1999).

#### 2.3.1.2 Barriers as negative influences on growth, preventing firms from growing when growth is desirable

The concept of barriers tends to be *negative*. Barriers are seen as *preventing* firms from growing when growth is *desired*. Davidsson et al. (2004) explain that “some factors influence growth mainly as facilitators while others act mainly as growth deterrents” (p. 11). Barriers tend to fall into the latter category. Barber et al. (1989) adopted this view of barriers as growth deterrents in their review of the literature which aimed to understand why so *few* firms with innovative potential made the transition to medium or large firms. According to Storey (1994), the literature on

barriers, “assumes that a proportion of firms wish to grow, but are prevented from doing so by barriers” (p. 154). This assessment of the literature has been made by other researchers (e.g. Barth, 2004; Hartley and Hutton, 1989; Davidsson et al., 2004).

#### 2.3.1.3 Barriers as internal and external factors or conditions

The concept of barriers also has been described in terms of *internal* and/or *external* factors or conditions that influence business growth. According to Smallbone and Wyer (2006), barriers either relate to the influence of the entrepreneur or scale of the firm and are therefore regarded as internal barriers, or relate to the influence of the broader environment on small business development and are referred to as external barriers. Depending on how barriers are perceived by individuals, they may have both internal and external dimensions. For instance, drawing on the work of Bates (1995), Krueger (2003) pointed out that an internal barrier to capital might be “I can’t find money”, while an external barrier might be that that lending has “dried up” (p. 4). Barth (2004) argued that despite the similarities between problems and barriers (as discussed in the first section), problems, in contrast to barriers, refer to mostly “in-house conditions such as management or organizational issues”, while barriers include environmental conditions (p. 53). Nevertheless, other researchers have suggested that problems also may be external in nature and include market knowledge and marketing planning (e.g. Dodge, Fullerton and Robbins, 1994).

#### 2.3.1.4 Barriers as factors to be managed or overcome

The concept of barriers also implies that for growth to occur, barriers must be *managed or overcome* (Smallbone and Wyer, 2006). In the absence of any kind of intervention to deal with barriers, whether this intervention is initiated from within the firm or without, growth is less likely (Deakins, 1999). This concept of barriers to growth has been linked to research on barriers to innovation. Drawing on the work of Hadjimanolis (1999), Barth (2004) describes much of the research on innovation as being focused on identifying barriers and at what point they affect the process of innovation, on identifying the consequences of these barriers, and on devising strategies for overcoming them. Barth argues that research on barriers to growth and barriers to innovation is similar insofar as it assumes barriers can be managed or

overcome, and further, that barriers should be identified so strategies for managing or overcoming them can be devised. These strategies may be internal to the firm, dependent on “actions taken by the firm”, and/or external to the firm, dependent on “institutional changes” (p. 53).

### 2.3.2 *What kinds of barriers to growth are discussed in the literatures?*

Part two of *Section Two* examines what kinds of barriers to growth have been identified in the literature. Three bodies of literature were selected and reviewed for this purpose: the small business/entrepreneurship literature, the general growth literature, and the transition literature.

The small business/entrepreneurship literature served as a useful starting point because it represents the area of specialization. In those instances where it was relevant to understanding business growth in relation to entrepreneurship or where it was relevant to barriers specifically, the general growth literature was also drawn upon. The third body of literature – the transition literature – was relevant to the extent that some research on transition economies conducted over approximately the last decade has identified factors or barriers that have adverse effects on business creation and growth, both of which are critical to successful economic transition (Kornai, 1990; McMillan and Woodruff, 2002). A review of the transition literature was also intended to complement our understanding of small business growth in transition economies and to provide a context for the empirical research conducted in this thesis. The small business/entrepreneurship and transition literatures are distinguishable from each other in that most, but not all, research drawn from the former focuses on small business growth in mature market economies; research drawn from the transition literature focuses on economic developments in transition economies and the implications of these economic developments for entrepreneurship.

The purpose in examining what kinds of barriers have been discussed in the literatures was not to provide a comprehensive review of *all* kinds of barriers to small business growth, but rather to further our understanding of these barriers by delving into existing empirical research and by raising some key issues for the current research. A

review of the literatures also was intended to provide descriptions of the barriers to growth and the contexts in which they were identified; it also notes any similarities and/or differences between those barriers identified in the small business/entrepreneurship literature generally and those identified in the transition literature. Before identifying ‘what kinds’ of barriers comprise the focus of the current review, it is useful to consider the classifications of barriers that have featured both in previous reviews and in previous empirical research.

Two reviews of the research on barriers to small business growth were identified. In the first of these, on the behalf of the Advisory Council for Applied Research and Development (ACARD) in the United Kingdom, Barber et al. (1989) assembled seven expert review papers on barriers to growth in established firms. These papers focused on barriers classified into three areas of concern: 1) management and motivation, 2) resources, 3) market opportunities and structures. A second review identified by the researcher was conducted by Barth (2004) as part of his doctoral dissertation on barriers to small business growth and development. Barth separated his review into four classifications of barriers, those relating to: 1) innovation, 2) export and trade, 3) strategy and planning, and 4) management. A much shorter overview of different barriers was provided by Smallbone and Wyer (2006). These authors divided barriers into two broad classifications, those related to the ‘internal operating context’ (e.g. owner-manager and size-related constraints), and those related to the ‘external operating context’ (e.g. industry structure and competition).

Classifications of barriers to growth even more narrow in scope have been devised. Moy and Luk (2003), in their study of barriers to small business growth and development in Hong Kong SMEs, identified the following categories of barriers: product and marketing management, capital, owner, people and competition. In the transition context, Bartlett and Bukvić (2001) used the following groupings to discuss barriers to small business growth in Slovenia: institutional, internal, external, financial and social. Estrin, Meyer and Bychkova (2006) discussed financial, institutional and human capital barriers to entrepreneurship in transition economies.

Drawing from the previous discussion, the current review has been divided into four sub-sections based on the following classifications of barriers: *financial, skills-*

*related, institutional, and market-related*. For each sub-section, empirical research is examined, and more specific barriers are identified and described. To accomplish this, the research reviewed is that which is focused on barriers exclusively, or looks at barriers in addition to other things, such as characteristics of growing firms or stages of growth. In order to reflect the nature of the research in question, the discussion that ensues is largely descriptive, though critique is also provided. In addition, a more critical examination and reflection on the research is provided in *Section Three*.

#### 2.3.2.1 Financial barriers

Financial barriers are among *the* most widely debated of all barriers to small business growth (Deakins, 1999; Hashi, 2001). Researchers are divided over whether financial barriers are mostly external and related to the *supply* of finance, or whether they are mostly internal and related to the *demand* for finance. Researchers are also divided as to how interventions to manage or overcome these barriers should proceed, if they should proceed at all. There is some disagreement as to whether there is sufficient evidence to suggest that financial barriers have a negative effect on growth.

Most research has focused on the *supply* of finance (Winborg and Landström, 2001). It has been argued that as businesses grow, the needs of these businesses exceed the lending capabilities of personal networks, and external sources of financing, banks and investors (e.g. business angels, venture capitalists), become more attractive (Casson, 1982). However, the basic assumption on which the supply-side argument rests is that although businesses try to raise capital, they are prevented from doing so (Winborg and Landström, 2001). A ‘supply-side financial constraint’ has been defined as “a capital market imperfection that leads to a socially incorrect supply of funds to projects [...] or the incorrect interest rate charged on funds” (Cressy and Olofsson, 1997a: 89). Proponents of the supply-side argument contend that barriers to finance should be removed if businesses are to grow. Supply-side barriers to small business growth commonly include (but are not limited to) a lack of access to capital (i.e. limited supply of bank loans, equity capital, venture capital) and the high cost of capital (i.e. high interest rates, bank charges, collateral requirements).

A lack of access to capital has been attributed to several things, including the attitudes of lenders, like banks, towards small businesses, attitudes which may be negative (see Butler and Durkin, 1995); or to information asymmetry – when firms and lenders do not have access to the same information and there is said to be a *gap* in the demand and supply of capital (Binks and Ennew, 1996). Information asymmetry may increase investor apprehension, diminish the effectiveness of screening businesses, and diminish the likelihood that an investment will be made at all (Van Auken, 2005; Brewer III, 2007). It also has been used to explain why loans to small businesses may be accepted despite very high interest rates or collateral requirements, or rejected outright (Tucker and Lean, 2003). The cost of capital reflects the “substantial risk premium” involved in lending to or investing in the business (Casson, 1982: 302-303). It has been argued that a high cost of capital forces the entrepreneur to rely on internal sources of finance (Casson, 1982), or to borrow small amounts of short-term capital, resulting in limited possibilities for growth (Steindl, 1945). In turn, it is suggested that limited amounts of capital, particularly during early stages of development may have negative repercussions for firm growth later on, repercussions which include reducing resources available to the firm for a variety of activities, specifically marketing activities, the acquisition of suitable premises (Fielden, Davidson and Makin, 2000), or recruitment and training (Casson, 1982).

Owner-managers of small firms have reported accessing finance to be difficult. In conducting interviews with 20 owners, directors or senior managers of new-technology based SMEs (less than 300 employees) in Aberdeen Scotland, Keogh and Evans (1999), found access to finance to be a major barrier to growth. However, it was unclear from this study 1) why access was problematic - e.g. because banks were prejudiced against small businesses or because costs of borrowing were high; 2) what kind of financing was problematic – e.g. bank loans, equity financing; and 3) how a lack of access to finance affected business growth. This lack of specificity seems to characterize much of the empirical research reviewed in *Section Two*.

Demand-side constraints have been defined as “capital market imperfection[s] in which [the] performance of a firm is adversely affect[ed] by a factor internal to the firm” (Cressy and Olofsson, 1997a: 89). Demand-side barriers to small business growth include a reluctance to relinquish any control of the business to external

parties, to share equity with external partners (Storey, 1994), and ignorance towards 'available' lending opportunities (Aston Business School/Department of Trade and Industry, 1991). A fear of losing control of the business was evident in Cressy and Olofsson's (1997b) study of SMEs' perceptions of the financial climate in Sweden across two industries (business services and manufacturing), from which they would assess the extent to which the financial needs of these businesses were being met. Both internally and externally generated constraints on finance were examined and it was found that although firms were aware that sharing equity with external partners was likely to improve performance, this was not sufficient to overcome their fears of losing control. Presumably, rather than risk loss of control, most firms showed a preference for using retained profits to grow their businesses. Cressy and Olofsson concluded that policy measures aimed at assisting firms in retaining their profits would be more helpful to business growth than measures aimed at removing external funding constraints.

In transition economies, financial barriers to the growth and development of small businesses and entrepreneurship are said to be heightened by an *underdeveloped* institutional environment in these economies (Chilosi, 2001; Pissarides, 1999). Pissarides (1999) has argued that because, for instance, in Central and Eastern European transition economies both financial institutions and the traditional methods of credit appraisal are underdeveloped, also because banks are predisposed towards working with state organizations, small businesses face particularly high interest rate and collateral requirements; interest rates and collateral requirements higher and more demanding than those in most OECD countries. Information asymmetry also adds to the problem. Pissarides notes that another factor making it difficult to access finance is that small businesses tend to underreport their profit and turnover or, perhaps in hopes of avoiding taxes, they fail to register their businesses at all; this further reduces opportunities to borrow. Johnson, McMillan and Woodruff (2000) have also said that in transition economies the availability of lending information is more likely to be absent and investment uncertainties are likely to be greater. For these reasons Pissarides concluded that "a lack of finance constitutes the main obstacle to the growth of SMEs" in these countries (p. 519).

As results from different studies would attest, supply-side barriers (access to capital and the high cost of capital) have been identified by owner-managers in transition economies as being *important* or *very important* barriers to small business growth and development. To illustrate, Pissarides, Singer and Svejnar (2003) surveyed 216 Russian and 221 Bulgarian SMEs to identify the objectives and constraints facing firms operating in these countries. CEOs were presented with lists of objectives and constraints and asked to rate each list on a 5-point scale ranging from very important to unimportant. The CEOs considered ‘profit’ and ‘output maximization’ to be the most important objectives whereas ‘obtaining external financing’ and the ‘high cost of financing’ were considered to be the most important constraints to expansion. Important factors (e.g. high cost of financing) were plugged into regression models to predict rankings according to characteristics of the owner, firm and environment. Findings revealed that constraints perceived to be important by CEOs were unrelated or only weakly related to observable characteristics of the CEO, the firm, and the business sector in Russia and even less so in Bulgaria. In the Bulgarian sample there was evidence to suggest that *obtaining financing* was related both to the age of the firm and to the CEOs education level. The authors explained this by saying that constraints brought about by the collapse of central planning and slow-to-develop market institutions may have affected small firms in Russia more uniformly than in Bulgaria. Pissarides et al. concluded from the findings that financial constraints “hamper” SME growth (p. 508).

Using a similar methodology to Pissarides et al. (2003), Bartlett and Bukvić (2001) found the cost of loans and high collateral payments to be among the most important barriers to growth perceived by 173 owner-managers of Slovenian SMEs. Hashi’s (2001) study of barriers to growth in 50 Albanian SMEs took things a step further by identifying not only those factors most important to growth, but also by examining their interaction effects. Hashi found that financial barriers were most pronounced in combination with institutional barriers, and in combination they constituted key barriers to growth. He deduced from the evidence that only half the financial resources intended for SMEs were allocated by institutions to these firms.

While the previous studies confirm that financial barriers are perceived as being *important* to the growth and development of small businesses, a clear cause-and-effect

relationship between financial barriers and the growth of firms could not be established. It has also been argued that those owner-managers who complain of access to finance are those whose loan applications were justifiably rejected (Estrin, Meyer and Bychkova, 2006), or those who had been successful in their applications (e.g. Bohatá and Mládek study, 1999) but perceived difficulties nonetheless. In the latter instance it may be argued that whereas barriers are perceived to exist, they may not always 'prevent' firms from successfully acquiring capital.

While a research focus on demand-side barriers in small businesses seems even less prevalent in transition economies than in mature market economies, they do feature. In Hashi's study (2001) of barriers to the growth of Albanian SMEs, several participants (58%) reported they would *not* apply for credit either because they did not need it or because they did not believe their applications would be successful. As to the first possibility – that participants did not apply because they had no need - it could be argued that firms were not in need of credit either because they had been able to reinvest profits or because they did not intend to grow. As to the second possibility – they did not apply for fear of failure – this belief either could be the product of perceived internal problems (demand-side constraints) and/or supply-side constraint(s). In another study, Bratkowski, Grosfeld, and Rostowski's (2000) surveyed 281 newly established small private firms in the Czech Republic, Hungary and Poland and found that demand for bank loans increased if firms had already received credit in the past. This finding has two implications. First, a lack of familiarity with loans procedures may be a barrier to growth in the sense that it prevents owner-managers of small firms from applying for a loan. The second implication is that having successfully acquired a loan in the past gives owner-managers the confidence they require to apply and/or their businesses the credibility they require to attain subsequent loans.

It may be concluded from these studies that whereas demand-side barriers are important and must be acknowledged, external supply-side barriers to growth also exist. To the extent that supply-side barriers impact negatively on attitudes towards accessing external capital, they may contribute further to internal demand-side barriers. Therefore, it may be difficult to separate these barriers and examine them in isolation; something prior research has attempted to do.

It has been argued that because small businesses in transition economies tend to rely on internal resources or private sources of funding, this is a sign of the enormity of financial barriers facing these businesses (Chilosi, 2001). A study by Arendarski, Mcroczkowski, and Sood (1994) of 100 small private firms (less than 20 employees), across three regions of Poland, revealed that a staggering 77% of individuals relied on their own funds for initial capital, whereas 20% relied on capital from friends and family. Arendarski et al (1994) concluded that these results demonstrate the absence of external financial support in the country. Based on this logic, international comparisons would suggest that supply-side financial constraints are more pronounced in transition economies than they are in mature market economies. According to the U.S. Small Business Administration, in 1998 approximately 55% of all small firms in the U.S. obtained some form of bank credit whereas in Russia in the year 2000, the State Statistics Committee reported that 75% of the capital invested in small businesses came from private sources (St. Petersburg Times, 2001).

It was noted earlier in this sub-section that capital limitations at early stages of business development may impact on firm growth negatively. In transition economies this is complicated by the fact that not only do the majority of small businesses in these countries rely on private sources of funding, but private sources of funding were especially limited during early stages of economic transition. This may have restricted initial investments in Central and Eastern European transition economies for two possible reasons. The first is that the accumulation of private wealth is a relatively new phenomenon that was not permissible under Communism (Chilosi, 2001). As such, people had little in the way of savings. The second possible reason why initial investments in businesses may have been restricted during the early stages of transition is that property rights in some countries like Russia were uncertain and this uncertainty may have encouraged those with means to invest their money outside their home countries (Breslauer and Bonnell, 2000). Therefore it may be the case that firms which commenced business at the beginning of the transition were disadvantaged.

Finally, similar to research in mature market economies, not everyone agrees that financing for small businesses in transition economies is insufficient. One of the

purposes of Bratkowski et al.'s (2000) study of small private firms in the Czech Republic, Hungary and Poland was to understand more about the constraints these firms face in the credit market. Researchers found that credit markets in these countries not only existed, but provided large numbers of small private businesses with financing from an early stage of business development.

#### 2.3.2.2 Skills-related barriers

Skills-related barriers include, but are not limited to, a lack of education, experience or skills of the owner-manager or employees. Together, education, experience and skills comprise what has been referred to as *human capital* (Rauch, Frese and Utsch, 2005). Relationships between human capital and business growth have been widely studied (e.g. Dyke, Fischer and Reuber, 1992). Despite some conflicting evidence, positive relationships have been found (Storey, 1994). A nation-wide shortage of skilled labourers in a particular industry or area of specialization, or low literacy rates would be considered external skills-related barriers to growth.

Skills-related barriers may negatively affect decision-making processes and business growth ultimately. Casson (1982) contends that as a business grows, it becomes increasingly important to delegate decision-making roles within the firm to skilled labourers from an external labour pool, beyond the skills of family members or friends. However, several factors may affect the firm's chances of attracting skilled labourers. In the first instance, the owner-manager may interfere with this process if he or she is reluctant to give up decision-making control to prospective managers or specialists; or if he or she is not qualified to screen applicants effectively. Screening requires specialist knowledge, which the owner-manager may not have (Casson, 1982). Another factor that might interfere with the firm's chances of attracting skilled labour is the financial situation of the firm - its inability to provide prospective employees with competitive wages and training (Aston Business School/Department of Trade and Industry, 1991; ACOST, 1990). All of these factors contribute to the tendency of small businesses to attract unskilled labour.

There is some evidence to suggest that small businesses are lacking certain management and marketing skills. Carter, Mason and Tagg (2006) surveyed 18,939

small business owners for the UK Federation of Small Businesses. Owners identified managerial skills (32.7%) and sales and marketing skills (30.2%) as those skills shortages most likely to characterise their existing workforces. In Pratten's (1991) study of 90 small UK-based firms (less than 500 employees), managers reported marketing and selling to be their main source of handicap.

Because most small businesses attract unskilled labour, the importance of training increases. Yet, not all small businesses invest in training. A lack of investment in training by these firms has been explained by short-term time horizons, concerns over losing trained employees, a lack of awareness for the training programs available or their benefits, and perceptions of training as expensive (Westhead and Storey, 1996; Kotey and Folker, 2007). Carter, Mason and Tagg (2006) found that a significant portion those UK small business owners surveyed (52.1%) indicated they would be more likely to undertake training if some sort of funding was provided. Bosworth and Jacobs (1989) have said that training symbolizes an investment in the business and without it, "growth potential may be restricted" (p. 33). However, Storey (1994) has claimed to the contrary that neither workforce training nor management training have much of an impact on firm growth. Yet, it is also the case that these claims were based on minimal evidence, a review of only two studies.

In transition economies, a departure from state planning is a relatively new phenomenon (i.e. has taken place over the last couple of decades) and for this reason, in the transition literature a key issue for business growth and development appears to be the *relevance* of skills possessed by owner-managers and the workforce. Smallbone and Welter (2001) have noted that in transition economies, owner-managers frequently want to upgrade their skills. They attribute this "latent demand" for training to a combination of prior management experience and high levels of education among individuals in these countries (p. 256).

In terms of prior experience, Smallbone and Welter (2001) found, for instance, that whereas three quarters (74%) of SME owners surveyed in Moldova, Belarus and Ukraine had prior management experience, most of these owners had obtained their experience in state-owned enterprises (p. 255). However, in their view it was unlikely that this prior experience and the skills gained from this experience would transfer to

the private business sector. Aidis and van Praag (2007) found that neither general management experience nor job experience were significantly related to firm performance in their survey of 399 Lithuanian SMEs. Similar to Smallbone and Welter, they explained that the experience required in private enterprises was too unlike that required in state enterprises for the latter to be beneficial. These findings might explain why owner and/or managers in other studies have reported management weaknesses (Smallbone and Welter, 2001) and management problems (Aidis, 2003) to be barriers to growth. Alternatively, private business experience and illegal entrepreneurship experience (i.e. supplying illegal products or services to customers during the Communist era) had positive associations with expectations to grow in Lithuanian SMEs (Aidis and van Praag, 2007; Aidis and Mickiewicz, 2004).

In terms of education levels, there is some evidence to support the claim that in transition economies people are well educated, and this may have positive implications for firm growth. A study of 543 small enterprises in Ukraine and Belarus revealed that most respondents had received a higher education, 82% and 89% respectively (Smallbone, Welter, Isakova and Slominski, 2001: p. 260). The sciences, maths and engineering tend to attract a high number of students in transition economies (United Nations Human Development Index), and Estrin, Meyer and Bychkova (2006) have argued that education in these disciplines provides a good basis for *human capital*. Also, Aidis and Mickiewicz (2004) found that a higher education influenced entrepreneurs' expectations to grow in Lithuanian SMEs.

In transition economies management and marketing skills are difficult to attract. Peiperl and Estrin (1998) surveyed 157 firms (with between 1 and 1000 employees) in Hungary, Poland, Russia, Romania, Czech Republic, and Slovakia, and found that the employees most difficult to attract and retain by firms were those skilled in top management, finance and change management tasks. In the past, employees with skills in these areas were rated as being difficult to attract; and the expectation was that it also would be difficult to attract them in the future. Marketing skills, while considered to be in short supply, were expected by these owner-managers to improve in the future. Technical and operational skills were not a problem. This coincides with previous findings that a large number of individuals in transition economies are often educated in the sciences, maths and engineering (Estrin et al., 2006)

Because small businesses in transition economies tend to attract unskilled labour, as they do in mature market economies, the need for training increases. Most provide on-the-job training (Peiperl and Estrin, 1998), although top managers may be sent for training, as seems to be the case in Russia (Clarke and Metalina, 2000).

Finally, it should be noted that skills-related barriers are not often rated by owner-managers in transition economies to be as important or more important to business growth and development as financial, institutional or market-related barriers, but they may be among the most important barriers identified. For instance, 'shortages of qualified worker's' and 'high quality managers' were rated by 100 Czech SMEs to be a problem in growing the business, just after the 'high burden of taxes/contributions' and 'insufficient finance for expansion' (Bohatá and Mládek, 1999). Skills-related barriers to growth did not feature however in Bartlett and Bukvić's (2001) study of Slovenian SMEs in the top ten barriers identified by managers. In fact, 'low skills labour', 'lack of training opportunities', and 'skills shortages' were among the least frequently identified barriers to growth. It may be the case that as the transition progresses, the economic situation in these countries continues to stabilize and market demand and competition increases, the perceived importance of skills-related barriers in these countries may increase.

#### 2.3.2.3 Institutional barriers

Again, institutions provide the 'rules of the game' (North, 1990, 1994). They are comprised of both formal and informal constraints which serve to shape economic activities by influencing the social, political and legal environment within which firms operate (Scott and Meyer, 1994). Formal constraints refer to laws and regulations, whereas informal constraints encompass customs and norms, those embedded in cultures (North, 1990). It has been argued that if formal constraints fail, informal constraints come into play (Scott, 1987; 1992).

Institutions interact with organizations to shape economic activities. The impact of certain institutions on small firms, firm emergence and growth, may be negative (see Davidsson and Henreksson, 2002). One reason for this is that new and small firms,

more so than larger more established firms, have difficulties building *legitimacy*<sup>3</sup>; meaning they do not deal with the institutional environment effectively (Stinchcombe, 1965). A second reason is that institutions may affect small businesses disproportionately. Governments in the US, UK, EU, Australia, and New Zealand, support the view that the regulatory burden affects small businesses disproportionately (Chittenden, Kauser and Poutziouris, 2002).

Research examining institutional barriers to entrepreneurship and small business growth is concerned with identifying what kinds of institutions burden small businesses. In mature market economies, the emphasis in research is on those barriers that revolve around formal constraints – laws and regulations – e.g. high taxation.

Davidsson and Henreksson (2002) have argued that certain institutions may discourage entrepreneurial activity and firm growth. Institutional determinants of firm emergence and growth in their study were examined by comparing levels of entrepreneurial activity in Sweden with levels in other countries like the United States. Among other things, the taxation of entrepreneurial income was deemed high. The authors explained that despite some advances in this area in the early 1990s (i.e. reductions in taxation levels), a law on higher taxes of equity financing was reinstated in 1995. Davidsson and Henreksson proposed that if entrepreneurial income was not taxed any more than interest income or business income, entrepreneurial activity likely would increase. They concluded that taxation, in conjunction with the regulation of certain economic sectors, wage-setting institutions, and labour market legislation in Sweden has an adverse effect on entrepreneurial activity.

Other studies have examined owner-managers' perceptions towards certain institutional factors. For instance, Carter et al. (2006) found that UK small business owners reported being most dissatisfied with the following regulatory barriers: 'complexity of legislation' (54%), 'volume of legislation' (53%), and 'cost of compliance' (51%) (p. 68). Respondents in the Financial Services sector reported the

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<sup>3</sup> Legitimacy has been defined by Suchman (1995) as: "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions." (p. 574). An organization's legitimacy influences how it interacts with institutions and mobilizes resources for survival.

highest levels of dissatisfaction across legislative issues; and the authors attributed this to a 'stricter' legislative regime within the sector. Also, there was convincing evidence to suggest that as the age and size of firms increased so too increased the levels of owners' dissatisfaction with legislation and the time spent on legislation.

Institutions are said to affect the decisions and actions firms take (Aldrich and Fiol, 1994). Yet, while research does not tend to examine *how* institutions affect these decisions and actions (Peng and Heath, 1996), one source suggested that owner-managers report being dissatisfied with regulations because they direct resources away from possible profit-generating activities towards the "discovery, understanding of, and compliance with regulations" (Small Business Research Centre, 2005: 3).

The institutional environment is regarded as *the* main factor distinguishing entrepreneurship in transition economies from more mature market economies (Smallbone and Welter, 2006). Prior to the transition, the state planning regime served as the 'main' formal constraint in planned economies; however, after the transition it was replaced by weak market-based institutions (Peng and Heath, 1996), and these institutions have been slow to develop (McMillan and Woodruff, 2002). From the literature Estrin, Meyer and Bychkova (2006), identified some of those institutions believed to affect entrepreneurship in transition economies, including the 'quality of the commercial code', 'lack of market-supporting institutions', 'administrative barriers', and 'extra-legal payments'. Some of these are considered here, in relation to their effects on small business growth and development.

In terms of administrative or legislative barriers (these terms are used interchangeably in this thesis), a key issue in transition economies is the clarity of and rate of change in existing legislation (not dissimilar to Carter et al.'s findings relating to legislative barriers in the UK). The lack of transparency in legislation and volume of legislation were found to be key barriers facing entrepreneurs in Poland, Czech Republic, Hungary, Albania and Lithuania, as were changes in legislation, tax legislation especially (Balcerowicz, Balcerowicz, and Hashi, 1999). Nevertheless, in contrast to more mature market economies, in transition economies owner-managers also seem to complain of strange or contradictory legislation. Manolova and Yan (200) found that

some Bulgarian small firms describe legislation as ‘chaotic’, ‘unpredictable’, and ‘contradictory’, and the biggest constraint to business growth.

High taxation is frequently identified by owner-managers as being the *most* important barrier to small business growth in transition economies (e.g. Aidis and Mickiewicz, 2004; Bohatá and Mládek, 1999; Bartlett and Rangelova, 1997; Danis and Shipilov, 2002; Dadashev, Glovatskaia, Lazurenko, and Neshitov, 2003). Bartlett and Rangelova (1997) concluded that reports of high taxation by Bulgarian small businesses were signs that a friendly and supportive administrative apparatus in the country has yet to be implemented. Dadashev et al. (2003) contend that in Russia high taxation has resulted in unprofitable businesses in the mainstream economy and significant levels of small business activity in the shadow economy.

While it is evident from the previous studies that taxation is perceived to be an important barrier to business growth, it is unclear as to *what kind* of taxation is problematic – e.g. high profit and/or social taxes alone, or various local and regional taxes (Barkhatova, 2000), or whether complaints of taxation incorporate bribes to tax inspectors. This kind of specificity appears to be lacking in the literature.

The protection of ownership rights and enforcement of contracts in transition countries tends to be poor (see Bohatá and Mládek, 1999) and is described as another key barrier to firm growth. McMillan and Woodruff (2002) explained that during the early stages of transition, legal institutions were weak and unreliable. For this reason, businesses were reliant on what they referred to as a “repeated game” - “where courts and laws are unreliable for settling disputes, firms trust their customer to pay their bills and their suppliers to deliver quality goods out of the prospect of future business” (p. 159). The evidence suggests there is still reluctance in some transition economies to rely on formal courts. A comparative study of small firms in Poland and Russia revealed that Russian managers were more likely than their Polish counterparts to rely on private protection to enforce contracts rather than relying on the courts, even though half the respondents reported needing to have disputes settled (Frye and Shleifer, 1997). In both countries managers reported being sceptical of the ability of the courts to enforce contracts.

McMillan and Woodruff (2002) have argued that while self-enforcement may be sufficient during the early stages of business development, as a firm grows and the number of partners within its network increases, the need for “formal contractual assurance” increases (p. 163). Johnson, McMillan and Woodruff (2002) added that the extent to which firms believe the courts are capable of enforcing contracts will affect the likelihood that firms will offer trade credits to business partners or form new trading relationships. Self-enforcement may also increase the vulnerability to certain barriers such as ‘late payments of bills’ (Bartlett and Bukvić, 2000).

Because formal constraints tend to be weak in transition economies, informal constraints have an important role to play (McMillan and Woodruff, 2002; Peng and Heath, 1996). Again, informal constraints refer to norms and customs embedded in culture that shape economic activities (North, 1990). In transition economies, informal constraints may refer to relations between firms and officials, and these relations have inspired a unique set of barriers to small business growth which centres around state racketeering – e.g. ‘time spent negotiating with officials’, ‘government corruption’, ‘tax inspector corruption’ (Aidis and Mickiewicz, 2004), ‘need to bribe officials’ (Bartlett and Bukvić, 2001; Anderson and Pomfret, 2001), and ‘inadequate measures against corruption’ (Hashi, 2001).

Connections with officials are considered a burdensome, yet necessary, part of business development in transition economies. Bohatá and Mládek (1999) asked owner-managers of Czech SMEs to evaluate potential barriers to growth on a scale ranging from “very easy” to “very difficult”. They found that after high taxes and contributions, insufficient finance was rated by Czech SME owner-managers as the most important barrier facing firm growth. One of the key factors reportedly ‘blocking’ access to loans was ‘the need for connections with bank managers’. In their study of small businesses in Bulgaria, Manolova and Yan (2002) explained that because inspections were seen by owner/founders as depending on the “discretion” and “interpretation” of officials, and because these officials were perceived to be opportunistic, personal connections between officials and firms were deemed to be “critically important” (p. 173). Similarly, in Russia it is common for firms to make friends with the tax authority (Smallbone and Welter, 2006).

Connections with officials are often secured by paying bribes. This is problematic because it encourages what Baumol (1990) has referred to as “unproductive entrepreneurship” (p. 897); which may take the form of rent-seeking (the extraction of uncompensated value without contributing to profitability) via takeovers or litigation, or tax evasion. In addition, paying bribes to officials, places further constraints on the already limited resources of small firms; it has a negative effect on future investments in the firm thereby limiting the firm’s growth potential. A study by Johnson, McMillan and Woodruff (2002) revealed that 90% of the Russian managers surveyed, as compared to less than 20% of Polish managers surveyed, reported paying bribes to officials for government services or licenses (p. 9). Further, it has also been found that those managers who reported being most concerned about corruption had invested 40% less in their businesses than those who reported no concerns (McMillan and Woodruff, 2002: 155). Aidis and Mickiewicz (2004) also found that both taxation and corruption had negative effects on entrepreneurs’ intentions to increase employment and turnover.

#### 2.3.2.4 Market-related barriers

Whereas institutional barriers concern laws and regulations, customs and norms, market-related barriers include those that revolve around the structure of markets and behaviour of competitors (ACOST, 1990), and in turn, competitive strategies (McGee, 1989), market demand (Barkham, Gudgin, Hart and Hanvey, 1996), and exporting (Westhead, Wright, and Ucbasaran, 2001). External market-related barriers include market concentration or lack of demand, whereas internal barriers might involve identifying market opportunities (Penrose, 1959; Davidsson, 2004), selecting the wrong product or market segment in which to compete (McGee, 1989), and/or the inability of firms to deploy resources to the market segment (ACOST, 1990).

Opportunities for business growth are said to exist when the market in which a firm sells its products or services expands, or when a firm expands faster than the market, in which case market share has increased relative to competitors and this is referred to as ‘competitive growth’ (ACOST, 1990). However, several factors may make it difficult for small businesses to compete. Penrose (1959) argued that restrictions on growth were the product of management’s *inability* to perceive opportunities for

growth and act on them. Kirzner (1979) also argued that entrepreneurs differed in their ability to perceive opportunities. He believed that entrepreneurs must be 'alert' to opportunity and have the "ability to notice opportunities" (p. 148). In addition to ability, finances and government regulation may also interfere with being competitive.

A few studies in mature market economies have identified intense competition as a major barrier to growth (e.g. Hay and Kamshad, 1994; Moy and Luk, 2003). For instance, Hay and Khamshad (1994) found that in their study of 408 UK-based SMEs, competition, in conjunction with the recession and limitations on the management team's ability to manage further growth (a key internal constraint), explained why so *few* firms experienced growth despite acknowledging a desire to grow and discussing strategies to grow. They also speculated that results could reflect the possibility that growth was not *the* most important goal for managers. In another study, researchers attempted to explain why competition was regarded by some owner-managers to be problematic. Barkham et al. (1996) examined the determinants of small business growth in UK-based small manufacturing firms (174). Owner-managers were asked to evaluate the importance of 18 possible constraints in terms of preventing firms from achieving growth objectives; 'heavy competition' was one of several possible market-related barriers, along with 'lack of demand' and 'lack of market information'. Barkham et al. suggested it was likely that those firms (22) which identified heavy competition to be 'very important' to growth either believed they were prevented from growing by competitors, or they had internal weaknesses that were exposed by competition. However, because neither explanation could be supported by the data, the authors cautioned: "We have no way of assessing the relative importance of these interpretations at this stage" (p. 129). 'Lack of demand' was the only constraint found to be statistically significantly associated with a lack of growth.

In many transition economies competition remains limited. Close to a third of entrepreneurs and managers (30%) surveyed in Bulgaria (394 small firms) reported facing no competition (Bartlett and Rangelova, 1997: 326). Researchers concluded from these results that room in the market existed for the entry of new firms. In addition, most participants reported focusing on the domestic market only (91% of sales), and were more likely to import than to export (p. 326). A successful economic transition is dependent in part on market entry and competition between firms (Estrin,

2001). There is some evidence to suggest that firms tend to grow more quickly and more efficiently in those countries where regulatory entry barriers are low and competition is higher; and grow more slowly and to a smaller size when regulatory entry barriers are high (e.g. Klapper, Laeven and Rajan, 2006).

Limited competition in transition economies reflects market concentration. During the initial stages of reform, most transition economies had highly concentrated market structures (Estrin, 2001). With few exceptions (e.g. Poland and Hungary), the entry of new firms in transition economies continues to be limited. Providing some explanation as to why this is so, a survey of *de novo* firms in 75 countries revealed that the process of setting up a new firm in transition economies is more costly, difficult and lengthy than it is to set up a new firm in North America or Western Europe (Djankov and Murrell, 2000). As the transition progresses and institution building improves, new firm entry and subsequent competition is likely to increase. In fact, findings from a recent study in Russia in 2005 revealed that competition was rated by small businesses as being as a more severe problem than taxation, even though taxation had been rated more severe in past surveys (CEFIR, 2005).

Because competition in transition economies has been limited, it is not surprising that the intensity of competition failed to appear as a major market-related barrier in studies of small business development. Instead, market-related barriers have tended to include: a) 'external barriers' - e.g. 'low demand for products or services', 'access to raw materials', and 'late payments on bills' (Bartlett and Bukvić, 2001); b) 'environmental barriers' – e.g. 'lack of information' and 'low purchasing power' (Aidis, 2003), and c) 'environment and competitive conditions' – e.g. 'operation of commercial law', 'inflation', and 'political instability' (Bohatá and Mládek, 1999).

#### 2.3.2.5 Summary of Part Two

Part two of *Section Two* has drawn from three bodies of literature – the small business/entrepreneurship literature, general growth literature, and transition literature - to identify what kinds of barriers may affect small business growth and what this research contributes to our understanding of barriers to small business growth.

A review of the literatures has revealed that institutional barriers, those related to both formal and informal constraints, tend to be more pronounced in transition economies than in mature market economies. As well, there was some evidence that institutional barriers may have a negative effect on the allocation of financial resources to firms in transition economies. Because formal constraints in transition economies are weak, barriers related to informal constraints were prevalent in these studies, particularly those barriers concerning connections to officials and state racketeering. In terms of market-related barriers, the intensity of competition has traditionally been more of an issue for those small businesses operating in mature market economies. This finding reflects in part the absence of competition in transition economies, as a result of market concentration. Similar financial barriers, and debates related to whether the supply of/demand for finance as more of an issue for small businesses, were found across the literatures. Limited management and marketing skills, while problematic for small businesses everywhere it seems, may be even more problematic in transition economies due to the shorter history of private sector development and the business experience and skills required, in this context.

This research contributes to our understanding of barriers in several ways, some of which are considered here. First, it shows that owner-managers perceive certain barriers to be important and can make distinctions between barriers within and across classifications of barriers in terms of their importance to growth and development. Second, it suggests that characteristics of firms – age, size and sector - may affect perceptions of barriers. Third, it suggests that many barriers to growth are related, although these relationships do not tend to be examined. As suggested, financial barriers such as access to finance are related to institutional barriers. Also, access to finance may depend on skills or experience of owner-managers. It was also noted that access to skilled labour may depend on financial resources, and the ability to compete may depend on management skills, access to finance and regulation.

Limitations of this research in terms of what it contributes to our understanding of barriers to small business growth are discussed in *Section Three*.

### 2.3.3 *How have barriers been defined, identified, and measured?*

To further investigate the current understanding of barriers and their relationship to business growth, it is useful to look at how barriers have been defined, identified and measured in the literature. The evidence base on barriers to small business growth draws largely from owner-managers' *perceptions* of barriers. Perceptions of the business environment are said to be important because they affect the growth motivations of individuals (Davidsson, 1991), and influence the decisions and actions of these individuals (Miles and Snow, 1978). Similarly, Djankov et al. (2005) stress "subjective perceptions are important, since they may shape economic choices" (p. 8). Nevertheless, criticisms of perceptions-based research on barriers have been noted and include the fact that perceptions do not always reflect the experiences of owner-managers (Kitching, 2006; Estrin et al., 2006); data elicited by surveys tend to "offer little insight into the meaning of and influences on owners' perceptions" (Kitching, 2006: 803); data may be biased by leading questions (Small Business Research Centre, 2005), and that research samples may be predisposed to certain responses.

Owner-managers' perceptions of barriers, or similar concepts (e.g. constraints, impediments, challenges, problems, obstacles), are most often collected by cross-sectional quantitative surveys; structured questionnaires tend to be employed for this purpose. In these studies barriers tend not to be defined conceptually, but are defined instead in terms of operationalisations of 'perceived importance'. Barth (2004) has concluded that the absence of conceptual definitions of barriers to small business growth and development limits the development of the field.

To identify barriers to small business growth, owner-managers are usually presented with lists of potential barriers and asked to select only those barriers they perceive to be *important* to the development or growth of the businesses, or they are asked to rank each barrier in terms of perceived importance, perceived difficulty or perceived severity. A slight variation of this was adopted by Hay and Khamshad (1994) who presented SME managers with statements of internal and external constraints on growth, and then asked them to assess the extent to which each constraint was considered very important to growth. Managers were also asked to attach weights to each of the constraints so that relative evaluations could be obtained. Alternatively,

participants have been asked to indicate their level of satisfaction with certain factors such as training or legislation (Carter et al., 2000, 2002, 2004, 2006); lower levels of satisfaction indicate possible barriers to growth. In part two of *Section Two*, several examples were provided as to how barriers have been identified empirically.

Some studies rely entirely on the *frequency* of reported barriers as an indication of the burden facing small businesses (e.g. Bohatá and Mládek, 1999; Hay and Khamshad, 1994). Other studies establish the frequency of reported barriers, and then examine the effects of these barriers on business growth, as measured, for instance, by previous changes in employment growth or sales growth. To examine the effects of barriers on business growth, items identified as being very important or important in the previous stage may be plugged into regression models. This tactic was employed by Bartlett and Bukvić (2001) in their study of barriers to SME growth in Slovenia. These researchers assumed that the reported importance of a perceived barrier would relate to its real strength and that “strong barriers” were expected to “reduce firms’ predicted growth rates” (p. 186). Bartlett and Bukvić were particularly interested in “estimating the size of these effects and identifying the key variables which policy makers would have to influence to improve the growth of the SME sector” (p. 186). It has also been assumed that the most important constraint(s) identified, indicated by the frequency of responses, would be viewed as most important by all SMEs (Pissarides et al., 2003); suggesting results are generalizable.

Owner-managers’ perceptions of barriers also have been collected by less structured interviews. However, similar to the more structured survey-based studies, these studies tend to focus on the frequency of barriers reported (e.g. Mambula, 2002; Trulsson, 2002). Using in-depth semi-structured interviews, Keogh and Evans (1999) asked owner-managers of 20 new technology-based firms in Aberdeen about their business strategy, the planning process, products/services, distribution, and operational processes. The more frequently participants reported specific barriers the more important researchers deemed these barriers to be. So for instance, because participants reported that people-related barriers were more problematic than other barriers, people-related barriers were considered to be the most important barriers facing the growth of these firms; cash/finance was also a major barrier.

While much evidence about barriers to small business growth centres on owner-managers' *perceptions* of barriers, barriers have also been identified by comparing micro and macro-economic data across contexts in order to explain levels of entrepreneurial activity or small business development. This approach was most common to studies on institutional barriers, as discussed in Part Two. Davidsson and Henreksson (2002) and Carlsson (2002), for example, when comparing entrepreneurial activity in Sweden and the United States, attributed the lower rates of activity in Sweden to the poorer institutional environment. Similarly, low levels of small business development in Russia as compared to levels in Poland, have been attributed to the greater regulatory burden and corruption in Russia (Frye and Shleifer, 1997). Nevertheless, such comparisons should be interpreted with caution. Chittenden et al. (2002) in examining the regulatory burden on small businesses in the US, UK, EU, Australia and New Zealand, warned that in research comparing data across contexts (mainly those contexts where dissimilar definitions and measures of key variables are adopted) may not be valid. Furthermore, there may be so much contextual variation across countries and even regions, that it becomes difficult if not impossible, to isolate factors responsible for differences in levels of small business development (Estrin, Meyer and Bytchkova, 2006). In transition economies these differences include, but are not limited to, the nature and pace of economic reforms and economic conditions prior to Communism (Estrin et al., 2006).

## **2.4 Critiquing the traditional approach to research on barriers to growth**

*Section Three* critiques the previous literature, and discusses and reflects on some of the limitations of empirical research, inasmuch as this research contributes towards our understanding of barriers to small business growth. Conclusions drawn from this section, as well as the previous sections, provide the impetus in following chapters for devising research aims and an approach that highlights the potentially rich, dynamic and experiential features of barriers, marking a departure from prior research.

### **2.4.1 Assumptions**

Previous studies are founded on three key assumptions. The first is that small firms wish to grow but cannot because certain barriers *prevent* them from doing so (Storey,

1994; Davidsson et al., 2004). The second related assumption is that all barriers work in similar ways to affect growth. The third assumption is that barriers to growth can be managed or overcome (Hartley and Hutton, 1989) and therefore should be managed or overcome (Barth, 2004; Barber et al., 1989; Smallbone and Wyer, 2006). Further examination of these assumptions is required.

With respect to the first assumption, not all studies reviewed in the previous sections were clear about whether the small businesses examined, and in particular whether individual owners and/or managers represented, were willing to grow – i.e. had the desire or motivation to grow. Sexton and Bowman-Upton (1991) have condemned growth models that do not incorporate owner-managers' motivations in small businesses. They argue "Unless the small business manager has a propensity for growth, the firm is unlikely to expand" (p. 1933). As a result, it is difficult to know, when examining this research, if firms do not grow because growth is *prevented* by barriers or because growth is not desired, is not a key business objective. Indeed, there is evidence to suggest that in fact few small firms aspire to grow (Curran, 1986; Scase and Goffee, 1989; Cliff, 1998) and further, that any such aspirations to grow may change over time (e.g. Cliff, 1998). The orientation of small businesses to grow has been established in some studies, nevertheless, by questioning owner-managers either as to their future growth objectives (e.g. Hay and Khamshad, 1994; Aston Business School/Department of Trade and Industry, 1991; Carter et al., 2006), and/or as to their past experiences of growth (e.g. Trulsson, 2002).

Another key issue to be examined when considering the impact of barriers on growth is the lack of evidence supporting the notion that barriers actually do prevent growth. As discussed in Part Three of *Section Two*, it is not always easy to isolate the factors or barriers responsible for national variations in small business development or entrepreneurial activity. Also, remembering that most evidence is based on judgements of *perceived importance*, it is also the case that barriers identified as being important often prove to be unrelated or only weakly related to business growth. To illustrate, while in Bartlett and Bukvić's study (2001) 'late payments of bills' was rated by owner-managers as being very important to business growth (indeed more important than any other barrier), the authors noted that late payment of bills had no significant influence on actual growth. The following example further illustrates how,

in the absence of any discussion of context, perceptions may not relate to actual behaviour and may not relate to actual business growth.

In the Bohatá and Mládek study (1999), ‘access to credit’ was rated by managers as one of the most important barriers to expansion. Interestingly however, the study concluded that bank loans as a source of finance were accessed by more than half the firms surveyed. This conclusion is open to at least three interpretations. First, it can be concluded that because the loans were so difficult to obtain, those who eventually obtained them viewed the process as a major barrier. Conversely, if more than half the firms were successful in accessing bank loans, it also can be concluded that the loans were not really so difficult to obtain after all. Yet another interpretation of the conclusion that ‘access to credit’ is one of the most important barriers to expansion is that participants in the study were simply repeating popular views about the problems faced by SMEs – i.e. participants were engaged in *barrier rhetoric*. Perhaps the conclusions of this study actually suggest that the difficulties in obtaining loans, while acknowledged, do not affect a firm’s ability to grow. Regardless of which interpretation is placed on the conclusions of this study, the assumption that growth is *prevented* by those barriers perceived as important is questionable.

To assume that barriers prevent growth is also to assume that the effects of barriers on growth will be *negative*. If it is assumed that barriers to growth are negative, the negligible or even positive effects will not be examined. Indeed, there is some evidence to suggest that factors believed to inhibit growth may in fact coincide with growth. For example, in their study of Slovenian SMEs, Bartlett and Bukvić (2001) found that although ‘labour taxes’ were rated by managers as being a very important barrier to growth, firms reporting labour taxes as very important had higher rates of growth. In another study conducted by Hay and Khamshad (1996), researchers found that those owner-managers with growth aspirations were more concerned about external constraints than those without aspirations to grow. Carter et al. (2006) also found that among UK SMEs, the level of dissatisfaction expressed over the ‘volume of legislation’ increased as firm size increased. These findings suggest that owner-managers of growing businesses are, in some cases, more likely to report barriers or to regard barriers as important to growth. As the businesses of interest in previous examples were clearly identified as those which had grown, it would seem the first

assumption that *small firms wish to grow but cannot because certain barriers prevent them from doing so* is not always valid.

The second assumption underpinning previous studies is that barriers work in similar ways to affect business growth. No attempts have been made in prior research to examine, if and how, barriers – financial, institutional, skills-related or market-related - differ qualitatively in terms of their possible effects on business growth. This shortcoming limits our understanding of what barriers are and how they affect growth and is to be addressed by this research.

The third assumption is that barriers can and should be managed or overcome. This raises several issues, three of which are discussed here. The first issue concerns the question of *who* is responsible for managing or overcoming barriers, the entrepreneur or policy maker? The answer to this question depends on the nature of the barriers identified. For, as noted in Part Two of *Section Two*, the literature is not always clear as to whether barriers identified as being important to business growth are mostly internal, mostly external or mostly a combination of both. Further, because some barriers have both internal and external dimensions, it is difficult to get to the root cause and to propose measures for addressing the problems. The second issue arising from this assumption concerns whether or not interventions are effective. This depends again on the nature of the barriers identified. Barber et al. (1989) argued in their review of the literature on barriers to small business growth that it was important to examine only those barriers responsive to policy interventions. Conversely, Kouriloff (2000) clearly stated that those barriers most detrimental to the creation and development of small businesses were not in fact those believed to be responsive to policy interventions. As well, because barriers often interact with each other (Hashi, 2001), they should not be addressed in isolation from each other and any attempts to address them in isolation might render the policy intervention ineffective. Lastly, the third issue arising from this assumption is that in some instances interventions which are designed to manage and/or overcome barriers may be harmful instead. For example, Deakins (1999) hypothesized that barriers may serve to build attributes which, in hostile environments are necessary to the achievement of success and for this reason policies to remove them should be avoided.

Hence, the current research makes clear whether or not owner-managers have intentions to grow. Assumptions underpinning this research are discussed in Chapters 5 and 6. The previous assumptions are revisited and discussed in Chapter 9.

#### 2.4.2 *Specificity and meaningfulness*

There appears to be a lack of specificity in the literature around what barriers are, at least conceptually, and around what kinds of barriers are problematic. A lack of specificity limits our understanding of barriers to growth.

The concept of barriers to growth was described in four ways in Section 2.2.1; descriptions of which were drawn from different sources. Conceptual definitions of barriers are mostly absent from studies on barriers to small business growth and development. Instead, barriers tend to be operationalised in terms of perceived importance. As noted earlier, in Barth's (2004) view, the absence of conceptual definitions limits the development of the field. He tries to explain the absence in the following way: "One explanation as to why no conceptual definition is included [in studies] could be that most papers analyse barriers on a firm level, while motivational factors to overcome barriers are to be found at individual level" (p. 35).

Vague or absent definitions require study participants and researchers to devise their own. The possibility of misunderstanding is high in formerly planned economies where a lack of business education or traditions may lead to narrow understandings of key concepts (Michailova and Liuhto, 1999). Furthermore, there is an even bigger issue around the equivalence of their meaning and how researchers can be sure that the concept of barriers, as it is understood in English, in more mature market economies, has a similar meaning in other languages in transition economies. Sechrest, Fay and Hafeez Zaidi (1972) stress that not only is it possible that concepts may differ across cultures, but there is always the possibility that no equivalent concepts may exist. Moreover, they suggest that if in the unlikely event perfect equivalence between two languages is achieved, the possibility of cultural differences would be minimized. Bragason (1997) adds that while translations are never perfectly equivalent, researchers can approach equivalence by eliciting in-depth explanations of concepts from participants; which is better suited to in-depth interviews than to

structured surveys – the norm in existing studies. Where interpreters are necessary in the former case, they may alert the researcher as to whether or not equivalent meanings of concepts such as barriers, or different kinds of barriers, are possible.

In previous studies, barriers are considered to be meaningful in relation to counting how many firms perceive them to be important. As well, it is not always clear as to what kinds of barriers to growth are identified as being important to growth. As pointed out in Part Two of *Section Two*, Keogh and Evans (1999), for one, identified ‘access to finance’ as one of the most important barriers to growth facing small firms in Aberdeen. Nevertheless, it was unclear in this study as to ‘what kinds’ of financing were difficult to access, why it was difficult to access, or how it affected growth. Also, it is not uncommon for those barriers presented to owner-managers for evaluation to be vague. For instance, Aidis (2003, 2005), in her study of barriers facing Lithuanian SMEs, identified ‘management problems’ as being an important barrier to business growth. However, it was unclear as to what kinds of management problems were encompassed by the term, or what the term precisely entailed. As was the case for most of the studies reviewed, descriptions of barriers in Aidis’ study were neither provided by the researcher nor were they solicited from the participants.

The current research examines and describes barriers to small business growth from the perspective of the small business owner-manager, with an emphasis on the meaning of barriers and the context in which they are perceived. The methodological approach adopted to accomplish this is discussed in Chapter 6.

### 2.4.3 *Context*

Some studies have been careful to note the external conditions in existence at the time the studies were conducted, for example conditions relating to periods of economic stagnation or economic growth (e.g. Barkham et al., 1996; ACOST, 1990). As well, studies taking place in transition economies have tended to point out various institutional reforms in the country in general and in the small business sector particularly (e.g. Pissarides et al., 2003). Nevertheless, a discussion of barriers in the context of personal experiences and business history has been limited. Whereas studies have asked participants to identify whether firms have grown in the past, they

have not determined from participants whether the experience of growth was positive or negative. Learning more about the context in which evaluations of barriers are provided to researchers by owner-managers, the milieu of personal experience and business history in which the perceptions of barriers are formed, would serve to improve our understanding of the impact of barriers on small business growth.

Whereas prior research has tended to decontextualize evaluations of barriers, the current research places these evaluations or interpretations in *context*. This occurs by investigating barriers to growth from the perspective of the owner-manager, with an emphasis on the context in which barriers are perceived – personal experience, business history, and the external environment, particularly as the environment relates to the unique historical and more recent social-cultural/political/economic conditions for entrepreneurship and small business development – see Chapters 3, 6 and 7.

#### 2.4.4 *Static or dynamic*

In the literatures the treatment of barriers to growth is mainly *static*. Many studies appear not to examine the impact of barriers on growth over time. Rather, the importance of barriers is assessed only at one point in time. For instance, even those studies taking a stage-model approach (e.g. Moy and Luk, 2003; Trulsson, 2002) identify the incidence of different barriers or problems at various stages of the organizational lifecycle. Yet, business growth and *change* are related, and barriers to growth represent barriers to change (ACOST, 1990). Therefore it seems reasonable to suggest that barriers change when businesses change and grow, and in relation to the changing goals/objectives which individual owner-managers have for growing their businesses. Because several studies have found that the goals of owner-managers change over time (e.g. Newby, Watson and Woodliff, 2003; Cliff, 1998; Cooper, 1993), it may be the case that changing goals impact on barriers to small business growth; and the process by which this occurs is a dynamic one.

The current research recognizes barriers as dynamic entities and discusses how perceived barriers affect business growth by exploring how they influence owner-managers' growth intentions and behaviours. This is discussed further in Chapter 5.

#### 2.4.5 Methodology

Several methodological issues limit our understanding of barriers to small business growth and four are considered here. Some of these methodological limitations are particularly problematic in transition economies.

First, firms are usually sampled from official business registries, a practice which may compromise the representativeness of the sample. This is particularly problematic in transition economies where registries are notably incomplete and unreliable (Michailova and Liuhto, 1999). It is also the case that to encourage participation from businesses in transition economies, researchers are often required to tap into existing networks or they are required to use some form of material enticement to encourage participation in their studies. While these are common, and in some cases necessary, strategies employed by researchers, the practice may result in a potential bias in results obtained from participants selected in these ways.

A second methodological feature of many of these studies is that they tend to employ cross-sectional designs. There are obvious reasons for choosing these designs given the challenges encountered in finding and surveying large samples of the same respondents over time in environments where there is heavy flow of firms entering and exiting the marketplace. This challenge can be particularly problematic in transition economies although increasingly, as the transition progresses, the number of firms entering and exiting the marketplace approaches levels similar to those of more industrial countries (Bartelsman, Haltiwanger, and Scarpetta, 2005). This challenge aside, cross-sectional designs are susceptible to certain limitations, mainly the limitations of *time of measurement effects* (Fife-Schaw, 2002). Obvious problems therefore arise when using cross-sectional designs in transition contexts where the environment (e.g. regulation) is continuously changing. In turn, in studies using cross-sectional designs, results may be dated and therefore run the risk of being neither meaningful nor generalizable. Still another problem of cross-sectional designs is that they cannot untangle the cause (barrier) from the effect (restricted growth) as all variables are only measured at one point in time. Notably, cross-sectional designs are particularly limiting when combined with structured questionnaires.

This brings us to a third methodological feature of these studies which potentially compromises the reliability and validity of results - questionnaire design. There are three issues concerning questionnaire design which are worthy of consideration here. First, it does not always appear to be the case that standardized or pre-tested measures of barriers are used. The second issue concerning questionnaire design was discussed in Section 2.4.2 - 'Specificity and Meaningfulness', p. 49. Specifically, the structured nature of questions posed to participants not only limits the ability of participants to provide rich descriptions of barriers, it also limits the ability of researchers to understand the processes involved. While some studies reviewed have suggested that surveys included open-ended questions, the manner in which these open-ended questions contribute to our understanding of barriers or their relationship to growth is unknown. The last point arising from questionnaire design concerns response scales used to rate potential barriers to growth. These scales may be open to misinterpretation particularly in transition economies. For example, Michailova and Liuhto (1999) have discussed that 5-point response scales which are similar to the old Soviet grading system may serve to confuse respondents.

A fourth methodological feature of these studies is that they are unclear as to whether the surveys were conducted on a face-to-face basis. This can be problematic particularly in transition economies where purportedly, it is not uncommon for owner-managers to delegate other individuals to complete the questionnaires on their behalf (Michailova and Liuhto, 1999). And indeed, if in those studies individuals other than owner-managers completed the research questionnaires, conceivably the reliability and validity of the research results were compromised.

The current research overcomes some of these potential limitations by taking a less structured, qualitative approach to examining barriers to growth. This is discussed in more detail in Chapters 4 and 6; mostly the latter.

#### 2.4.6 *Theory*

Sutton and Staw (1995) define theory as "the connections among phenomena, a story about why acts, events, structure, and thoughts occur" (p. 378). Research on barriers has not grounded findings in well-known theories of growth (Deakins, 1999), nor has

it contributed to theory development in this area explicitly. There appears to be a general lack of theorizing in the literature as to why and how barriers affect growth.

One possible explanation as to why theorizing is absent from prior research is that most studies tend to address descriptive questions such as *what kinds of barriers to business growth can be identified?* and *how frequently are these barriers reported?* rather than addressing explanatory questions such as *how, if at all, do barriers affect growth?* and *why do barriers affect growth?*. Questions addressing *what* and *how frequently/how much* conceivably are driven by policy mandates (where there is an emphasis on ‘picking winners’). The *what* questions and *how frequently/how much* questions are commonly addressed by large quantitative surveys. Alternatively, questions addressing *how* and *why* events occur might involve taking a more qualitative or mixed methodological approach, collecting smaller research samples, and/or examining barriers over time, all of which may render the research difficult to conduct and/or render the results difficult to justify.

A lack of theorizing also may be tied to underdeveloped conceptualisations of barriers meaning that it is unclear how certain concepts relevant to barriers to growth are related to one another, for example concepts such as context, the business strategy of the firm, and the aspirations of individuals and their behaviours. Deakins (1999) has argued that studies which only identify and measure characteristics of concepts without discussing the complexity of the interaction between the concepts fail to describe, predict, or more importantly, explain very well.

The current research develops conceptualisations of barriers by trying to understand perceived barriers in relation to owner-managers’ growth intentions and behaviours. How this occurs is developed further in Chapters 4 and 5, and is discussed in more detail in Chapters 6-9.

## **2.5 Chapter summary and conclusions**

The purpose of this chapter was to investigate the current understanding of barriers and their relationship to small business growth. This was accomplished by examining three different literatures. The chapter was structured into *three* sections.

*Section One* laid the foundation for investigating the current understanding of barriers. It was revealed that small businesses, particularly growing small businesses, are important sources of employment generation potential and for this reason researchers and policy makers alike are interested in identifying possible barriers to small business growth. This research is frequently part of larger studies on characteristics and stages of firm growth. Even those studies focused on barriers alone, many of which were examined in *Section Two*, tend to use methods to identify barriers that are similar to those methods used in characteristics and stage model research, and as such suffer from similar limitations including closed response categories, weak predictive power, and a lack of consistency in findings. Finally, it was argued that research on barriers to small business growth is particularly important in formerly planned transition economies. Furthermore, because the institutional environment in these economies is underdeveloped, research in this context may serve to elaborate on our understanding of the research phenomenon, a key aim of the current research.

*Section Two* more directly examined the literature on barriers to small business growth. Four ways in which the concept of barriers has been described were identified, each of which was implied but not directly stated in the empirical research reviewed. The review covered four kinds of barriers – financial, skills-related, institutional and market-related. It was revealed that some barriers, institutional barriers mainly, were frequently identified in studies in formerly planned transition economies. Findings were mostly based on perceptual data from small businesses, collected by large-scale surveys and structured questionnaires. Also, in most cases, small businesses were asked to identify from predetermined lists of barriers important barriers to growth. It was concluded that previous studies tend to focus on identifying *what kinds* of barriers are important and are likely to predict which firms will *not grow*, rather than examine *why* or *how* barriers affect growth.

*Section Three* critiqued several issues raised from empirical research in the previous section and in so doing identified a number of ways in which research on barriers to small business growth could be extended by the current research, specifically by focusing more on owner-managers intentions to grow; by providing more meaningful ways of describing and evaluating barriers; by examining the context in which

barriers are perceived; by acknowledging the dynamic nature of barriers; by utilizing qualitative methods to elicit rich descriptions and processes; and finally, by adding to theory development by trying to understand how barriers relate to other concepts.

The next chapter looks at the *external context* for study in the current research, studies one (Chapter 4) and two (Chapter 6-9). It examines the unique historical, and more recent, conditions for entrepreneurship and small business development in Russia.

### **3 The research context:**

#### **Entrepreneurship and small business development in Russia**

##### **3.1 Introduction**

This chapter provides an overview of the *external context* for small business growth and development in Russia, the context in which barriers were perceived by participants in this research, with the expressed aim of using this information to understand research findings. It also provides some insights into why certain research decisions were later made throughout the research project (Johns, 2001), regarding the research sample, access to the sample, and the kind of data collected.

It was noted in the previous chapter that barriers to small business growth and development are frequently studied in transition economies (e.g. Bartlett and Bukvić, 2001; Hashi, 2001; Bohatá and Mládek, 1999; Pissarides et al., 2003; Aidis, 2003, 2005; Aidis and Mickiewicz, 2004; Bartlett and Rangelova, 1997; Barkhatova, 2000; Anderson and Pomfret, 2001; Balcerowicz, Balcerowicz and Hashi, 1999). In these studies barriers have been used to account for why the small business sector has not developed as widely or rapidly as expected, and has not lived up to its expected transformative role (Clarke and Kabalina, 1999).

Russia, for one, is said to have fallen behind its counterparts in Eastern Europe and elsewhere (Astrakhan and Chepurensko, 2003; Kihlgren, 2002, 2003) in terms of creating a supportive climate for the development of private businesses and entrepreneurship (OECD, 2002a). Frye and Shleifer (1997) have suggested that entrepreneurial activity has been weaker in Russia than in Poland because the “regulatory, and to some extent the legal, environment is a good deal friendlier to business in Warsaw than in Moscow” (p. 354), meaning there are fewer barriers to small business development and entrepreneurial activity in the Polish context than in the Russian context. The absence of a supportive environment in Russia might explain why official figures for small business development stagnated in the second half of the 1990s (Kihlgren, 2002; Orlov, 2000). Given the potential saliency of barriers in Russia, Russia is an ideal country in which to study the phenomenon.

This chapter describes the context for empirical work conducted in Russia in studies one (Chapter 4) and two (Chapters 6-8). The chapter is divided into four sections. *Section One* provides a profile of the small business sector in Russia. This profile includes definitions of small enterprise and statistics on the size of the sector, regional concentrations, share of employment, and industry patterns. It should be noted that compiling this profile was complicated by the fact that the literature on the topic is fragmented, also because small business statistics tend to vary from source to source and indeed, in some cases, these statistics conflict between sources. *Section Two* describes the early traditions of entrepreneurship and private enterprise prior to the Communist revolution; this is followed in *Section Three* by a description of more developments after the collapse of the Soviet Union. This section describes historical attitudes of the state towards small enterprise and it illuminates ways in which these attitudes likely have shaped the development of the sector. Finally, *Section Four* provides an overview of the more recent conditions for entrepreneurship and small business development in Russia.

### **3.2 Definitions and statistics**

Most of the figures used in this section have been drawn primarily from a Report produced by the United States Agency for International Development and the Russian SME Resource Centre – “Analysis of the Role and Place of Small and Medium-Sized Enterprises in Russia: Statistical Reference, Moscow 2004”. Data collected for the report, referred to throughout this section as the ‘Statistical Reference’, came from the Federal Tax Service and Rosstat (Federal Service for State Statistics)<sup>4</sup>. Other figures were taken from the Russian SME Observatory Report, the Organization for Economic Co-operation and Development (OECD), as well as from several empirical papers. Despite efforts taken by the authors of the Statistical Reference and additional sources to ensure their statistics were accurate, it is significant to note that Russian

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<sup>4</sup> The Federal Service for State Statistics (Rosstat) became the official successor to The State Committee for State Statistics (Goskomstat) in 2004. The role of Rosstat has been to gather and analyse statistical information and then present it to other state bodies and the mass media. It differs from its predecessor, Goskomstat, in that it cannot issue legal acts. Many Russians still prefer to refer to the committee as Goskomstat (Vashchilova, 2007).

statistics are notoriously unreliable (Chepurenko and Vilensky, 1996; Kontorovich, 1999; Kihlgren, 2003).

There are several reasons why the statistics used to describe small enterprise development in Russia should be regarded only as rough depictions of the current state of development; two of these reasons are discussed here. First, and perhaps the most important reason is that the official definition of small businesses in the country excludes both micro-enterprises and medium-sized enterprises. It is noted in the Statistical Reference (2004) that Russian statistical bodies do not receive accounts from individual entrepreneurs or medium-sized enterprises as separate categories. Therefore, figures on firms in these categories are based on “expert estimation” (Russian SME Observatory Report, 2001: 16). The second reason as to why these statistics should be regarded only as rough depictions is that not all firms which are registered (and therefore included in the statistics) are active firms. Equally, statistics discount illegal businesses which do not register with the tax authority (Kontorovich, 1999).

This section provides a short profile of small businesses in Russia beginning with the legal definition of small enterprises and concluding with mention of its limitations.

### *3.2.1 Definitions of small enterprise*

The ‘Law on State Support for Small Business in the Russian Federation (1995)<sup>5</sup>’ outlines the current definition of small businesses. According to this law small enterprises refer to those firms with a maximum of 100 employees with some size variations according to sector:

“[C]ommercial organizations in whose authorized capital the share of participation of the Russian Federation, its subjects, voluntary and religious organizations (associations), charity and other funds does not exceed 25 per cent and the share belonging to one or several juridical persons, which are not the subject of small business, does not exceed 25 per cent and in which the average numerical strength of workers does not exceed in the reporting period the following maximum levels (small businesses): in industry – 100 people; in construction – 100 people; in agriculture – 80 people; in the scientific and

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<sup>5</sup> The date signifies the year the law came into effect.

technical sphere – 60 people; in wholesale trade – 50 people; in retail trade and domestic services – 30 people; in other branches and in activity of other types – 50 people” (Federal Law No. 88-FZ, June 14, 1995).

Along with its definition of small enterprises, the law states that every year before the budget is prepared the government must submit a draft of programmes in support of small business. It also urges that the government should allocate no less than 15% of state (purchase) orders to these firms (Paradis and Rubin de Cervin, 1998). Prior to 1995, a decree<sup>6</sup> by the USSR Council of Ministers recognised small businesses as those firms with a maximum of 200 employees in industry and construction related sectors (Kontorovich, 1999). Therefore, while this would suggest that the maximum size of small firms in Russia has been reduced over the years from 200 to 100 employees, as of yet the official size of these small firms does not approximate current European definitions. Table 1 compares the official size of small and medium sized Russian firms with those in the United Kingdom and the European Union. It appears that size distinctions in Russia are the same as those which were devised for the European Union prior to 1996. In both cases, larger size distinctions are likely to accommodate for the transition in these countries from mostly large state-owned enterprises (and in Russia’s case, spin-offs from state enterprises) to business creation and development in the private sector.

Table 1. Size of small and medium sized firms in Russia, the United Kingdom (UK) and European Union (EU)

Country / Size of Firm in Number of Employees	Russia	UK	EU Today	EU 1996
Micro firms	0 – 9	0 – 9	0 – 9	0 – 9
Small firms	10 – 99	10 – 49	10 – 49	10 – 99
Medium	100 – 499	50 – 249	50 – 249	100 – 499

Sources: Russian SME Observatory Report, 2001, Small Business Service, 2002

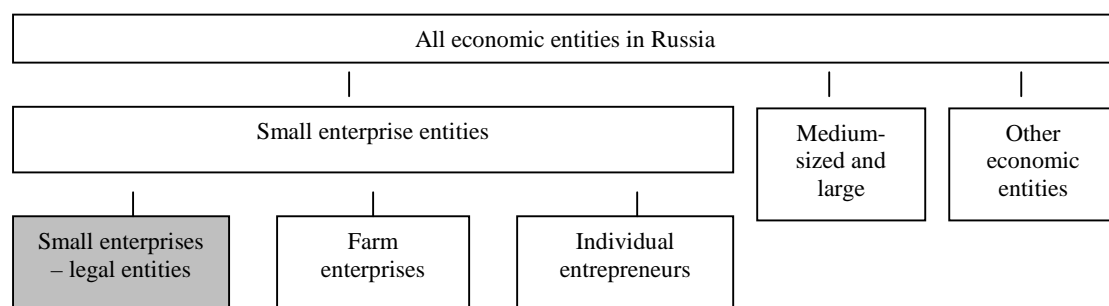
<sup>6</sup> This decree covered the legal definition of small businesses in the country between 1990 and 1995.

### 3.2.2 *Share of small businesses in economic entities*

By the end of 2003 there were an estimated 8.9 million business enterprises across Russia, exceeding the previous year's figures by 4.5% (Statistical Reference, 2004). According to official government statistics (i.e. Rosstat), small enterprises (legal entities) account for approximately 10% of total enterprises (Statistical Reference, 2004) although the number of business registrations in this category, having peaked in 1994 at 900,000, has stagnated since the mid 1990s (OECDa, 2002).

However, because official statistics only measure the number of small enterprises that are regarded as legal entities, it has been suggested that the actual size of the sector has been underestimated. As discussed in the introduction to Section One the current legal definition of small enterprise fails to take into account individual entrepreneurs and medium-sized businesses, and also farm enterprises (St. Petersburg Times, 2001; Russian SME Observatory Report, 2001). It has been estimated that individual entrepreneurs account for the majority of all small enterprises and just over half of all total enterprises in the country, 4.5 million, whereas medium-sized enterprises account for a third of total enterprises, 2.7 million (Ministry of Antimonopoly Policy and Support of Entrepreneurship, 2002; Statistical Reference, 2004).

Figure 1. Makeup of economic entities in Russia



Source: Russian SME Observatory Report, 2001

In general, most small businesses are said to be micro-enterprises with less than 10 employees (Paradis and Rubin de Cervin, 1998).

### *3.2.3 Regional patterns*

Most small businesses are concentrated in Central and North Western Russia with a proportionately high number of businesses in Moscow and St. Petersburg. It has been suggested that combined, these two cities harbour 32% of all small businesses (OECD, 2002a). Further, the small enterprise share of the total number of businesses in St. Petersburg is 21.6%, higher than any other Russian city. Moscow has the next highest share with 16% of total enterprises (Statistical Reference, 2004).

### *3.2.4 Share of employment and industry patterns*

At the beginning of 1991, the trade and catering industries contributed most to small enterprise employment, employing 35.2% of the small enterprise sector (Russian SME Observatory Report, 2001). Since the mid 1990s, estimates suggest that small businesses have operated mainly in trade and catering (47%), industrial production and construction (29%) (OECD, 2002a; Russian SME Observatory Report, 2001).

The next two sections examine the relationship between the small business sector and the state. The literature suggests that throughout history the Russian government has shown very little interest in the small business sector.

## **3.3 Early traditions of entrepreneurship and small private enterprise**

Kihlgren (2003) proposed that one explanation as to why the small business sector in Russia has been slow to develop is that historically the country has had a weak tradition of entrepreneurship as well as a long period of Communist rule. This section investigates and describes the status of small private enterprise immediately prior to and following the Communist revolution; it also looks at the relationship between small private enterprise and the state during this time.

By the end of the 19<sup>th</sup> Century a small but “self-supporting private sector” had emerged within Russia, existing largely without the support of the government (e.g. Guroff, 1983: 206). At this time relationships between industrialists and the government were said to be strained mostly due to the government’s negligence

towards the production and sale of industrial goods; this negligence is partly evident in the “backward legislation” applying to such goods (Guroff, 1983: 206). The government would not, for instance, legally recognize corporate organizations. Furthermore, it regulated the amount of capital that could be invested in such organizations by private sources and the amount of land these organizations could hold (Guroff, 1983). The focus of the government at this time was directed towards agriculture, not the private sector. Even so, the years between 1909 and 1914 - the years before the First World War - were prosperous for some small enterprises.

Following the Communist revolution between 1917 and 1919 all evidence of private enterprise in the country was erased, sometimes forcefully by the military and the secret police (Randall, 2001). These businesses were run by bourgeoisie industrialists whose aims were at odds with the proletariat (i.e. working class). Yet, just two years after the revolution when the economy began to show signs of decline, Lenin instituted the New Economic Policy (1921-1929) which allowed for the restoration of some small business activity in the areas of agriculture, trade and small-scale manufacturing (Sowell, 1985; Granick, 1960). However, following Lenin’s death, private enterprises became illegal once again and once again were forcefully stamped out. Under Stalin the 1930s became known as the period of ‘The Great Terror’ during which time Communist Party members and ordinary citizens were sent to labour camps or shot; a significant portion of these people were higher educated individuals “considered difficult to control and likely to engage in sabotage” (Pipes, 2001: 64). In industry, a system of central planning was introduced which required managers to meet strict production quotas. Quotas were to be met at all costs and any failure to comply would result either in being sent to the camps or in the execution of the persons responsible (Guroff, 1983). It is not, therefore, surprising that managers were concerned with survival, rather than the growth and efficiency of their organizations (Randall, 2001). In response to the threat that loomed from not meeting production quotas, managers developed a system of ‘self-supply’ (Richman, 1965; Berliner, 1988) and ‘illegal procurement’ (Conyngham, 1982), spurring on entrepreneurial activity in the black market. Managers also ensured their success by forming networks with local Party officials and managers from other enterprises. Later, after the collapse of the Soviet Union, many would continue to use these same connections to facilitate the running of their privately-owned enterprises.

Therefore, it can be concluded from the above discussion that the literature supports Kihlgren's explanation for the slow development of small businesses in Russia. Specifically, it appears that the weak tradition of entrepreneurship in the country can be attributed to a *lack of state support*. This absence of support curtailed the experience of private enterprise both prior to the Communist revolution and under Communism when private enterprise was declared illegal. Nevertheless, during Communism there was evidence, albeit limited, of enterprise both within and outside of central planning. This demonstrates that whereas historically, entrepreneurship in Russia has been weak, it has not been entirely absent.

### **3.4 Recent Russian history and small business development**

Since the collapse of the Soviet Union *three* events have served to shape development of the small business sector in Russia over the last two decades: the establishment of the 'Law on Cooperatives (1987)', the privatization effort (1992-1994), and the Russian Financial Crisis (1998). In each case there is evidence to suggest that small businesses were considered by the Russian government to be a low priority.

#### *3.4.1 Law on Cooperatives, 1987*

Private ownership was officially permitted in Russia with the establishment of the 'Law on Cooperatives' in May 1987. The purpose of this law was to promote the creation of small firms and joint ventures based on cooperatives (Belova and Khabarina, 1998). Between 1987 and 1991, 170,000 cooperatives were formed (Goskomstat, 1992; Kontorovich, 1999). While the law officially recognised the creation of small private enterprises, most of which were created as part of state-owned enterprises and some of which had roots in the shadow economy (Chepurensky and Vilensky, 1996), many of these firms were ignored or viewed with suspicion by the government and police who regarded them as illegal entities. Equally, it was often the case that owner-managers of these firms were unwilling to deal with the police (Volkov, 1999). From a lack of government support or protection, the protection racket emerged. Many businesses found themselves in situations of sharing ownership with local organized crime groups, Mafia, and paying for private

protection. According to Randall (2001), this protection served to enforce contracts and the repayment of debts owed to the businesses. These organized crime groups also sorted out administrative matters between businesses and the state concerning licenses, registrations and tax exemptions (Volkov, 1999).

#### *3.4.2 Privatization, 1992-1994*

The manner in which the privatization effort was carried out between 1992 and 1994 left newly privatized state firms with serious operating inefficiencies which prevented newly created small businesses from relying on these firms as “sales outlets” (Kilgren, 2003: 202). It also denied small businesses access to valuable resources in the way of funding and social capital (Szabó, 2002).

The first round of privatization began in 1992 with the cancellation of state orders and the freeing of prices previously under state control. In October of that same year, the government issued vouchers to all Russian citizens at no expense which were redeemable for shares in companies privatized over this period (Phillips, 2000). Among other things, the voucher programme was seen as a way to involve the general public in the economic reform (Rutland, 1994). Under this scheme of vouchers and shares, management and workers could gain control of up to 51% of a business while the remainder had to be paid in currency; the effect of this was to give an advantage to managers with access to capital (Phillips, 2000: 126). As well, most Russians preferred to sell their shares to managers of these firms who in return promised to guarantee them employment, management buyouts became the most common form of privatization. For this reason, privatization in Russia was said to be ‘insider dominated’ (Rutland, 1994). Nikolov (1999) has said that ‘insider control’ of enterprises, unlike ‘outsider control’, has been associated with falling labour productivity and limited restructuring. To make matters worse, many enterprises, particularly those in priority sectors, were subsidised by the state. Among other things, these state subsidised firms were provided with ‘soft financing’ in the form of non-payment of utility bills and tax exemptions (Randall, 2001). It has been argued that hard budget constraints, which involve the removal of subsidies, force companies to respond to market forces and, in so doing, to focus on profits and losses, is part of a successful transition (Estrin, 2001). In light of continuing subsidisation, managers

had little incentive to restructure their companies. What's more, while some managers continued to operate their companies, thereby fulfilling their obligations to employees, at the same time they stripped these companies of assets for their own personal gain. Randall (2001) suggests that by maintaining these non-viable firms, the government failed to channel existing resources into better managed firms and limited the funds available for new business creation.

In spite of the difficulties, the number of small businesses which formed over the privatization period was greater than in any other period in Russian history. Many of these businesses were formed by groups comprised of professional colleagues, friends or family members with good connections to bureaucrats and access to private capital (Clarke and Metalina, 2000; Sedaitis, 1997). A large number of firms were started by Soviet 'nomenklatura' or Communist party elites (Apressyan, 1997). Smallbone and Welter (2001) have said that in nomenklatura entrepreneurship, "political influence is used for private gain by protecting market niches and acting as a mechanism for resource mobilisation" (p. 252).

#### *3.4.3 Russian financial crisis, August 1998*

As suggested by the figures provided earlier, the growth of the small business sector began to diminish between 1994 and 1997/1998. Over this period real incomes and purchasing power declined. Further, economic uncertainty increased, prompted in large part by the Financial Crisis of 1998.

According to Nikolov (1999), several factors contributed to this financial crisis, mainly the Asian oil crisis in 1997 which later served to decrease Russia's oil revenues and increase the deficit, but also the weak financial sector which was 'overleveraged' and 'overexposed' to the government bond market (GKO's). By 1997, the budget deficit was financed mainly by ruble-denominated Russian government bonds (GKO/OFZ). When bond prices fell due to problems in the GKO market, despite a loan from the International Monetary Fund (IMF) and attempts by the Central Bank of Russia to lend money to flagging banks, the ruble was devalued by 33% on August 17, 1997. Several mostly Moscow-based Russian banks with extensive short-term state bond portfolios were forced to freeze assets temporarily,

thereby failing in their efforts to meet obligations to their clients. In turn, many bank branches closed down; total bank asset values fell and capital employed in the sector shrunk by the end of 1998 (Doern and Fey, 2006). Outstanding debt to creditors was in the range of \$47 billion<sup>7</sup>; a quarter of which was owed to foreign creditors (Nikolov, 1999).

During the crisis many depositors, including entrepreneurs, lost their personal savings and company profits (Kihlgren, 2003). Many businesses were forced to close; others reduced their operations (Anonymous, OECD Observer, 1999) and focused on *survival* (Puffer, McCarthy, and Naumov, 2001). The impact of the crisis on the small business sector is summarised in the following quotation taken from a report on Russian Economic Trends from the Russian European Centre for Economic Policy (RECEP, 1998):

“Perversely, it seems that start-up companies and reformed, money-making enterprises are hit more seriously by the economic and political crisis than vulnerable looking giants inherited from the Soviet economy and nurtured in the environment of poorly enforced property rights and easily lobbied state officials. Firms, which were able to secure some profits and which had positive balances on their bank accounts, now face difficulties accessing their accumulated funds due to the collapse of the banking system. Their accumulated profits suffer from rouble weakness and inflation, which rewards enterprises that have run up large arrears and relied on barter” (pp. 44-45).

According to official data from Goskomstat and survey evidence, the OECD (2002a) concluded that small businesses were among those hit hardest by the crisis. Four examples are noted as to how this was the case. First, the depreciation of the ruble drastically reduced the profitability of those business activities dependent on the import of goods for production inputs or for resale. Second, most small businesses operated in service related industries but given the state of the economy, public demand for many services declined substantially. Third, following the crisis the attitudes of some regional and local administrations became increasingly negative towards small businesses; this attitude manifested in activities designed to extort money from these businesses. A survey by the OECD in 2001 revealed that following

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<sup>7</sup> All dollar figures (\$) are reported in American Dollars USD. Due to fluctuations in the Russian ruble (RUR) historically, Russians often value the worth of business dealings, contracts and property, in dollars, but pay in rubles or dollars. Russian citizens also tend to keep dollars as savings. Increasingly the euro is replacing the American dollar, due to a weakening dollar.

the crisis, small businesses reported increases in the number of licenses required, an increase in tax inspections as well as other forms of inspection, and ‘informal taxation’<sup>8</sup>. Fourth and finally, to make matters worse, following the crisis, funding set aside for the small business sector in the 1998-1999 federal budget, \$4.9 million, was never allocated to the sector. Furthermore, the body responsible for allocating funds, the Committee for the Support of Small Businesses and Entrepreneurship, was dissolved in 1998. Since 1998, responsibility for the small business sector has remained with the Ministry for Anti-Monopoly Policy and the Support of Entrepreneurship (MAP).

While the effects of the financial crisis on the small business sector were largely negative, some individuals did see it as an opportunity to start new businesses. However, these business owners reportedly were more cautious in their dealings and preferred to involve themselves with ‘fewer’, ‘closer’ relationships than did their predecessors (Puffer, McCarthy and Naumov, 2000).

#### *3.4.4 Section summary and conclusions*

All three events described in this section - the establishment of the ‘Law on Cooperatives (1987)’, the privatization effort (1992-1994), and the financial crisis (1998) - served to undermine the development of the small business sector in Russia and to signal to small private businesses that their concerns were not regarded as a priority by their government. Beginning with the Law on Cooperatives, Mafia attention was attracted to these businesses by the failure of the Russian government to take new private enterprises seriously. And as a result, new private enterprises relinquished some financial control to the Mafia in return for Mafia protection for their businesses. During the privatization period, 1992-1994, the government was focused on the needs of large enterprises in priority sectors, and on providing soft financing to these firms. Business creation flourished over this period but, with the expenditure of private capital only. Finally, in response to the Russian Financial Crisis, 1998, funding eventually set aside by the government for small businesses was not allocated to these businesses. Further, because in these times many people lost

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<sup>8</sup> Informal taxation might take the form of “pressure for donations to extra-budgetary funds” (OECDa, 2002: 90).

their savings and most organizations were forced to make cutbacks, state officials behaved opportunistically towards small businesses. Therefore, it can be concluded that separately and combined, these three events served both to weaken the financial resources of small businesses and to distance these businesses from the government.

### **3.5 Conditions for entrepreneurship and small business development**

Earlier in this chapter, it was suggested that, historically, small businesses have held low priority in the systems of Russian governance. Here, several areas regarded as important for the continued development of the small business sector are discussed. In each area – external capital, skills training and advice, regulatory and other issues – the actions, if any, taken by government and official institutions to remove possible barriers to development and improve the existing state of affairs are described.

#### *3.5.1 External capital*

Historically, attempts by the Russian government to make financial provisions to small businesses have been largely unsuccessful. Although in the past provision has been made in the budgets for funding to small businesses, the allocation of monies from these funds has been, in most cases, modest or non-existent. For instance, while according to the OECD (2002a), between 1994 and 2001 four federal programmes were designed to support SMEs, the first two programmes, 1994-1995 and 1996-1997, were only partially fulfilled - financed 31% of \$8.3 million budgeted and 70% of the US \$77.4 million budgeted respectively; the third and fourth programmes, 1998-1999 (\$10.3 million) and 2000-2001 (\$4.9million), were not fulfilled at all. This was also the case at the municipal level. In St. Petersburg, for example, in 1995 and 1996-7 funding was earmarked for small businesses by the city government; however it was not provided (Belova and Khabarina, 1998).

Some financing has been made available to small businesses by international donor organizations such as the European Bank of Reconstruction and Development (EBRD). The EBRD set up the Russia Small Business Fund (RSBF) in 1994. In 1997, the fund distributed \$17 million per month towards 1200 micro and small loans in the country (Pissarides, 1999). The size of loans varied from \$30,000 to \$250,000,

for 6-month to 3-year terms. Estimates suggest that the EBRD has provided 65,000 loans to small businesses in Russia since it was first established in 1994 (St. Petersburg Times, 2001).

Other sources of external capital, bank financing in particular, are seen as either too difficult for small businesses to access (Golikova and Avilova, 1997) or too expensive to access (Shama, 2001). Accessibility in the former case is complicated by the fact that many small business people do not have credit histories, also because, on a related point, many banks do not have experience in working with small businesses. Further, most small businesses do not have sufficient collateral to use as security on loans, nor can they afford the high interest payments on loans (Astrakhan and Chepurensko, 2003; Fogel and Zapalska, 2001). Therefore, most bank loans to the small business sector are granted to those firms that already are profitable and have growing client bases. Also, most loans are short-term in nature (less than 6 months) and are used for the purpose of replenishing capital rather than for investment.

Hence, most small business people in Russia tend to rely on personal sources of funding, for example personal savings or loans from friends and family members, to start and grow their business (Puffer et al., 2000; Puffer and McCarthy, 2001; Russian SME Observatory Report, 2001). This also explains why ‘serial entrepreneurship’ has been a common way of mobilising resources for development, particularly during the early stages of transition (Smallbone and Welter, 2001). Given the lack of external financing available for investment, in conjunction with the need to borrow from friends and family, the growth potential of small businesses is limited.

### *3.5.2 Skills training and advice*

During the Communist era skills training was obligatory. It was financed by the Ministries and carried out free of charge with employees in the respective enterprises. The skills base developed at this time however, was not readily transferable to other industries, nor was it readily transferable to those industries that would later come to characterise the new private sector (Clarke and Metalina, 2000):

“The new private sector is able to benefit from the highly developed skills base that is the legacy of the Soviet economy and from the abundance of skilled and experienced workers and professionals seeking new employment. However, much of the new private sector is operating in spheres of the economy that in the past were very underdeveloped, and so in which the appropriate skills and professional qualifications are not necessarily available.” (p. 21)

Therefore, it is not surprising that throughout the 1990s a lack of appropriate business training, particularly in the areas of finance and marketing, was reportedly one of the biggest challenges facing the start-up and continued operations of small enterprises in Russia (Hisrich and Grachev, 1995). Kihlgren (2002) attributes the absence of key business skills and business experience in Russia’s labour force to a weak tradition of entrepreneurship, as well as a long period of Communist rule, especially in relation to Russia’s Eastern European counterparts.

Over the last decade a number of regional support agencies have been established to deliver free consultations and information to small businesses (Belova and Khabarina, 1998). In St. Petersburg SMEs, for example, such support can be obtained from the St. Petersburg Foundation for SME Development, the North-West Development Fund, the St. Petersburg Committee for Economic and Industrial Policy, and the St. Petersburg Union of Entrepreneurs. And in addition to providing information services, organizations like the St. Petersburg Foundation for SME Development<sup>9</sup> provide commercial services which include training in business start-up, preparation of a business plan, management accounting and budgeting, and import/export negotiations. The St. Petersburg Foundation also provides services such as partner search and market research. However, few small businesses can afford these services (Kihlgren, 2003).

Clarke and Metalina (2000) explained that because it is very expensive for new firms in particular to have their own training facilities or to send staff members away for training that, with the exception of those firms involved in the health or education spheres, most firms provide training to employees sparingly. In those cases where employees are sent for training, this is usually restricted to more senior managers and

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<sup>9</sup> The St. Petersburg Foundation for SME Development was established in 1995 with the EU TACIS program and the Government of St. Petersburg.

specialists; junior staff members are considered more likely to leave the company once trained. As a result firms prefer either to recruit very experienced employees or, for positions requiring little skill, employees with no experience at all.

As a result, given the absence of inexpensive training facilities and given limited resources, the acquisition of skills required for business growth is impeded.

### *3.5.3 Regulatory issues*

In the introduction to the chapter, it was argued that the regulatory environment in Russia has not favoured small business development. Here, four regulatory issues are discussed: business registration and licensing, purchasing or leasing land and premises, taxation, and inspections. The following evidence suggests that the government has taken steps to reduce the administrative burden on small businesses but that regional and local state officials continue to use their authority to extort money from these businesses.

#### *3.5.3.1 Business registration and licensing*

Barriers to the registration and licensing of new businesses have obvious implications for individuals wishing to expand their businesses.

Registration and licensing procedures tend to be both complicated and expensive particularly for individuals without connections to officials (Barkhatova, 2000). It seems that those individuals with family members or friends working in state departments have a much easier time starting up new businesses or opening additional shops than do those who do not. One study on small business development in Novosibirsk<sup>10</sup> found that although officially business registration is to take no more than 10 days, in actual time it took closer to several weeks or even months. Further, it was found that to register a business and acquire the necessary licenses, no less than 40 state departments were involved; costs approximated 40,000 rubles, around \$1,500 (Barkhatova, 2000). Another study conducted in 1997 found that Russian managers

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<sup>10</sup> Novosibirsk is the capital of Siberia and the third largest city in Russia after St. Petersburg and Moscow.

of SMEs, in contrast for instance to their Eastern European counterparts in Poland, spend a lot of time dealing with the government (Johnson, McMillan and Woodruff, 2000). This was the case for start-ups more so than for spin-offs of state enterprises.

In 2002, two new laws were introduced by the government to remove some barriers associated with registration and licensing (CEFIR, 2005). First, the 'Law on Registration (2002)', reduced the registration period to 5 days and reduced registration fees to 2000 rubles (approximately \$64<sup>11</sup>). Further, the law enabled individuals to deal only with one government agency, the Ministry of Taxation. Nevertheless, a study conducted by the Centre for Economic and Financial Information Research (CEFIR) (2005) in Moscow in cooperation with the World Bank and the United States Agency for International Development (USAID)<sup>12</sup>, found that while the law has made the process of registering a business more efficient and less expensive, it has not done so to the degree that the law would suggest. Further, the study found that more firms are hiring intermediaries to assist them with registration procedures. Interestingly however, those firms working with intermediaries seemed to spend more time and more money to register a business than those registering a business on their own.

Second, the 'Law on Licensing (2002)' was intended to reduce the number of activities subject to licensing, extend the period over which licenses are valid, and reduce the licensing fee to 1400 rubles (approximately \$45) for five years, from a cost of 3000 rubles (approximately \$97) for three years<sup>13</sup>. While the time spent by businesses on securing licenses decreased, as did the cost of obtaining licenses, the cost was not reduced to the extent stipulated by the law. Further, it should be noted that following implementation of the 'Law on Licensing (2002)', there was an increase in the number of illegitimate licenses granted by officials; this constituted 33% of the total number of all licenses issued. As well, the number of activities licensed increased (CEFIR, 2005).

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<sup>11</sup> The law took effect in July 2002. Using a currency converter set for July 31, 2002, the conversion rate from dollars to rubles is 1USD = 31.28 RUB, [www.xe.com](http://www.xe.com)

<sup>12</sup> The study monitors the regulatory burden on small businesses. A survey of 2000 small businesses across 20 regions in Russia was first administered in 2000. Since then, five rounds have been conducted with the fifth round taking place in 2005.

<sup>13</sup> The law took effect in February 2002. Using a currency converter set for February 28, 2002, the conversion rate from dollars to rubles is 1USD = 30.96 RUB, [www.xe.com](http://www.xe.com)

### 3.5.3.2 Purchasing or leasing land and premises

To start a small business or expand an existing business, owner-managers may need to purchase or lease premises. Complicated and costly procedures involved are likely deterrents, particularly for those with limited resources.

The CEFIR study (2005) found that purchasing premises or land was particularly complicated and took anywhere from one month to more than a year. Further, buying or leasing premises from the government was much more time consuming and costly than buying or leasing from the private sector. For these reasons, the simplification of procedures is necessary to “decrease the arbitrariness of local officials” and to stimulate small business development across the country (p. 11).

Leasing premises in Russia brings other issues to the fore. According to the reports of entrepreneurs in a study conducted by the OECD in 2001, most business facilities tend to be owned by the local or regional administrations and, in order to lease from these administrations, tenants must agree to short-term contracts (i.e. up to a year), to frequent inspections, and to obligatory investment in the modernisation of facilities (OECDa, 2002). In the latter case, investments made by tenants to improve the facilities serve not to benefit the value of the tenants’ businesses; rather, local or regional administrations benefit to the extent that improvements made will increase the market value of property. As such, at a later date the improved property can command higher rents, either to the detriment of the current lease holder or to subsequent lease holders.

### 3.5.3.3 Taxation

Tax policies in Russia are said to be tougher on small businesses than on independent entrepreneurs and they involve more complicated procedures (Barkatova, 2000). These factors may discourage some business owners from growing their firms.

Shama (2001) in conducting in-depth interviews with a small sample of small business owner-managers in 1995, 1997 and again in 1998 found that in 1995 on

average these individuals failed to report 84% of their income (p. 191). This figure rose to 90% in 1997 and in 1998 none of the owner-managers interviewed had reported their earnings to the tax office (p. 191). Shama noted that at the beginning of 1998, small businesses in Russia faced more than 40 different taxes<sup>14</sup> and obligatory payments. Obligatory payments tend to be levied at the discretion of regional and local organs (Paradis and Rubin de Cervin, 1998). Further, tax rates are said to change every year or two (Szabó, 2002). The tax burden has led most businesses to use dual accounting systems – one set of books for the owner-managers and one set of books for the authorities; the latter set of books is intended to hide profits and some production or services (Polonsky, 1998). However, keeping two sets of books is not without its consequences. For one thing, it requires the firm to expend additional time and money. It also denies the government much needed revenues which, among other things, could be channelled into programs designed to benefit small businesses.

More recently, some positive advances in taxation have been made. For instance, firms with fewer than 100 employees can now take advantage of the ‘Law on Simplified Tax (2003)’ which has simplified tax administration and has reduced the number of taxes firms are required to pay, largely because the single profit tax (a rate of 24%) has replaced five other taxes; between 1997 and 2003, only firms with 20 employees or less were eligible to participate in the simplified system (CEFIR, 2005). Yet, not all small businesses have switched over, with some claiming that the previous system was simpler (CEFIR, 2005). It is also the case that positive advances have been made in the rate of tax charged on profits, which was reduced from 35% to 24% in 2002, and personal income which stands at a 13% flat tax rate since 2001.

#### 3.5.3.4 Inspections

Under Communism inspections were organized by higher organs. After the state collapsed however, this responsibility fell to the different local and regional agencies which have been known to abuse their power (Kuznetsov and Kuzentsova, 2003). That is, inspections of small businesses by officials from various state regulatory

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<sup>14</sup> According to Barkhatova (2000) businesses in Russia must pay “federal taxes (VAT, income tax, profit tax, customs tax), regional (road tax, transport tax, property tax) and local taxes (for fire security and municipal policy, street cleaning, housing tax).” In turn, companies may be required to pay to the different authorities up to 98% of their potential incomes (p. 664).

agencies - notably tax, police, fire, and sanitation agencies - are said to be frequent with the different agencies visiting businesses more than once a year and sometimes several times a year. The OECD (2002a) concluded that on average Russian entrepreneurs undergo more than 30 inspections each year. Furthermore, few of the visits tend to be planned or represent official business. Since the introduction of the 'Law on Inspections (2001)', small businesses spend less time with inspectors. Under the law, state agencies are not permitted to carry out more than one inspection of a firm within a two-year period. However, some regulatory agencies continue to ignore the law. Furthermore, while the *total* number of inspections has diminished somewhat, the number and amount of the fines issued by some agencies, such as the police and fire services, have nearly doubled (Zamulin, 2004).

#### 3.5.4 *Other issues*

Other issues – economic, political/legal and socio-cultural – may influence the conditions for entrepreneurship and small business development in Russia, and warrant attention here. They include: the legal system and debt recovery, purchasing power and demand, economic stability and planning orientation, and informal networks.

##### 3.5.4.1 Purchasing power and demand

Limited purchasing power has a negative effect both on the demand for products and services and on subsequent sales revenues. Purchasing power was particularly low following the collapse of the Soviet Union when the standard of living fell significantly. Purchasing power was also low following the Russian Financial Crisis in 1998 when many people lost their savings, and their jobs, while others, indeed the majority, had their wages reduced. Nevertheless, since 1999 real disposable income has doubled and the size of the middle class is increasing (Bureau of European and Eurasian Affairs, U.S. Department of State, 2007). This increase in income levels is likely to have a positive effect on all industries, particularly the service industry where small businesses dominate. Also, while Russia still suffers from high levels of poverty (OECD, 2002b), and this impacts on the number of people having purchasing power, the number of people living below the level of subsistence has fallen from

38.1% in 1998 to 15.8% in 2006<sup>15</sup> (Bureau of European and Eurasian Affairs, U.S. Department of State, 2007).

#### 3.5.4.2 Economic stability and planning orientation

Economic instability in Russia was particularly high between 1992 and 1995, following the collapse of the Soviet Union and the privatization period. Russia experienced very high levels of inflation over this period and again in 1998 following the Russian financial crisis; average annual inflation peaked in 1992 at 2,500% (Johnson, McMillan and Woodruff, 2000: 4). Policy reforms adopted by the Russian government following the financial crisis in 1998, the competitive exchange rate devaluation, and increase in world oil prices, all help to explain the stabilization and growth of the Russian economy since 2002 (Szabó, 2002). The effects of stabilization on the future orientation of small businesses are unknown. Nevertheless, it is likely that, in the past, economic instability encouraged entrepreneurs to be short-term orientated (Polonsky, 1998). A comparative study of Russian and Georgian entrepreneurs, conducted in 1999 by Ardichvili and Gasparishvili (2003), found that Russian entrepreneurs scored lower than Russian managers and employees in terms of 'long-term orientation'. Another study conducted in 2000 by de Koning, Fey and Doern (2006) comparing Russian and Swedish entrepreneurs also found that Russian entrepreneurs were short-term oriented. Researchers explained that while a short-term orientation had its advantages and might enable firms to respond to opportunities and economic shocks, it might also deprive them of payoffs in the longer term.

#### 3.5.4.3 The legal system and debt recovery

The legal system in Russia has been criticized for its complicated, lengthy and expensive claims procedures, its biased rulings and its failure to enforce judgements (Hay and Shleifer, 1998; Hendley, 2000; Grief and Kandel, 1995). As a result, few small businesses use the courts to recover debts. A study conducted by Johnson et al. (2000) of 300 manufacturing firms in each of the following five transition countries – Russia, Poland, Slovakia, Romania and Ukraine – found that applying to the courts

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<sup>15</sup> These figures on purchasing power were taken from a website, found in the references, and for these reason page numbers could not be provided.

for recovery of debt generally was lowest in Russia and Ukraine. This reluctance to use the courts limited the number and nature of business relationships firms have and, as a natural consequence, promotes business dealings with trusted parties. Furthermore, it encourages small businesses to find other means of enforcing contracts, for example paying for private protection (Zhuravskaya, 1998).

#### 3.5.4.4 Informal networks

The power of informal networks in business matters is a feature of pre and post Communist Russia. Informal networks have served different purposes historically. Alasheev (1995) has explained that during Communist times it was important for managers to have connections with Komsomol (branch of the Communist Party for young people), the Communist Party or trade union bureaucrats. These connections assisted managers in meeting production quotas and in dealing with supply shortages which, as mentioned previously, were common under central planning. When the Soviet Union collapsed, connections between businesses and bureaucrats continued to be important, but less so for those businesses that had financial resources. During the early 1990s when the production structure started to collapse and there was a reduction in recruitment, getting work was dependent on having the right connections or 'Blat', the Russian term for acquaintance (Alasheev, 1995) or old connections (Ledeneva, 1998)<sup>16</sup>. Connections have served to expedite administrative matters, such as acquiring licenses and permits, and attaining financing, sometimes illegally. They have also been used to avoid formal rules and regulations generally:

“In the Russian context networking does not mean getting better knowledge of business partners and their needs but rather pursuing the goal of conspiring against others and avoiding legal control over financial and other transactions” (Kuznetsov and Kuznetsova, 2003: 914).

Some researchers have argued that connections in Russia are above all else, including the law. Ledeneva (1998), for one, explains that in Russian society, loyalty to ones connections is much stronger than loyalty to the state. Ket de Vries (2001), in speaking about Russian culture, also stresses personal loyalty over formal rules:

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<sup>16</sup> 'Blat' has been likened to corruption and bribery although it is generally regarded as less sinister because it rests on a system of favours that is relied upon for both business matters and every day things. For this reason it has been referred to as 'white corruption' (Ledeneva, 1998).

“Russians believe in bending the rules to help a friend: social obligations take priority over everything else. They take a contingency approach to rules. In other words, how they apply rules depends on the situation; *their orientation is of a particularistic nature*. Personal loyalty is much more important than fair play.”

The absence of informal connections may be seen as an impediment to entrepreneurship and small business development in this context. Batjargal (2003), in speaking to 75 Russian entrepreneurs, found that connections had a positive effect on business performance if entrepreneurs had many acquaintances, and if entrepreneurs were able to mobilize resources from powerful acquaintances. Entrepreneurs with fewer acquaintances and strong ties with friends and family members in business matters were less flexible and less likely to find the financing they required. Puffer and McCarthy (2001) have argued that entrepreneurs, unlike larger businesses, do not have access to powerful acquaintances, access mostly to government officials and old Soviet networks. For this reason, Russian entrepreneurs are required to develop new networks to mobilize resources, and some networks are based on connections with former work colleagues in state institutions. Puffer and McCarthy also suggest that business networks are based on trust and substitute for low institutional trust and weak formal contract enforcement; as discussed in the previous section.

### **3.6 Chapter summary and conclusions**

This chapter provided details about the *external context* for small business growth and development in Russia, the purpose being to situate findings in studies one and two, particularly the latter, in the historical and more contemporary Russian context. An examination of the literature revealed that the size of the small business sector in Russia is small. Research also revealed however that existing definitions of small enterprise in Russia fail to elaborate on specific size distinctions between independent entrepreneurs, small enterprises, and small-to-medium size enterprises. As a result, existing definitions succeed both in potentially underestimating firm numbers, and in underestimating the needs of firms and their contributions to the overall economy. Hence, it cannot be determined whether or not the development of the small business sector in Russia has been as limited as government estimates would suggest. What

can be determined from the research is that historically the conditions for entrepreneurship and small business development in Russia have not been optimal and, this in itself is likely to affect the number of small businesses in the country. For example, small businesses have little access to external financing; a consequence of which is that frequently these firms must rely on funding from friends and family members. Second, the research also indicates that local and regional administrators continue to act opportunistically towards small business. Even Russian President Vladimir Putin (elected in 2000) has voiced his concerns over officials and organizations that extort money from small businesses and has questioned the fate of these businesses in the absence of change:

“One has to pay for every step to companies in charge of fire safety, sanitary conditions and suchlike organizations. This is a legalized form of bribery [...] If nothing is changed in this sector, the potential for developing small business should be regarded as exhausted. Entrepreneurs will be either closing down their businesses or slip into the shadow economy” (BBC Monitoring International Reports, 2001).

The ineffective legal system was a third way in which the conditions for entrepreneurship and small business development were not believed to be optimal; the system is ineffective to the extent that it reduces opportunities to recover debts, and provides no adequate protection of property rights (Frye and Shleifer, 1997). Conceivably, these issues, separately or in combination, could serve to limit investments made by owner-managers and, as a result, further limit the growth potential of small businesses.

While the conditions for small business growth and development in Russia appear mainly to be negative, recent years also have witnessed some positive changes. For instance, the Russian economy has stabilized and is showing signs of growth. Purchasing power throughout the country has improved. New legislation has been introduced to reduce the regulatory burden on businesses. And while the bulk of evidence would suggest the attitude of government towards entrepreneurship and small business development continues to be mixed, attitudes of the Russian public towards entrepreneurship are generally positive. Indeed, in recent years self-employment has come to be regarded by the public as an honest way to make a living, for some, a better living than otherwise would be possible. According to Layard and

Parker (1996), the cultural shift in Russia towards entrepreneurship has been “enormous” (p. 29). Thus, both positive and negative conditions are likely to effect developments in the small business sector, including the creation and growth of businesses within the country. The next chapter presents findings from the first empirical study conducted in Russia and identifies the focus of the main study.

## **4 Clarifying the research phenomenon, research aims, and focus of the main empirical study: An exploratory study (study one)**

### **4.1 Introduction**

Chapter 3 provided a description of the external context for entrepreneurship and small business development in Russia with an emphasis on the conditions over the last two decades. This chapter moves on from this largely objective picture of small businesses towards a more *subjective*, intimate account of small business development and barriers to growth as perceived by small business owner/managers in this context.

This chapter discusses findings from an exploratory study conducted in St. Petersburg Russia in February and March, 2003. The study marks the first step towards elaborating on our understanding of barriers to small business growth. This was achieved in four ways. First, as suggested in Chapter 1, the study played a key role in identifying and clarifying both the research phenomenon to be examined and aims to be addressed in this thesis. Developing the aims for this thesis was a non-linear process, influenced by data collection and by further reading of the literature (Wield, 2002). Second, the study generated ideas as to how further empirical work could be approached in the main study (Chapters 6-9). Third, it was conducted prior to and in tandem with the first literature review (Chapter 2), and provided the impetus to delve further into research on barriers and critically evaluate this research. Finally, issues arising from research findings in this study prompted the second literature review focused on growth intentions in entrepreneurial cognition research (Chapter 5).

This chapter begins with a discussion of the initial focus of the exploratory study, before moving on to a discussion of the method and findings. These findings form the basis for research conducted in the main study.

### **4.2 The initial focus of the exploratory study**

Originally, this study was intended as a broad exploration of the effects of the external environment on strategic planning activities in small-to-medium sized firms in Russia. Inspiration for this research was drawn from two key sources:

The first source drew from prior work experience as a Research Associate at the Stockholm School of Economics in Russia between February 2000 and September 2001. Several studies conducted by the researcher and her colleagues over this period, mainly in the areas of e-commerce and entrepreneurship, painted a picture of a somewhat hostile environment for small business development in Russia. These studies concluded that the firms with business models designed to take advantage of opportunities and overcome challenges were those most likely to be successful (e.g. de Koning, Fey and Doern, 2006; Doern and Fey, 2006; Fey and Doern, 2002).

The second source of inspiration for research came from a gap identified in the literature on strategic planning. Specifically, while the bulk of research on strategic planning in small businesses has been conducted in the West, in mature market economies, with much of this research having taken place in the United States and United Kingdom (e.g. Robinson and Pearce II, 1984; Sexton and Van Auken, 1985; Gibb and Scott, 1985; Bracker and Pearson, 1986; McKiernan and Morris, 1994), research on strategic planning in Russia has been confined to large organizations and in some cases, state-owned organizations (e.g. Peng, 2000; Puffer, McCarthy and Naumov, 2000; Peng and Heath, 1996; Lawrence and Vlachoutsicos, 1990). Therefore, little was known about strategic planning in small businesses in Russia.

### **4.3 Method**

The study was conducted over a five-week period between February and March 2003. With the exception of the precise details of the analysis, the research method was designed to address the initial focus of the study which was to broadly explore the effects of the external environment on strategic planning in small-to-medium sized firms in Russia. By exploration, the study aimed first, to “find out” more about strategic planning in this context as a poorly understood area, and second, “to generate ideas [...] for future research” (Robson, 2002: 59). By speaking openly and in a relatively unconstrained manner with small business owners or managers and with small business stakeholders it was hoped that discussions would raise issues to be explored more in depth later on. Because this study was exploratory in nature and was intended to *raise issues* for further study, details of data collection, analysis and

findings are discussed only briefly. A more detailed account of each is provided for the main empirical study in Chapter 6.

#### *4.3.1 Sample*

The research sample was small and constructed in the field (Gray, 2004). Moreover, sample construction was based on the researcher's contacts. Michailova and Liuhto (1999) have argued that when conducting research in formerly planned Eastern European transition economies, researchers should make full use of their informal contacts, including friends and family, to gain access to the field. They explain:

“In the East European context there is a lack of systematic information at different levels. There are no reliable databases, files, registers or archives that may provide the preliminary information the researcher needs at the pre-access stage. This is the stage at which the organization(s) that may constitute the field for studying the issues under investigation must be identified. Under such circumstances, the choice and the decision is often predetermined by the substance of the researcher's informal networks.” (p. 8)

Small business owners or managers working in St. Petersburg were identified in Weeks One and Two of field work (Mid week February 18 – February 28); thereafter these persons were invited to participate in the study. Most of the participants were in some way identified through the Stockholm School of Economics in Russia, where the researcher had been employed previously. Four of the 10 small business participants were previous students of the Hans Rausing program in Entrepreneurship at the Stockholm School of Economics in Russia. Another five participants were identified either at a research seminar held at the School on February 18, 2003, or through contacts made at the seminar (see Appendix 1.1 for the Request for Participation). At the seminar, the researcher was one of four individuals who had been invited to speak to an audience of Russian academics and business professionals<sup>17</sup>. The remaining participant was an acquaintance. It should be noted that because the research focus had yet to be identified, the sampling frame was kept rather broad. All 10 owners and/or managers spoke English in addition to Russian, their native tongue.

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<sup>17</sup> The title of the presentation was ‘Entrepreneurship and Small Business Development: SME Developments in Russia and the United Kingdom’.

See Table 2 for a list of owner/managers and attributes of their respective businesses. Pseudonyms have been used to protect the identity of the participants. All of the businesses were private enterprises.

Table 2. Attributes for owner/managers and their firms

Participant (Owner and/or Manager)	Title of participant within the company	Company Product or Service	Industry Category	Number of Employees	Company age in years
Dmitry (Owner-manager)	President	Software developer	Information Technology	100	10
Vladmir (manager)	Deputy Chief Financial Officer	Computer parts/ telecommunications/ electronics	Communications and Electronics	300	11
Anastasia (manager)	CEO	Producer of food supplements for animals	Small-scale Manufacturing	25	14
Vadim (manager)	General Director	Intercom systems provider	Communications	12	3
Demjan (manager)	General Director	Frozen foods producer	Small-scale Manufacturing	20	To open in May 2003 <sup>18</sup>
Boris (Owner-manager)	General Director	Bakery equipment maintenance service	Confectionary and Baking Services	11	11
Tatiana (Owner-manager)	General Director	Consulting – business and educational	Business Services	4	2
Marina (Owner-manager)	Financial Director	Women's clothing producer	Apparel and Retail Trade	60	5
Inna (Owner-manager)	Financial Director	Men's/Women's clothing producer	Apparel and Retail Trade	11	3
Masha (Owner-manager)	Financial Director	Health care clinicians	Health and Medical Services	10	To open in May 2003 <sup>19</sup>

Meetings with small business stakeholders also were arranged through connections. Initial contact with the Russian SME Resource Centre was made from the UK six months preceding the fieldwork; this contact led to meetings with representatives of the Ministry for Antimonopoly Policy and Support of Entrepreneurship and the

<sup>18</sup> Business was founded two years prior, in 2001.

<sup>19</sup> Business was founded one year prior, in 2002.

Leontief Centre. In meeting with the Leontief Centre, contact was established with the St. Petersburg Foundation for SME Development. A meeting with a representative from the Centre for Economic and Financial Information Research was arranged through an acquaintance at the Stockholm Institute of Transition Economics and Eastern European Economies (SITE)<sup>20</sup>. See Table 3 for a list of participants and a brief overview of the organization's role in the small business community in Russia. The initials of these participants and names of their respective organizations are provided (see Appendix 1.2 for the Letter to Participants - Stakeholders).

Table 3. List of stakeholders and descriptions of their organizations

<p><i>N.K., Head of Department for State Support to Entrepreneurship, Ministry for Antimonopoly Policy and Support of Entrepreneurship (Moscow)</i></p> <p>Established in 1998, this government department is responsible for promoting competition and restricting any monopolistic activity with the Russian Federation. The development of small business enterprise falls under the jurisdiction of creating a competitive business environment. The ministry oversees federal programmes of state support to small businesses, the development of small business infrastructure, including chambers of commerce and incubators, and is working with other national and international agencies to develop information materials for small businesses.</p>
<p><i>I.M, Director, and I.A., Manager of PR and International Cooperation, Russian SME Resources Centre (Moscow)</i></p> <p>Established in 1997, the centre provides policy advisory services, research, and resource materials on small business development to institutions and entrepreneurs both within and outside of Russia.</p>
<p><i>E.Z., Academic Director, Centre for Economic and Financial Information Research, CEFIR (Moscow)</i></p> <p>Established in 2000, the centre is an economic policy think tank involved in several research projects commissioned by the Russian government, and international</p>

<sup>20</sup> In July 2002, the researcher spent a week at SITE in Stockholm Sweden to speak with researchers at the institute about her research topic and collect and photocopy research materials. The institute is part of the Stockholm School of Economics.

<sup>21</sup> The TACIS Programme is a European Union initiative for the New Independent States and Mongolia which fosters the development of harmonious and prosperous economic and political links between the European Union and these partner countries. Its aim is to support the partner countries' initiatives to develop societies based on political freedom and economic prosperity. TACIS does this by providing grant finance for know-how to support the process of transformation to market economies and democratic societies (<http://www.tacisinfo.ru/brochure/etacis.htm>, January 2008). New Independent States include: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

<p>organizations such as TACIS<sup>21</sup>. The centre conducts research across a number of sectors including competition policy and monopoly regulation. The centre has compiled a number of databases.</p>
<p><i>E.B., Academic Secretary and Head of Development Department, Leontief Centre (St. Petersburg)</i></p> <p>Established in 1991, the centre is a not-for-profit organization focusing on research and consulting in areas such as investment, public finance, privatization and corporate behaviour. The centre and its staff have been involved in projects within small business environments.</p>
<p><i>S.B, Director, and I.A. Business Consultant, The St. Petersburg Foundation for SME Development (St. Petersburg)</i></p> <p>Established in 1995 with the assistance of the EU's TACIS programme and the government of St. Petersburg, this not-for-profit, 'non-government' organization (NGO), delivers consulting, training and information services to SMEs in St. Petersburg and the Leningrad 'oblast' (i.e. region).</p>
<p><i>I.D., Consultant, Stockholm School of Economics in Russia (St. Petersburg)</i></p> <p>Established in 1997, the school launched one of the first programs in entrepreneurship in St. Petersburg that same year. The portfolio of activities within the school has expanded rapidly over the years to include the provision of a range of business programs for management executives, seminars to members of the public, business professionals and academics, and various research, marketing, and publishing services.</p>

#### 4.3.2 Data collection

Data were collected primarily through exploratory interviews. These interviews allowed respondents considerable flexibility in their responses on a broad topic (Miller and Crabtree, 1999), with minimal prompting from the researcher (Robson, 2002). They were expected to shed light on the effects of the external environment on strategic planning in small-to-medium sized firms in Russia. Interviews were held with ten small business owners or managers, and eight small business stakeholders.

With two exceptions, interviews were held in English. Interviews with two stakeholders, N.K. and I.M., were held in the Russian and English languages with the assistance of an interpreter, I.A. I.A. was also a stakeholder working with I.M. from the Russian SME Resource Centre whose office was in close proximity to the office of N.K., the Head of Department for State Support to Entrepreneurship.

At the beginning of each interview, participants were informed of the *purpose* of the study and its intended output towards a PhD thesis. At the outset of each interview the researcher also discussed her work experience in Russia conducting research on Russian businesses. As well, she discussed reasons why her research continued to look at small businesses in this context. This preamble was intended both to establish credibility with participants and also to put them at ease (see Appendix 1.3 for Interview Guides for Owner/Managers and Stakeholders).

Interviews with owners or managers covered *four* main themes:

- Personal background – education, work history and roles/responsibilities within the business at present;
- company profile – number of employees, years in operation, product/service;
- discussion of the company's past, present, and future developments<sup>22</sup>;
- attitudes towards the business climate - resources, competition, and regulation.

Interviews with small business stakeholders also inquired about the 'personal background' of these individuals, in addition to covering the *four* following themes:

- Description of the organization's activities and contributions to the support infrastructure for small businesses;
- small business needs;
- the business climate and its relationship to small business development; and,
- working with small businesses and conducting research on small businesses.

Interviews lasted 1.5 hours on average with the shortest interview being 30 minutes in duration (i.e. an interview with one of the stakeholders) and the longest being 2.5 hours in duration. With one exception all interviews were recorded. (During one interview with an owner/manager the tape recorder failed and as a result, detailed hand written notes were taken instead.)

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<sup>22</sup> The following questions were directed at participants or integrated into the conversation: 'Where are you now in your business?', 'How did you get here?', 'Where are you going with the business?', and 'How will you get there?' (See Greiner, 1972, 1998)

In addition to interviews, a field diary was kept to record both reflections on the data collection process, as well as informal discussions with business professionals and students, friends and acquaintances in the field (see Appendix 1.4 for Excerpts from the Field Diary). Notes written in the diary incorporated verbatim quotations, details of the physical appearance of people or places, and descriptions of both verbal and non-verbal behaviours (Gray, 2004).

#### *4.3.3 Analysis*

Preliminary analysis of the data was divided into two stages 12 months apart; mostly reflecting time spent reviewing the literature on barriers to small business growth. When it became apparent that owner/managers described their experiences in relation to challenges, difficulties and problems, the focus shifted towards barriers to small business growth and development.

##### *4.3.3.1 Stage one*

The dearth of research on strategic planning in small businesses in transition economies led to an inductive approach to data collection and analysis, meaning that reflections on the direction and content of early interviews informed the direction and content of subsequent interviews. As noted, it became apparent after the first few interviews with owner/managers that certain challenges, difficulties and problems (to use the words of participants) comprised a part of their accounts of business development; this served to shape subsequent interviews and direction of the analysis.

In the first stage of analysis, interviews were transcribed and examined for recurring themes within 48 hours. All field notes were transcribed in detail within 24 hours. After leaving Russia, several weeks were spent on coding interview data. Initially, codes were written in pencil in the margins of transcripts. Then, once a list of codes was generated, the transcripts were photocopied and data extracts pertaining to specific descriptive codes were cut out and pasted onto blank pieces of paper. This resulted in the generation of a long list of descriptive codes that was later found not to be very meaningful; this is attributable to the broad focus of the study and the fact that

codes could not be pinned to a specific research question. For this reason, the conceptual and structural ordering, which Miles and Huberman (1994) deem to be crucial to coding, was absent.

Nevertheless, by drawing from the original list of codes and reflecting on the interviews, a list of potential challenges, difficulties and problems impacting the development of small businesses, as reported by owners or managers, was later identified and formulated around questions asked in the interviews about *the company's past, present, and future position in the marketplace*. A sample of each is provided here (see Appendix 1.5 for an extended list):

- 1) Challenges, difficulties and problems facing the firm in the past -
  - Being the first in the marketplace
  - Registration and licensing
  - Establishing credibility in the marketplace
  - Lack of basic business know-how
  - Lack of professionalism
  - Generating sales
  - Securing funding
  - Planning ahead
- 2) Challenges, difficulties and problems facing the firm now -
  - Lack of market knowledge
  - Finding and attracting skilled employees
  - Managing the supply chain
  - Competing
  - Changing regulations
  - Bureaucracy
  - Soviet systems, Soviet mentality
  - Planning ahead
- 3) Challenges, difficulties and problems that may prove difficult in the future -
  - Growth
  - Planning ahead

These codes, while again somewhat broad, did highlight the prevalence of potential barriers to growth in participant accounts, and inspired further analysis.

#### 4.3.3.2 Stage two

Stage two of the analysis involved examining each transcript independently for content relevant to barriers to growth and development – barriers were broadly defined as those factors internal or external to the firm that interfere in some way with business growth and development. This content was limited as a couple of businesses in the sample were starting up, and of the remainder, not all had grown, were growing, or were intending to grow. Careful attention was paid to terminology used by participants, specifically words with similar meanings to *barriers* - terms such as *challenges, difficulties, problems, impediments* and *obstacles*.

Data extracts relevant to barriers were placed together in one document and sorted by participant (i.e. owners and/or managers). The basic unit of analysis was a sentence or multi-sentence. Further distinctions were made by arranging accounts into a data matrix in a separate document, according to the participants (rows) and the nature of accounts (columns). The accounts of barriers to small business growth and development were divided into *five* categories: two categories represented more general accounts, those which could not be tied to specific business activities; the remaining three categories were specific to business activities. These latter three categories were drawn from the questions asked directly of participants. To summarise therefore, barriers were discussed in relation to:

##### A) The General

- i) the experience of small businesses in Russia generally;
- ii) the experience of the business' development generally;

##### B) The Specific

- iii) past business development activities;
- iv) current business development activities; and,
- v) future business development activities.

By choosing to focus the analysis on barriers, to identify barrier-specific accounts from the data, and to organize these accounts, analyses followed what Miles and Huberman (1994) have referred to as data reduction and data display.

#### 4.4 Findings

This section is devoted to discussing three key findings in brief. Excerpts from the data are used to illustrate key points made within each finding. To ease their identification for the reader, barriers are underlined and the business activities to which they relate are indicated in ‘single quotes’. To label those barriers identified in this study, examples used in the literatures (Chapters 2 and 3), were applied where appropriate (e.g. high cost of capital, volume of legislation); alternatively, labels were drawn directly from participant accounts. Where suitable, comments made by small business stakeholders were drawn upon. While field notes are not documented explicitly in this section, they were used in the wider sense to shape findings and to reflect on the research process - part of the focus of the next section.

##### 4.4.1 *Barriers are used by owner/managers to make sense of the conditions for small business development generally, and specifically their unique experiences.*

First, owner/managers tended to use barriers to describe their mostly negative experiences of starting, operating and growing their businesses. Barriers were also used by owner/managers and stakeholders to interpret the extent of support for small businesses in the environment, which in this study was perceived to be negative. The regulatory environment in Russia, for instance, was perceived to be largely ineffective and unsupportive of the needs of small businesses. This had negative implications for the small businesses operating within, particularly in terms of the time and money they expended when confronted by regulatory issues.

Table 4. Examples of participants making sense of regulatory barriers

Barrier/Code	Examples of making sense
A. Owner/managers' accounts	



	<p><i>“If you look at the number of very serious problems that threatens the existence of the firms and calculate the number for each firm, in the regulatory area, if you count the number of problems as well, you don’t know how they survive pretty much”.</i> (E.Z., Stakeholder)</p>
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Owner/managers and stakeholders described a hostile regulatory environment in Russia for business development generally. The attitude of the government towards small businesses in particular was perceived to be *negative* and was felt to be evident in the nature and number of regulatory barriers present. Regulations were described as making it *“very hard for shops to develop themselves”* (Anastasia). Regulations were perceived by one owner/manager to be a continuing source of frustration, *“usually I am trying just to survive the disaster and forget about it because it’s impossible to understand this, absolutely”* (Masha). Stakeholders felt there was a general lack of support in Russia for small businesses. One raised the issue of the number of regulatory barriers small firms faced and questioned how these firms survived. When asked how they did, she replied: *“Well basically the answer to this, the economist’s answer to this would be that they don’t, in the way that the small number of businesses in Russia is much smaller compared to [the West] in GDP terms”* (E.Z.). Another stakeholder drew attention to what she described as a delicate relationship between small businesses and the government, suggesting that *“bridges”* between the two were *“being built”*, but they were *“not concrete”* (N.K.).

#### 4.4.2 *Accounts of barriers are often related to specific growth intentions.*

Several owner/managers, indeed more than half, reported that barriers in some way interfered with their intentions to grow or develop their businesses. Intentions were used here to describe growth-oriented business goals or objectives owner/managers had not yet achieved but aspired to achieve, such as expanding the product line, hiring more employees, increasing production and distribution, or opening more shops.

Table 5. Examples of barriers being discussed in relation to intentions to grow

Barrier/Code	Extracts
<i>e.g. <u>Financial issues</u>:</i>	
Lack of working capital	<i>“We have a problem with people because we should hire much more to do products, to do logistics, but it’s a problem of money once more because we have to pay them”. (Anastasia, OM)</i>
Collateral requirements	<i>“[...] this summer we plan to buy the machine that costs 80,000 bucks. It’s very expensive. But this machine, a lot of things can do every day. I don’t know, 30 a day. Now the best machine can do 15 things [i.e. units of clothing]. Maybe 20. This new machine can produce 30, 50. 80,000 bucks I haven’t [...] there is conditions of the bank. I will have to be the client of this bank, I must have the turnover [...] security [...] I can give the bank this security if I have this turnover I can take a loan, not 80[000], maybe 20[000].” (Marina, OM)</i>
<i>e.g. <u>Internal issues</u>:</i>	
Poor working conditions	<i>“We have one small problem - we don’t have any good place, office and production, factory. And we are sitting in the, it’s very hard to say, where people hide from the bombs [bomb shelter]”. “So higher educated people, the professionals, they don’t want to work in such conditions.” (Anastasia, OM)</i>
<i>e.g. <u>Regulatory issues</u>:</i>	
Regulatory uncertainty	<i>“We hope on the best but prepare to the worst. And we are of course strategic plan and development but its not more than one, one and half year [...] nobody knows what will be happening, for example, two years in Russia. Especially if you are talking about this legislation system, taxation system. And for example, import goods for our business its very big impact the volume of tax, import tax.” (Boris, OM)</i>
<i>e.g. <u>Market-related issues</u>:</i>	
Economic uncertainty	<i>“I work for one year and at the end of the year I haven’t see the future. The limitation, the limitation, the regulation.” (Demjan, OM)</i> <i>“[...] the economical situation is unstable [...] I am sure that 6 months down the road but then I don’t know”. (Vadim, OM)</i>

In several cases, it was unclear from accounts just how barriers identified by owner/managers influenced their intentions to grow or not to grow. Nevertheless, a few owner/managers suggested that barriers *stopped* them from acting on intentions to grow, and in a few cases, owner/managers reported they were deterred from establishing medium-to-long term goals or objectives altogether due to regulatory or economic uncertainty.

#### 4.4.3 Accounts of barriers can be simple and straightforward or elaborate.

In some cases accounts of barriers were simple and straightforward involving very little detail and few processes. For instance, Tatiana, the owner/manager of a health clinic, said that when it came to start-up capital she and her partners did not consider applying for a business loan because interest rates were too high and the repayment period was too short – i.e. she would be required to pay back a loan of \$ US 20,000 within a year. Another participant, Inna, the owner/manager of a small firm involved in the clothing design and retail trade, said that in the past she and her partners did not apply for a business loan because they could not meet the conditions of the loan (collateral requirements). Furthermore, they were “*not prepared*” to hand over any control to another organization (reluctance to share equity with external partners).

In other cases participants provided more elaborate descriptions of barriers. In such cases, participants made attempts to explain barriers, to describe their effects on behaviours related to business growth and development, and to discuss how barriers interacted with each other. A good example of an elaborate account was provided spontaneously by Marina to describe the effect she believed the economic transition was having on the development of her sector, the knitwear sector of the textile industry, and more specifically, the effect it had on business operations, particularly the sourcing of materials. Marina described the state of the knit-wear sector prior to and following the collapse of the Soviet Union:

*“In Russia [it’s] very difficult to find this material [yarn]. This material [she points to a sweater] Turkish. In Russia earlier, 10 years ago, there were many factory [factories] that produce[d] this yarn. In St. Petersburg, in Moscow. But after 1993 it’s over and now there is no firm who produce. In Moscow, there is one firm [...] But it’s very bad quality. Very bad.”*

Due to the absence of good quality materials in Russia, Marina acquired the yarn she needed from Turkey. However, she claimed that to purchase this yarn from Turkey regularly and “*legally*” through the bank was to face high customs charges, and she simply stated that “*by [the] bank it’s impossible*”. To avoid these charges she travelled to Turkey several times a year:

*“In Turkey it’s very difficult to do it legally. I come, I have the money and I take the material. It’s very difficult. I can’t to organize the regularly delivery, [for] the yarn in my firm. I go in Istanbul 2 or 3 times deliver myself here and that’s all.”*

Nevertheless, she reported that this activity had the effect of limiting the amount of supplies she could purchase at any one time; it also meant that she could not purchase the same amounts regularly. She contended, *“After 2 or 3 months I haven’t the yarn again.”* Further, with limited financial resources she felt she could only buy yarn that factories had in stock at the time of her visits and this had negative implications for the number of women’s sweaters that they could ‘produce’ of any particular style:

*“[To buy] this yarn regularly is expensive. For Russia it’s very expensive, because I can’t order small quantity. I, for example, I need 100 kilograms. No I can’t do it. Because the yarn, the firm produce the yarn has to paint, blue, or white, black, green, and there is, there is a lot of tonnes. They can paint only 500 blue yarns. I can’t buy 500. I can’t produce ten thousand blue shirts or tops. I need 50 kilograms, or 100 kilograms. This quantity is stock in Italy, in Turkey. And it’s cheaper. But they have 50 kilograms blue or black yarns but this yarn they never produce again. It’s stock and we buy it and that’s all. And this is the problem for small firm in Russia because my designer in my firm can design the model. For example (she shows me sweater) and we bought the yarn 50 kilograms. The yarn is over and that’s all. And we can’t produce this model again. We have to design another model and so on. Because we can’t [get] [...] regularly [the] materials.”*

In this example high customs charges led Marina to initiate certain behaviours in order to avoid this and other barriers, and these avoidance behaviours in turn seemed to generate other barriers to development.

## **4.5 Conclusions**

This chapter concludes with a discussion of what has been attempted in the study, what has been learned, and what new questions have been raised (Wolcott, 2001).

### *4.5.1 Research summary and discussion*

This study was originally intended to explore the effects of the external environment on strategic planning in small-to-medium sized firms in Russia. During the early

stages of data collection it became apparent that in describing their experiences, participants commonly referred to the challenges, difficulties, and problems they encountered or anticipated in running their businesses and in planning for the future. For this reason, the focus of the study slowly evolved towards understanding more about these challenges, difficulties and problems, and the relationship between these factors or barriers and business growth and development.

It was found that many of the barriers identified in this study relate to those barriers and categories of barriers identified and discussed in the literatures reviewed in Chapter 2 – *financial barriers* (e.g. high interest rates, collateral requirements), *skills-related barriers* (e.g. lack of access to qualified labour), *institutional barriers* (e.g. too much bureaucracy, changing legislation) and *market-related barriers* (e.g. economic uncertainty). Nevertheless, these findings do not elaborate on our understanding of barriers to small business growth.

More revealing and meaningful to our understanding of barriers were *three* findings. First, it was found that barriers were used by owner/managers to make sense of the conditions for small business development generally, and make sense of their own unique experiences specifically. Barriers were used by owner/managers and stakeholders to interpret the extent of support for small businesses in the environment, which in this study was largely perceived to be negative. The regulatory environment in Russia was perceived to be largely unsupportive of the needs of small businesses and this had negative implications for the financial resources of small businesses. Findings seem to be consistent with claims in the transition literature (Chapter 2) that those formal institutions which incorporate the laws and regulations that govern business activities (North, 1990) in transition economies tend to be weak (Peng and Heath, 1996) and underdeveloped (Pissarides, 1999; Chilos, 2001). In the case of small businesses not being a priority to the Russian government, it appears this view of participants is consistent with a long history of neglect towards the small business sector and the private sector more generally (Chapter 3). Prior research (Chapter 2) has not, however, discussed how owner/managers, in referring to institutional and other kinds of barriers, make sense of their own experiences.

Findings also suggested that barriers may influence the growth intentions of owner/managers. For instance, there was some evidence, albeit limited, to suggest that in this study perceived barriers prevented owner/managers from thinking about growth, from having growth intentions, or prevented them from acting on growth intentions. In other cases, the effects of barriers on intentions were more ambiguous. Prior research on barriers to growth (Chapter 2) cannot explain these findings. Prior research does not examine the relationship between intentions and barriers. Instead it assumes that barriers constrain growth potential in those businesses which desire to grow. There is no discussion of how barriers might affect desire and certain growth oriented goals or objectives. Also, this study did not explore this fully.

Third and finally, findings revealed that descriptions of barriers are not as simple or as straightforward as the previous literature would imply. More elaborate descriptions of barriers and attempts made by owner/managers to explain them and what they mean, may provide insights into how barriers influence behaviour, notably as they impact on business growth. This again this was not explored fully by the first study. Prior research (Chapter 2) does not capture the kind of detail present in this study.

Therefore, there is much scope for exploring the phenomenon of barriers to small business growth. Moreover, we might have something to learn about barriers by examining the relationships between barriers, intentions, and behaviours.

#### *4.5.2 Reflections on the research process and lessons to take forward*

Three areas of reflection on the research process stand out and warrant attention here. These areas include the *sampling strategy*, *methodological approach*, and *data collection method*. In each case, there are lessons to be applied to further research.

Because the first study was exploratory and intended to generate topics for further study, the sampling strategy was mostly based on referral. Owner/managers were largely identified either directly or indirectly through the Stockholm School of Economics in Russia (SSERU). This strategy proved successful in securing interviews with both owner/managers and stakeholders, and served to create an openness during interviews. However, in adopting this strategy, the following issues

or biases became apparent. For one thing, SSERU is considered a Western-oriented institution that provides programs, in English mostly, for business executives. A command of the English language in conjunction with high entrance fees makes these programs exclusive and may attract a certain kind of individual. However, some of the owners/managers participating in this study had attended one of the school's very first programs, a pilot program on Entrepreneurship which was heavily subsidised by a wealthy Swedish benefactor (Hans Rausing) who was interested in improving the economic climate in Russia. This in part explained why the majority of the participants spoke English and had contact with Western organizations, in terms of their previous educational or work experience – in some capacity they were previously employed by or were in contact with organizations or individuals in the supply chain. This, in conjunction with the researcher's status as a foreigner and her connection to the University of St. Andrews, likely distanced her from the environment for small business development in Russia in the eyes of some participants. Taken together, these things may partly explain the tendency of some participants to compare the Russian business environment to the business environment in the West. It might also explain why some owner/managers preferred to meet on neutral territory, either at the school or in a café, possibly because some may have been embarrassed by their working conditions, (an observation first made while conducting previous research projects in Russia, and one that was re-asserted in this study by Anastasia, an owner/manager in this study), while others may have felt at home at the school or wanted to visit the school.

To reduce the likelihood of bias in the next study, it was felt that the research sample should not rely directly on the researcher's connections with the Stockholm School of Economics, although conceivably it would be useful to mention her work with the school in order to establish credibility with participants, at least in terms of demonstrating her general understanding of small business issues in Russia. In the next study the sampling strategy should also be broader in terms of extending beyond her existing networks, but tighter in terms of the actual sample of businesses, particularly in terms of firm size, age and growth orientation. Furthermore, where possible, meetings with participants should be held at the place of business rather than the School as this can provide additional information about the nature and scale of business operations. More importantly, it may also serve to put owner/managers at

ease, as well as symbolize a degree of openness on their part towards the researcher. The sample frame will be discussed in more detail in Chapter 6.

In terms of the methodological approach, a suspicion that responses of owner/managers may have been a reaction to the researcher in part, flagged the importance of *reflexivity* in research. Reflexivity refers to an awareness of how the researcher shapes research (Alvesson and Sköldberg, 2000). In the present case this refers to an awareness of how the researcher's status as a foreigner, and possibly as a woman and academic, may shape the responses of participants. Reflection should be incorporated into the main study. As well, findings from the first study also suggested that by probing the subjective experiences of small business owner/managers we may learn something more about barriers.

The significance of personal experience was elevated by one interview with the owner/manager of a business specialized in producing women's knit-wear. After describing her experiences in running a small business from conception to the present, Marina was asked what, if anything, she found to be difficult about her role as financial director. Before replying she paused for a moment, got up from her chair, and walked across the room to retrieve a newspaper clipping documenting the challenges facing SMEs in her country. From the clipping she then proceeded to recite the list of barriers to SME development described, which included problems with clients, poor distribution, obtaining credit, finding and securing property, production problems, and a shortage of qualified staff. However, when asked again later to specify which challenges affected her company directly and how, she identified only two - understanding legal regulations and obtaining access to credit. This experience was striking in that Marina's initial response to the question about challenges seemed to be influenced by popular opinion or 'barrier rhetoric' (i.e. what she had read in the newspaper article), rather than personal experience. Examination of this and other interview transcripts revealed that while owner/managers easily referred to common barriers such as lack of funding, they were, in some cases, hard pressed to discuss how such barriers influenced their behaviour. Further analyses suggested that how owner/managers made sense of barriers perceived, may influence their growth intentions and behaviours. Therefore, the key implication of the incident

is that discussions of barriers in the absence of how they impact on behaviour, may limit understanding.

The interview with Marina and another interview with E.Z. motivated the researcher to reflect on the research approach and methods used in past research on barriers, and the need for a different approach. The dialogue with E.Z. unfolded as follows:

*“Basically if you look carefully at the results of our study, the impact of the business climate on small firms, and looking at averages it makes no sense [...] basically what you can do is look at the number of very serious problems that threatens the existence of the firms and calculate the number for each firm, in the regulatory area, and if you count the number of problems as well, you don’t know how they survive pretty much.”*

***How do you think they survive?***

*Well if that’s a question of strategy that’s a question to you. [...]*

*Well basically the answer to this, the economist’s answer to this would be that they don’t, in the way that the number of small businesses in Russia is much smaller compared to [the West] in GDP terms”.*

On the subject of data-collection methods, in-depth interviews appeared to be a good way to learn more about the experiences of owner/managers. Nevertheless, because the focus of this study was broad and consequently interviews were unstructured, interview data touched on a number of subjects which later were difficult to organize. Therefore, in the next study, more structure should be imposed, facilitated in part by a clear research question or aims. It was also apparent from several interviews that references to barriers made by participants were not always explored in detail. This again can be explained, in part, by the relatively broad approach to the research. More detailed accounts of barriers to growth should be elicited, if possible, in the next study. To achieve this, it may be necessary to ask participants to explain what they mean by certain barriers, to give examples, and to describe their relationship to business growth and development. It is also the case that in this study, references to barriers frequently dealt with opinions about small business development in the country generally, as well as owner/managers’ more specific experiences of barriers. In the next study the emphasis should shift in favour of the latter.

#### *4.5.3 Identifying the focus of the main study*

One of the key findings made in this the first study was that the accounts given by owner/managers of barriers are often related to specific growth intentions; however the effects of barriers on growth intentions and behaviours were not always clear. In the main study this finding is taken forward and explored further. In particular, one of the aims of the second study is to explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours. Therefore, the focus of research is on growth behaviour, rather than start-up behaviour. The next chapter looks more closely at the literature on growth intentions and develops a model which serves as an initial framework for exploring empirically the possible relationships between barriers, growth intentions and behaviours.

## **5 An intentions-based approach to understanding barriers to growth**

### **5.1 Introduction**

Before discussing the aims of this chapter, it is helpful to highlight the vital learning points from previous chapters. In Chapter 2, for instance, it was revealed that a key assumption underpinning research on barriers to small business growth is that some small businesses want to grow but cannot because certain barriers are preventative. Nevertheless, the research on which this assumption is based is underdeveloped conceptually and empirically, and fails to explain *why* or *how* barriers affect small business growth, if at all. For these reasons it was argued that the research phenomenon was not well understood and a new approach to research was warranted. Chapter 3 examined the context for small business growth in Russia by creating a historical and contemporary profile of entrepreneurship and small business development in the country. Research revealed that the context for small business growth and development in Russia, the context for empirical work in studies one and two, continues to be hostile to small businesses, although some positive advances were noted in the way of economic stabilization and growth, the improved purchasing power of the Russian people, and new legislation. In Chapter 4, the research phenomenon was further developed when findings from the first empirical study revealed that small business owner/managers in Russia sometimes related barriers to specific growth intentions. This finding represented a departure from prior research which assumes intentions to grow are present, but in most cases does not capture or investigate these intentions.

Chapter 5 takes another step towards elaborating our understanding of barriers to small business growth. The aim of this chapter is to examine the possible relationships between barriers, growth intentions, and behaviours in the literature. In so doing, it begins to address the second sub-aim of this research: to explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours. The chapter draws from entrepreneurial cognition research and its parent discipline, cognitive psychology, to examine possible relationships and create a more cognitive, intentions-based, approach to barriers research. Entrepreneurial cognitions have been defined as "the knowledge

structures that people use to make assessments, judgments or decisions involving opportunity evaluation and venture creation and growth” (Mitchell, Busenitz et al., 2002: 97). Entrepreneurial cognition research is concerned with how entrepreneurs *think* (Mitchell et al., 2007).

This chapter is organized into two short sections:

*Section One* looks at the literature on growth intentions. This section is divided into three parts. Part one introduces the concept of intentions. It discusses how intention has been defined in the literature and how it relates to motivation and goals. Part two introduces two intentions models that help explain the relationship between intentions and behaviour. In particular, it describes how one intention model, the Theory of Planned Behaviour, has been used to predict and explain the relationship between intentions and behaviours, how it has been applied to studies on small business growth, and the limitations of this and other intentions models. Part three discusses why intentions are important to the current research. It also discusses the possible influence of the institutional environment on growth intentions and behaviours in transition economies generally and Russia specifically.

*Section Two* discusses possible relationships between barriers, growth intentions and behaviours, as based on the limited theory and evidence reviewed, and a model is constructed to capture these relationships. This further provides a basis for the next study to explore and examine *how* or the ways in which perceived barriers may influence owner-managers growth intentions and behaviours.

## **5.2 The literature on growth intentions**

### *5.2.1 Defining intentions*

Intentions have been defined in the literatures in one or more of three ways: 1) as the *desire* to perform a behaviour, 2) as the *belief* one will act to perform a behaviour, 3) as specific *goals*. The focus here is on intentions to grow.

Most often, measures of growth intentions in small business/entrepreneurship studies focus on the *desire* to grow the business which is expressed in terms of whether or not participants have plans to increase sales and/or hire more employees (e.g. Cliff, 1998; Kolvereid and Bullvåg, 1996; Wiklund and Shepherd, 2001, 2003; Delmar and Wiklund, 2003). However, these measures utilize a simple yes/no format, which according to Kolvereid and Bullvåg (1996), may not, in fact, capture intent.

The *desire* to perform a behaviour represents motivation. Ajzen (1991) contends:

“Intentions capture the motivational factors that influence a behaviour; they are the indicators of how hard people are willing to try, of how much effort they are planning to exert, in order to perform the behaviour” (p. 181)

Locke and Baum (2007) described motivation as “desire”; as that which “energizes, directs and sustains action” (p. 93). They further described ‘entrepreneurial motivation’ as motivation “directed toward entrepreneurial goals (e.g., goals that involve the recognition or exploitation of business opportunities)” (p. 93). A handful of studies have found that the motivation to grow, measured as the desire to increase sales or employee numbers, affects firm growth (e.g. Baum and Locke, 2004; Delmar and Wiklund, 2003; Kolvereid and Bullvåg, 1996; Miner, Smith and Bracker, 1994).

The motivation to grow the business may depend on several factors. Davidsson (1991) has argued that the motivation to grow is “entirely the result of reality as perceived” (p. 407), and is influenced by three subjective factors – *perceived ability*, *perceived need* and *perceived opportunity*. An internal locus of control, self-confidence and optimism were found to be indicators of perceived ability, while perceived need had more to do with financial needs or more commonly, the need for achievement. Perceived opportunity, on the other hand, referred to judgements about access to resources (e.g. capital and labour), among other things. The *perceived consequences of growth*, positive or negative, also may affect the motivation to grow. The perceived consequences of growth represent the individual’s beliefs associated with growing the business. Wiklund, Davidsson and Delmar (2003) found a relationship between expected consequences of growth - such as ‘employee wellbeing’, ‘independence’ and ‘control’ - and attitudes towards growth. The concern for employees was particularly strong. Wiklund et al. concluded that owner-managers

were less likely to grow if doing so was perceived to have a negative effect on the wellbeing of current employees. Finally, the motivation to grow also may be influenced by *previous growth*. In this way it is conceivable that owner-managers having gone through the process of growing the firm are now more aware of the consequences of growth and their ability to manage the process. Positive growth outcomes are likely to have positive effects on growth motivation, while negative outcomes may have negative effects (Delmar and Wiklund, 2003). Perceptions of previous growth may influence growth intentions.

In some cases the desire to grow may exist, but the intention to act is absent because individuals do not know how to grow, how to make growth happen. This relates to the second definition of intentions which concerns *beliefs*. Krueger (2000) defined intentions as “the belief that I will perform a certain behaviour, the belief I will act” (p. 8). The intention to act, in this case to grow, is dependent on the belief one has ‘perceived behavioural control’, the ability to access the resources required to perform the behaviour and pursue opportunity (Ajzen, 1991). Perceived behaviour control has also been described as the ‘perceived feasibility’ of performing the behaviour (Krueger, Reilly and Carsrud, 2000). These points are discussed in more detail in next section, Section 5.2.2 - ‘The Relationship between Intentions and Behaviours’, p. 109.

Intentions have also been defined in relation to *goals* or desired end states. Austin and Vancouver (1996) define goals “as internal representations of desired states, where states are broadly construed as outcomes, events, or processes” (p. 338). In this case, growth intentions have been operationalised as specific growth-related strategies. In their study of rapidly expanding firms, Gundry and Welsch (2001) referred to ‘strategic growth and expansion intentions’ as “the degree to which entrepreneurs intend to actively engage in specific strategies to grow and expand their firms” (p. 460). Intentions included ‘adding a new product or service’, ‘expanding distribution channels’, ‘expanding advertising and promotion’, ‘acquiring new equipment’, ‘applying for a bank loan’, and ‘expanding current facilities’. Findings from the first study (Chapter 4) used similar examples of intentions/goals.

Three features of growth-related business goals in small businesses are relevant to intentions and the current research, and warrant discussion:

The first feature is that in small firms, the goals of owner-managers are *closely related* to the goals of the firm (Penrose, 1959; Gibb and Davies, 1990). Therefore, for a business to grow, growth must be a desired goal of the owner-manager.

The second feature deserving attention is the *economic* or *non-economic* nature of the goals of small business owner-managers. Examples of growth-oriented economic goals include better utilising resources, overcoming the liability of newness (McKenna and Oritt, 1981), or creating wealth (Holmes and Zimmer, 1994). Non-economic or personal growth-related goals include employing more family members, elevating one's personal or community status (McKenna and Oritt, 1981), acquiring personal wealth, creating personal security or autonomy, and creating security for the family (Kuratko, Hornsby and Naffziger, 1997). While economic goals are often associated with business growth, it has been argued that the motivation to grow and pursue growth is increased if individuals believe doing so will serve personal goals (Davidsson, 1991). Also, personal goals and values are seen as influencing decisions regarding *how* to grow (Cooper, 1993). It can be concluded, therefore, that the attainment of both economic and non-economic goals is important to the continued growth and development of the owner-managed firm.

The third feature of growth-related goals is their *temporal* nature. This issue was first raised in Chapter 2. A few studies have looked at whether and how the goals of owner-managers change over time. To illustrate, Dutta and Thornhill's (2007) study of 30 entrepreneurs of small firms in Western Canada over a five year period found that entrepreneurs changed their intentions to grow in relation to perceived changes in the competitive environment. More positive evaluations of the competitive environment as compared to the past were followed by an increase in growth intentions, whereas negative evaluations led to a decrease in intentions to grow. Using focus groups with 31 owner-operators, Newby, Watson and Woodliff (2003), found that while personal satisfaction was regarded by participants to be an objective they held in the past, financial returns and time flexibility were more important objectives for the future. The findings were explained in the following way: "It may

be that when considering their future, owner-operators either focus on growing their firms (consistent with a desire for financial return) or on maintaining some degree of freedom from their business (consistent with a desire for greater time flexibility)” (p. 243). In another study, Cliff (1998) found that women business owners wished to grow their businesses until such a time as they reached a maximum size threshold. Cliff examined the relationship between attitudes towards growth, firm size, and gender by conducting interviews with 229 small business owners in Canada. She reported that men and women did not differ significantly in terms of their intentions to grow, as measured by the ‘desire to grow’ and ‘plans to hire’. In fact, despite having fewer resources and valuing expansion less than men, women had positive growth intentions. Nevertheless, through qualitative analyses, differences between the two groups were revealed in terms of how owners wished to grow. Women preferred to grow in a slow controlled manner and to set lower maximum business-size thresholds than the men sampled. For women the decision to grow seemed to depend, in part, on having reached this threshold or not. The evidence implies that business goals are not static, and what is a desirable outcome at one point in time can change, a notion that has not been embraced by prior research (Chapter 2).

Finally, the concept of ‘intentionality’ may also shed light on the preceding discussion. Whereas intentions represent ‘desires’, ‘beliefs’ and ‘goals’, intentionality is described as the quality or ‘state’ of being formed by an intention. Bird (1988) defined intentionality as: “a state of mind directing a person’s attention (and therefore experience and action) toward a specific object (goal) or a path in order to achieve something (means)” (p. 442). In this way, attention is directed towards goals which are conceived of, in turn, as desired end states. Katz and Gartner (1988) also contend that intentionality reflects the goals of individuals.

### *5.2.2 The relationship between intentions and behaviours*

The relationship between intention and behaviour has been explained by the Theory of Planned Behaviour (Ajzen, 1991) and is depicted in other intentions models, such as the Shapero-Krueger model of entrepreneurial intentions, both of which are useful to the current research because they identify those concepts that shape growth intentions, and also make reference to those factors that may influence intentions and

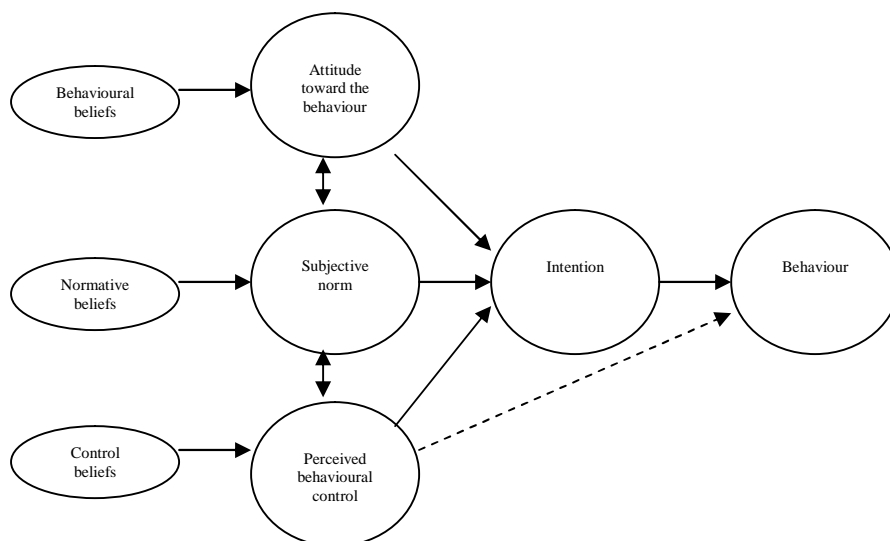
their relationship to behaviour; some of which may have a negative influence on small business growth, and may be regarded as barriers in the traditional sense. In addition, the Theory of Planned Behaviour has been used in several studies to investigate the relationship between growth intentions and actual growth in small businesses (e.g. Kolvereid and Bullvåg, 1996; Wiklund and Shepherd, 2001, 2003).

The *Theory of Planned Behaviour* (TPB) is an extension of the Theory of Reasoned Action (Ajzen and Fishbein, 1980; Fishbein and Ajzen, 1975). The Theory of Reasoned Action is a theory in psychology which suggests that intentions capture the motivational factors to perform the behaviour in question, and the stronger the intention to perform, the more likely the behaviour will be performed. According to Ajzen (1991), a key limitation of this theory is that it assumes individuals have complete control over performing the behaviour, when in fact few behaviours can be classified as volitional. He further argued that while actual behavioural control is important to behavioural achievement and dependent on the availability of resources and opportunities, more interesting is the perception of behavioural control. And so, unlike its predecessor, the theory of planned behaviour captures the notion of ‘perceived behavioural control’. Ajzen described ‘perceived behavioural control’ as “people’s perceptions of the ease or difficulty of performing the behavior of interest” (p. 183). He argues that the concept of perceived behaviour control becomes more important as control over the behaviour in question declines. In situations of complete control, intentions alone are capable of predicting behaviour. Ajzen likened the concept of perceived behavioural control to Bandura’s (1977) concept of ‘self-efficacy’ – i.e. judgements about one’s ability to act. Therefore, it can be said that TPB aims to predict and explain behaviours under limited volitional control. To this end, intentions are most likely to predict behaviour when these intentions are present and strong, the behaviour in question is volitional, and there is a strong sense of ‘perceived behavioural control’ (Ajzen, 1991).

‘Perceived behavioural control’, in conjunction with ‘attitudes toward the behaviour’ (i.e. how the behaviour is evaluated) and ‘subjective norms’ (i.e. social pressure to perform the behaviour), constitute antecedents of intentions. Ajzen (1991) argued that the intention to perform the behaviour is more likely when ‘attitudes towards the behaviour’ and ‘subjective norms’ are favourable, and ‘perceived behavioural control’

is strong. He also explained that antecedents of intentions were shaped by ‘salient’ beliefs which in turn determined people’s intentions and actions. According to the model, ‘behavioural beliefs’, determinants of the antecedent ‘attitudes towards behaviours’, capture the desirability of performing the behaviour and its perceived consequences. ‘Normative beliefs’ determine ‘subjective norms’ and are concerned with the extent to which others approve of the behaviour. Finally, ‘control beliefs’ determine ‘perceived behavioural control’ and deal with the extent to which individuals believed they can access the resources required to perform the behaviour and pursue opportunity; including the “time, money, skills and cooperation of others” (p. 182). These control beliefs may be influenced by past experience, input from others, and “factors that increase or reduce the perceived difficulty of performing the behaviour in question” (p.196). And, “the more resources and opportunities individuals believe they possess, and the fewer obstacles and impediments they anticipate, the greater should be their perceived control over the behaviour” (p. 196). It is also interesting to note that according to the TPB, intentions may change over time, as perceptions of behavioural control change whereas attitudes towards behaviour and subjective norms tend to be more stable.

Figure 2. Ajzen’s theory of planned behaviour



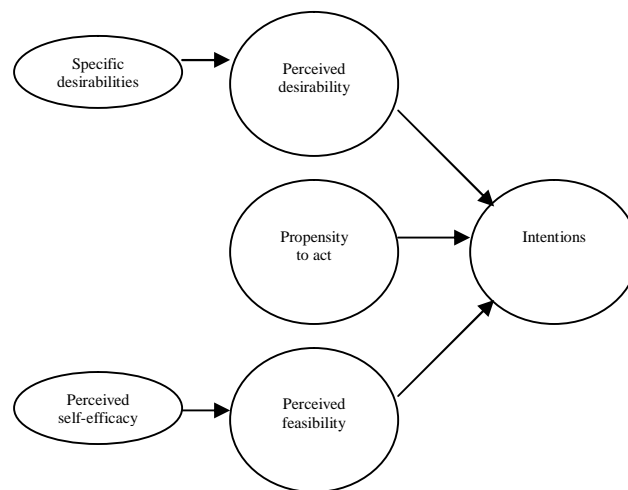
Business growth is, arguably, a planned intentional behaviour (Davidsson, 1991), under limited volitional control (Delmar and Wiklund, 2003; Wiklund and Shepherd, 2001). Growth is said to be under limited volitional control to the extent it is affected

not only by the intentions of owner-managers, but also by their ability to access the resources required to grow, and take advantage of the opportunities to grow. Morrison, Breen and Ali (2003) contend that the alignment of 'intentions', 'abilities' and 'opportunities', is a feature of pro-growth firms. For these reasons it is not surprising that the TPB, which predicts and explains behaviours under limited volitional control, has been used in some studies to investigate the relationship between intentions and small business growth. Kolvereid and Bullvåg (1996), for instance, used it to confirm whether or not growth intentions were related to actual growth. Wiklund and Shepherd (2001, 2003) tested which factors education, experience, financial resources, and environmental dynamism (i.e. changes in the environment that led to opportunities for growth), affected the relationship between intentions and behaviours. The intention-behaviour relationship was found to be moderated by education, experience and environmental dynamism. Finally, Delmar and Wiklund (2003) investigated whether intentional behaviour/growth motivation, was more important to future growth motivation than previous growth. Intentional behaviour/growth motivation was found to have a stronger effect. None of the studies used the TPB to explain the relationship between intentions and behaviours; using it instead to predict behaviour. For example, in the Delmar and Wiklund study, the theory was used to test to what extent intentional behaviour/growth motivations predict future growth motivation, and compared it to the extent to which previous growth predicts future growth motivation.

The Shapero-Krueger model of entrepreneurial intentions (see Krueger, Reilly and Carsrud, 2000), also serves to shed some light on the relationship between intentions and behaviours. Similar to the theory of planned behaviour, it suggests that intentions predict behaviours. Although the Shapero-Krueger model has been applied mainly to the study of business creation, the basic principles of this model, as well as some of the concepts, correspond with those expressed in the TPB and therefore may be useful to the study of business growth. For instance, in the Shapero-Krueger model, the concept of 'perceived feasibility', feeling capable enough to perform the behaviour, is said to be similar to the concept of *perceived behavioural control* (Krueger et al., 2000). Also, the concept of 'perceived desirability', or attractiveness of performing the behaviour, corresponds to attitudes towards the behaviour and subjective norms, as discussed in the theory of planned behaviour (Krueger et al., 2000). The perceived

desirability and perceived feasibility of performing the behaviour are antecedents of intentions. The ‘propensity to act’ serves as the third antecedent in the model. The propensity to act has been described as the “personal disposition to act on one’s decisions” (p. 419). This ‘volitional’ element explains why some people have intentions but may not act on them. Finally, similar to the TPB, exogenous and endogenous influences such as personality traits or characteristics of the environment, indirectly affect intentions and behaviours by influencing antecedents of intentions; in this case, perceptions of desirability and feasibility (Krueger et al., 2000).

Figure 3. Shapero-Krueger model of entrepreneurial intentions



#### 5.2.2.1 Limitations of intentions models

While intentions models add to our understanding of the intention-behaviour link by identifying possible antecedents of intentions and those factors that influence antecedents, some limitations of these models have been noted. Berglund (2005) noted two related limitations in his research on entrepreneurial action. The first limitation, he argued, was that intentions models tend to “marginalise” the role of the entrepreneur, meaning that behaviour was examined without reference to the views or experiences of the individual (p. 3). He observed that the cognitive approach to entrepreneurial behaviour paid “little attention” to the entrepreneur as a “situated and reflexive subject” (p. 24). A second limitation, according to Berglund, was that

intentions models tend to break down behaviour into component parts, from the exogenous factors (i.e. personal and situational factors) said to affect antecedents of intentions, to the antecedents of intentions, the intentions themselves, and behaviour, and study each in isolation, before establishing causality. He explained: “By emphasizing either intentions or performed behaviors in isolation, these studies fail to capture important aspects of entrepreneurial action” (p.3). Another limitation of intentions models is that they tend to predict rather than explain the behaviour. This criticism also applies to research focusing on what kinds of characteristics predict which firms grow, and one that also can be applied to research on *what kind* of barriers affect small business growth, as discussed in Chapter 2. Freel (2000) argues that predictive models of small business growth “neither describe, predict or, more importantly, explain very well” (p. 322). Freel explains that the predictive power of these models is weakened by the fact that studies relying on these models tend to yield inconsistent results. Also, he attributes the inability of predictive models to explain very well to research that is not process oriented but static, and to research that asks *what* and *how many* questions, instead of *why* and *how* questions.

### 5.2.3 *Why look at intentions to grow in the current research?*

One of the main criticisms of prior research on barriers to small business growth, as noted in Chapter 2, was that the desire to grow is often assumed in studies, but not always investigated, or methods utilized may not capture intent. This assumption was problematic inasmuch as not all owner-managers of small businesses express a desire or willingness to grow their businesses (Davidsson, 1991; Kolvereid, 1992; Morrison, Breen and Ali, 2003). Kolvereid and Bullvåg (1996) argue: “There is no reason to expect that all entrepreneurs should want their business to grow. On the contrary, there is evidence to suggest that the vast majority of small business owner managers do not have personal objectives to grow their business.” (p. 4). Furthermore, there is evidence that owner-managers’ goals are inadequately defined, as well as pragmatic and short-term (Dennis and Fernald, 2001; Jennings and Beaver, 1997; Bhidé, 1996; Rice and Hamilton, 1979). In turn, these factors may have negative implications for growing the firm and for these reasons, it is important to establish desire.

The second reason why intentions are integral to the current research is that they may tell us something about barriers to small business growth. This occurs in the three following ways. First, intentions may tell us whether or not an unwillingness to grow results from a lack of motivation, or if it can be attributed to certain factors or barriers to intention. Second, intention, as an individual-level construct, might tell us whether owner-managers are motivated to overcome barriers. Third, intentions may tell us whether or not owner-managers perceive they have the means to grow and thus the means of overcoming barriers to growth.

#### 5.2.3.1 Growth intentions and the institutional environment

In Chapters 2 and 3 the institutional environment in transition economies was described as underdeveloped, and several institutional barriers have been identified by owner-managers operating in these economies, including Russia, as having a negative effect on business growth and development. This section discusses how the institutional environment in transition economies may influence growth intentions.

There is some evidence to suggest that in formerly planned transition economies, the institutional environment shapes the intentions of small business owner-managers. For instance, Manolova and Yan (2002) examined how the institutional environment affected the strategic behaviour of six small firms in Bulgaria. They found that the current institutional environment was “unpredictable, corrupt, hostile and detrimental to the growth of private entrepreneurial firms” (p. 163). In response to this environment, owner-managers acted opportunistically and engaged in informal networking. Moreover, owner-managers were short-term oriented and this orientation coincided with a limited or no-growth strategy. Other researchers have found that a limited or no-growth strategy is common among small firms in the transition context (e.g. Jones-Evans, Steward, Balazs and Todorov, 1998). In another study, Aidis and Mickiewicz (2004) investigated why some Lithuanian SMEs intended to expand and others did not. A survey of 399 SME owners revealed corruption and inadequate tax systems were perceived by owners to be barriers to growth, and these barriers were seen as having a negative effect on owners’ growth aspirations, as measured in their study by intended increases in employment and turnover.

In Russia, Puffer and McCarthy (2001) have argued that decisions to grow are dependent on certain aspects of the 'hostile environment' (i.e. political, economic and legal environment) and the entrepreneur's 'creative use of scarce resources', particularly access to adequate financial resources and political power, in the latter case. According to Puffer and McCarthy, access to political power was the most important predictor of survival and growth for small Russian businesses over the 1990s. Examples of access included acquiring the necessary licenses or property, or receiving favourable treatment in the area of taxation, in terms of securing business contracts or real estate. Networks served to protect the five firms sampled from opportunistic behaviour, and helped these firms gain legitimacy. In Puffer and McCarthy's study of five entrepreneurial ventures over a decade, entrepreneurs were found to be short-term oriented; the extent to which entrepreneurs directed attention towards firm survival and growth changed periodically to reflect the changing circumstances. Other studies have found that small firms in Russia are short-term oriented for reasons involving the institutional environment (e.g. Polonsky, 1998; Ardichvili and Gasparishvili, 2003; de Koning, Fey and Doern, 2006).

Therefore, it can be said that in transition economies, owner-managers' intentions to grow may be sensitive to the institutional environment.

### **5.3 Understanding the relationship between barriers, growth intentions and behaviours**

The literature examined in - 5.2.2 'The Relationship Between Intentions and Behaviours', suggests that barriers may affect growth intentions and behaviours in one of two ways: 1) by stopping individuals from intending to grow, and 2) by stopping individuals from acting on intentions. Each is discussed here in turn.

A few scholars have theorized that *exogenous* factors may influence firm growth by affecting the antecedents of intentions and thereby inhibiting intent (Ajzen, 1991; Krueger et al., 2000). For instance, Krueger et al. (2000) suggested that exogenous factors like 'competition' or 'access to resources' may influence entrepreneurial intentions and behaviours *indirectly* by influencing the perceived 'desirability' and 'feasibility' of performing the behaviour. Also, Kolvereid and Bullvåg (1996)

theorised that characteristics of the entrepreneur, organization and the environment influenced intentions to grow, which in turn influenced behaviour (i.e. actual growth). As discussed in Chapter 2, barriers may be construed as those characteristics that have a negative effect on growth. Thus, it is implied in such prior research that if certain exogenous factors have a negative effect on intentions, the firm may not grow. According to Krueger (1997), “If we inhibit intent, we inhibit the action” (p. 9).

There is some, albeit limited, evidence that certain factors stop owner-managers from intending to grow. For instance, looking back at Cliff’s study (1998) of the relationship between attitudes to grow, firm size and gender, it was found that a quarter of the men sampled who did not wish to grow attributed their lack of desire to grow to exogenous factors such as ‘competition’ and ‘poor economic conditions’. Cliff noted that: “In contrast to the other no-growth reasons, this type of response seems to suggest that business expansion is actually desired by the entrepreneur and would be pursued if environmental conditions were more favourable” (p. 534). (This is consistent with the assumptions of prior research in Chapter 2.) Other studies have found that perceived competition affects intentions to grow (Dutta and Thornhill, 2007; Roper, 1998; Dodge et al., 1994). In another study conducted by the Aston Business School/Department of Trade and Industry (1991), 1095 small UK firms were surveyed with the purpose of identifying the incidence of constraints within several policy domains. Researchers found that of the no-growth firms (315), 29% said they did not intend to expand the business due to constraints.

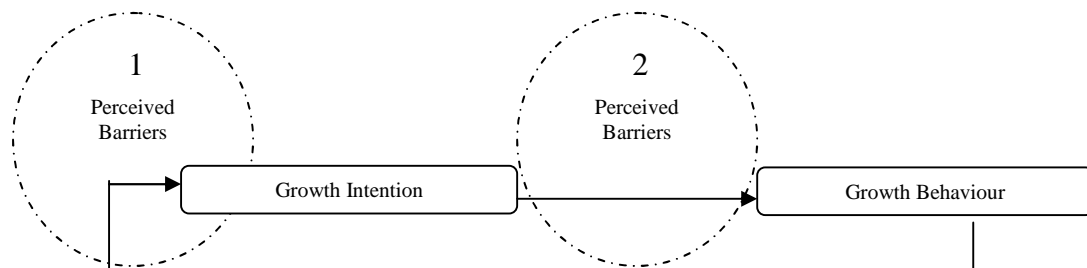
Barriers may also stop people from acting on intentions. Krueger (2003) asked the following question in relation to entrepreneurial intentions: “Does the failure of an intention to be realized as action reflect a barrier to action that could not be surmounted?” (p. 1). Shapero (1982) has also argued that the removal of a perceived barrier or inhibiting factor might trigger the initiation of an entrepreneurial action, such as business creation or growth. There was some evidence in the Aston study (1991) that barriers stop people from acting on intentions to grow. Researchers found that of the future growth-oriented firms (i.e. 609 or the total 1095 firms), a significant number of firms claimed they would not likely grow due to constraints. Nevertheless, there was also some evidence in this study that perceived constraints did not always stop people from acting on intentions. For instance, 87% of the future growth-

oriented firms said that irrespective of the problems they encountered in raising finance, they would apply for a grant. This finding suggests that in some cases, barriers, even when perceived, do not stop action. Similar evidence was examined in Chapter 2 (e.g. Bohatá and Mládek, 1999).

Finally, it should be noted that while in both the Cliff (1998) and Aston (1991) studies, respondents felt that certain factors kept them from intending to grow or from believing they would grow, in neither case were they questioned as to why or how these factors influenced growth intentions. Therefore in both cases, the impact of perceived barriers on future growth intentions was noted but not examined. This is something the current research attempts to do (see Chapters 6 to 9).

Building on theory and evidence discussed in this chapter, Figure 4 provides a preliminary model to express possible relationships between perceived barriers, growth intentions and behaviours, proposing that perceived barriers may affect intentions to grow, specifically intention formation (as indicated by the first circle), and may affect the actions to grow (as indicated by the second circle). As well, it captures the possibility that prior experiences of business growth may affect growth intentions (Delmar and Wiklund, 2003), as indicated by a feedback loop from behaviour to intentions. The model was developed here for two reasons: first, because it begins to unpack the complex relationship between perceived barriers, growth intentions and behaviours. Second, the model is intended to guide data collection and analysis in the main study. As discussed, one of key aims of the main study is to explore and examine how, or the ways in which perceived barriers influence growth intentions and behaviours. The model serves to explore and extend possible relationships between these concepts. Finally, the model is not without limitations, one of which is its simplicity. Furthermore, like other intentions models discussed, it would appear to isolate key variables such as intentions and behaviours. Nevertheless, the model is not intended to be tested, but rather serves as a point of departure for understanding more about barriers to small business growth. Other researchers have created conceptual models *not* for the purpose of testing but for the purpose of illustrating possible relationships between concepts (including growth intentions and growth), prior to empirical work (e.g. Kolvereid and Bullvåg, 1996).

Figure 4. A model of possible relationships between perceived barriers, growth intentions and behaviours



The model is underpinned by two key assumptions:

*1. Intentions to grow influence the growth of the firm.*

First, while it is acknowledged that not everyone agrees that the behaviour of owner-managers or entrepreneurs is intentional (see Jenkins and Johnson, 1997), or that these individuals are always clear about their intentions, or behaviour is always consistent with intentions (Mintzberg and Waters, 1985), it is argued here that intentions can and do affect behaviour (Kolvereid and Bullvåg, 1996; Ajzen, 1991). Given this, business growth, as the behaviour of interest, is more likely if the *intention to grow* is present. At the same time, while intentions are important, other factors such as the ability to grow or opportunity to grow, also play a role in the growth of the firm (Morrison, Breen and Ali, 2003; Delmar and Wiklund, 2003; Wiklund and Shepherd, 2003; Covin and Slevin, 1997; Sexton and Bowman-Upton, 1991). Thus, as previously discussed, firm growth is regarded to be a behaviour under limited volitional control (Ajzen, 1991; Wiklund and Shepherd, 2003).

*2. Growth intentions and behaviours may be influenced by perceived barriers.*

Second, growth intentions and behaviours may be influenced by perceived barriers. This assumption is based partly on empirical work conducted in the first study (Chapter 4), as well as empirical work discussed in this chapter. In the former case, it

was revealed that certain factors like economic uncertainty and collateral requirements stopped some owner and managers from intending to grow. As well, a couple of studies reviewed in this chapter found that certain exogenous factors like competition or poor economic conditions, stopped owner-managers from wishing to grow, intending to grow (e.g. Cliff, 1998). As suggested prior, Krueger et al. (2000) similarly proposed that exogenous factors such as competition and access to resources affected entrepreneurial intentions and behaviours indirectly, by acting on antecedents of intentions – i.e. perceived desirability and feasibility of performing a behaviour. According to intentions models, behaviour is affected indirectly through intentions.

#### **5.4 Chapter summary and conclusions**

This chapter defined intentions and examined the possible relationships between barriers, growth intentions, and behaviours in the literatures on entrepreneurial cognition research and cognitive psychology. While very little research about these relationships was found, there was some limited theory and evidence to suggest barriers may stop owner-managers from intending to grow, as well as some limited evidence that certain factors or barriers stop owner-managers from acting on intentions to grow. A model was constructed to capture the possible relationships between barriers, growth intentions and behaviours. The model was used in the second, main study to guide data collection and analysis, the subject of the next chapter. That is, Chapter 6 describes in detail the research aims, methodological approach, and methods used in the main empirical study. The current research differs from much of the research discussed in this chapter in that it is qualitative in nature and has, as the main unit of study, the individual owner-manager, with a focus on his/her perceptions of barriers to small business growth.

## **6 Method: The main study (study two)**

### **6.1 Introduction**

This chapter describes the research approach and methods employed in the main empirical study, the purpose of which is to address the research aims, specifically to elaborate understanding of barriers to small business growth. The chapter begins by discussing how the aims evolved over the research project. It then provides a rationale for adopting an interpretive methodological approach. This is followed by a detailed description of the research sample, 27 small business owner-managers, a description of the sampling strategy employed and, a discussion as to why and how qualitative data were collected using semi-structured in-depth interviews. Thereafter, an overview is provided of the analytical approach adopted, and reflexive activities undertaken by the researcher. The chapter ends with an evaluation of the methods utilized with a focus on the extent to which these methods are reliable and valid.

### **6.2 The research aims**

#### *6.2.1 The research aims and their evolution over the thesis*

Again, this thesis seeks to elaborate on our understanding of barriers to small business growth. To achieve this, two sub-aims were devised:

- i) to examine barriers to small business growth from the perspective of the individual owner-manager, with an emphasis on the meaning of barriers and the context in which they are perceived;
- ii) to explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours.

Table 6 lists the series of events from which the research aims evolved. Specifically, it describes how the aims were both formulated and addressed over the research project. Although by placing these events in a table it would appear that the process of identifying the aims was a linear one, in fact the process was non-linear.

Table 6. Formulating and addressing the research aims

<p style="text-align: center;"><b>(1)</b>  <b>Identifying the research phenomenon</b>  <b>(Chapter 3, Chapter 4, Chapter 2)</b></p>
<p>Prior research on Russia and transition economies concluded that the conditions for entrepreneurship and small business development are generally poor in Russia, despite some recent positive advances. Study one (St. Petersburg, February and March 2003) revealed that ‘barriers’ featured in owner/managers’ accounts of the external environment and their experiences of business growth and development. Prior research on small business growth has assumed that one reason small businesses may not grow is because certain barriers are preventative.</p>
<p style="text-align: center;"><b>(2)</b>  <b>Examining barriers research and identifying gaps in the literature</b>  <b>(Chapter 2)</b></p>
<p>The literature review revealed that prior research on barriers to small business growth and development in mature market economies and transition economies has concentrated on identifying what kinds of barriers affect growth and how important they are perceived to be, without explaining why or how barriers are perceived to affect growth, if indeed they did so at all. The meaning of and contextual influences on perceptions of barriers are also ignored.</p>
<p style="text-align: center;"><b>(3)</b>  <b>Clarifying the research phenomenon, aims, and focus of the main study</b>  <b>(Chapter 4)</b></p>
<p>From study one, three findings concerning barriers were identified: 1) Barriers are used by owner/managers to make sense of the conditions for small business development generally, and specifically their unique experiences; 2) accounts of barriers are often related to specific growth intentions; 3) accounts of barriers can be simple and straightforward or elaborate. Prior research on barriers to small business growth (Chapter 2) cannot explain these findings.</p>
<p style="text-align: center;"><b>(4)</b>  <b>Examining intentions research, identifying gaps in the literature, and creating a framework for further study</b>  <b>(Chapter 5)</b></p>
<p>The relationship between barriers, growth intentions and behaviours is not well understood. Drawing from the literature on entrepreneurial cognition and the literature on cognition in psychology, while also drawing from findings from the first study, a model was constructed to serve as an initial framework for identifying potential relationships between barriers, growth intentions and behaviours. The model was used to guide data collection and analysis in the main empirical study.</p>

<p style="text-align: center;"><b>(5)</b>  <b>Addressing the research aims</b>  <b>(Chapters 6-9)</b></p>
<p>The purpose of the main study, study two (St. Petersburg, June and July 2005), was to address the following aims: 1) to examine barriers to small business growth from the perspective of the individual owner-manager, with an emphasis on the meaning of barriers and the context in which they are perceived; 2) to explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours. Qualitative interview data were collected from 27 owner-managers, and analysed according to the guidelines of template analysis; but also by using interpretive phenomenological analysis and matrix analysis.</p>

## 6.2.2 *Addressing the research aims: Adopting a methodological approach*

The following section begins by discussing four major research paradigms and approaches. It points out why an interpretivist approach has been adopted in the current study and then discusses the roots of interpretivist inquiry and its features, noting that a handful of small business/entrepreneurship studies have incorporated interpretivist ideas and the relevance of these ideas to this research. Finally, it highlights features of qualitative inquiry and again their application to this research.

### 6.2.2.1 Research paradigms and approaches

In this section four major research paradigms are briefly compared across four criteria: first, the general aims of inquiry; second, the kind of data generated by the inquiry; third, ontology/epistemology underpinning inquiry; and fourth, the role of the inquirer. The purpose of this section is to highlight what there is to know about barriers to small business growth and how we can learn more about this phenomenon, and to set out how research aims will be addressed in this study.

The aim of inquiry in positivism and postpositivism is *explanation*; aligning them more with the traditional goals of the natural sciences than with the social sciences. According to Guba and Lincoln (1998), inquiry in the positivist and postpositivist paradigms focuses on “enabling prediction and control of phenomena, whether physical or human” (p. 211). Data take the form of facts or laws that may be used for

prediction and, ultimately, generalization. Positivism is defined by a realist ontology (assumes reality exists) and postpositivism by a critical realist ontology (assumes reality exists, but should be held up to critical examination); both have an objectivist epistemology, meaning that the researcher and object of study are separate - the researcher does not have a voice, and is regarded as a 'disinterested scientist' whose role is to inform (Guba and Lincoln, 1998).

As alluded to in Chapter 2, although prior research has embraced features of the positivist paradigm including prediction and generalization, the predictive capabilities of this research was argued to be weak and research did not explain how or why barriers affected growth. Furthermore, both positivist and post-positivist approaches are inappropriate in terms of addressing the current research aims which focus on understanding, not prediction.

The third research paradigm, critical theory, also does not serve the aims of the main study. Instead, the aim of inquiry in the critical theory paradigm is *critique and transformation* – “the critique and transformation of the social, political, cultural, economic, ethnic, and gender structures that constrain and exploit humankind, by engagement in confrontation, even conflict” (Guba and Lincoln, 1998: 211). Data generated in this kind of inquiry represent informed insights. While the ontology of critical theory corresponds with historical realism (assumes an historical reality, meaning history has shaped reality), it shares with constructivism a subjectivist epistemology – the researcher and the object of study are linked. In contrast to the previous paradigms, the researcher here occupies the role of the ‘transformative intellectual’ (Guba and Lincoln, 1998).

The current research is situated within the constructivist-interpretivist research paradigm (Denzin and Lincoln, 1998). The aim of inquiry in this paradigm is *understanding* - the “understanding and reconstruction of the constructions that people (including the inquirer) initially hold, aiming toward consensus but still open to new interpretations as information and sophistication improve” (Guba and Lincoln, 1998: 211). The constructivist-interpretivist paradigm embraces a relativist ontology and a subjectivist epistemology; although, in the latter case, interpretivists and constructivists take different views (Schwandt, 1998).

In terms of epistemology, the interpretivist contends that knowledge and truth are created by objectifying subjective experience, whereas the constructivist embraces more fully the subjective nature of experience. Dilthey (1937) notes how, in the former case, objectivity relates to understanding: “Only his objectified life-expressions and their effect on others teach man about himself; and so he comes to know himself only via the detour of *Verstehen*” – meaning understanding (p. 85). Similar attempts to explain this seeming paradox between subjective experience and objectivity have been made by Schwandt (2000) who states: “interpretivists argue that it is possible to understand the subjective meaning of action (grasping the actor’s beliefs, desires, and so on) yet do so in an objective manner” (p. 193). Schwandt continues: “interpretivists aim to reconstruct the self-understandings of actors engaged in particular actions” and that this is key to understanding, because the “actors’ ways of making sense of their actions are constitutive of that action” (p. 193). For the constructivist, knowledge and truth do not exist independently of mental activity and symbolic language, and are instead “created, not discovered by the mind” (Schwandt, 1998: 236). As discussed in the following sections, while the current research is situated in the interpretivist-constructivist research paradigm, the epistemological stance taken resonates more with interpretivism than it does with constructivism.

Finally, data generated in the interpretivist-constructivist paradigm take the form of constructions, the inquirer’s constructions of other people’s constructions (Geertz, 1973). The role of the researcher in this approach is that of ‘passionate participant’, meaning that the researcher’s background and perspective may shape his/her understanding of the phenomenon (Guba and Lincoln, 1998). This is examined further in the current study in Section 6.5 - ‘Reflexivity’, p. 153.

#### 6.2.2.2 Interpretivist roots and ideas

According to Schwandt (1998) the roots of interpretivism lie in three related areas, each of which captures ideas that have become central to interpretivist inquiry:

First, the roots of interpretivism lie in the critiques of scientism and positivism in the social sciences, and debates over their application to the social sciences. The goals of the social sciences and the natural sciences are regarded by some scholars, including Wilhelm Dilthey a key figure of interpretivism, to differ, with the former focused on *understanding* the meaning of social phenomena, and the latter on scientific explanation. Dilthey (1937) argued that man becomes the object of the social sciences rather than the natural sciences when human conditions are *experienced*; in his view, the social sciences were founded on the notion of ‘lived experience’, which Husserl described as the *Lebenswelt*. This meant that to truly understand a phenomenon, one must speak with those individuals that have direct or first-hand experience of the phenomenon (Patton, 2002).

Second, the roots of interpretivism lie in the hermeneutics tradition and the tradition of *Verstehen* in sociology. *Verstehen* refers to understanding (Dilthey, 1937). *Verstehen* has been described as the “complex process by which we come to recognize our own actions and those of our fellow actors as meaningful” (Schwandt, 1998). In interpretivist research, understanding is achieved through interpretation. Hermeneutics pertains to interpretation, usually the interpretation of text or, in the case of social research, the interpretation of interviews and actions (Patton, 2002). Interpretation, in the hermeneutics tradition, is regarded to be the key to deeper knowledge, and therefore superior to explanation and description (Gray, 2004). The interpretivist emphasises his/her interpretation of the subject’s interpretation; referred to as the ‘double hermeneutic’ (Giddens, 1984). As well, interpretation is regarded as a ‘circle of understanding’ (Heidegger, 1962) with a starting point, beginning with an everyday understanding of people and events, but no end point; leaving the discussion open to continuous interpretation (Packer and Addison, 1989).

Third, the roots of interpretivism lie in the phenomenology of Alfred Schutz, who drew from and added to the work of Max Weber and Edmund Husserl; all of whom like Wilhelm Dilthey, opposed reducing the social sciences to the natural sciences. Schutz was interested in the way individuals constructed their social world. He argued that interpretation was involved when individuals selected their experiences from a “stock of experiences” – their own experiences and those experiences passed on to them by other individuals, including parents and teachers (Schutz, 1970: 72).

Phenomenologists like Schutz tend to see “the world and the objects we perceive exist to us through the meanings we give to them, through an act of interpretation” (Berglund, 2007: 77). They contend that new meaning is generated when subjective experience is *bracketed* (Husserl, 1962), held up for “inspection” by “taking it out of the world where it occurs” (Denzin, 2002: 355). In this way, subjective experience is said to be objectified.

#### 6.2.2.3 Interpretivism, phenomenology and qualitative inquiry in small business/entrepreneurship research

As suggested earlier, interpretivism has roots in phenomenology. Additionally, phenomenology is accepted as being part of the interpretivist tradition (Holstein and Gubrium, 1994). In recent years, a handful of scholars in the small business/entrepreneurship area have taken a phenomenological approach to understanding the experiences of entrepreneurs, such as the experience of entrepreneurial risk (Berglund and Hellström, 2002; Berglund, 2005) and learning (Cope 2003, 2005; Cope and Watts, 2000). These studies share a focus on the perspective of the entrepreneur and how he/she perceives the phenomenon of interest. In all cases, samples of entrepreneurs studied have been small and the data generated qualitative in nature, based on the accounts of entrepreneurs. A study by Berglund and Hellström (2002) briefly demonstrates how interpretivist ideas have been used in these studies and can be used in small business/entrepreneurship research.

In Berglund and Hellström’s study, interpretivist ideas were present in different parts of the research design, analysis and results. The purpose of their study was to investigate the ways in which risk was experienced and enacted by entrepreneurial high-tech innovators in Sweden. To begin with, researchers selected those entrepreneurs that could describe, in some detail, the phenomenon in question – i.e. entrepreneurial risk in high-tech innovators. The sample therefore included those entrepreneurs active in their ventures for at least a year, and that had some experience driving the process of innovation. In order to solicit from these entrepreneurs rich *experiences*, while remaining focused on the research question and the phenomenon of entrepreneurial risk, researchers utilized semi-structured to non-structured interviews. *Interpretation*, which again is the process of pursuing understanding

through the construction of other people's constructions, played out in the analysis phase, in categorizing the interview data, and in the presenting of the final results. In the former case, categories for coding data were at first taken by the researchers from interview protocols, before being developed over time to resemble the original expressions used by participants. Interpretive elements also were evident in the presentation of results, in the distinctions made between the accounts of owner-managers (as represented in quotes) and the interpretations of researchers.

According to Cope (2005): "phenomenological inquiry is inherently qualitative in nature" (p. 165). There are several reasons for this that play out at different stages of the research process. To begin with, qualitative data tend to focus on the 'lived experience' of individuals, capturing and communicating these experiences in their own words (Miles and Huberman, 1994; Patton, 2002). As well, descriptions of experiences tend to be rich or thick, encapsulating the context, intentions, meanings and processes involved in the experience (Holliday, 2005). Moreover, when analysing qualitative data, the researcher is sensitive to context and "places findings in a social, historical and temporal context" (Patton, 2002:41). He/she is "dubious of the possibility of meaningful generalizations across time and space" (Patton, 2002: 41). In qualitative inquiry the researcher is reflective about his/her own voice and perspective. Alvesson and Sköldbberg (2000) argue that the reflexive researcher should use the data to support interpretations and lead to new understanding, to establish "richness in points" – in this way, "the data can be said to enable and support interpretation , rather than unequivocally lead up to it" (p. 277).

Finally, it is worth noting that several small business/entrepreneurship researchers have utilized qualitative methods in their work, focusing on the experiences of individuals (e.g. Rae, 2000; Anderson and Jack, 2002; Newby, Watson and Woodliff, 2003; Blackburn and Stokes, 2000; Hines, 2000; Shaw, 1999; Deakins and Freel, 1998; Chetty, 1996). As well, in recent years, there have been special issues in academic journals on qualitative methods in entrepreneurship (e.g. Gartner and Birley, 2002) as well as an edited volume on the topic (*Handbook of Qualitative Research Methods in Entrepreneurship*, Neergaard and Ulhøi, 2007). The current research therefore adds to this body of studies. A few additional points on qualitative

methods, as it relates to the current study, are mentioned in Section 6.3.3 - 'Selecting a Method of Data Collection', p. 136.

#### 6.2.2.4 An interpretivist approach to the study of perceived barriers to small business growth

An interpretive approach to the current study serves to elaborate on our understanding of perceived barriers to small business growth in several ways. First, in prior research (Chapter 2), perceived barriers to growth exist independently from subjects – i.e. owner-managers. In taking an interpretative approach in the current study, the author is able to emphasise how owner-managers give *meaning* to barriers; how they perceive, feel about, and experience the phenomenon (Patton, 2002). Second, prior research on perceived barriers to small business growth has aimed to identify barriers and predict which barriers affect actual business growth. The limitations of this approach were noted in Chapter 2. An interpretivist stance shifts the emphasis of inquiry from prediction to *understanding*. Third, the current research actively aims to speak to only those owner-managers with *experience* of growing the business or likely to grow the business, thereby focusing on the most relevant group. Fourth, whereas prior research (Chapter 2) has focused on quantitative surveys and the frequency with which certain barriers are perceived to be important, the current study conducts in-depth semi-structured interviews and produces from these interviews rich accounts of the phenomenon. Fifth, there is little-to-no understanding in either the small business/entrepreneurship literature generally or entrepreneurial cognition literature more specifically, about the relationship between barriers and the growth intentions and behaviours of small business owner-managers (Chapter 5). In the opinion of Berglund (2007), phenomenology may have something valuable to offer cognitive approaches to entrepreneurship by providing to these approaches “thicker elaborations” of certain phenomena and by developing new theoretical constructs or enhancing existing ones (p. 88). Finally, whereas prior research has tended to decontextualize responses, this study places interpretations in *context*, locating “the phenomenon in the personal biographies and social environments of the persons being studied” (Denzin, 2002). Among other things, this involves taking into consideration the unique transition environment in Russia.

The following sections provide a rationale for and a description of the research design and analyses in the current study, as well as a discussion as to the manner in which the methods utilized were evaluated.

### **6.3 The research design**

To address the research question and satisfy the research aims, accounts of barriers to growth had to be collected from owner-managers of small businesses working in Russia. To locate and speak to these individuals, the study was largely dependent on acquiring the services of an interpreter. In this section a brief description is provided of the interpreter and her role in the study. This precedes a detailed discussion of the research sample, and the selection and execution of a suitable data collection method.

#### *6.3.1 The interpreter*

The interpreter was a young woman, a Swiss-national, who had been living and studying at university in St. Petersburg for five years. She was referred to the author by a Russian colleague at the Stockholm School of Economics in Russia (I.D., study one), a senior researcher and consultant responsible for commissioning numerous research projects in the country some of which concerned Russian SMEs. The interpreter was well qualified for the role. She had earned both the Cambridge Certificate of Proficiency in English (CPE) and the Russian equivalent of this achievement which certifies that an individual has a very high level of language skills - vocabulary and grammar skills approaching a native speaker. She also worked with both English and Russian native speakers in a St. Petersburg language school.

In the pre- data collection period, details of the research project were discussed with the interpreter by email and telephone. Three weeks prior to our first in-person meeting in St. Petersburg she received a project summary, a list of interview questions, a telephone script, a letter to participants (Appendix 2.1), and a list of key terms that could be expected to come up at the interviews. It is interesting to note that the interpreter was also familiar with much of the terminology used in the study as her mother was an entrepreneur. During data collection she arranged interviews by telephone; she sent faxes and emails to potential participants; she also served as

interpreter at the interviews. In the post interview period, she clarified any facts with Russian-only speaking participants. She also participated in post-interview reflection with the author, as discussed in later sections. In the post- data collection period the interpreter continued to assist the author by translating business articles and other relevant literature. Her research assistance was invaluable for not only did she serve as a voice for the project, she also facilitated the author's access to organizations which otherwise may have been inaccessible.

### 6.3.2 *Sampling*

To participate in the study, five requirements had to be satisfied, the nature of and explanations for which follow shortly. Because the focus of the study was on perceived barriers to small business *growth* rather than on perceived barriers to business formation, it was considered important to interview those owner-managers working in more established businesses (not start-ups), owner-managers who had grown their businesses or were contemplating growing the business, hence the reason and the need to devise specifications around both the firm *and* the individual (see Appendix 2.1 for the Letter to Participants – Owner-Managers).

#### A. Firm specifications:

1. The business was at least two years old
2. The business employed no fewer than 10 people and no more than 100
3. The business was independently owned

#### B. Specifications for the individual:

4. The participant was both an owner and manager of the business
5. Prospective participants were told there was a particular interest in speaking to owner-managers of those firms that had experience growing the business(es) or plans to do so in the near future

Originally, 28 firms were sampled. Three were excluded, leaving a remaining sample size of 25 firms. Firms were selected in either of two ways: 1) from the St. Petersburg Yellow Pages database or 2) from referrals. With respect to the St. Petersburg Yellow Pages database, although business registries in transition

economies are notoriously incomplete and unreliable (Michailova and Liuhto, 1999), in compiling its database the Yellow Pages has required its registrants to provide details of business ownership, size of business (as measured by employee numbers) and type of industry engaged in. This database is updated every six months. Attempts to arrange interviews by contacting individuals from this source met with modest success. That is, in telephoning companies sampled from the Yellow Pages database, our hit rate (i.e. the number of companies willing to participate) was quite low, less than 10%. The reasons for our low hit rate were varied – for example, in some cases we were told that businesses had not grown and owner-managers were not interested in growing; in other cases, administrators were difficult and would not put us through to owner-managers, or we were told they were on holiday, sick, or unavailable for comment; and more often than not, phone lines were continually busy or out of service. Of the original 28 firms willing to participate in our study, 16 were identified through the Yellow Pages database. Of these 16 firms, three were later excluded. Of these three to be excluded, two were excluded because they failed to meet sample requirements, i.e. key individuals were not both owners and managers (also because one of these two individuals would not permit the interview to be recorded and was uncomfortable with the note-taking process). The third firm to be excluded exceeded the maximum size requirements of 100 employees and was closer to 300. (As it happened, the tape recorder also failed during the interview with the owner-manager of this third excluded firm.) Of the 16 firms sampled from the St. Petersburg Yellow Pages database, 13 remained in our study. In addition to these 13 firms, 12 firms were selected by a referral process, bringing the total sample size to 25. It should also be noted that of the 12 firms sampled by referral, owner-managers from four had participated in the previous empirical study conducted in February and March 2003 (see Chapter 4). A sampling strategy based on referral is not uncommon in the transition context. As discussed in Chapter 4, Michailova and Liuhto (1999) have argued that when conducting research in this context it is acceptable for researchers to use informal contacts and should make “intensive” use of these contacts (p. 16); other studies carried out on small businesses in Russia have done so (e.g. Polonsky, 1998). Further, this kind of purposive, non-probability sampling strategy is acceptable when research is exploratory and/or firms prove difficult to find (Burton, 2000). The present study met both criteria. Therefore, while this study relied less on informal contacts than the first study, contacts were still required in some cases.

Also, the sampling strategy was purposive in the sense that the author needed to speak to those individuals, owner-managers, who had experience with the phenomenon under investigation.

All businesses were operating in St. Petersburg Russia, within a range of industries - e.g. publishing, education, restaurants/bars, programming, marketing, architecture, engineering and maintenance work, small-scale production. All were mainly service-oriented industries with a smaller proportion of firms representing light manufacturing; the purpose of this being to select a range of experiences. The age of companies ranged from two to 15 years, the average business age falling between seven and eight years. In order to distinguish between start-up issues and growth issues, the minimum age for businesses in the sample was two years. In terms of company size, the smallest firm employed 10 workers; the largest employed 100 workers. As indicated in Chapter 3, legally, small firms are defined as those with less than 100 employees (depending on sector) and with less than 25% state ownership. All 25 companies were independently owned and operated, and registered as either Limited Liabilities Companies (OOO<sup>23</sup>) or Joint-Stock Companies (ZAO or OAO<sup>24</sup>).

The sample consisted of individuals who both owned and managed small firms. This requirement that individuals be both owners and managers was stipulated for two reasons: first, as business owners these individuals had some discretion within their respective organizations to make decisions that affected the firm's growth; second, those individuals with managerial responsibilities as well as ownership rights were likely, given the authority they wielded, to be in a position to discuss potential barriers to growth. The final sample consisted of 27 owner-managers; on two occasions the author spoke to two owner-managers at the same firm. Of these 27 individuals, only five were female which, according to one consultant working with small businesses (I.D., first study February-March 2003, Chapter 4), is typical of the distribution between male and female owned businesses. Twenty-five of the participants were Russian and two were Swiss nationals. Participants ranged from between the ages of

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<sup>23</sup> OOO (Limited Liability Company) is the most common form of legal entity for small businesses in Russia. The number of partners cannot exceed 50; otherwise, the legal form must be transformed into a public company (OAO) within one year or face liquidation (Comset, 2003).

<sup>24</sup> The Joint-Stock Company can be closed (ZAO) or open/public (OAO); shareholders in the former case cannot exceed 50; other, the legal form must be transformed into a public joint-stock company (OAO) within one year or face liquidation (Comset, 2003).

25 and 65, approximately; three participants had reached the age of retirement. The age of participants was based on an estimation generated by the researcher alone or with the interpreter. Other entrepreneurship researchers using an interpretivist/phenomenological form of enquiry have estimated the ages of participants (e.g. Cope, 2005). In this study the researcher wanted to refrain from asking questions that might be seen as compromising the anonymity of the participants, especially in the eyes of the participants. Firm size was measured by employee numbers.

Table 7. Attributes for owner-managers and their firms

<i>Participant</i>	<i>Position</i>	<i>Age</i>	<i>Firm size</i>	<i>Industry</i>	<i>Goods/Services</i>	<i>Age of firm(s) (Start date)</i>
Artyom OM1	General Director	45-50	20	Building/Construction	Building and installing lifts	8 (1997)
Denis OM2	General Director Shareholder	30-35	10	Retail	Cosmetics, home/gardens	7 (1998) 6mths (2005)
Leonid OM3	President	60-65	45	Building/Services	Real-estate brokerage, property evaluation, maintenance	8 (1997)
Ben OM4	General Director	40-45	25	Education	Russian language instruction	13 (1992)
Yelena OM5	General Director	45-50	32	Catering	Wholesale and retail baked goods	10 (1995)
Anton OM6	General Director and Publisher	30-35	60	Media/Services	Publishing regional newspaper	2 (2003)
Maksim OM7	Manager of the Department of Development and Shareholder	Under 30	50	Media/Services	Publishing directories and magazines	9 (1996)
Timofei OM8	General Director	30-35	10-15	IT/Services	Consultancy	3 (2002)
Pyotr OM9	General Director and Editor and Chief	40-45	10	Media/Services	Publishing books	10 (1995)
Galina OM10	General Director	45-50	10	Catering/ Food and Beverage	Bar and restaurant	7 (1998)
Anatoliy OM11	General Director and Chief Architect	50-55	10-12	Building/Services	Architecture	14 (1991)
Pavel OM12	General Director	45-50	98	Production/Equipment	Fast food equipment manufacturer	11 (1994)
Mihail OM13	General Director	35-40	45	Automotive/Services	Car servicing and auto-body work	(Bought 2004)
Marcus OM14	General Director/ Consultant	50-55	40/20	Food and Beverage/ Building	Restaurant/house building	10 (1995) 6mths (2005)
Eduard OM15	General Director	50-55	20-30	Computing	Computer assembly and repairs	10 (1995)
Ivan OM16	General Director and Chief Architect	40-45	45	Building/Services	Architecture	13 (1992)
Lyudmila OM17	General Director	50-55	60	Textiles	Clothing production and distribution	15 (1990)
Yegor OM18	General Director	30-35	20	Entertainment	CD/DVD sales	11 (1994)
Nikolai OM19	General Director	60-65	100	Building/Construction	Building and installing lifts	11 (1994)
Roman OM20 & Svetlana OM21	General Director  Commercial Director	55-60 (both)	30	Media/Education/ Hospitality	Publishing educational materials, language instruction, mini-hotels	13 <sup>25</sup> (1992)

<sup>25</sup> This business started as a cooperative in 1989 and became independent in 1992.

Stepan OM22 & Fyodor OM23	President General Director	40-45 (both)	35	Media/Services	Publishing, advertising	12 (1993)
Inna OM24	Financial Director and Shareholder	30-35	10-15	Textiles	Clothing design and sales	5 (2000)
Dmitry OM25	General Director	60-65	100	IT/Services	Software programming	12 (1993)
Vadim OM26	General Director	40-45	35	Production/Equipment	Intercom systems production, sales, installation	5 (2000)
Boris OM27	General Director	45-50	14	Industrial equipment Services	Projects for baking equipment	11 (1994)

### 6.3.2.1 Sampling difficulties – “I need to speak to your boss!”

Initially, in arranging the interviews with owner-managers one of the more difficult problems we encountered was in speaking with the owner-managers to inform them of the study and to invite them to participate. Some office administrators, with whom we attempted to speak with upon reaching prospective participants by phone, declined involvement in the project on behalf of their companies. A few explained that owner-managers did not “bother” or “waste their time” with such things. One asked, “What are you talking about?! How can you think of calling us?” Another said, “Don’t bother with our director, he doesn’t know what he’s talking about. He’s young”. Frequently, we were told to call back but in several instances when we did, our calls went unanswered. This experience reminded the researcher of an interview with a consultant in the first study (February-March, 2003) from the St. Petersburg Foundation for SME Development, who noted that in her own work it was often difficult to get access to managing directors:

*“In some companies it’s rather difficult even to get by phone the director. Even if you know him or he knows you. You just go to the secretary and you can’t go further because it’s blocked.” (I.A., study one)*

She explained this was due to the old hierarchical corporate culture, a “closed” culture that existed in some organizations. To overcome this challenge in the current study, the interpreter spoke to several of her Russian colleagues, those experienced in conducting research with Russian businesses. The interpreter was advised by her Russian colleagues to be as direct as possible on the telephone but not to reveal too many details to the administrator. She was encouraged to stress the importance of the call and to say that she herself was representing a reputable foreign institution, rather than saying she was working for a researcher from this foreign institution. As a last

resort, if administrators asked too many questions or seemed to be ready to hang up the telephone, she was advised to tell them clearly “*I need to speak to your boss. It’s confidential*”. This technique proved somewhat successful, although not in all cases.

### 6.3.3 *Selecting a method of data collection*

As mentioned earlier, quantitative methods, structured surveys mainly, have been used in the past to identify and examine barriers to small business growth. The limitations of this method were discussed in Chapter 2. The emphasis surveys place on standardization and uniformity (Grix, 2004) over meaning and experience, rendered them unsuitable to address the aims of this research. For these reasons, the selection of method was limited to a range of possible qualitative research techniques, namely interviews, observation, and diary methods (Easterby-Smith, Thorpe and Lowe, 1991), although it should be noted that both interviews and diary methods may be used to elicit quantitative data. Qualitative methods are useful when the purpose of the research is to *understand* the participants’ point of view and experience (Kvale, 1996; King, 2004a), as was the case in the current study. A brief discussion of each method and its suitability to the research aims and research sample follows.

Because observation is primarily concerned with what people actually do, as opposed to what they say they have done or will do (Robson, 2002), its application to the present study was viewed as inappropriate.

Diaries, in contrast to observation, had more to offer the current research, mainly in terms of their usefulness as a technique to “investigate a wide range of subjective phenomena”, including feelings, behaviours or events over time (Symon, 2004: 98). These features of diary studies served two important requirements of the current research: *subjectivity* and *process*. The *process* element of this method however, may be limited to the extent that diaries most often are used to document changes in phenomena over a relatively short period of time whereas in the current research the cognitive/behavioural processes to be explored and described were likely to unfold over several weeks or months, if not years - e.g. hiring employees takes several weeks, if not months. Indeed the initial decision to recruit may take even longer and the processes by which individuals arrive at their decision to recruit may not be easily

documented. Further, diaries require a significant degree of commitment from the participants. This kind of commitment may be easier to acquire if one already has an established relationship with the participants. Symon (2004) discussed how her involvement with diary participants several months prior to the study made her feel she “could” ask them to keep diaries. To ask participants to keep diaries was not considered feasible in the current research. Also, there were concerns that diaries would be too time-consuming for the participants. The time element was seen as making the technique unattractive to owner-managers of small businesses generally, and owner-managers operating in Russia specifically. In the author’s experience with interview-based studies in Russia, potential interviewees often agreed to being interviewed only after several phone calls and after they received a last minute reminder from the research team and with it received the option of pulling out; this chasing after the participants was believed to be the result of the limited time they had to give to research. Finally, diary studies were also seen as exceeding the resources available to the author inasmuch as most diaries would require translation. For all of the reasons mentioned, diaries were not used in the present study.

Interviews can provide insights into the meanings people ascribe to issues or situations (Easterby-Smith, Thorpe and Lowe, 1991). This is the case with qualitative interviews in particular. According to King (2004a) qualitative interviews are appealing to the extent that they aim to investigate “the research topic from the perspective of the interviewee, and to understand how and why they have come to have this particular perspective” (p. 11). He goes on to say that unlike the quantitative interviewer who regards a relationship between his or herself and the interviewee as compromising the accuracy of responses, the qualitative interviewer encourages relationship building. Qualitative interviews also are useful in that they focus on the meaning participants attribute to the phenomena, as well as on their perceptions of processes (King, 2004a). Finally, interviews overcome some of the concerns regarding commitment, as mentioned in the previous discussion of diary studies, namely time. Nevertheless, there are several disadvantages to interviews, mainly response bias and the time it requires of both participants (Robson, 2002) and the researcher, including the time required by the researcher to transcribe interviews. Overall however, the advantages of interviews, insofar as they met the conceptual and

practical needs of the research, far outweighed the disadvantages. For this reason, interviews were selected as the main method of data collection.

Because the emphasis of research was on understanding the perceptions of owner-managers, one-to-one interviews were preferred over group interviews. It was felt that group interviews potentially could compromise the confidentiality of the research. It should be noted however, that on a couple of occasions two owner-managers (business partners) were present during the same interview. Nevertheless, on these occasions each participant was given ample opportunity to express their own views and experiences.

It was also necessary to make a decision regarding the degree of structure to impose on interviews. Both unstructured and semi-structured interviews have been used in small business research to explain ‘how?’ and ‘why?’ questions (Deakins and Freel, 1998; Freel, 1998; Chetty, 1996). Structured interviews were seen as limiting the potential for discovery or, they were seen to constrain participants from discussing those issues the participants regarded to be important to the phenomenon of interest (Breakwell, 2000), in this case barriers to growth. Unstructured interviews however were considered too difficult to interpret (Easterby-Smith et al., 1991). For these reasons, given the flexibility it afforded, a semi-structured interview format was selected. A semi-structured format allowed for certain sequences of questions to be structured which enabled comparability (Robson, 2002), while leaving room for unexpected lines of enquiry (Grix, 2004). As well, because interviews were conducted in Russian and then interpreted into English or conducted in English with non-native speakers, it was believed that by structuring some parts of the interview any issues attributable to language differences could be more easily managed and overall consistency could be achieved.

#### 6.3.3.1 Cross-cultural interviewing

Because interviews in this study took place in Russia with non-native English speakers, and being that English was the native language of the researcher, the researcher was sensitive to the issues surrounding cross-cultural interviewing. To those researchers conducting cross-cultural interviews, Patton (2002) warns: “cross-

cultural inquiries add layers of complexity to the already-complex interactions of the interview” (p. 391). He advises researchers to take special care when the interview requires an interpreter or translator. In aid of this, Patton says the interpreter must be very clear about what they are required to ask participants; although Rogers (1997) has said that even less proficient interpreters in his experience can and should be able to “carry themes” (p. 1). As discussed at the beginning of Section 6.3, the interpreter in the current study was informed in advance about the themes of the study, and sent information to this effect, including a list of key terms, key questions, and a script for arranging interviews. Second, interpreters also should be encouraged to translate as much detail as possible, even errors (Rogers, 1997) and the translation should be written up verbatim (Patton, 2002). Third, paraphrasing, which leads the interpreter to summarise and explain responses, should be strongly discouraged (Patton, 2002; Rogers, 1997; Bragason, 1997).

Patton (2002) also advises researchers to be aware of and sensitive to, *language differences* and different *norms and values*. In the former case, Patton notes that some ideas and words may not be translated directly. Taking an example from the current study, the term “*Sovok*” was used by one owner-manager to describe a kind of unmotivated behaviour that people exhibited during Soviet times, behaviour that still existed at the time of the interviews. It is also the case that the meaning of some concepts may differ across cultures (Sechrest, Fay and Hafeez Zaidi, 1972), but that one way to approach meaning equivalence is to elicit in-depth explanations from participants (Bragason, 1997), as discussed in Chapter 2. Patton also informs researchers that some subjects may be *taboo* in other cultures. For instance, in Russia it is very difficult to get financial information about small businesses because owner-managers have vague ideas as to what they make in revenues, and/or because most hide their actual earnings from tax inspectors (as noted by SME stakeholders in study one – i.e. I.D., S.B., and I.A.). Because prior to beginning her PhD in the United Kingdom, the Canadian researcher lived and worked in Russia for a year and a half conducting other research projects in the country, this experience served to familiarize her somewhat with certain research protocols and cultural customs in the country.

Finally, it is interesting to note that in Patton’s view doing cross-cultural research requires a certain sensitivity which may serve researchers well in their own contexts

as well as in other research settings. He states: “Getting valid, reliable, meaningful and usable information in cross-cultural environments requires special sensitivity and respect for differences” (p. 394). To ensure data generated in this study was indeed valid and reliable in a qualitative sense, and that data were meaningful, certain steps had to be taken, some of which were touched upon in this section; these and other issues are discussed at the end of the chapter in Section 6.6 - ‘Evaluating the quality of data interpretation’, p. 160.

#### 6.3.3.2 The interview process

The model developed in Chapter 5 (Figure 4) was useful in shaping the interview schedule. Ideas for the more structured questions came from the literature (e.g. Carter et al., 2000, 2006; Cliff, 1998), whereas a means to assess the ease with which respondents approached the structured questions and ideas for the less structured questions came from preliminary interviews held in London with four small business owner-managers prior to the main data collection period, November-May, 2005. The first two interviews conducted in St. Petersburg provided information as to how participants responded to questions in this context; they also served to familiarise the interpreter with the nature of the questions being asked. Even so, and because ultimately the structure and nature of these two interviews did not differ markedly from the main interviews, they were included in the final sample count.

Interviews for the main study were held between June and July 2005. The interviews began by asking participants how and when the business was started; they also were asked to describe the kinds of activities their companies engaged in, the role they as individuals played in their companies and they were asked to provide some personal background details (e.g. their education and work experience). In addition to providing us with necessary background information, personal questions served to put the participants at ease. However, it should be noted that some of these questions were picked up throughout the interview to coincide with the flow of the conversation. After these introductory questions, participants were asked three standard additional questions. Each question was accompanied by a question prompt. To ensure the prompts used in the Russian language reflected the same meaning as they did in English, prior to interviews the prompts were written in English and

translated into Russian by one individual, then translated back again into English by another individual. One translator used in the study was a Russian lawyer working in St. Petersburg for a Western firm specializing in business law. The second translator was a small business owner with a PhD in Economics, who also participated in the first study - Tatiana. Both Russian translators spoke English fluently.

The three standard questions and some examples of their respective prompts are as follows:

1. What is your intention for the business?

Prompts: to grow substantially, to grow moderately, to stay the same size, to become smaller

2. How do you intend to grow the business? That is, what kinds of things, if any, have you done or are planning to, to fulfill this intention?

Prompts (examples): to expand the product or service line, to open a new shop/factory, etc.

3. Has anything prevented or interfered, in any way, with your attempts to achieve your intentions?

Prompts (examples): lack of access to capital, too much bureaucracy, etc.

The purpose of the first standard question was to establish whether the owner-manager was growth-oriented. These objectives listed as prompts in this question (e.g. to grow substantially) were used to establish growth orientation in other studies on barriers to SME growth in the UK (e.g. Aston Business School/Department of Trade and Industry study, 1991; Carter et al's study, 2000). Growth orientation was also confirmed by determining whether individuals in the past had taken actions to grow or whether they planned to do so in the future. The second question intended to identify more specific growth intentions or goals. Prompts for this question were taken from the literature and the first empirical study (Chapter 4). The third question sought to identify barriers to growth intentions. Prompts for the kinds of barriers were taken from the literature, as discussed in Chapter's 2 and 3, and from the first study, as discussed in Chapter 4.

As a follow-up to the third question, participants were asked which barriers, if any, were important to them and why, how barriers affected intentions, how participants responded to barriers, and how barriers made them feel. This line of questioning has in common with the critical incident technique<sup>26</sup> (CIT), as developed by Elizabeth Chell from within an interpretive paradigm, the desire to ‘focus’ the interview “which enables the researcher to probe aptly, and the interviewee to ‘hook’ their accounts” (Chell, 2004: 47). The researcher also embraced the freedom within the technique to clarify her understanding of incidents, incidents which in the current study corresponded to certain barriers to growth. However, as discussed later in the Section 6.5 - ‘Reflexivity’, in a few interviews consistent probing proved to be unsettling for the interviewees and in such cases, a softer approach to questioning was adopted.

The interview guide (see Appendix 2.2) was used flexibly. During some interviews, questions regarding growth intentions and the barriers to growth flowed naturally in response to participants’ discussions of their firms’ history from the time of founding to present day; on other occasions the questions were asked in a more straightforward manner. Regardless of the format adopted, participants were always encouraged to elaborate on their answers and to provide examples where possible.

The author personally interviewed all owner-managers. The duration of interviews, on average, was 1.5 hours each with the shortest interview being 47 minutes and the longest being 2.15 hours. Of the 25 companies interviewed, 14 interviews were conducted in both Russian and English; 11 were conducted in English only. The same interpreter was used for the all interviews where Russian was spoken. To reduce the likelihood of paraphrasing, the interpreter was instructed to translate in small chunks, pausing after every two to three sentences (Rogers, 1997).

Every interview was recorded digitally and then downloaded on to a laptop following the interviews. Most interviews were transcribed by the author within 72 hours following the interview session. The process of transcribing the interviews put the

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<sup>26</sup> Chell (2004) defines the Critical Incident Technique as “a qualitative interview procedure which facilitates the investigation of significant occurrences (events, incidents, processes or issues), identified by the respondent, the way they are managed, and the outcomes in terms of perceived effects. The objective is to gain an understanding of the incident from the perspective of the individual, taking into account cognitive, affective and behavioural elements” (p. 48). While context is defined by the subject mainly, the context described can be supported by documented facts and by researching multiple sites.

author in close touch with the data and facilitated further reflection. At the beginning of each set of transcripts (based on notes taken before, during and after the interview) a description was given of the interview setting, the participant's use and facility with the English language (if English was spoken), and/or the participant's mood (see Appendix 2.3 for Excerpts from Field Notes). The transcripts also recorded long pauses between questions and responses, general excitement or antipathy to questions, misunderstandings, and sometimes laughter.

During four separate intervals, portions of transcribed interviews (accompanied by the actual recording) were reviewed by a third party, a Russian lawyer who, as noted previously, was fluent in both Russian and English, a person already considerably experienced in doing translations in the business sphere. This was intended to improve the accuracy of the translations.

Finally, interviews were also held on a more informal basis with seven stakeholders from five organizations. A list of these individuals and some of the questions posed to them are included in Appendix 2.4 - Stakeholders. Data from these interviews were used for the purposes of reflection only. That is, the purpose of conducting these interviews was, broadly, to further the researcher's own understanding of the research phenomenon, and the context for studying the phenomenon.

#### *6.3.4 Confidentiality*

All participants were informed at the beginning of the interviews that any information which could identify them, such as their names and the names of their companies, would be kept in strict confidence, so as not to compromise them in any way.

Remembering that much of the subject matter to be discussed was sensitive (e.g. may involve illegal activities such as tax evasion), confidentiality was seen as crucial not only in terms of making participants more comfortable during interviews, but in doing so, maintaining the integrity of the results. To maintain participant anonymity, each individual was given a pseudonym, while the company names and locations were not used. Also, in cases where specific facts involving the individual or company were believed to jeopardize either in any way, they were changed or omitted.

It is interesting to note that when during interviews participants were told about the ‘confidentiality’ of their participation, a few made a point of stating that they had nothing to hide. One owner-manager of a restaurant/bar replied to the statement that her name and the name of her company would be kept confidential by saying, “*I don’t really worry about this because I have an open company.*” The intention of these claims may have been to assure the author that neither the individuals nor their companies were involved in any illegal dealings, or to create the impression that such was the case. Another participant, the part owner-manager of a computer repair assembly and repair service reacted to the reference to confidentiality by saying, “*I do not hide my point of view or opinion*”. The statement issued by this participant may have been motivated in part by his desire to assert his disregard for traditional concerns among Russian people about speaking negatively about the state or state officials and the consequences of this.

## **6.4 Data analysis**

### *6.4.1 Analytical approach*

Interview data were analysed according to the guidelines for template analysis (King, 2004b; Crabtree and Miller, 1999), whilst incorporating some aspects of interpretive phenomenological analysis (Smith, 1996). Template analysis has been defined by King (2004b) as a “group of techniques for thematically organizing and analysing textual data” (p. 256). A template is a coding scheme within which codes are arranged in a hierarchical fashion depicting relationships between themes, with the broadest themes, or first-order themes, at the top, and more specific second or third order sub-themes descending from such. While analysis usually begins by identifying *a priori* themes relevant to the research question, this need not be the case (Robson, 2002). *A priori* themes can be drawn from the literature or previous research (Crabtree and Miller, 1999). King, Carroll, Newton and Dornan (2002) warn that such themes should be seen as “provisional” and “open to modification” following successive readings of the text (p. 334). Coffey and Atkinson (1996) added that “the establishment of ordered relationships between codes and concepts is a significant starting point for reflection and for theory building from qualitative data” (p. 48). The final template is, in most cases, the product of a long and iterative process which

involves continuously moving back and forth between the template and the text, coding, sorting, making connections, and presenting the results (Crabtree and Miller, 1999). Before recounting how the current research was taken through each of these stages, a brief foray is made into the epistemological underpinnings of the technique and a rationale for adopting some of its basic principles in the current study.

King (2004b) has argued that template analysis resembles grounded theory (Strauss and Corbin, 1990) and interpretive phenomenological analysis (IPA) (Smith, 1996), particularly the latter. King (2004b) refers to grounded theory as a predominantly realist-based methodology which seeks to reveal the real internal states of people through empirical research. In comparing grounded theory to template analysis, King argues that grounded theory tends to rely on prescriptive procedures for collecting and analysing data, and open coding without pre-determined classifications, while template analysis utilizes more flexible data gathering and analysis procedures and may incorporate predefined codes. Template analysis shares more features with IPA. IPA seeks to develop from participant accounts interpretations of experiences, rather than “simple descriptions of true experience” (King, Carroll, Newton and Dornan, 2002: 332). Drawing on the work of Smith, Jarman and Osborn (1999), Hughes and McCann (2003) described IPA as being “concerned with the interpretation of an individual’s personal perception or account of an object or event” (p. 601). It has been widely used in health psychology to understand patient and practitioner experiences (e.g. Smith, 1996; King, Carroll, Newton, and Dornan, 2002; Hughes and McCann, 2003; Rhodes, Jakes and Robinson, 2005; Harris, Pistrang and Barker, 2006). In both IPA and template analysis, researchers aim to develop conceptual themes and the generation of cross-case master themes (King, 2004b). Nevertheless, before master themes are devised, IPA requires more time to analysing individual cases in depth. For this reason, King explains that IPA is best applied to a small number of cases, around ten, while samples of 20 to 30 participants are better suited to template analysis. In the current study IPA was used mainly in terms of generating more interpretive themes, and in providing more in-depth examples of individual cases.

Template analysis was selected as the main analytical technique because it is flexible, not overly prescriptive, and iterative; the latter of which allowed the researcher to be

both systematic and reflexive at the same time. Crabtree and Miller (1999) have noted that template analysis allows the researcher to focus initial time and effort on text of relevance to the research question specifically, while only later after identifying and sorting segments, engaging them in deeper “line-by-line” scrutiny (p. 164). Following this, connections can be made and more interpretive themes identified. It is through this process that one moves away from producing overly descriptive themes which, in King’s view (2004b), fail to bring out the ‘individuality’ and ‘depth’ of participant responses; one of the potential disadvantages of template analysis. King (2006a) says that for these reasons, template analysis (TA) is entirely ‘usable’ for process-based ‘how’ questions; as in the current study. He explains:

“TA should be used to interpret the data, not just provide a summary description. As such, it seems to me entirely usable for the more process-based *how* questions [...] TA is only the first step in analysis. Once you’ve got a good template of themes, and the data coded to it, you have then to construct your account of what it is telling you” (p.1).

The analysis of interview data in the current study transpired over three stages. See Table 8 at the end of this section for a summary of analytical activities undertaken.

#### 6.4.1.1 Stage one

The first stage of analysis unfolded during data collection, and included various activities such as conducting preliminary interviews in London and St. Petersburg, collecting interview data from the main research sample and reflecting on the process, and transcribing and reading interviews. Details of these activities were provided in Section 6.3.3.2 - ‘The Interview Process’, p. 140. At this stage, the author was alerted to potential themes relating to the research aims. For instance, it was noted that some barriers seemed to delay owner-managers from realizing their intentions. As well, some barriers were notably more common to discussions of growth intentions than others. Even so, it was also the case that not all participants could say how, or in which ways, barriers influenced their growth intentions and behaviours.

#### 6.4.1.2 Stage two

Stage two revolved around the development of the coding template. The coding template was intended to broadly address the general research aim, to elaborate on our understanding of barriers to small business growth, with a focus on the second research sub-aim, to explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours.

It should be noted upfront that although the author has had some experience with QSR qualitative software (i.e. NUD\*IST), she chose to code the data by hand for three reasons. First, because relatively few interviews were conducted and hand-coding was therefore deemed possible. Second, because the purpose of these interviews was deep understanding, rather than generalization, which necessitated some note-taking and reflection. Third, hand-coding was believed to reduce the risk of de-contextualizing data. That is, in some cases participant accounts of barriers often spanned several pages, or accounts picked up and left off at unusual or unexpected places, and these things were considered easier to note and keep track of by hand.

There were *two* parts to this stage of analysis, which corresponded to first creating the template and formulating descriptive codes, and second, making the leap to more interpretive themes (both of which appear in the Full Coding Template, see Appendix 2.5). A template of first-order descriptive codes was constructed largely from the interview guide. These consisted of:

- Participant background
- Growth intentions
- Kinds of barriers
- Consequences of barriers
- Participant explanations of barriers
- Ways in which barriers influence growth intentions and behaviours
- Responses to barriers
- Feelings towards barriers

The coding process unfolded over a number of steps. First, once initial codes were created, each code in the template was assigned a number and then used to organize the data. Within transcripts, text pertaining to codes was underlined, and the code was written in the left hand margin, adjacent to the text. Sometimes notes were made in the right hand margin to signify potential themes, and develop, in turn, a deeper form of analysis (Miles and Huberman, 1994). Because discussions of barriers involved lengthy sequences of events, the basic unit of analysis was the sentence or multi-sentence, although sometimes even larger chunks were used.

As anticipated, the process of creating the template was a lengthy endeavour, involving numerous iterations of both first-order and second-order codes, some major and others minor. This is because every time the template was used to code the transcripts, new codes were discovered, while old codes or coding categories were collapsed or deleted. For example, in addition to the first-order codes listed above, other first-order codes were initially devised and later deleted from the final template even though they were used to inform the more interpretive themes or appeared in reflections, including: perceived changes in barriers over time, relationships between barriers, and explanations for not being barriers. Second-order codes were similarly devised and revised following subsequent iterations.

The second step in the coding process was to discuss initial versions of the coding template with another academic, a PhD colleague, NW, who had experience using the technique. Meetings between the author and NW revolved around understanding what worked and what did not in between templates, and reflecting on the reasons for such, rather than on reporting the reliability of coding in a statistical sense (Crabtree and Miller, 1999). Prior to every meeting, the author used the template to code most, and, in some cases, all of the 25 transcripts to determine its applicability; while her colleague examined 10% of all total transcripts during each round (three or less).

Third, once the template and the descriptive first-order and second-order codes became more refined, the transcripts were then re-coded using coloured pens. Coloured pens were used to indicate the code number and underline the relevant text (e.g. red for 'kinds of barriers', green for 'ways in which barriers influence intentions and behaviours', orange for 'responses to barriers', blue for 'participant explanations

of barriers’). Data extracts were then sorted according to colour, and arranged in a new document. In grouping the extracts together, similarities and differences between them were identified. More meaningful connections were then drawn between similarly coded chunks of text (Crabtree and Miller, 1999). For instance, extracts for the ‘kinds of barriers’ were arranged according to most common kinds of barriers, and according to those that were unusual or surprising barriers. (The process of identifying and describing barriers is illustrated Chapter 7, in Section 7.2.1 - ‘Analysis of interview data – descriptions of barriers’, p. 172).

While some codes remained descriptive (e.g. ‘growth intentions’), others became more interpretive. The third step marked the beginning of creating more interpretive themes. This process of creating more interpretive codes continued in the fourth step during which time efforts were focused on developing more meaningful, interpretive themes for the code ‘ways in which barriers influence growth intentions and behaviours’. Initially, this first-order code encompassed two second-order, *a priori* codes (from the literature, Chapter 5): 1) *barriers may stop owner-managers from intending to grow*, and 2) *barriers may stop owner-managers from acting on intentions to grow*. Other ways in which barriers influence growth intentions and behaviours were also identified from the interview data, including:

- Focusing attention on firm survival and not growth
- Shaping growth intentions
- Changing growth intentions
- Directing resources away from growth-oriented activities
- Limiting resources invested in growth-oriented activities
- Delaying growth-oriented activities
- Limiting the scale or range of growth-oriented activities undertaken
- Shaping growth strategies

All of these codes were then arranged into separate word documents, within which the relevant extracts were placed and further elaboration was provided from owner-managers’ accounts (placing this step on the border of stages two and three of the analysis – i.e. writing up results). In describing the ways in which barriers influence

growth intentions and behaviours in individual accounts, the researcher drew from other parts of the template; this assisted in fleshing out individual experiences and creating a more holistic picture (see Appendix 2.6 for ‘Developing a Case: An Example of Drawing on the Full Template’). Through this process, the codes were further refined. For instance, the code *focusing attention on firm survival and not growth* which emerged from the data, was incorporated into the *a priori* theme *barriers stop owner-managers from intending to grow*, while the codes *directing resources away from growth-oriented activities* and *limiting resources invested in growth-oriented activities* were brought together under the new theme *barriers undermine intentions to grow*; all of which became sub-themes of the higher order theme **barriers shape intentions to grow or not to grow**. Eventually, two higher-order themes and six sub-themes emerged from the data<sup>27</sup>:

#### **A. Barriers shape intentions to grow or not to grow**

- A.1 Barriers stop owner-managers from intending to grow
- A.2 Barriers undermine intentions to grow
- A.3 Barriers add to the ambivalence around intentions to grow
- A.4 Barriers provide incentives to grow

#### **B. Barriers shape intention realization**

- B.1 Barriers postpone intentions to grow
- B.2 Barriers slow down the process of realizing intentions to grow

More details of the process of moving from the *a priori* descriptive codes (*barriers may stop owner-managers from intending to grow*, and *barriers may stop owner-managers from acting on intentions to grow*) to more interpretive themes are provided at the beginning of Chapter 8, Section 8.1.1.1 - ‘Template Analysis’, p. 195.

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<sup>27</sup> The terms higher-order themes and sub-themes signify a shift from descriptive to more interpretive themes and will replace the terms used for descriptive codes – i.e. first-order and second-order codes.

Fifth and finally, the author also borrowed some ideas from matrix analysis once the six sub-themes were derived. Data matrices serve to reduce and interpret data (Miles and Huberman, 1994). According to Nadin and Cassell (2004), “matrices can be used at various points in a project”; at the beginning of a project to gain an overview, or during later stages “to carry out a more detailed analysis” (p. 272). Transcripts were re-read and examples of each theme were drawn from transcripts where possible, and placed into a data matrix with themes arranged by column and rows arranged by participant. This part of the analysis served two purposes: first, it ensured that none of the data relevant to the themes were missed. Second, it allowed for comparisons of themes within and across individual cases (Nadin and Cassell, 2004). In using this technique it became clear, for instance, that examples of the theme *barriers add to the ambivalence around intentions to grow* were more limited and more difficult to discern than those identified for other themes. In fact, only a couple of individual cases were used to illustrate this theme in-depth. In contrast, examples of *barriers slow down the process of realizing intentions to grow* were easier to identify and descriptive examples could be drawn from several transcripts; however, in-depth illustrations of this theme were more limited than for other themes because it was difficult for participants to elaborate on the processes involved. Some illustrations of the process of using matrices are provided at the beginning of Chapter 8 Section 8.1.1.2 - ‘Matrix Analysis’, p. 197. Finally, it should be noted that this analytical technique was somewhat awkward to use because chunks of data were sometimes very lengthy. For this reason, data could not always be neatly cut and pasted into a table.

#### 6.4.1.3 Stage three

In stage three, the results of the analysis were written up. King (2004b) identified three approaches to presenting results (p. 268):

- 1) *A set of individual cases, followed by a discussion of differences and similarities between cases.*
- 2) *An account structured around the main themes identified, drawing illustrative examples from each transcript (or other text) as required.*

- 3) *A thematic presentation of the findings, using a different individual case study to illustrate each of the main themes.*

This study adopted features of the third approach mainly but also from the second approach, such that accounts were structured around themes, whilst drawing general examples from different transcripts and, where appropriate, more in-depth illustrations (or examples) from individual cases to illustrate themes. An example of this process is provided at the beginning of Chapter 8 Section 8.1.1.3 - ‘Individual Case Analysis – Drawing on IPA’, p. 199. On more than one occasion two in-depth illustrations or cases were used where the two presented slightly different insights to the theme. It should be noted that the presentation of results in Chapters 7 and 8 does not cover the full coding template. Nevertheless, while a discussion of results would appear to concentrate on two areas - mainly the ‘kinds of barriers’ and the ‘ways in which perceived barriers influence growth intentions and behaviours’ - as suggested in the previous sub-sections, individual cases or examples drew from other themes in the template, themes like ‘responses to barriers’.

The writing-up process led to further and finer revisions of themes and descriptions of the themes. King (2004b) explains that “writing up should not be seen as a separate stage from analysis and interpretation, but rather as a continuation of it” (p. 267). He notes that one of the biggest challenges in using the technique is deciding when to stop developing the template. On this point the author heeded his recommendations that enough is enough when all texts relevant to the template have been read through at least three or four times, and outside experts have been consulted as to whether or not the template is clear. In the latter case, feedback on later versions of the coding template was received from Nigel King, the researcher’s supervisor, and other senior academics with experience in qualitative research.

Table 8. Summary of analytical activities throughout the research process

Stage of analysis	Summary of activities	Purpose
1	Conducted preliminary interviews in London and St. Petersburg	To generate an interview guide and determine how well participants respond to questions
1	Conducted formal interviews	Think about the interview

	and took part in a post-interview reflection with/without interpreter	process and context
1	Transcribed interviews	Capture respondents' words verbatim, reflect on interviews, note any difficulties
1	Read transcripts again and again	Become familiar with the data
2	Created a coding template and coded data	Organize and make sense of the data
2	Sorted data and made connections	To check whether the template is useful and to create more meaningful connections between data
3	Wrote up study	Explain to others how sense was made of the data
3	Revised template	Incorporate reflections and new learning into the template

## 6.5 Reflexivity

Reflexivity refers to the researcher's *awareness* of how his/her involvement in research shapes the nature of the research investigation. Awareness is central to Alvesson and Skoldberg's (2000) discussion of the two basic characteristics of reflective research: *careful interpretation* and *reflection*. In the view of these scholars, careful interpretation refers to the researcher's awareness for the theoretical assumptions, language and pre-understanding, all of which influence interpretation. In the context of empirical research, reflection focuses awareness inwards to "the *interpretation of interpretation* and the launching of critical self-exploration of one's own interpretations of empirical material (including its construction)" (p. 6). Reflection calls for the qualification of interpretation. Some of the reflexive activities undertaken in this study are outlined in the table below.

Table 9. Reflexive activities in the current study

Ways to be reflexive in research	Reflexive activities in the current study
Documenting presuppositions at the start of the research process	Presuppositions at the start of the research included: (1) Barriers to growth are perceived by owner-managers; (2) barriers are

	perceived to be important; (3) barriers are perceived to have negative effects on the growth of the small business; (4) barriers may affect growth intentions/behaviours.
Recording feelings about research process in a diary	(1) Following each interview the researcher's feelings about the interview process and context were recorded in a notebook; (2) While coding transcripts, any noticeable feelings she had towards participants and their comments were recorded in the same notebook.
Meetings with others involved in the research and together reflecting on experiences	The interpreter and the researcher always had a post-interview discussion, either immediately following each interview or after a group of interviews on the day.
Thinking about one's performance in the interviews by listening to tapes	The researcher listened to recordings of interviews to judge and improve her own performance, and on several occasions did so together with the interpreter to ensure the interpreter's performance was also of a high standard.
Meetings with others not involved in the research	Prior to, during, and following the process of analysis, the author discussed her research with people in the field and those experienced with the methodology.

Adapted from King, 2004a, p. 20

While it is relatively easy to indicate the kinds of reflexive activities engaged in by the researcher throughout the research process, it is less easy to suggest ways in which each clearly improved her understanding of the process. Nevertheless, the aim of the next few paragraphs is to shed some light on this topic and to elaborate on the extent to which reflection has, or was likely to, advance understanding in some instances. That is, the focus here is on how the researcher, and insights made by the researcher, affected the manner in which research was conducted, as well as the data collected.

Prior to the data collection period, and consistent with the advice of King (2004a) and Hycner (1985), the author recorded all presuppositions that came to mind with reference to the research phenomenon. Hycner (1985) argues that it is important to suspend or *bracket* "as much as possible the researcher's meanings and interpretations" and enter into "the world of the unique individual who was interviewed" (p. 281). At the same time, Hycner acknowledges that the researcher

does not operate within a “totally presuppositionless space” and a “complete and absolute phenomenological reduction” would be ‘impossible’ (p. 281). In his view, it is more important to be “aware” of how presuppositions may influence research (p. 281). Therefore, heeding the advice of Hycner (1985) and Alvesson and Sköldberg (2000), the focus in the current study was on maintaining some awareness.

Four presuppositions were identified: one, owner-managers perceive barriers to growth; two, these barriers are perceived to be important; three, they are seen by owner-managers as having a negative effect on business growth; and four, barriers may affect growth intentions and behaviours. All four presuppositions alluded to the idea that owner-managers would be cognizant of barriers to growth, and, in turn, barriers would be meaningful to these individuals because they had a negative impact on the business. However, in reflecting on these presuppositions throughout the data collection period, the author noted that a handful of individuals rarely referred to barriers. Indeed with or without prompting a couple of participants seemed hard pressed to respond when asked to identify barriers relevant to their experience or to elaborate on how they might influence intentions and behaviours. It was also the case that in a few interviews, while barriers were acknowledged by participants, these same participants were dismissive of them as being neither particularly important nor problematic. Furthermore, participant reactions to barriers were not always negative. For these reasons, while the researcher’s initial reaction was to scrutinize these transcripts more so than those where barriers were discussed with ease, with the presuppositions in mind she was careful when analysing data to remain open to such views.

Records were kept of the researcher’s own feelings when conducting interviews, her performance during the interview, and her feelings while transcribing and analysing the interview data, the purpose of the latter being to monitor how the researcher’s feelings may have influenced the processes of data transcription and analysis. For instance, during some interviews, primarily those that were not arranged by the referral process, the researcher felt that, in contrast to the first study in particular, a few participants were more distant and closed and appeared to be more suspicious towards her; possibly because she was a foreigner. On occasion the researcher felt mildly annoyed by comments stating or implying that the research was funded by a

UK organization with commercial interests in Russia; as a result of these comments, she felt it was important to reassure participants to the contrary. At the outset of one interview, an owner-manager of a car servicing and auto-body repair/design business questioned the intention of the research:

*“As far as I know, all marketing research and other similar research is very expensive. To begin you’ll have to pay for your trip and to stay somewhere. So if this girl is interested in this, then who is sponsoring it? Maybe some UK companies that want to come into Russia?”*

This participant appeared to consider each answer very carefully and to respond to questions as briefly as possible, a reaction that may be construed of as a matter of personal style, lack of trust, or both. The researcher left the interview feeling somewhat disappointed by it and that it was a waste of time. However, both during the transcription process and afterwards, she noticed that the interview was, in fact, more revealing than first believed, and that even in the simplest of details, much can be said. For example, she noted that the issue of trust was raised again in the interview when the participant said he was “*not the only [business] owner*”, but that the number of his business partners was “*confidential*”. This lack of transparency fuelled suspicions that either the participant was covering up some illegal dealings, perhaps his official ownership status was incorrect and he was fearful of recrimination, or he was, in some honourable way, protecting the identities of his partners. In any case, the reflection hinted at a lack of transparency in business matters.

Interestingly, for other owner-managers the researcher’s connection to the West and the possibility of business contacts with the West appeared to contribute to their initial motivation to participate in the study. Several participants communicated to the researcher that the Russian economy had stabilized somewhat, that businesses had become more professional and now were looking for investment. Indeed at the conclusion of one interview, the researcher was asked by two participants whether or not she would be willing to speak to potential investors in the United Kingdom on their behalf. The desire to attract investors may have explained in part why these two participants were somewhat reluctant to discuss barriers, or do so in detail. The researcher has not been contacted subsequently by these participants.

On a couple of occasions, even though the researcher's previous experience in conducting research in the country prepared her for such reactions, she was bothered by suggestions that as a foreigner it would be difficult for her to comprehend the complexity of the small business situation in Russia. One interviewee, the owner-manager of a publishing business specializing in children's literature, came across as disinterested, even abrasive for much of the interview. Three quarters of the way through the interview when asked if he would like to share any aspect of growing his business that had not been covered as of yet, he stated:

*"As a result of our dialogue, I think that you don't really understand the specific features of business in Russia?"*

**R:** *"Why is that?"*

*"There are lots of little things, nuances, they you can't even tell about. Mutual relations with partners, with shops, with tax inspectors. It's complicated."*

**R:** *"So what can you tell me about this complicated relationship?"*

*[He laughs and then thinks]*

*"You know to understand this you have to live it all the time. You can't just tell it like that, right now."*

This foregoing segment of communication and what happened next in the interview warrants several comments. First, it should be noted that the researcher's reply to these comments was: *"But if I'm to do a project that deals with small businesses in Russia, isn't it [i.e. relationships with partners, shops and tax inspectors] something someone should tell me about?"* The sentiment she hoped to express by her reply was that if one needed to be educated, then let the education commence! Interestingly, the participant responded by addressing the initial question and once he did, his mood lightened. Furthermore, when the researcher asked him to elaborate on his responses, he provided some of the richest material to be found in the interview regarding which barriers he found most problematic and why. Second, it is worth noting that after the interview, as the participant toured with the researcher and interpreter around the office and grounds, the participant's manner warmed even further, especially as the researcher informally shared some of her insights into the small business activities in Russia. It may be that over this time – from commencement of the interview with him to the time of this post-interview tour - a relationship had begun to form between the interviewer and interviewee. Other possible explanations of the participant's

warming of mood are that he had time to reflect positively on the interview or that he simply enjoyed the opportunity to share both his expertise and accomplishments.

On a related point, it was also the case that a few participants felt it was important to mention during interviews that ‘problems’ facing small businesses in Russia were very different than those problems facing small businesses in the West. One stakeholder (L.S.) proceeded to say at the outset of the interview that “*the way people in the West look on Russian small business and the way they think they can develop it is very strange*”. He explained that the business environment and regulations were most problematic in Russia.

The researcher gleaned several things from these experiences, also from the feelings these experiences generated. First, she had to accept that little could be done about the fact that she was a foreigner. Also, little could be done to convince participants that she was knowledgeable about the small business environment in Russia. Already, at the time interviews were being arranged by telephone and again at the outset of interviews, as a reminder, participants were told that the researcher was a self-funded PhD student from a UK university. They also were told that the researcher had lived and worked in Russia and had conducted research on small businesses in the country in the past. During initial interviews, the researcher spent time and effort to disclose details of the current project and its rationale; one of her purposes in doing this was to establish credibility in participants’ eyes as someone capable of undertaking and understanding the issues surrounding the research project. However, after the first set of interviews, the researcher and interpreter concluded together that brevity on these matters was required for no other reason than to preserve as much time as possible to allow the participants to speak. The second point gleaned from these experiences was that the approach to questioning could be softened somewhat; also she could become more creative in the ways in which she asked the three standard questions, or as to how she utilized follow-up probes (which may previously have caused participants to feel unsettled or confused). Third, although the researcher had been told by Russian colleagues with whom she discussed some of the interviews that Russian business people and Russian businesses had become more self-contained and professional over the last several years and on the whole were less interested in the West, this information contradicted claims by some

participants regarding the desire to find foreign investment. Fourth, while it appeared that direct contacts over time were necessary for building trust, several participants not known to the author were candid in their responses and seemingly delighted to speak about their experiences. This may have been an indication that being a foreigner may still have had its advantages or merely that some participants, not surprisingly, are more open in their responses than other participants. Most participants seemed keen to be included in the study and to learn something about the experience of other Russian owner-managers.

Post-interview discussions were held between the researcher and the interpreter. On these occasions they reflected on their own feelings during the interviews; they also commented on the interview settings, participants' body language, the willingness of participants to be forthcoming, and the relative consistency of participants' remarks. One stakeholder, a researcher and consultant (L.S.), experienced in working with small businesses on legal matters (and with whom the researcher had made contact with through an acquaintance), appeared to hide behind his computer and boxes for the entire duration of the interview, during which time he described in detail the manner in which state corruption severely hindered the development of small businesses in the country. In fact, neither the researcher nor the interpreter could actually 'see' him at all times during the interview. While remaining open to the possibility that this participant was eccentric perhaps, cramped for space or disorganized, his behaviour may also have reflected the sensitivity of the subject matter being discussed.

Finally, prior to and throughout the process of collecting and analysing data, the researcher communicated with other researchers who were experienced in qualitative methods. The purpose of these communications was to discuss with these other researchers the involvement of translators and, more critical to the analysis, ways in which meaningful themes rather than descriptive lists could be created, also whether or not to code the frequency of themes.

To present reflexive interpretations in relation to the findings in the current study, the researcher referred to Alvesson and Sköldbberg's (2000) discussion of the same topic which incorporates two ways of presenting interpretations, based on the *length* of the

interpretation. That is, according to Alvesson and Sköldbberg short interpretations and reflections indicate moments in the researcher's own thinking which lead to the selection and synthesis of text, while longer interpretations and reflections involve selecting parts of the data for interpretation, and using the remainder to develop understanding. A combination of these approaches was adopted in the current study, with an emphasis on the former. Reflexive interpretations were also represented in the study by the using what Holliday (2005) refers to as "cautious language" – e.g. suggests, appears to, seems to (p. 180); also, the researcher heeded Holliday's recommendations that data be discussed in the past tense, and reflections discussed in the past or present tense. Although other researchers have suggested italicizing reflections (e.g. Wolcott, 2001), this, it was felt, would interfere in the results chapters with the many quotes taken from participants, also written in italics.

## **6.6 Evaluating the quality of data interpretation**

Now that the research methodology and methods utilized in the main study have been discussed, it is important to evaluate the quality of data interpretation by examining the reliability and validity of the research findings. But first, a brief comment on the debate regarding the extent to which findings in qualitative research should be regarded as reliable and valid is warranted. That is, while the author agrees with Silverman's (2001) view that qualitative research like quantitative research should be judged on the basis that it is 'credible' and not simply anecdotal, and validity and reliability are regarded as concepts central to the credibility of research, the position taken by the author was that methods for establishing credibility should be applied in qualitative terms (Miles and Huberman, 1996). Therefore, definitions of the evaluation criteria and examples are provided in these qualitative terms.

Before discussing reliability and validity, it should be noted that this study does not make any strong claims about the generalizability of findings, or the 'transferability' of findings as it is often referred to in qualitative research; the findings are not statistically generalizable. Nevertheless, the approach taken in this study resonates more with theoretical generalization, discussed in Chapter 9.

### 6.6.1 *Reliability*

Reliability has been defined as the “consistency of the research findings” (Kvale, 1996: 235). Reliability was strengthened in the existing study in several ways, most of which were flagged up in earlier sections.

First, the interview guide was pre-tested (Silverman, 2001). Pre-testing involved carrying out pilot interviews in London prior to the main data collection period, as well as preliminary interviews in St. Petersburg at the start of the data collection process. Pilot interviews in St. Petersburg alerted the author and the interpreter to possible problems that might be encountered during the interviews (Bragason, 1997).

Second, as discussed prior it was important to diminish the likelihood that the interpreter would paraphrase, which reduces the ‘informative quality’ of the interviews (Bragason, 1997). This was accomplished by asking the interpreter to translate after every two or three sentences. Other researchers have used this technique in cross-cultural interviewing (e.g. Rogers, 1997).

Third, the data were coded by the author primarily, and by a PhD colleague, as discussed on page 148. While the frequency of coding similarities was not reported, discussions between the two individuals revealed any difficulties or discrepancies in interpretation (Crabtree and Miller, 1999), which were more evident in earlier versions of the template. Through discussion it became apparent that some codes – devised during the process of creating, deleting and merging codes - such as the ‘perceived changes in responses to barriers over time’ were not being used and were removed.

Fourth, to minimize inferences, all interviews were recorded and transcribed, and long extracts of the transcripts were pasted into the results section (Silverman, 2001). According to Peräkylä (2004), the ‘quality’ of the recordings and the interview transcripts are important when the aim is to establish the reliability of research findings stemming from social interaction. For this reason, in addition to recording and transcribing the interviews, the quality of the translation from the Russian language to English and from the English language to Russian was checked by the

interpreter on those occasions where the translation was unclear. Additionally, a third party checked the quality of the translation in a sample of interview transcripts (i.e. nine), approximately one-third of the total (See Appendix 2.7 for Examples of Verifying Translations). Translation checks have been utilized by other researchers engaged in cross-cultural interviewing (e.g. Rogers, 1997; Bragason, 1997).

### 6.6.2 *Validity*

It has been suggested that validity ‘implies’ reliability (Lincoln and Guba, 1985) or that reliability is a ‘consequence’ of validity (Patton, 2002). Hammersley (1990) defined validity as “the extent to which an account accurately represents the social phenomena to which it refers” (p. 57). The validity of the current research was demonstrated in two key ways:

First, attempts were made to establish the ‘descriptive validity’ of participant accounts – i.e. “what the researcher reports having seen or heard” (Maxwell, 2002: 45). This involved recording all interviews so that interview transcripts were written up verbatim, and, throughout the interviews, questioning the meaning of what was being said by participants, repeating back to participants their responses, and achieving what Kvale (1996) has identified as “validation in situ” (p. 237).

Second, the validity of the current research was demonstrated by improving the ‘interpretive validity’ of accounts. Interpretive validity is concerned with “what objects, events and behaviours *mean* to the people engaged in and with them” (Maxwell, 2002: 48). Interpretive validity was improved in the current study by grounding participant accounts in their own words, concepts (Maxwell, 2002) and moods (Miles and Huberman, 1994); in the latter case, the mood of respective participants was noted and recorded at the beginning of each transcript, and was taken into consideration when analysing accounts, as discussed in previous sections. It is also important to show how the interpretation was reached (Mason, 2002). This was accomplished in the current study by documenting different stages of the research process, and by documenting and making transparent different stages of the data analysis. Also, when presenting findings in Chapters 7 and 8, interpretations and reflections made by the author were mostly kept short (Alvesson and Sköldberg,

2000). These activities served to improve the ‘dependability’ of the interpretation (Skrtic, 1985).

Two other criteria for establishing the validity of research deserve attention: *respondent validation* and *triangulation*.

Respondent validation involves taking the research findings back to the participants and determining whether or not findings conform to the experiences of the participants (Silverman, 2001). Respondent validation as a method for evaluating the interpretation was not pursued in this study for two reasons. The first reason stems from practical concerns. That is, it was considered very difficult to get in touch with all respondents (particularly those speaking Russian only), to ask them for their thoughts and comments on transcripts, and then translate these comments back into English. Second, it can be argued that while respondents may be capable of adding new insights into data, they are not necessarily in the best position to verify it (Fielding and Fielding, 1986; Mason, 2002).

Triangulation refers to the utilization of multiple or mixed methods, multiple investigators and/or theoretical approaches, to corroborate research findings. Features of triangulation were evident in the current study. For one thing, over the data collection period in June and July 2005, the researcher spoke to a few stakeholders, including the manager of a bank specializing in loans and banking services to small businesses (M.P.) and the directors of a union for entrepreneurs (R.P. and I.V.), to discuss their views on the environment for small business development in Russia, St. Petersburg mainly. Accounts given by these individuals in many ways confirmed reports of high regulation by owner-managers, among other things. The bank manager also acknowledged that interest rates charged to small businesses by his bank, and especially other banks in Russia were very high, but were improving; in 1998 interest rates on loans in his bank were 50%; at the time of the interview they were 16%. The directors of the union confirmed reports of extortion by government officials. While the author did not attempt to speak to government officials, she did examine research conducted in Russia, and reported by Russian organizations (namely the Centre for Financial and Information Research, CEFIR, and the Russian SME Observatory), which appeared to corroborate accounts of high regulation and

state corruption (issues discussed in Chapter 3). The researcher also discussed aspects of the data and the research in general with Russian colleagues, both academics and practitioners. As well, during the analysis phase of research other researchers were consulted, and these individuals brought to the interpretation of data new ideas and explanations. Nevertheless, even though some features of triangulation were adopted in the study, the author tends to agree with Bloor (1997) that triangulation does not necessarily, allow for validity tests on findings. Bloor explains why:

“All research findings are shaped by the circumstances of their production, so findings collected by different methods will differ in their form and specificity to a degree that will make their direct comparison problematic” (p. 39).

Moreover, because the emphasis in the current study was on the perceptions of owner-managers, their point of view and their subjective experience, triangulation, particularly as it pertains to multiple or mixed methods, was not employed systematically in this research to corroborate the validity of research findings.

## **6.7 Chapter summary and conclusions**

This chapter provided a detailed discussion of the research approach and methods employed in the main empirical study. This covered the research aims, research approach, research sample, sampling strategy, method, analytical approach, reflexivity, and criteria for evaluating the quality of data interpretation.

To recap, because the purpose of this research was to elaborate on our *understanding* of barriers to small business growth, the study was situated within the constructivist-interpretivist paradigm. Nevertheless a key difference between interpretivism and constructivism was noted, and it was decided that an interpretive lens was most well suited to addressing the specific research aims of the main study. Data collection relied on qualitative interviews mainly because they are sensitive to the perspective of the research subject, and unlike structured surveys, which have been utilized often in previous studies on barriers, such interviews emphasize experience, meaning, context and process - key features of the research aims. Interviews were held with 27 owner-managers of small businesses in St. Petersburg Russia. Interview data were analysed mainly according to the guidelines for template analysis, whilst incorporating some

aspects of interpretive phenomenological analysis and also matrix analysis. Template analysis was chosen as the main technique because it is both systematic and reflexive at the same time, and because it allows for the creation of more interpretive themes. Using this technique a full template was created and incorporated a list of codes on participant background, growth intentions, kinds of barriers, consequences of barriers, participant explanations of barriers, ways in which barriers influence growth intentions and behaviours, responses to barriers, and feelings towards barriers. Also discussed was how the researcher likely shaped the nature of the research investigation and her understanding of the phenomenon. Finally, this chapter documented steps taken to ensure data interpretation and explanation were reliable and valid. The next two chapters present the research findings.

## 7 Results: Part one

### 7.1 Introduction

Results from the main study have been organized into two chapters. The results presented here are descriptive, focused on identifying and describing *what kinds* of barriers were discussed by 27 owner-managers<sup>28</sup> during semi-structured interviews. The purpose of this chapter is two-fold: first, the chapter addresses in part the first research sub-aim: to examine barriers to small business growth from the perspective of the individual owner-manager, with an emphasis on the meaning of barriers and the context in which they are perceived. Second, it serves as a preliminary step to addressing the second research sub-aim (the findings for which are presented in Chapter 8): to explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours. Thereafter, Chapter 9 discusses the research findings.

This chapter begins by briefly describing each of the owner-managers interviewed in terms of their education, work history, business beginnings, business concentration, and business goals. These descriptions are intended to give some *personal context* for identifying barriers to growth, a key element of the first research sub-aim. Next, unfolding in a *two-stage* process, the chapter examines the barriers. In the first stage, brief descriptions are provided for all 40 barriers identified in the study based on owner-manager's accounts. In the second, more detailed examination of barriers is provided for a small number of barriers selected on the basis that they were the most frequently discussed by participants in relation to growth intentions and behaviours.

#### 7.1.1 The Participants – A brief description

Descriptions of participants are provided in Table 10. Pseudonyms appropriate to nationality and age were assigned to each. All participants and their respective businesses were based in St. Petersburg. With two exceptions, all participants were Russian nationals. Five of the 27 participants were women. All were owners or part-

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<sup>28</sup> Where data is drawn from sources other than the main participants, this is indicated.

owners, as well as senior managers, of their respective businesses. All participants reported having grown their businesses in the past and/or had intentions of doing so in the future. Finally, at the time of the interviews all businesses were independent.

Table 10. Participant descriptions

<i>Participant</i>	<i>Description</i>
Artyom (OM1)	Artyom is in his late 40s. Prior to becoming an owner-manager he was first a professor at a technical university in St. Petersburg where he specialized in electronics; he then joined a Russian-Swiss business collaboration concentrating on the production, assembly, installation, and servicing of lifts. In 1997 when this collaboration dissolved as a result of problems with Russian management and tax penalties, he changed the company name and commenced operations independently. Three years prior to the interview, the company opened a branch in Riga, Latvia; the plan was to grow the business there. Artyom works largely with German, Swiss and Swedish manufacturers.
Denis (OM2)	Denis is in his mid 30s. Prior to becoming an owner-manager he was trained in diagnostics and engineering at a technical institute; thereafter he worked as an engineer for a large state organization. In 1998, following the financial crisis, he started his first official business in his home town, a small retail shop selling cosmetics, perfume and leather goods. (In the two years prior to this he had some experience selling perfume illegally over the telephone.) Between 1998 and 2003 he opened a number of additional retail outlets in the north of Russia. Two of these sold accessories and two sold chocolates. By 2005 only one of these retail shops continued to do business. Recently Denis had opened a kiosk for leather goods in St. Petersburg. He also had become part owner of a new home-and-gardens store in the city. Eventually he intends to leave Russia to settle in Finland where he believes the government is more supportive of small business enterprise.
Leonid (OM3)	Leonid is in his early 60s. Having already served in the Russian navy for more than 20 years, in 1994 Leonid trained in real estate and property evaluations. In 1996 he officially left the navy to work for a German real estate firm specializing in property evaluations. In 1997 he co-founded what later became a group of companies working in various spheres of the real-estate industry - brokerage services, construction, property evaluations, and building maintenance services. Leonid believes there is considerable opportunity to expand his business.
Ben (OM4)	Ben is a Swiss national and in his mid 40s. He studied politics and business at university in the United Kingdom before moving from Switzerland to St. Petersburg in 1992. In St. Petersburg he started a language school with a Swiss business partner; thereafter he opened a second language school in Moscow and at the time of the interview was contemplating establishing another in Kiev. He also owned, but later sold, a small travel agency in Switzerland which specialized in tours to Russia.
Yelena (OM5)	Yelena is in her late 40s. Prior to starting her own business she went to college where she received training as a specialist in the technology of restaurants, in public food. Commencing in 1994 she sold baked goods illegally to friends who were café owners. In 1995, after taking on three business partners, she officially registered her business and proceeded to open a café, dessert hall, and a small plant specializing in baked goods in the city centre. In 2001, when relations between the partners dissolved, she took over the plant. In 2004 she opened another small plant in the suburbs with a retail side and café. At the time of the interviews she had recently completed renovations. Her plan is to move her plant in the city centre to larger premises or to renovate the existing one.
Anton (OM6)	Anton is in his early 30s. Prior to becoming an owner-manager he studied psychology in university, focusing on managerial training and organizational development. In 1993

	<p>he and a colleague started an English language newspaper in St. Petersburg which they later sold. In 2003, along with two partners, he started a free independent regional newspaper. At the time of the interviews he and his partners had recently acquired a loan which they will use to double their circulation in St. Petersburg. Anton's plan, once a foreign investor is found, is to expand distribution of the newspaper to Moscow.</p>
Maksim (OM7)	<p>Maxim is in his mid to late 20s. He works as a senior manager for a publishing company which specializes in directories and magazines for the education sector, children and families. The publishing business started in 1996; Maksim joined in 1999. For the past three years he has had decision-making power and more recently he has acquired a share of the business. The last two years have been spent restructuring the business. And over the six-month period prior to the interview a three year plan was developed, the intention being to diversify in hopes of increasing sales and becoming a market leader. The plan is to expand the advertising branch of the business; also in several years' time, when they find an investor, they hope to develop a call centre. Recently, Maksim completed a course on venture capitalism.</p>
Timofei (OM8)	<p>Timofei is in his early 30s. Prior to becoming an owner-manager he studied economics at the State University of St. Petersburg. In the mid 1990s he travelled to the United States where he acquired experience working on various projects in the electronic commerce sphere. In 1998, back in his home country and believing there was no real demand for e-commerce activities in Russia, he started his first company, producing accessories (i.e. blankets) for cars. Two years later he began manufacturing clothing for men and women. In 2002 he sold both businesses and opened a consulting agency in the IT sphere, specializing in electronic commerce. His plan for the six months following the interview was to publish a magazine and start a recruitment company in the areas of advertising, public relations, and marketing.</p>
Pyotr (OM9)	<p>Pyotr is in his early to mid 40s. Prior to becoming an owner-manager he studied at the ship-building institute in St. Petersburg. Thereafter, he travelled to various countries where he worked as a trader. In 1995, in St. Petersburg, he started his own publishing business specializing in literature for pre-school children and instructional literature for child-care professionals (i.e. doctors). At the time of the interviews his most pressing objectives were to purchase a storage space, to increase circulation of his publications and reduce his publishing costs. He also planned to open a speech centre for children.</p>
Galina (OM10)	<p>Galina is in her late 40s. Prior to becoming an owner-manager she trained in Music. While she worked as a homemaker (she had a husband and two children) she gave piano lessons to children. After her marriage ended, and to make ends meet, she trained as an accountant. Later, in 1998, she opened a bar/restaurant. In the two years prior to the interview, sales at the bar/restaurant declined. Her plan for the next few months is to change the concept of the restaurant to one specializing in Japanese cuisine. Recently she hired a managing director. She hopes to leave the bar/restaurant eventually to open a spiritual centre in St. Petersburg, focusing on yoga and meditation.</p>
Anatoliy (OM11)	<p>Anatoliy is in his late 40s. Prior to becoming an owner-manager he studied in St. Petersburg at the Academy of Art, Faculty of Architecture. Thereafter, he worked for the State in St. Petersburg as a manager in the Department of Planning for Higher Educational Institutions. In 1991, along with two colleagues from the Faculty of Architecture he started an architectural firm. Later, his two colleagues left the firm. Anatoliy reported that in the field of architecture there was plenty of work and as such, he had no need to expand his business.</p>
Pavel (OM12)	<p>Pavel is in his late 40s. Before becoming an owner-manager he trained as an engineer. He is a self-proclaimed inventor. Prior to 1992 he was employed by the State to work on various projects including the automated production of syringes. In 1992 and 1993 he and a colleague began working independently of the State, first in the fabrication of wood products; thereafter they built their first popcorn machine. In 1994 with a starting capital of 50 US dollars, they set up their own business, producing pushcarts for street vendors selling hotdogs and pies. Today he and his partner specialize in manufacturing</p>

	fast food equipment and machines, including machines for making blinis (thin pancakes). Over the next few months following the interview his plan was to open a manufacturing depot in Moscow. And within the next several years the plan was to build and move into larger premises. Maksim believes there are considerable opportunities for growing the business.
Mihail (OM13)	Mihail is in his late 30s. He received a degree from a technical university in autotransport prior to working as a manager of an automobile servicing business. Six months ago he purchased an automobile service centre, auto-body repair and design business. While he suggested that he had business partners, he declined to reveal how many. He said that eventually they would like to open a chain of automobile service centers. In the short-to-medium term their plan is to reorganize the existing business and use it as a model for future shops. Their intention is to open a second shop within the next year or two. They are in the process of renovating the existing premises; they are purchasing new equipment and planning to build a car wash site.
Marcus (OM14)	Marcus is in his mid 50s. He is a Swiss national. Over the years he has received training at a teacher's seminary, got a diploma in hotels/restaurants, and later received training in marketing. Prior to visiting Russia at the invitation of an Austrian colleague, he operated a tour company in Switzerland and did some marketing for hotels. In 1995 he and his colleague opened a restaurant in St. Petersburg's city centre. In January 2005, while still operating the restaurant, he and his Swiss colleague founded a new business building houses from timber in the Swiss style. He felt the time for opening new restaurants in St. Petersburg was over.
Eduard (OM15)	Eduard is in his mid 50s. Prior to becoming an owner-manager he studied at a technical university before working at the Leningrad Metallurgical Plant, where he remained for three years. After completing his army service he trained and worked as a lathe operator for the Soviet government. In this government job he worked his way up to team leader, then engineer. He left the metallurgical plant and between 1991 and 1995 took employment as a senior manager in different small businesses. In 1995 he became part-owner of a computer assembly business. He expanded this business to include work in computing networks and computer repairs. Over the last year prior to the interview the business moved to larger premises, which they recently reconstructed and renovated.
Ivan (OM16)	Ivan is in his mid 40s. Prior to becoming an owner-manager he studied architecture at a state planning and building institute. In 1992 he started his own architectural firm. To increase profits his plan was to work on larger projects. At the time of the interview he was involved in negotiations to move his office to new premises in a business development centre. Overall, Ivan believed there was plenty of business for architects and therefore he did not need to do much to grow the business.
Lyudmila (OM17)	Lyudmila is in her early 50s. She received training as an engineer-technician in sewing technology at a technical institute. In 1983 she began working for a state-owned clothing studio. In 1990, she became independent, starting her own studio. She now has four locations in St. Petersburg, each housing different parts of the business including administration, design, and production. Since 1994/1995 her business has specialized in the design and production of clothes for larger women. At the time of the interview she was in the process of opening a new shop focusing on the sale of German knit-wear only. She also had purchased additional shop space for future projects which, at the time of the interview, had not yet been determined.
Yegor (OM18)	Yegor is in his early 30s. While studying psychology at university he started buying and selling CDs and worked as a distributor of CDs. Concerned about his declining role as the middle man, in 1993/1994 he, along with his brother, rented space in shops in order to sell directly to his customers. Between 1996 and 1998 he and his brother purchased and operated five shops. However, following the 1998 financial crisis all shops closed but one. Three years prior to the interview Yegor and his brother reorganized the company; they standardized procedures and improved communications. Today they have a chain of shops selling CDs and DVDs; five of these are independent

	shops in addition to which they operate two counters in shops owned by other persons.
Nikolai (OM19)	Nikolai is in his early 60s. Prior to becoming an owner-manager he studied at an institute of refrigerator building and went on to make refrigerators for a state-owned company that built business and shopping centres. In 1988 he started his first lift company, employing 120 people. In 1991 he closed this company after five of his subordinates left his employment to start similar businesses, taking most of his employees with them. For the next few years he worked as a senior manager for a company in the building industry. In 1994 he started a company specializing in lift construction and installation. After 11 years this company was closed when a previous client failed to make a \$4 million dollar payment for services. Existing employees were divided up between two other companies which he set up, one focused on building lifts for apartments and shops, and the other on building smaller projects like platforms.
Roman (OM20)  Svetlana (OM21)	Partners in life and in business, Roman and Svetlana, both in their mid 50s, worked in the department of linguistics at St. Petersburg State University until 1989/1990 when they were asked by the Ministry of Education to start their own publishing firm with state support and with the intention of fulfilling state orders. However in 1992 when the orders did not come, Roman and Svetlana closed this government enterprise and opened their own business, specializing in educational literature for foreigners working in institutions across Russia. At the same time they opened a language school to test the application of their publications. They also opened a mini-hotel which they later closed down in 1995. In 2003 they opened another mini-hotel, and at the end of 2004 purchased the space for a second hotel which was undergoing heavy reconstruction and renovation work. They planned to expand their hotel business three-fold over the next few years. They were also developing new educational materials for foreign specialists working with the Russian language in their own countries, in areas as diverse as business, medicine, and tourism.
Stepan (OM22)  Fyodor (OM23)	Stepan is in his early 40s. He studied economics and mechanical engineering at different institutes in St. Petersburg. In 1993 he started a publishing company with some friends. They began publishing a free newspaper (which they later discontinued) and a magazine. Publication of the magazine continued for the next several years. In 1995/1996, after his other partners left the business Stepan was joined by a friend, Fyodor, who became a full partner. Fyodor, also in his early 40s, did a degree in physics and mathematics at St. Petersburg State University and later went on to complete an MBA at the same university. Stepan and Fyodor have spent the last couple of years prior to the interview reorganizing the business. In this time they have expanded into a multi-media group specializing in publishing and advertising. They have a representative office in Moscow and were planning to open another agency in St. Petersburg, once they find a foreign investor.
Inna (OM24)	Inna is in her mid 30s. Before becoming an entrepreneur she studied finance at the St. Petersburg University of Economics and Finance. She then gained work experience as a tax consultant in one multinational organization in Russia for five years and as a tax manager in another multinational organization in Russia for one year. In the spring of 2000, three of her colleagues started a business specializing in clothing design and distribution; six months later Inna was asked to invest in this business, becoming a partner and the Director of Finance. In 2004 the company started selling clothing in their own shop, with plans to expand into shopping centres. Over the last year, prior to the interview, they reorganized the company, expanding the sales department, increased prices and were making an effort to reduce costs. Still a shareholder in the business, Inna gave up her role as the company's director of finance to co-found, with a friend, a new business which specializes in bringing together different companies in areas as diverse as packaging and the internet.

Dmitry (OM25)	Dmitry is in his early 60s. He is hardware engineer by trade. He had worked in research and development for the Russian military before joining a state research institute. Later, he managed a state-owned computing and software firm where he also trained and worked as a programmer. In the late 1980s he was asked to join a Russian-American joint venture involved in the production of software. When the company could no longer pay him with money (they paid him instead with cartons of Marlboro cigarettes) he left the venture to work for one year as an assistant professor teaching computer basics. Then in 1993 while sitting around the kitchen table, he along with his wife and daughter, decided to start their own offshore programming firm. His clients are from Finland and the United States mainly. He has a sales office in Finland which he plans to expand. He is also trying to shift the focus of his programming work from coding to design and architecture. He would like to sell part of the business eventually and is looking for partners in the Nordic countries.
Vadim (OM26)	Vadim is in his early 40s. He completed a degree in English and studied for one year in the United States before working five years for a company in Russia that imported and sold dental equipment. In 1997, while working as an importer, he studied entrepreneurship at the Stockholm School of Economics in Russia. In 2000, he and a fellow student of entrepreneurship, started an intercom business focused on the distribution, installation and maintenance of systems for large businesses. They distributed German intercoms only until 2004 when they began producing their own intercom systems. Eventually, he said he would like to leave the company to work in real estate.
Boris <sup>29</sup> (OM27)	Boris is in his mid 40s. He is an engineer by trade with some experience working in Russian bakeries. In 1992 he co-founded his current business, importing bakery and confectionery equipment/machinery and adjusting it to Russian specifications. In 1997, while continuing to work, he studied entrepreneurship at the Stockholm School of Economics in Russia; in 2000/2001 he completed an executive MBA at the same place. More recently his company has moved in the direction of coordinating bakery projects, bringing together foreign suppliers and Russian clients. To increase sales they have opened affiliates in Moscow and the regions.

From participant descriptions in Table 10 three points stand out. First, collectively, participants exhibited a range of professional training and work experiences. All were well-educated with degrees in higher education. More than a third of participants had taken their formative training in technical institutes which are considered higher education institutes; some of these institutes have, since the beginning of the 1990s, become universities, while others have folded. Second, several participants were serial entrepreneurs in the sense that they had owned businesses in the past or, owned more than one business at the time of the interviews. For instance, Roman and Svetlana, Nikolai, Stepan and Fyodor, all owned businesses in similar or complementary areas. Others, like Inna and Marcus, concurrently operated businesses engaged in dissimilar enterprises. And third, excluding the two Swiss

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<sup>29</sup> Boris and the previous three owner-managers (i.e. Dmitry, Vadim and Inna), were also interviewed in the first exploratory study conducted in 2003.

nationals, several owner-managers made reference to foreign investors, organizations or places. For instance, a few participants had studied abroad. Four revealed that in the past they had worked in Russia for large foreign organizations. Three were looking for foreign investors to finance their expansion plans. Finally, a few participants were working with customers and/or suppliers outside of Russia.

## **7.2 Barriers to growth**

This section begins by discussing how barriers were identified and described. This is followed, first, by brief descriptions of all 40 barriers and, second by a more detailed description and elaboration of those barriers discussed frequently in relation to growth intentions and behaviours. As in Chapter 4, to ease identification, barriers are underlined throughout the remainder of the chapter.

### *7.2.1 Analysis of interview data – Descriptions of barriers*

As discussed in Chapter 6, the ‘kinds of barriers’ to growth perceived by owner-managers forms a code in the full coding template. This section briefly outlines how these barriers were identified and described. The process involved seven steps. First, interview transcripts were re-read several times, after which sections of text were underlined where participants had indicated that certain factors internal or external to the firm interfered with their objectives or goals for growing the business. Second, these barriers were given preliminary labels in the margins, adjacent to the text. Some of these labels corresponded either to prompts, or to barriers in the small business literature; others were generated from the data itself. Third, a list of potential barriers was compiled. Fourth, using this list the researcher returned to the transcripts to code the relevant extracts of text. Fifth, once all transcript extracts were coded, similarly coded extracts were arranged together in a separate document. Sixth, key concepts or themes were identified in each extract and based on these, descriptions were written. This last step resembles what Kvale (1996) referred to as ‘meaning condensation’, an analytical technique based on Giorgi’s (1975) phenomenological-based research which argued that qualitative data could be treated systematically without losing the richness and “ordinary language” (p. 96). Finally, where necessary, codes attached to barriers were rewritten to capture descriptions as accurately and as simply as possible.

An illustration of the sixth step is provided below. Table 11. provides sample extracts taken from interviews with four of the 18 owner-managers who identified lack of suitably qualified labour as a barrier to growth. A description of this barrier was not as self-evident, nor as straightforward, as some of the other barriers (e.g. high profits tax), and for this reason it serves here as a useful example. The contents of the following table show how key concepts or themes for this barrier were identified and used to form a brief description of the barrier.

Table 11. Sample extracts for analysis – Descriptions of barriers

Sample extracts on 'lack of suitably qualified labour'	Key concepts or themes
<p><b>Anton:</b></p> <p><i>"The only challenge we have in every area [every area related to their goals] is just professional level of employees. [...] From my point of view it's just limitation of any company. Especially media company where you don't have technology. All your technology is just the minds of your people. The staff. So, and in this area just things really underdeveloped because our people did not have much chance to get education in business. Like Stockholm School of Economics is one of few examples which trying to overcome this challenge. But how many people can they train in one year? Maybe a few dozens. That's it. For example, one of the areas where I have really big problems is editors."</i></p> <p><b>"Editors."</b></p> <p><i>"That's right. Yes. I can't hire editors from Russian, normal Russian newspapers, because they <u>spoil</u> his like, spoil by his sponsors, and by themselves. So they really biased in their reporting. I can't hire them. Because they would bring the same practice in my newspaper. And there, there have been few mistakes working in the same line of my company, but they really few. And I have to pay really high salaries for these people to move away, to steal them from other companies, or just have to train yourself." (p. 12 – unprompted)</i></p> <p><b>"Ok, and finally, we've already talked about some of your challenges, but are there any other things on this list that you confront, or have confronted in growing your business?"</b></p> <p><i>"This is biggest." (He points)</i></p> <p><b>"Lack of access to skilled labour?"</b></p> <p><i>"Yes. Because the labour pool is really small."</i></p> <p><b>"You mentioned that there's not much education for these people. So, are there no schools of journalism?"</b></p> <p><i>"There are obviously, but we don't hire people from these schools really."</i></p> <p><b>"You don't?"</b></p> <p><i>"No."</i></p> <p><b>"Even if you need journalists?"</b></p> <p><i>"That's right. Because they train journalists in their old Soviet style fashion."</i></p> <p><b>"Really?"</b></p> <p><i>"Uh huh. It's just like journalists writing essays, like one piece reporting rather than on the ground news. So you have to retrain journalists from these schools." (pp. 12-13 – prompted)</i></p>	<p>People are not professional because they lack a business education.</p> <p>People with previous work experience have often been spoiled and cannot be hired.</p> <p>The labour pool in the media industry is small. A suitable labour pool is not available.</p> <p>The educational system is outdated and journalists need to be retrained.</p>
<p><b>Roman and Svetlana:</b></p> <p><b>"Ok. Anyway, lastly, is there anything on this list that interferes with your ability to grow your company and if so, how does it do so?"</b></p> <p><i>Ro: "Lack of management time". (He laughs)</i></p> <p><i>S: This is connected to another problem. To the problem of staff, of managers. How so?</i></p> <p><i>Ro: This is the problem of, the illness of growth. Russia in the economic sense,</i></p>	<p>There is a relationship between management time and labour.</p>

<p>is growing very fast, very dynamically. I speak of it as 'dynamically' in the fields of oil, of energy, of IT, of retailing. And in order to be in the labour force, any businessman of any sector of the economy must compete with those sectors that are at a high level. If I need a program specialist or manager, even if I need a designer, on the labour market, I compete with banks, with oil companies. And if I can tell the designer that I will pay him \$500 a month, the banks will pay him \$1,500. So it always comes out that we are buying specialists that haven't been taken by banks. Of course these are not specialists just interested in working in our field. It's very difficult to find somebody like that."</p> <p>S: "On the other hand, it's very difficult to find highly skilled managers, for banks as well. During the last 10-20 years in Russia there have been so many fairy-tale like stories of becoming wealthy. So many 18-year-olds became the directors of companies that this waiting for the fame is present for every young man. And the bigger part of young people is not prepared to work systematically and long term."</p> <p>Ro: "To achieve a career."</p> <p>S: "So this is why higher-level managers on the market change companies nearly every year. This means in a formal way, people can have a career. But this doesn't mean people are achieving higher qualifications or good results." (p. 14 – prompted)</p>	<p>It is hard to compete with big companies for labour.</p> <p>The labour pool in the publishing area is small.</p> <p>Young people are more interested in fame and wealth than having a career.</p>
<p><b>Pavel:</b></p> <p><b>"We talked a lot about the ways you're growing your business. So my last question is: Is there anything on this list that gets in the way of these things?"</b></p> <p>"In St. Petersburg history brought about a lot of qualified workers. The problem is that most of them drink. [...] The problem with drinking seems to be a problem from Soviet times."</p> <p><b>"Sure. But this drinking problem, does it affect people who work in your industry, factory workers, or does it affect all people?"</b></p> <p>"For the better part, it's a problem of production workers. I wouldn't say in Russia drink so much as a general problem. Some of them yes. There are some regions, especially some rural areas where people really do drink a lot. This is a problem of free time. Unfortunately it become more and more difficult to find access to a qualified labour force. Because either the old people die or they become drunkards. And young people do not really want to work as workers. So there is nearly no possibility for young people to find a good education, good preparation for high qualified work. Some big plants actually now opened a kind of preparation for production in their own plants."</p> <p><b>"Do you do this?"</b></p> <p>"No. We try to form our production in a way that you can be as low qualified as possible. So to compensate, you need very good equipment." (p. 13 – unprompted)</p>	<p>Traditionally the labour force has been highly skilled.</p> <p>It is hard to get access to a qualified workforce because the career prospects for young people in the production industry are poor.</p>
<p><b>Artyom:</b></p> <p>"[W]e still not uh, ready for uh, fast pace of the growing. The problem comes from the fact that we have a limitation with the staff. This problem comes from the general consideration that the building industry is not very popular for the newcomers, for the young men and so on because it not offer very good salary. This is the point and uh, another point that this industry is not very attractive due to the fact that the building industry is uh, has a lot of let's say substitution. And uh I mean that a lot of people from other, from the republic of the soviet union, legally come to the market, and offer their very cheap labour and uh, and it means that uh, a lot of companies try to use this cheap labour but it not the right way for our business because we can destroy our brand and so on." (p. 6 – unprompted)</p>	<p>Young people are not interested in the building industry because salaries are poor.</p> <p>Immigrant labour is not a suitable alternative.</p>

From these and the other extracts on the topic, the barrier lack of suitably qualified labour was so named and described as a composite of three overlapping factors: 1) a *small* labour pool – the labour force is small either because the industry or specialization is new or because it has declined in popularity and there are few people

with the necessary education and skills; 2) a lack of *available* labour – a labour force exists but it cannot be accessed for some reason such as competition from larger organizations; and, 3) a labour force exists but is *unsuitable* or spoiled in some way. The brief description of this barrier is as follows:

*Qualified labour is in short supply because the labour pool is small, unavailable, or unsuitable in some way.*

The next section provides short descriptions of each of the barriers discussed by participants during interviews in the main study.

### 7.2.2 *The barriers*

Having explained how the barriers were identified, this section describes the barriers themselves. Tables 12, 13, 14, 15, and 16, list and briefly describe each of the 40 barriers to growth reported by owner-managers. Each table represents a separate category of barriers. Most barriers could be placed into one of the four categories discussed in the review of the literature in Chapter 2: *Skills-Related*, *Financial*, *Institutional*, and *Market-Related* barriers. The fifth category incorporates those additional internal barriers (i.e. *Other* barriers), unrepresentative of the other four.

As in Chapter 4, labels for barriers were taken from the literature when they were very similar to participant accounts (e.g. high profits tax, lack of access to capital), or surmised from accounts directly (e.g. threat(s) to security, state involvement). Some labels taken from the literature were adapted according to participant accounts. For instance, the barrier lack of market information was altered to reflect, in a more accurate and detailed manner, descriptions given by owner-managers – i.e. lack of efficient access to official information. Lack of access to labour and labour shortages were combined and altered to become lack of suitably qualified labour, as discussed earlier in some detail.

Participant numbers were assigned to each barrier to indicate which owner-managers had identified them and how often they were identified during the interviews

Table 12. Financial barriers

<u>Barriers</u>	<u>Description</u>
<b>Low initial financial investment</b> (OM18,24)	Business development did not proceed quickly enough in the beginning due to a low initial financial investment in the business.
<b>Lack of access to capital</b> (OM3,10,27,1,18,9,7,6)	External capital is not accessible to owner-managers either because they do not have a credit history, they lack administrative resources, are unable to absorb the high cost of capital (i.e. high interest rates, collateral requirements), are unable to repay the loan in a short period of time, the firm shows negative profits after tax, and/or the firm is small in size.
<b>High cost of debt capital</b> (OM14,3,10,12,27,1,18,26,24,9,25,4,21,15,5,7,6, 17)	The cost of debt capital includes high interest rates and collateral requirements. Interest rates on loans are prohibitive. Collateral is dependent on owning real estate or other fixed assets; these assets may be undervalued.
<b>Limited number of suitable sources of equity capital</b> (OM27,24,6,27,22,14)	Few suitable sources of capital are present in the marketplace. A suitable source is someone who is known to the owner-manager, believes in investing in the business for the long-term, and is non-political.
<b>It takes a long time to find a source of capital</b> (OM27,9,6,14)	It takes a long time to find capital because the conditions for lending are exclusive, there are a limited number of sources of suitable capital, and/or there is a lot of bureaucracy involved.
<b>Limited cash flow</b> (OM9,5)	Cash flow is limited because cash payments made by the business are high.

Table 13. Skills-Related barriers

<u>Barriers</u>	<u>Description</u>
<b>Lack of direction</b> (OM8,18,25)	There is uncertainty as to where to take the business next and/or how to develop the business further.
<b>Lack of experience</b> (OM3,10,12,26,25,4,22,21,19)	Owner-managers and/or staff have not accumulated sufficient business or industry knowledge and skills.
<b>Lack of suitably qualified labour</b> (OM14,3,16,10,12,27,1,18,26,25,8,22,20,15,13,6,25,2)	Qualified labour is in short supply because the labour pool is small, unavailable, or unsuitable in some way.
<b>Lack of needed state run education and training programs</b> (OM22,6,16,8,3,26)	The delivery of education and training provided by the state is insufficient or outdated.
<b>In-house training</b> (OM26,25,8,2,1,3,16)	Staff training is lengthy and costly.
<b>Lack of management time</b> (OM16,12,1,26,24,4,20,13)	Management time is limited because managers have many responsibilities and tasks. Management time is strained by bureaucracy and by taking on more staff.

Table 14. Institutional barriers

<u>Barriers</u>	<u>Description</u>
<b>Weak rule of law</b> (OM11,9,19,15,18)	Businesses are not well protected by the law; court rulings are hard to enforce.
<b>High legal fees</b> (OM18,9)	Includes the cost of obtaining legal council and other fees involved in processing a claim.
<b>Lack of state support</b> (OM17,10,7,15,5)	State funding or programs designed to support the development of small businesses is absent or limited.
<b>State involvement</b> (OM11,12,27,18)	State involvement in small business activities is seen as interference. Contact with the state is eschewed.
<b>Too much bureaucracy</b> (OM,14,3,17,16,11,27,1,26,25,4,2,19,15,5,13,6)	The formal rules and procedures with which businesses are required to comply are inefficient, costly and oftentimes nonsensical. Bureaucracy is usually encountered when acquiring permission from the state for some activity such as licensing.
<b>Frequent inspections</b> (OM18,2,15)	Regulatory inspections made mainly by tax police, health and safety, sanitation and fire officials are frequent and costly.
<b>Need to bribe officials</b> (OM14,3,18,4,15,5,11)	Interactions with state officials concerning the business require unofficial payments. This often goes together with bureaucracy and frequent inspections.
<b>Frequent changes in administrative staff</b> (OM14,4,7)	High turnover of administrative staff and state officials means that owner-managers have to build trust and rapport with new individuals; relationships are seen as important to lessening administrative burdens.
<b>Frequent changes in regulations</b> (OM11,18,9)	Rules set by the state frequently change and often do so without formal warning and without prior knowledge of the business community.
<b>Absence of clear laws</b> (OM18)	Laws are not easily interpreted or understood.
<b>Threat(s) to security</b> (OM4)	The security of the business or, investment in the business is compromised by external parties (e.g. state, state officials, competitors) or employees.
<b>High cost of premises</b> (OM18,9,15,5)	This refers to the high cost of buying or renting premises, including the cost of reconstruction/renovations in either case. Rent may include additional payments to corrupt officials.
<b>Location of premises</b> (OM21,2,5)	Premises are located in distant, difficult to access, or sleepy districts.
<b>High profits tax</b> (OM27)	Tax on profits at 24% is considered high.
<b>High social tax</b> (OM25,15)	Employer contributions to employee pensions and sick leave are the responsibility of the company in their entirety and are believed to be high.
<b>Number of taxes</b> (OM5,2,15,1,3,10)	This refers to the number of separate local and regional taxes, which may include contributions to

	the police fund, the city fund, and payments for garbage collection.
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Table 15. Market-Related barriers

<u>Barriers</u>	<u>Description</u>
<b>High customs charges</b> (OM1)	Duties on imported goods are regarded as high.
<b>Cost of inputs/materials</b> (OM24,9,13)	The cost of materials and equipment is high, equivalent to EU prices.
<b>Low market demand</b> (OM10,12,27,18,26,25,4,8)	Demand for products/services is low because the product or service is new to the market and/or the buying power of potential customers is weak.
<b>High competition</b> (OM10,12, 27,18, 26,24, 9,25,20, 2,15)	Competition for customers, market share, and/or labour is significant.
<b>Illegality of products/services</b> (OM18)	The product or service in question is illegal; it therefore may be difficult to promote.
<b>Late or no payments for products/services</b> (OM9,20,19,15)	Payment for products/services rendered either is late or is not made at all.
<b>Lack of efficient access to official information</b> (OM12,7,2,19)	Businesses do not have ready access to official market or industry-related information.
<b>Financial/Economic crisis</b> (OM14,16,27,1,18,7)	The financial/economic environment is uncertain, usually due to a market crash. This uncertainty creates high inflation, changes in exchange rates and market demand.
<b>Economic stagnation at home or abroad</b> (OM27)	The regular flow of goods and services slows down.
<b>Political instability at home or abroad</b> (OM27,4,20)	The political environment is uncertain, usually as a result of a change in government or outbreak of hostilities; this has implications for the economic environment.

Table 16. Other barriers

<u>Barriers</u>	<u>Description</u>
<b>Lack of capacity</b> (OM4,27)	Insufficient capacity in that workloads are high and cannot be increased to take on more activities.
<b>Lack of space</b> (OM2,9)	Insufficient physical space to accommodate more staff and/or new equipment.

Table 17 lists those barriers mentioned at least five times or more, according to the *number of owner-managers*. One of the features of template analysis is that it permits researchers to look at what is common across cases, as well as what is common to individual accounts. Whilst it is acknowledged that frequency and quantification generally should not be mistaken for saliency, it may point to something in the data that is worth closer attention (King, 2006b). In this study many of the most frequently talked about barriers were also those discussed in the most detail during interviews, in relation to growth intentions, and as a result they emerged as important barriers to elaborate on in the next sub-section. (Nevertheless, this in no way suggests that the frequency of barriers depicted here predicts or explains the extent to which they are related to business growth, or a lack of business growth.) Other researchers have used quantification in similar ways (e.g. Grant and Waite (2003) identified the frequency of barriers in their phenomenological research on internet usage).

Table 17. Most frequently identified barriers across interviews

Barrier	Number of owner-managers that mentioned
Lack of suitably qualified labour	18
High cost of debt capital	18
Too much bureaucracy	16
High competition	11
Lack of experience	9
Lack of management time	8
Lack of access to capital	8
Low market demand	8
Limited number of suitable sources of capital	7
In-house training	7
Need to bribe officials	7
Number of taxes	6
Lack of needed state run education and training programs	6
Financial/economic crisis	6
Lack of state support	5
Weak rule of law	5

Lack of suitably qualified labour and high cost of debt capital were reported more frequently by owner-managers than other barriers, followed by too much bureaucracy and high competition. Of those barriers identified, there were a few surprises.

Only *one* participant identified high profits tax as a barrier to growth, while the number of taxes, as a barrier, received more attention from owner-managers.

Accounts implied there were two reasons for this. The first and less common reason was that the tax situation had improved: *“If two years ago they called me to the tax office I would probably have to change my pants. And I didn’t have to do that when they called me just a few days ago”* (Dmitry, OM25). Another owner-manager said:

*“I can use new taxes form for stores and it’s easier because its smaller quantity of papers and one tax for all. It’s easier. And us, we can pay less than earlier, because earlier I paid 3, 4 different taxes, for different state accounts, for pension, for police fund, for city fund. Different taxes”* (Denis, OM2)

The second, more common, reason was that participants had devised ways to manage taxes and were certain that all businesses in Russia did the same. One revealed there were two methods used by companies in Russia to avoid taxes: *“The first is that we diminish the official price of the project. The second is that we raise our expenses”* (Anatoliy, OM11). He went on to say, *“In every small business you can find it. We survive only with this technique.”* Another participant revealed that most businesses kept two sets of books – *“we have two kinds of accounting reports. We have a tax report and an accounting report. In the accounting report we are a profitable company. And the tax report we are a company that makes losses”* (Pyotr, OM11). Another owner-manager said, *“If the tax system was a little more humane or real, the state would have a lot more profits because then people would try not to cheat. I do not really cheat. I cheat extremely rarely. But sometimes I must”* (Nikolai, OM19). From this it may be interpreted that barriers are meaningful in relation to whether or not owner-managers believe they can manage or overcome these barriers.

It was also found that while participants did not speak of *corruption* per se, descriptions of several institutional barriers - too much bureaucracy, frequent inspections, number of taxes, and the high cost of premises - alluded to corruption as being a form of state racketeering or broader corruption – late or no payments for products/services, threat(s) to security, and illegality of products/services. Threat(s) to security (*“security from without”, “security from within”*, Ben OM4) and illegality of products/services (*“if there will be no illegal production the price [of CDs and*

*DVDs] will be higher [...] and it will be easier to sell [to promote using advertising]”,* Yegor, OM18), were specific to individual accounts; individual experiences. And while lack of state support was identified by a few participants (five), state involvement was regarded by a few participants (four), as an even bigger problem.

### 7.2.3 *Extended descriptions of barriers*

Brief descriptions of barriers were provided in Tables 12, 13, 14, 15, and 16. Extended descriptions are provided for those barriers that were discussed in detail by the 27 owner-managers during interviews, namely: high cost of debt capital, lack of access to capital, lack of suitably qualified labour, lack of experience, too much bureaucracy, need to bribe officials, state involvement, low market demand, and high competition. As noted previously, while many of these barriers were mentioned frequently by owner-managers, across accounts, (as suggested in Table 17), more importantly, most of those listed here feature in discussions of *how* barriers influence growth intentions and behaviours the focus of results in Chapter 8 (with the exception of experience, which was regarded by most participants to be more of an issue in the past), and for this reason they are granted more attention here than other barriers.

Barriers are presented in the order in which they appear in the tables on pages 176-178: firstly, financial barriers (Table 12), secondly, skills-related barriers (Table 13), thirdly, institutional barriers (Table 14), and fourthly, market-related barriers (Table 15). None of the barriers categorized as *Other* are featured in this section. Finally, comments made by owner-managers about barriers that were *unprompted* (i.e. mentioned without reference to prompts of different kinds of potential barriers) are noted.

#### 7.2.3.1 Financial barriers

The high cost of debt capital was one of the most frequently reported barriers to growth. Lack of access to capital was the next most frequently reported *financial* barrier. As indicated in the following paragraphs, these two barriers are related to each other and are difficult to separate. For this reason they are discussed together.

The high cost of debt capital referred to interest rates on loans and collateral requirements. The high cost of capital was reported by 18 of the 27 participants. Three of the 18 participants identified the high cost of debt capital as a barrier to growth, without explanation. Across accounts, interest rates on bank loans were said to be between 15% and 24%<sup>30</sup>. All 18 participants noted that interest rates on debt capital - bank loans in particular - were prohibitive. In one owner-manager's opinion (unprompted), high interest rates, in conjunction with short-term repayment periods, meant that, "*if you take Russian capital, you die*" (Marcus, OM15). The view that interest rates were too high was shared both by those participants who had accessed bank loans and those who had not. One owner-manager who had taken a bank loan two years prior to the interview said (unprompted), that Russian and Western banks were operating in Russia under a "*policy of robbery*" (Eduard, OM15).

A few participants attributed high interest rates to the size and age of the firm. One such person reported that capital in Russia was "*very expensive*", and that this might be "*a problem with running a small business*" (Ben, OM4). Another owner-manager noted (unprompted), "*for small businesses banks do not always give credits*" (Pyotr, OM9). Still another noted (unprompted), the risks associated with lending to young companies in Russia, among other things:

*"The thing is that young companies are less stable and you cannot predict how they will cope with the market. Moreover the banks ask for high interest rates because it's very often they don't give you their money, but the money of some western banks which have high interest rates"* (Leonid, OM3).

In addition to high interest rates, five participants spoke about collateral requirements. Two stated that collateral was often undervalued by approximately 30 and 40 percent. Another explained that while those who owned real estate were generally in a good position to obtain a loan, owning real estate did not guarantee a long-term repayment contract (Svetlana, OM21). Two of the five participants said that because they operated in service-oriented industries, they would never be eligible for a bank loan because their assets were tied up in people rather than in property, machinery or

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<sup>30</sup> Interest rates have fluctuated over the years. According to one bank manager (M.P. Appendix 2.4), interest rates on loans in 1998 were 50%. Roman and Svetlana reported that between 1994 and 1995, a period of high inflation in the country, interest rates varied from between 150% and 240%. Participant reports of current interest rates fell within a range of 15% and 24%.

finished goods. Unprompted, one participant working in the publishing industry provided his view on the lending situation in Russia:

*“As far as it’s concerned, the central bank doesn’t want to allow any credit lines for businesses which do not have collateral. Uh so, they would probably consider a money laundering scheme or just to move money away, to steal money from banks. And because this business had only employees and trademarks it means you just don’t get any chance to uh, to get, normal capital. And there is no such thing as project financing in Russia. Only, no, only lending. You have to provide something against the lending. For our business it means we do not have a chance to raise any substantial capital for spending on business” (Anton, OM6).*

Eight of the 27 participants said that lack of access to capital was a barrier to growth. All eight reported the high cost of debt capital to be a barrier as well. Six of the eight participants used the high cost of capital to explain why it was difficult to access capital. Several participants suggested that access to credit also may be denied on the basis of firm size, lack of a credit history, negative profits after tax, and lack of administrative resources. One participant said that while each of his business partners made an initial financial investment in their property business, in order to grow they required additional funds. Unprompted, he went on to discuss some of the difficulties in accessing capital: *“[...] it’s very hard to get money from the banks. It’s practically impossible”* (Leonid, OM3). He said it was difficult because they (i.e. his company) *“don’t have any credit history”*. Those companies that did get loans had a credit history and what he referred to as *“administrative resources”*. When asked to explain what he meant by *administrative resources*, he said *“[...] they [i.e. those with administrative resources] have acquaintances in the government structures. [He giggles] There is a system of bonuses. Everyone is interested in getting some more money”*. Another owner-manager insisted (unprompted) that her business’s recent acquisition of a bank loan over the past year was possible only with the assistance of a friend in head office at Sberbank<sup>31</sup>:

*“He said go to this branch because the people are better. For instance, we had negative in tax profit. We had financial profit, but tax profit for the period is negative and they have problems with giving loans to companies that have*

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<sup>31</sup> Also known as the Savings Bank of the Russian Federation, Sberbank is the largest bank in Russia. It was established in 1841. It was the only bank to guarantee deposits following the Russian Financial Crisis, 1998. The bank provides loans to SMEs and retail customers.

*negative tax profits. That's loss. He helped explain them that when you have tax loss it doesn't mean you have balance losses. So he helped explain their staff that we qualify, in other matters we qualify. And that really helped us, otherwise we would have never got it". (Inna, OM24)*

One participant said (unprompted), that since starting her business in 1998 up to the present moment, there was “*no access to credit*” (Galina, OM10). In addition to having a good credit history, she explained that access to credit was also dependent both on an optimistic business plan and on present wealth. She elaborated:

*“State banks can actually give you credit but only if you can show them your business plan, and if you have a good credit history. Everything is decided by your wealth. So you have a plan and the focus is not on how are you going to flourish, but the focus is on if you're not successful what guarantees do you have to pay back the loan. So the policy of giving credits does not take into account any risk [on the part of the business]. It's difficult.”*

Another owner-manager believed that being a small business made it difficult to access credit. He said (unprompted), that in 1993/1994 when he started selling DVDs he got a loan from someone in the private sector, rather than a bank: “*So there was not a lot of money so we took some credits, but not at the banks because the banks didn't give credits to such small business men*” (Yegor, OM18).

#### 7.2.3.2 Skills-related barriers

As noted, 18 of the 27 participants identified a lack of suitably qualified labour as a barrier to growth. This barrier was described by participants as the composite of three related factors: a small labour pool, a lack of available labour, and unsuitable labour.

Nine of the 18 participants attributed a lack of suitably qualified labour to a *small labour pool*, particularly in those areas where the industry or specialization was new or had declined in popularity. Stepan (OM22), an owner-manager working in multi-media (publishing and advertising), said that the labour force in Russia was not “*low qualified*” but “*just not sufficiently qualified*”. Where the industry or specialization was new, one owner-manager working in the property market noted, “*Our industry is not traditional, so it's very difficult to find people*” (Leonid, OM3). Another working in IT services in the eCommerce sphere, said that for every 100 applicants they find

one suitable person. He went on to say that even with this one person, there was “*no guarantee [he or she] will work in my company more than 2 months*” (Timofei, OM8). When asked why it was difficult to recruit labour in his field, he responded in the following way: “*Why? Because we are too young. It’s just 15 years. And I am talking about country. It’s just too young. Uh, business, information business just too young and the technologies we are using too young. So about a few years. It is nothing.*” At the same time, businesses like his in new industries served to educate the labour force: “*So, people is coming. And my company is like a school, like a university. People come, get skills, get work [...] So, I help people in some ways*” (Timofei, OM8). Another said, (“[we are regarded as a] *good school that is supplying people everywhere*” (Dmitry OM25).

Several participants referred to the decline in education for more traditional specializations. One attributed the difficulties in recruiting qualified architects to the demise of the traditional planning institutes: “*These planning institutes practically vanished. They had no work. They fell apart.*” (Ivan, OM16). He explained (unprompted) that during Communist times, there were two kinds of institutes: educational institutes and planning institutes. In the planning institutes students worked as apprentices. “*These people working in the institute, they had the possibility of taking you under their wing and you could ask them about things they could explain*”. Another participant claimed that because technical institutes were stagnating, it had become “*really difficult*” to find engineers, “*to find people who can do the job*” because the requirements were “*growing*” but the level of instruction was not (Vadim, OM26). He went on to say, “*Russia has been into management and economics for a long time and no one took care of the technical personnel [...] technical universities has been stagnation for us*”. It is interesting to note that in fact a third of participants had received training as engineers before starting their own businesses; most did so prior to the collapse of the Soviet Union.

The issue of finding suitable senior and middle managers was attributed to access to labour, or the *availability of labour*. Five participants maintained that young people, in particular, preferred to work with larger companies. There were two explanations for this. The first explanation given by most participants was that large companies offered better career prospects and salaries. One participant talked about hiring young

people for production-related jobs: *“Young people do not really want to work as workers. There is nearly no possibility for young people to find a good education, good preparation for high qualified work”* (Pavel, OM12). The salary argument was used by another participant who stated (unprompted): *“[...] we have a limitation with the staff. This problem comes from the general consideration that the building industry is not very popular for the newcomers, for the young men and so on, because it not offer very good salary”* (Artyom, OM1). The inability to attract people to the building industry was used by this participant to explain why the median age of people working in his industry was 43 and this was expected to increase to 55 in the next few years. He and other participants reported that due to financial limitations, flexibility was required when recruiting and when offering training to those without skills or experience. Another reason put forward by one owner-manager to explain why it was difficult in particular to find skilled managers was that young people were interested in *“fame”* rather than in a career:

*“During the last 10-20 years in Russia there have been so many fairy-tale like stories of becoming wealthy. So many 18 year olds became the directors of companies that this waiting for fame is present in every young man. And the bigger part of young people is not prepared to work systematically and long term”* (Svetlana, OM21).

Therefore, in the view of participants, the availability of labour was believed to be related to several factors, including finances. One owner-manager said (unprompted) he could not hire any marketing professionals at this time due to financial limitations and limitations on physical space within the company, even though it was a crucial move for his company to increase sales, in this case magazine subscriptions:

*“Everything ends up with financing again. For example, the person that deals with marketing, he will have to have space to work, because we already did expand and there is no space anymore. Everything is connected, you cannot just take one bit of it.”* (Pyotr, OM9)

Five of the 18 participants communicated that while a labour force existed, it was *unsuitable*. Several participants attributed unsuitable labour to outdated education or practices, those reminiscent of Soviet times. One explained (unprompted) that in the publishing industry, he would not hire experienced Russian editors because they were

*“really biased in their reporting”. “I can’t hire them because they would bring the same practice in my newspaper” (Anton, OM6). He went on to say, “[S]ometimes it’s easier to train people with no experience than retrain someone”. Another owner-manager working in the restaurant and bar industry referred to prior experience as negative. During the interview he motioned to one of his wait staff and said (unprompted), “She is one of those. This one, she was working before on ships and she is thinking that she knows everything. So they already come with bad things. Those that come from the street, we will train them and they will do what we want” (Marcus, OM14). A participant working in the IT industry said he would not hire programmers with a Soviet mentality, those he referred to as ‘Sovok’:*

*“When we [Russians] speak with each other and we refer to something that remains from old soviet time mentality, we call it Sovok. So you come to a store and sales clerk turns his back on you because he is not motivated - Sovok. Well what do you expect from the guy? He’s Sovok, because he’s not motivated. You hire a programmer and the only thing he speaks with you is his salary and his bonus and he never speaks about how he will complement, or how he will invest his skills in your company, and at the interview he’s Sovok, I don’t want to hire him. The only thing he thinks about is money”.*

Finally, three participants working in those industries requiring manual labour, production and engineering, described the majority of workers in these industries as aging “*drunkards*”, unfit to hire. One noted, “*the problem with drinking seems to be a problem from Soviet times*” (Pavel, OM12).

It seems from the previous paragraphs that the barrier lack of suitably qualified labour is often attributed in part to another barrier, a lack of needed state run education and training programs. In discussing the barrier, a lack of suitably qualified labour, all participants reported having provided substantial training to employees. Indeed, two participants referred to their businesses as “*schools*”. Most participants complained that training necessitated the expenditure of considerable money and time, the latter varying across accounts from 6 months to a year and a half (in-house training). One said (unprompted), “*newcomers need our very long training*”. He added, “*we spent, a lot of our money and resources on for training of the staff*” (Artyom, OM1). A few participants sent employees, managers mostly, for training locally or abroad.

Nine of the 27 participants reported that lack of experience was a barrier to business growth. Three of these nine identified experience as a barrier but provided no explanation or elaboration, making no references to the kind of experience.

Four of the nine participants referred more exclusively to their lack of *prior* business knowledge or skills, which for some also included a lack of industry experience. One said, *“Now we do have sufficient experience. Earlier we didn’t have any of it”* (Pavel, OM12). Another remarked (unprompted), *“So seriously speaking the first four years were like school years for making mistakes”* (Svetlana, OM21). She went on to say, *“in the publishing business we were absolute green horns”*. One participant, a Swiss national spoke (unprompted) of his initial lack of industry experience in the education and training sphere and his inexperience working in the Russian business environment: *“We didn’t know anything”* (Ben, OM4). Another owner-manager who complained of past inexperience tied the development of his business, and his inexperience, to the development of the country. The two were *“closely connected”* (Stepan, OM22). He said (unprompted) that when he began operations in 1993 *“the Russian market at that moment allowed to do this without any education. With complete lack of capital, experience and education”*. He went on to explain, *“Examples had a very big influence. So neighbours did it that way, so we are going to do it the same way. And coincidence and luck. Coincidence and luck as a rule went hand in hand”*. Stepan reported that lack of experience was still an issue for his company, and that he and his partner compensated for this with management courses. Fyodor said jokingly, *“We are using our own experience, but we would really like to use others’ experiences”*. Fyodor noted the link between experience and education. He said, with reference to all Russians, that now *“we do have experience, but we lack education”*. It is interesting to note that although a few owner-managers reported taking business courses, only four of the 27 participants had a degree in business; only one owner-manager had a degree in economics. Still another owner-manager who had trained as an engineer and started a business specializing in lift construction, implied that his lack of management experience had devastating effects on his first business: *“When I first started I had no experience at all, so that was why I made mistakes”* (Nikolai, OM19). He attributed his lack of experience to losing employees to the competition: *“So for example, my first business. Why did it actually fall apart? Because I had not enough experience [...]*

*in a way that they [his employees] would not leave me [...] This mistake was possible only because I did not have sufficient experience”.*

Finally, another owner-manager operating in the software market said that experience was always an issue for him and his employees because the industry specifications were changing quickly, and, like Stepan, he attributed his inexperience to the inexperience of the country and, in his case, a lack of exposure to Western technology. He said, *“there is nothing around us that will give us exposure [...] I can tell you the history of the Soviet Union. Do you need it? No. I cannot sell this.”* The last participant also pointed to the inexperience of his employees. One participant operating in the intercom business said, *“You know the problem, I still, this lack of experience, I still feel. Because it takes us [i.e. the company] 10 more years to be experienced I think”*. In reference to his sales team he said, *“I know the business and know what’s going to happen [...] but my people, they sometimes suffer [...]”* (Vadim, OM26). Other participants also commented on the fact that employees were often inexperienced. One attributed his previous decline in sales to the inexperience of their sales director, who was subsequently replaced (Pavel, OM12). It seems therefore that a lack of needed state run education and training programs is related to both a lack of suitably qualified labour and lack of experience.

#### 7.2.3.3 Institutional barriers

Sixteen of the 27 participants reported that too much bureaucracy was a barrier to growth. Too much bureaucracy was related to other barriers, such as the need to bribe officials, and state involvement. These barriers are discussed as well.

Three of the 16 participants identified too much bureaucracy as being a barrier to growth but provided no explanation or elaboration. Of the remaining 13, eight referred specifically to, or alluded to, the amount of time it takes to get authorizations and to process the necessary documents. This was discussed by one owner-manager interested in expanding his auto-body repair shop: *“[...] in order to build a car washing site, it’s necessary to be granted a whole heap of licenses from the state and this can take lots of time. This can take you nearly half a year”* (Mihail, OM13). Another said, *“There is nothing more powerful than our bureaucracy. It’s absolutely*

*incredible how you can go through all of this paperwork” (Nikolai, OM19). One participant reported that when researching the possibility of buying a larger premises for his architectural studio he encountered issues with the registration of rights of ownership. When asked to describe the issues he replied (unprompted), “everything takes a very long time” (Ivan, OM16).*

In addition to the eight participants who identified *time* as an element of bureaucracy, seven alluded to both the time *and* the money bureaucracy consumed. References to money included unofficial payments made by businesses to state officials - i.e. the need to bribe officials. One owner-manager contended (unprompted), “*It takes a very long time to get or process documents. There are many preventative things from the side of administration in the service industry if you don’t pay any additional bonuses*” (Leonid, OM3). Still another said, “*Whenever you have to get some papers always you get into conflict with bureaucracy. So for example, only in order to get the official license for a project you have to pay some official money, and then you have to pay some unofficial money*” (Anatoliy, OM11). One participant referred to bureaucracy as the “*number one problem*” in the country:

*“Bureaucracy is the number one, two and three problem in this country and everybody recognizes it. Even Putin recognizes it. That, but the system is so totally corrupt it would take a real leader, I mean a real leader who can take tough decisions so these tough decisions can be taken at the top, you cannot start at the bottom. You have to start at the top and nobody, not Yeltsin, not Putin, has even attempted to do that. So the problem continues, and will continue for many years I think.” (Ben, OM4)*

Several barriers too much bureaucracy, frequent inspections, the number of taxes, and the high cost of premises, were linked to state racketeering. A few participants attributed racketeering to the low salaries of officials as well as to the greed of these individuals:

*“So, the normal way is not working in this country. They [i.e. bureaucrats] are too busy with their backchannels all the time. They don’t have time to do their proper job. They’re busy taking bribes and solving problems for their friends and colleagues and relatives. They don’t have time to deal with normal citizens. They don’t have time for that. They don’t get paid for that. And they’re right because the salary they get is miserable.” (Ben, OM4, unprompted)*

Officials were seen as needing money all the time. One owner-manager said (unprompted) that money was like “*oxygen*” to them and without it they “*wouldn’t exist*” (Ben). Therefore, it is not surprising that in response to examining the barrier - lack of state support - four participants viewed any kind of state involvement as negative. One responded, “[...] *the main idea is that we are in a situation where we would like the state doesn’t stop business. Support, of course can dream, but it’s impossible*” [He laughs] (Boris, OM27). Another owner-manager also responded to the prompt with some concern: “*We have never asked for help from the government. We don’t need any help. And the biggest thing is they don’t interfere with our work. We will find the things we need ourselves*” (Pavel, OM12). Another still said, “*It would be nice if, um, we could involve the state as little as possible*” (Anatoliy, OM11). When asked why, he provided the following explanation:

*“So first of all, we don’t believe in it [the state]. So we all the time trying to cope, trying to adjust to what is going on. So the thing is that wealth of the people, of citizens, absolutely not the same as the wealth of the state in Russia. So everything that, quite a lot of things that seem to be illegal in the West it’s just the only chance to survive here.”*

#### 7.2.3.4 Market-related barriers

Eight of the 27 participants reported that low market demand was a barrier to growth. Three of the eight attributed this to the low purchasing power of the Russian people. One participant claimed (unprompted) that people were “*not ready*” to pay for actual labour costs. In the e-commerce sphere, where he positioned his business, he said of his customers, “*they don’t really feel to pay money like 100 dollars for a few hours of work*” (Timofei, OM8). Another participant said (unprompted) that sales were declining in her bar/restaurant because she felt the “*buying power is decreasing*”. When asked why, she explained that in her opinion, “*people became more practical and economical [...] they don’t allow themselves to spend a lot of money just for entertainment*” (Galina, OM10). Two of the remaining five participants attributed low demand to the customer’s lack of perceived need for the product. One owner-manager said in reference to his company’s intercom systems, “*No one needs our product. Because no one cares of the intercom system*” (Vadim, OM26). He said

that with older Russian organizations as potential clients, you had to really “persuade” them. This was particularly stressful for his sales team. He explained, “*this is why some of my people could not cope with that*”. “*For new equipment there is no demand unless you do something*” (Vadim, OM26). Of the last three participants, one linked (unprompted) the lack of demand to the economic situation during the financial crisis of 1998: “*It was very hard for people when it was crisis in Russia. People bought only food and clothing and they didn’t buy such films and CDs and so on*” (Yegor, OM18). Another partly attributed low demand to unskilled staff and a poor sales director in particular (Pavel, OM12). Another still working in programming services said the demand for such services in Russia was low and as a result most clients were foreign (Dmitry, OM25).

Eleven participants reported high competition to be a barrier to growth. Six of the 11 did not elaborate as to how or why this was the case. One of the remaining five participants complained about competing with Moscow-based companies for business contracts in St. Petersburg. These companies, he believed, had connections with the local government, usually individuals also from Moscow. He asserted (unprompted), “*When managers from Moscow come to some organizations here, they naturally will complete many negotiations and contracts with friends from Moscow*” (Eduard, OM15). Two of the remaining four participants referred specifically to high competition for labour. These individuals were concerned about competition from foreign companies and large Russian firms who offered new recruits better salaries and more opportunities to develop their skills. One said that these companies offer employees “*money and very good resume, a reference and skills. You learn a lot because it’s big company*” (Dmitry, OM25). One participant called attention to the difference in salaries between small businesses like his and larger businesses:

*“If I need a program specialist or manager, even if I need a designer, on the labour market, I compete with banks, with oil companies. And if I tell the designer that I will pay him \$500 a month, the banks will pay him \$1,500. So it always come out that we are buying specialists that haven’t been taken by banks. Of course these are not specialists just interested in working in our field. It’s very difficult to find somebody like that”* (Roman, OM20).

A couple of participants identified competition as a barrier but, explained that it also had benefits. Competition, for one owner-manager, had ‘pushed’ his company to

begin producing their own product – i.e. intercom systems (Vadim, OM26). Another company cut production costs and improved technology after a Chinese competitor copied one of their products (i.e. a roaster) (Pavel, OM12). In commenting on this situation, the participant said, “*Without competition you can’t do anything good*”.

### 7.3 Chapter summary and conclusions

The purpose of this chapter was to present those results which addressed the first research sub-aim: to examine barriers to small business growth from the perspective of the individual owner-manager, with an emphasis on the meaning of barriers and the context in which they are perceived. Forty barriers to business growth were identified from owner-managers’ accounts, from which five categories of barriers emerged: financial, skills-related, institutional, market-related and other. Lack of suitably qualified labour, high cost of debt capital, too much bureaucracy and high competition were identified more frequently across accounts than other barriers. Extended descriptions were provided of those barriers that featured in accounts of how perceived barriers influence growth intentions and behaviours.

Four other interesting or surprising findings emerged from the data:

First, it was surprising that high profits tax was infrequently mentioned as a barrier to growth, suggesting that barriers are meaningful partly in relation to whether they are perceived by owner-managers to be manageable. Also, corruption was not identified on its own as a barrier to growth, but was alluded to in several institutional barriers.

A second finding related to the previous one was that a few unusual or surprising barriers were identified from the data – threat(s) to security, illegality of products/services, and state involvement - all of which had to do with corruption, and with the exception of state involvement, were specific to individual accounts.

Third, the data yielded important insights into relationships between barriers; thus, descriptions of barriers *overlapped* and *inter-connected* within categories - e.g. skills-related barriers - lack of needed state run training and education, in-house training, and lack of suitably qualified labour; institutional barriers – the need to bribe officials

and its relationship to other institutional barriers such as too much bureaucracy, number of taxes, frequent inspections, and the high cost of debt capital. Also, barriers overlapped and interconnected across categories (a skills-related barrier - lack of management time and an institutional barrier - too much bureaucracy). Also, while lack of access to capital was categorized as a financial barrier, owner-managers' descriptions of this barrier would also suggest it is an institutional barrier.

Fourth, descriptions of some barriers were *double-edged* in the sense that while they were perceived to be negative, some owner-managers felt that their alternatives were also perceived to be negative, possibly more so. For instance, a lack of access to labour evolved into a lack of suitably qualified labour after a few owner-managers revealed that, among other things, prior training and work experience was not always helpful. Also, a lack of state support was double-edged in the sense that support equated to involvement, and involvement had overtones of impeding and interfering with business practice. For this reason, the barrier state involvement was created.

These findings suggest that barriers are meaningful in relation to other barriers. The next chapter addresses the research aim to explore and examine how, or the ways in which, barriers identified from participant accounts and discussed in this chapter may influence owner-managers growth intentions and behaviours. It also contributes to the first research aim in terms of saying something about the meaningfulness of barriers and the context in which they are perceived.

## 8 Results: Part two

### 8.1 Introduction

This second results chapter for the main study directly addresses the research sub-aim concerning how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours. Intentions in this study represent the desire for growing the business, the belief one will act to grow the business, and growth-related goals or specific intentions, whereas behaviours represent actions to grow the business. Barriers are broadly defined as those factors internal and external to the firm seen as interfering in some way with business growth, through intentions to grow and behaviours leading to growth. From data analyses, *six* ways in which barriers influence growth intentions and behaviours were identified and are examined here. Throughout this chapter, perceived barriers are underlined and the growth intentions to which they relate to are indicated in 'single quotes'.

The chapter begins in Section 8.1 by re-capping on the methods used to analyse and explain interview data. This is followed in Section 8.2 with the results, as they describe and examine those themes and sub-themes identified during analyses.

#### 8.1.1 *Reminder of the analysis of interview data – Deriving the themes*

This section reiterates three techniques used for identifying themes that address the research aim. As discussed in Chapter 6, interview data were analysed using a combination of techniques, mainly template analysis. This section also provides illustrations of how these techniques were used to analyse data.

##### 8.1.1.1 Template analysis

All of the transcripts were read and re-read before data were organized according to the guidelines for template analysis (King, 2004a, 2004b; Crabtree and Miller, 1999). Initially, a broad template was devised which generated a series of descriptive codes, some of which were taken *a priori* from the interview questions and the literature, whereas others were identified from the data (see Appendix 2.5). Following further

and finer revisions of the coding template, data relevant to the research aims was first isolated, then re-coded when necessary, then clustered together and examined. Meaningful connections were made both within and between codes. These led to the development of more interpretive codes and eventually to themes.

*Illustration of the process:*

The initial coding template utilized two *a priori* codes (first raised in Chapter 5) to capture the ways in which barriers might influence growth intentions and behaviours:

1. barriers may stop owner-managers from intending to grow; and,
2. barriers may stop owner-managers from acting on intentions to grow.

Following several iterations of the coding template, these codes were revised. In addition to the first code (*barriers may stop owner-managers from intending to grow*), it was also found that *barriers undermine intentions to grow*, *barriers add to the ambivalence around intentions to grow*, and *barriers provide incentives to grow*. These four codes became sub-themes of the higher-order theme **barriers shape intentions to grow or not grow**. When it was discovered that on some occasions owner-managers were clear they intended to grow and had plans to grow, but could not do so for an indefinite period of time, the second code (*barriers stop owner-managers from acting on intentions to grow*) evolved into the sub-theme *barriers postpone intentions to grow*. It was also discovered that even when individuals were acting on their intentions to grow, barriers had a role to play and served to *slow down the process of realizing intentions to grow*. Together the codes *barriers postpone intentions to grow* and *barriers slow down the process of realizing intentions to grow* become sub-themes of the higher order theme **barriers shape intention realization**.

The new list of themes is provided below, and includes two higher-order themes and six sub-themes:

A. Barriers shape intentions to grow or not to grow

A.1 Barriers stop owner-managers from intending to grow

- A.2 Barriers undermine intentions to grow
- A.3 Barriers add to the ambivalence around intentions to grow
- A.4 Barriers provide incentives to grow

B. Barriers shape intention realization

- B.1 Barriers postpone intentions to grow
- B. 2 Barriers slow down the process of realizing intentions to grow

8.1.1.2 Matrix analysis

Once descriptions of the two higher-order themes and six sub-themes were in place, a data matrix was devised to display each of the sub-themes. Interview transcripts were then re-read and examples of each theme and sub-theme were drawn from them. This part of the analysis served two purposes. First, it ensured that none of the data relevant to the themes were missed. Second, this part of the analysis allowed for comparisons of themes within and across individual cases (Nadin and Cassell, 2004). It also served to highlight which examples could be selected for the next step.

Illustration of the process:

The following examples are taken from the interview of one participant - Ben (OM4). During Ben's interview, three of the six ways in which barriers influence growth intentions and behaviours were mentioned:

Table 18. Example of using matrix analysis to understand the ways in which perceived barriers influenced one participant's growth intentions and behaviours

<b><u>Sub-Theme 2:</u></b> <i>Barriers undermine intentions to grow</i>	<b><u>Sub-Theme 3:</u></b> <i>Barriers add to the ambivalence around intentions to grow</i>	<b><u>Sub-Theme 4:</u></b> <i>Barriers postpone intentions to grow</i>
TALKS ABOUT BUREAUCRACY:  R: "Would you say these things have affected the growth of your	TALKS ABOUT THE INTENTION TO INCREASE MARKETING AND SALES: B: "Ya. We are in the process. But, things take a bit slow. <u>We don't</u>	TALKS ABOUT THE INTENTION TO EXPAND THE PRODUCT/SERVICE LINE: B: A lot of courses we <u>can't offer at the moment</u> which we would like to

<p>company?”</p> <p>B: “Well certainly they have because it <u>costs a lot of money</u>, I’m not telling you because we’re not paying bribes, but we have to go through the whole procedure, so we have our own, we have maybe, maybe <u>three or four more staff on my payroll</u> than I would typically have in another country because we have to go through, you know, all this bureaucracy. And having a bank account where you have receipts from abroad, It is a nightmare. I mean I have one full time staff who is trying to get into the country only the money that belongs actually to us. Basically converting Euros on an account and making them into rubles and making sure they are ours. For every payment we get from abroad, we have to produce about 20 pages of documentation. Every payment.” (p 10) <b>Loss of resources – i.e. financial and human resources. Growth may not be feasible.</b></p>	<p><u>have the staff and I’m not hiring anyone</u>. (He is interrupted by a staff member) <b>Ambivalence – Desire to grow is unclear.</b></p> <p>R: “So you mentioned, uh, your marketing and it’s a bit slow at the moment because” (He interrupts)</p> <p>B: “We don’t have enough manpower at the moment and uh, I don’t want to hire anyone”.</p> <p>R: “Why is that?”</p> <p>B: “Um, I want to <u>keep the team as small as possible</u> because it’s much <u>easier to manage</u> and uh, I think we have it in the pipeline, pretty similar jobs do this, I’m very, uh, <u>I don’t have the space for staff</u>, and it’s better to be overworked at times than lot of sitting around. Because the workload is not the same everyday, so.” (p. 16) <b>Not enough resources – i.e. human resources. Growth may not be feasible.</b></p>	<p>offer. Volunteer training, internships, academic courses. The American market is almost untapped for us. We have a lot to do there. There’s much more. So it’s actually a mixture between marketing efforts and new services. It’s connected. Very close. I think this would be uh, still we don’t offer all the courses we want to.” [...] “But it’s not a top priority at the moment because we have the growth but it will be. It will certainly be put on the agenda.” <b>Acting on growth intentions is postponed.</b></p> <p>R: “Ok. So what’s the biggest challenge [...]?”</p> <p>B: “Finding the <u>‘time’ to do it</u>. It’s not that we are sitting around thinking what we could do next, it’s really that we are so busy. I want to grow more, we have that in mind, specialized course, targeting, because we are well known on the internet, it’s difficult not to find us. But we have to offer a wide range of courses.” (pp 14-15) <b>Not enough resources – i.e. human resources, and time. Growth may not be feasible.</b></p>
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Ben has suggested that it would be desirable to increase marketing and sales efforts as well as expand his services. Nevertheless, neither intention appears to be a priority at the moment. A lack of space seems to contribute to his ambivalence towards increasing his marketing and sales efforts. Similarly, a lack of management time and lack of capacity also may contribute to his decision to postpone some of his plans to expand his service offering. As well, it seems that bureaucracy takes up a lot of time and uses manpower which otherwise might be channelled into these growth activities.

The next table compares Ben and Maksim’s accounts of barriers postpone intentions:

Table 19. Comparing two participants’ accounts of barriers postpone intentions to grow

<b><u>Ben</u> (OM4)</b>	<b><u>Maksim</u> (OM7)</b>
<p>TALKS ABOUT THE INTENTION TO INCREASE THE PRODUCT/SERVICE LINE:</p> <p>B: A lot of courses we <u>can’t offer at the moment</u> which we would like to offer. Volunteer training, internships,</p>	<p>TALKS ABOUT THE INTENTION TO EXPAND THE PRODUCT/SERVICE LINE:</p> <p>M: “Another branch of publishing is the development of a telephone directory service about the children and</p>

<p>academic courses. The American market is almost untapped for us. We have a lot to do there. There's much more. So it's actually a mixture between <u>marketing efforts</u> and <u>new services</u>. It's connected. Very close. I think this would be uh, still we don't offer all the courses we want to." [...] "But it's not a top priority at the moment because we have the growth but it will be. It will certainly be put on the agenda."</p> <p><b>Acting on growth intentions is postponed.</b>  R: "Ok. So what's the biggest challenge [...]?"  B: "Finding the '<u>time</u>' to do it. It's not that we are sitting around thinking what we could do next, it's really that we are so busy. I want to grow more, we have that in mind, specialized course, targeting, because we are well known on the internet, it's difficult not to find us. But we have to offer a wide range of courses." (pp 14-15) <b>Not enough resources – i.e. human resources, time. Growth may not be feasible.</b></p>	<p>families and educational questions. But this will be in the future. Because at the moment the publishing just <u>lacks forces [i.e. resources] to go into other areas</u>. And at the moment we intend to develop already existing branches more than developing new branches from zero." <b>Not enough resources – i.e. human resources, financial resources. Growth may not be feasible.</b>  R: "So the telephone directory service and the publishing of books are not working now?"  M: "The telephone directory service is not working. But the publishing of books is working now. The telephone directory and magazines are working now [...] The other directions that I talked about, we will develop during the next time. So during the next period of time."  R: "Over what period of time?"  M: "I think during two years. During the next two years <u>we will look for outside investors in order to develop this direction</u>. The service will start after two more years." (p. 6) <b>Acting on growth intention is postponed.</b></p>
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For both Ben and Maksim, limited resources are used to explain why they are unable to act on their intentions to grow at this time.

#### 8.1.1.3 Individual case analysis – Drawing on IPA

As discussed in Chapter 6, accounts were formed around themes which relied on broad examples from different transcripts and, where possible, around more in-depth illustrations from individual cases (King, 2004b). Illustrations from cases presented in this chapter are referred to as 'examples' – both broad examples and more in-depth examples are provided. In the latter case, King (2006) suggests that researchers should look at the issues at the "heart of a participant's story"<sup>32</sup> to bring out the uniqueness and context of individual accounts, rather than just looking for commonalities across cases. To construct in-depth examples in the current study, data extracts selected from individual transcripts as being germane to the respective themes were examined in accordance with the following questions: What is this person trying to tell the researcher about barriers and the ways in which they influence growth intentions and behaviours? Which issues, if any, are most pressing to this individual and why? How can the account be explained by the experience of the participant and his/her motivations? Answers to these questions were intended to provide richer descriptions of the context, meanings and processes involved in

<sup>32</sup> This quote was taken from King's website on Template Analysis, and for this reason a page number could not be provided.

individual experiences (Holliday, 2005) surrounding barriers to small business growth.

To illustrate, some of the barriers to Maksim's account of his intention to 'expand the product/service line' are provided below.

Illustration of the process:

Table 20. Example of one participant's account of barriers and intentions to grow

<b><u>Maksim (OM7)</u></b>	<b>Questions to ask of this participant's account while examining the extract</b>
<p><i>TALKS ABOUT THE INTENTION TO EXPAND THE PRODUCT/SERVICE LINE:</i></p> <p><i>M: "[...] During the next two years <u>we will look for outside investors</u> in order to develop this direction [i.e. telephone directory service]. The service will start after two more years." (p. 6) <b>Acting on growth intentions is postponed.</b></i></p> <p><i>[...]</i></p> <p><i>M: "[...] this will be possible only after having found outside investors. We don't have any such investor at the moment so at the moment I'm undergoing a course on venturing investment, in order to find those investors." (p. 7)</i></p> <p><i>[...]</i></p> <p><i>R: "Are you looking for Russian or foreign investors?"</i></p> <p><i>S: "Russian. I'm not sure it will be foreign investors. Because the situation in our country is that foreign countries can't invest in this market."</i></p> <p><i>R: "Why?"</i></p> <p><i>S: "I don't know. Because they're afraid to invest money in our country. [...] Because at the moment Western investors are putting money into the most basic things in the Russian markets. This is oil, gas, and production, automobile parts. In such branches as publishing so far they are afraid of investments. It's higher risks." [Threat(s) to security]</i></p> <p><i>[...]</i></p> <p><i>R: "Does anything on this list make it difficult to expand your products or services?"</i></p> <p><i>M: "<u>Lack of access to capital</u>. We lack investment in order to make a big leap in the market". (p. 10)</i></p> <p><i>R: "But you're trying to find an investor?"</i></p> <p><i>S: "Yes."</i></p> <p><i>R: "What about borrowing from a bank?"</i></p> <p><i>S: "Banks have very big percent."</i></p> <p><i>R: "So it's not an option?"</i></p> <p><i>S: "No." [High cost of debt capital]</i></p> <p><b>Not enough resources – i.e. financial resources. Growth may not be feasible.</b></p>	<p>a) What is this person telling the researcher about barrier(s)?</p> <p>In this extract, the barrier <u>lack of access to capital</u> was related to several factors, including the <u>high cost of debt capital</u> and attitudes of foreign investors. In the participant's view, these things have made it difficult to access finance. Even so, this participant is very determined and feels that the lack of access to capital generally can be overcome.</p> <p>b) What is this person telling the researcher about the ways in which barriers influence growth intentions and behaviours?</p> <p>The participant sees the barrier <u>lack of access to capital</u> as stopping him from acting on his intention to create a telephone directory service at this time.</p> <p>c) Which issues, if any, are the most pressing to this individual and why?</p> <p>Other activities such as developing existing branches of business have maintained the participant's focus at the time, although he is learning more about venture capital, and this, he hopes, will help him identify an investor who would assist in financing the service. The most important issue to this participant, in relation to the service, seems to be identifying an investor.</p> <p>d) How can the account be explained by the experience of the participant and/or by his/her motivations?</p> <p>This participant has been with the company for six years. He worked his way up to manager and shareholder. He has referred to himself as ambitious. He believes there is a lot of potential for growing the business. These things may serve to explain his intention to grow the business 'substantially'. For these reasons it is unlikely the barriers reported will stop this owner-manager from pursuing his goals.</p>

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All three techniques - carrying out template analysis, matrix analysis, and conducting a more in-depth analysis of individual cases - were useful in identifying themes to address the research aims, and in particular the second research sub-aim.

## 8.2 Themes

Having re-capped on how these data were analysed, this section now turns to the findings. As discussed, two higher-order themes were identified as capturing some of the ways in which barriers influence growth intentions and behaviours. The first, **barriers shape intentions to grow or not to grow**, incorporated accounts whereby barriers, as reported by owner-managers, influenced growth intentions. In most cases the effects of barriers on growth intentions were negative - that is, with the exception of a couple of accounts which suggested that barriers may provide incentives to grow. The second higher-order theme, **barriers shape intention realization**, captures those accounts where intentions to grow are present but owner-managers either cannot act on their intentions partly because of barriers, or because they were taking actions to grow but the barriers interfered nevertheless.

This section is organized according to each theme. For the purpose of illustrating the sub-themes in greater depth, the researcher draws short examples from different transcripts as well as longer examples revolving around specific growth intentions. Finally, it should be noted that where it may be the case that particular barriers or categories of barriers are common to specific sub-themes, this will be noted.

Before examining themes, summary descriptions of the sub-themes are provided below in Tables 21 and 22.

Table 21. Descriptions of sub-themes for Theme A

<b><u>Theme:</u> A</b>	<b><u>Description:</u></b>
<b>Barriers shape intentions to grow or not to grow</b>	
<i>(A.1) Barriers stop owner-managers from intending to grow</i>	Intentions to grow are absent because certain barriers threaten the survival of the firm, and these barriers are perceived to be particularly acute, intense, and/or overwhelming. Efforts are

	focused not on growth, but on minimizing the firm's losses.
(A.2) <i>Barriers undermine intentions to grow</i>	Growth intentions are undermined by chronic institutional barriers and behaviours that are focused on managing the effects of barriers rather than on growing the firm.
(A.3) <i>Barriers add to the ambivalence around intentions to grow</i>	Intentions to grow are mixed when barriers are perceived to be too difficult to manage or as fuelling already weak intentions to grow.
(A.4) <i>Barriers provide incentives to grow</i>	Barriers increase the determination with which certain intentions are pursued when the survival of the business is seen to be compromised if the barriers are left unmanaged. Efforts are focused on overcoming barriers.

Table 22. Descriptions of sub-themes for Theme B

<b><u>Theme: B</u></b>	<b><u>Description:</u></b>
<b>Barriers shape intention realization</b>	
(B.1) <i>Barriers postpone intentions to grow</i>	Intentions to grow are present and owner-managers are clear they will act on intentions at such a time as a determination is made that barriers can be managed or overcome. Few actions, if any, are taken to realize intentions.
(B.2) <i>Barriers slow down the process of realizing intentions to grow</i>	Intentions to grow are present and owner-managers are acting on these intentions; however the time it takes to manage barriers is lengthy.

### 8.2.1 Theme A: Barriers shape intentions to grow or not to grow

The purpose of this study was to speak to owner-managers about how, or in what ways, perceived barriers influence their growth intentions and behaviours. Themes related to how barriers may shape intentions to grow or not to grow were generated during the analysis of interview data. These were grouped under four sub-themes. The following sections describe these sub-themes in relation to owner-managers accounts of how barriers shape intentions to grow or not.

#### 8.2.1.1 Sub-theme A.1: Barriers stop owner-managers from intending to grow

There were a few instances in which individuals reported having no desire to grow the business and having no specific growth intentions. The majority of these instances were attributed to accounts of the Financial Crisis of August 1998 (financial/economic crisis) which seemed to exacerbate other barriers to growth such as low market demand. Participants reported that during the crisis their attention and efforts were devoted to ensuring the *survival* of the firm. One participant, the owner-

manager of a publishing company specializing in the education sector, clearly expressed this focus on survival:

*“[I]n this period the demand of orders diminished very quickly and the basic challenge of the firm was to survive”. (Maksim, OM7)*

Several participants spoke about the heavy commercial losses they experienced during the financial crisis. One participant, an architect, remarked that the success of his business was dependent largely on the state of the Russian economy: *“If there won’t be economic conditions to build, we won’t have orders. So there was the year 1998 when the ruble defaulted. The building industry just stopped and many businesses were closed. No orders. No work.”* (Ivan, OM16) Yegor, the owner-manager of a chain of CD/DVD shops said that in response to the crisis he was forced to close down four of his five shops. He gave two reasons for this. First, he said that for at least six months following the crisis *“people could only buy food and clothing”* and did not have money for CDs or DVDs (low market demand). His second reason related to the high cost of premises. Because the rent on his shops was nominated in US dollars, he explained that when the ruble depreciated during the crisis and the value of the dollar rose substantially, he was unable to fulfil his monthly obligations. As a result, he said *“we lost almost everything”* and then, he and his partner (his brother), *“began developing [the business] from zero”* (Yegor, OM18). He continued, *“It was a very hard time and I thought I would give up [...] and make something else, but then the economic situation became better”*. Another participant said that *“for one year [the crisis] fully stop activity”* (Boris, OM27). Like Yegor, he referred to having to start over again after the crisis: *“[The business] grows actually from zero”*.

A few participants felt that another crisis was inevitable. One said, *“the next crisis is in 2010”* (Fyodor, OM23). A couple mentioned that the Russian people were afraid there would be another crisis when President Putin’s term ended in 2008.

The anticipation of another crisis contributed to one owner-manager’s decision to keep the business the ‘same size’. Marcus (OM14), a Swiss national in his mid-50s, had come to St. Petersburg in 1994 to open a restaurant in the city centre. He said that until the crisis they *“made a fortune”*:

*“August, 17, 1998. I never forget this day. Never. Never.”*

***“Can you describe that day?”***

*“I mean, we made a fortune, everyday we had fully packed restaurant, until the 15<sup>th</sup> of August. On the 16<sup>th</sup> of August there were the rumours that everything was breaking down, economy is coming down, all the banks were closed, all the changing points were closed, and we didn’t know what happened. So the 15<sup>th</sup> of August we had 6 rubles to one dollar, and the 17<sup>th</sup> they opened again with 24 rubles to one dollar. With a devaluation of 400 percent. From one day to another, empty restaurant. It was just like this for months. For months it was just like this. So I cut down all the salaries by 50%, that was the first.”*

***“And people stayed?”***

*“Of course they stayed. It was a crisis. Nobody knew where to go now. Such a lot of people lost their money. Lost their places of employment and everything. So I cut it down 50% the salaries, I cut down also 50% of working time, because there was just nobody.”*

Later, Marcus explained that it took his business two and a half years to recover from the crisis and that even so, the commercial success of the restaurant had never returned to pre-crisis levels. When asked why it was his objective to keep the business the same size, he gave two reasons. The first reason he gave was that competition was high and increasing (high competition). Marcus believed that in the restaurant business his days of making big money were over. He argued, *“we have too much restaurants on high level prices comparing to the potential we have in St. Petersburg”*. The second reason was that his experience of the financial crisis was negative and in his view another financial/economic crisis was likely:

*“But uh, I mean for me it’s a matter of time. It’s a matter of time. We will have crisis again. We might not have crisis as long as Putin is here. Because that’s the only thing, I think he wants to keep, not to get crisis while he is president. What will be after Putin? And even Russians tell you, “What will be after Putin?”” (Marcus, OM14).*

He later added to his comment above:

*“The thing is what will be the guy after Putin be doing? [...] Will there be a small Stalin? If so, ok, let’s go. And bye bye and just go home [...] that’s why all the Russians say “let’s make money in the next three years”, because what will happen [after Putin], we don’t know.”*

Therefore, while Marcus would keep the restaurant operational, he would focus his attention and effort on a new business venture in Russia, one specializing in the construction of Swiss style cottages where he felt there was much opportunity for growth. In referring to his second business he said, *“this is business. This is real business. And this will not be real business for at least five years”*.

In response to the crisis, owner-managers were often forced to initiate a series of cost-cutting measures in an effort to conserve resources. A few, like Marcus, spoke about having to lay off employees or reduce their salaries and hours. One said, *“we had a good team who agreed to diminishing their salaries but stayed with us anyway”* (Maksim, OM7). Some participants turned their attention to other activities over this period or carried on at only a modest level of operating capacity. Boris (OM27), the owner-manager of a small company involved in managing projects for large bakeries and confectionaries, said, *“We made a lot of service work, spare parts”*.

For most participants the negative effects of the crisis were limited in duration. Within a year or two most businesses had almost resumed normal operating capacity. One participant said, *“In 2000 we felt that we had come back to the same level as we had been in the summer of 1998”* (Stepan, OM22). Another referred to the years between 2000 and 2003 as a *“period when we had to feel ourselves like a normal company without strictly cutting costs and other things”* (Boris, OM27). Three years later several participants reported being profitable once again: *“I mean we were really hit from the crisis for about two and a half years. We just went up slowly and slowly and slowly”*. *“And the first time we made money again, more or less, it was 2002”* (Marcus, OM14). On reflection, a few came across as being rather philosophical about the crisis and regarded their survival throughout this time as a *“test”* of their ability to *“cope”*. Stepan, the owner-manager of a multi-media firm specializing in publishing and advertising, referred to the crisis as a *“testing period”*. He talked about why he so *“warmly”* remembered events following August 17, 1998:

*“So I can say that this crisis gave us very much. We became strong. We became big and started to recognize ourselves as a firm. And we could show to the market that we were wealthy company. Everyone else got bankrupt, but we at [name of company] could survive.”*

Fyodor (OM23), Stepan's business partner, related their experience of surviving the crisis of 1998 and other economic crises to other challenges they encountered:  
*"Actually, you know in Russia there was a minimum of three crises and we always say that if we survive those three crises [1991, 1994/1995, 1998], the problems we experience now are a piece of cake."*

Example – Eduard: *"Everyone is suffocating me!"*

While the financial crisis featured in the previous accounts, it was *not* the only barrier which prevented individuals from intending to grow the business for the foreseeable future. One participant spoke about feeling overwhelmed by different factors or barriers which he believed threatened the survival of his business.

Eduard (OM15), the part owner-manager of a small business specializing in computers, local nets and software, reported that the rent they paid to the state for their current premises was so expensive (high cost of premises), that this, in conjunction with other barriers, compromised the very survival of the business. Eduard had joined the company as General Director and partner in 1995. Initially, the company had focused mainly on the assembly of computer parts but since his entry into the business activities had expanded to include working with computer networks, cable positioning systems, the positioning of cameras, firm alarms, and various kinds of electrical networks. Two years ago, they further extended their services to include a repairs department and more recently, a section for retail sales. To accommodate these changes they hired more employees. As a result of the expansion, they required larger premises. After looking at several places, Eduard said they finally *"won the right"* to rent their existing premises for up to 10 years. However, to rent the premises Eduard and his partners had to commit themselves to paying \$4000 per month. Furthermore, the building which had previously belonged to a state-owned pharmacy was in such poor state of repair when they arrived that they invested \$40,000 in reconstruction and renovations. In showing us photos of the original property he commented:

*"This is the way it looked when we came here and the government is not ashamed of charging these prices for the right to rent".*

To cover much of the reconstruction and renovation costs they took out a bank loan. He explained that for a loan of \$22,000 over a period of 5 years, they were required to pay back \$37,000. He referred to the interest payments as “*barbaric*”. Nevertheless, he appeared ready to take out another loan for the purpose of purchasing the premises:

*“I hope that sooner or later the state is going to sell these premises and then I will get another loan from the bank and will pay the bank. It’s better than paying the state. And then I hope my business will be profitable.”*

It may be the case that Eduard considered the high cost of debt capital to be the lesser of two evils, which included the high cost of premises; both of which he referred to as “*outrageous*”. Even so, he felt that in two or three years’ time they would be in a position to pay back the bank loan. Eduard also believed that over the next few years the government would sell the premises. He explained:

*“So last year our governor passed a law that if the rent of one square metres reaches 30 units [a conditional unit<sup>33</sup>], then you can buy the premises. So before it was 30 and now they made it 50 units. So they are making progress. And when they reach my level, I will be able to buy it. So, for instance, the city sold all cellar premises and now they are selling ground premises. And soon I hope they will reach us.”*

In addition to the high cost of debt capital and high cost of premises, Eduard also complained of the number of taxes he was required to pay to different bodies following the company’s move to the existing premises. He said that since ‘winning’ the right to the premises, to date they had undergone 43 inspections from various state departments including health and safety, sanitation, fire brigade and police. He remarked, “*And all of them have to be paid for. And I don’t even know when this will finish actually.*” When asked how much he paid for such services, he replied that for instance, “*the services of health and safety cost 800 dollars. And you have to know that neither their services nor the services of the others do anything.*” He also

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<sup>33</sup> One conditional unit may be equal to one dollar or one euro, or the ruble equivalent (Central Bank rate) of the dollar plus the euro divided by two. For example, if the dollar is 24 rubles and the euro is 36, one conditional unit is  $(24+36)/2=30$  rubles. But every party to the contract establishes the value of conditional units in the respective contract. Some use euros, some still use dollars, and some use the above formula (Vashchilova, 2008).

mentioned the exorbitant \$10,000 payment he was required to make to Leinergo, the state electricity provider:

*“The most horrible thing turned out to be something else. It turned out that these premises do not have electricity. So we were forced into making a new project and this project costs us about 3000 dollars. And then we had to pay 10,000 dollars to Leinergo [the St. Petersburg electricity organization]. And one and a half years later we are still waiting for electricity officially from them. We do have electricity of course, but not officially. We do have electricity only because I have a relationship with offices in the district, house keeping offices.”*

As indicated in the above statement, Eduard was able to manage the problems with Leinergo, in part by using his connections with the local administration. Nevertheless, the barriers previously discussed seemed to preoccupy him and as such, prevented any detailed discussion of growth for the meanwhile:

*“So if I show you a list, which of these represents your intention to grow?”*

*“That is a very provocative question.”*

*“Why?”*

*“Because everyone is suffocating me!”*

He later stated that his only intention was to buy the premises and that this intention was driven not by a desire to grow, but by a need to survive:

*“I put it as my first level aim not so much to develop the firm but to survive and buy these premises. This is the most important issue for me for the next 5 years. I want you to understand this clearly, I am not putting in the first position now some development of the company, but to buy these premises.”*

Eduard felt that only in buying the premises could he both ensure the survival of his firm and compete with Moscow-based businesses (high competition):

*“The policy of Moscow business is that we should starve [...] The working scheme of Moscow business is based on the principle that those who can afford to buy premises here will be able to survive”.*

He believed that over the last three years Moscow had been “*over-fed with finance*”. He claimed that whereas five years ago a lot of money left the country, today it was concentrated in Moscow, “*about 90%*” of it. In turn, Moscow-based businesses had

ample resources and according to Eduard, with these resources such businesses “*expand[ed] like a spider’s web in the whole country*”. Many of these businesses also had connections with members of the St. Petersburg administration and for this reason they were able to secure many commercial contracts:

*“Moscow is following the same policy of reconstructing Russia as existed under the Tzar. So everything should come from the top. So, of course, when managers from Moscow come to some organizations here they naturally will complete many negotiations and contracts with friends from Moscow. Sometimes it’s ridiculous [...].”*

Because this was an ongoing situation it was unclear as to whether Eduard saw himself as being in a position to grow the business in the future. It seems likely however that having invested substantially in the business, including the investment in renovations, he and his partners have a good incentive to focus on the long term (“*I invested so much money and work into this*”). Further, several times throughout the interview Eduard expressed that businesses like his wanted to “*create something for long-term work*”, also that his general aim was to “*develop [the business] further*”. For the meanwhile however, the barriers discussed here appeared to stop him from intending to grow the business, or from forming specific intentions beyond buying the existing premises within the next five years. His attention and effort were directed instead to the survival of the business and doing so by reducing what he perceived to be an immediate threat – i.e. the high cost of premises and high cost of debt capital.

In summary, barriers appear to stop owner-managers from intending to grow when these barriers are perceived as threats to the survival of the business, when the threats are believed to be particularly *acute*, and/or when they stem from barriers that are intense, overwhelming and as one participant put it, “*suffocating*”. The only way to survive, in this case, is to minimize potential losses.

#### 8.2.1.2 Sub-theme A.2: Barriers undermine intentions to grow

A second, less direct way in which barriers influenced growth intentions and behaviours was by *chronically* depleting the business’ stock of resources thereby diminishing the likelihood that owner-managers feel their businesses would be in a

position to grow. Most participants reported that at one time or another their attention and effort had been directed away from growing the business towards managing losses incurred by regulatory (i.e. institutional) barriers.

Too much bureaucracy, frequent inspections, and the related barrier the need to bribe officials, were particularly taxing. According to reports, these barriers continuously depleted important resources, particularly time, money, and manpower that could be used for other activities such as those involved in growing the business:

*“So I always have to expend energy by trying to get around these governmental controls [i.e. inspections]. Much energy is expended on this. If there were less bureaucracy of course we would give this energy to something else.” (Lyudmila, OM7)*

***“Do these inspections interfere with your ability to grow your firm?”***  
*“They waste our time. They demand our attention. So naturally they interfere [...] the whole system is not to help but to draw money from businessmen.” (Eduard, OM15)*

*“Whenever you have to get some papers always you get into conflict with bureaucracy. So for example, only in order to get the official license for a project you have to pay some official money, and then you have to pay some unofficial money [...] The wealth [of the business] is diminished in this way of course.” (Anatoliy, OM11)*

***“Has bureaucracy affected the growth of your company?”***  
*“Well certainly they [bureaucrats] have because it costs a lot of money. I’m not telling you because we’re not paying bribes, but we have to go through the whole procedure, so we have our own, we have maybe, maybe three or four more staff on my payroll that I would typically have in another country because we have to go through, you know, all this bureaucracy. And having a bank account where you have receipts from abroad is a nightmare. I mean I have one full time staff who is trying to get into the country only the money that belongs actually to us. Basically converting euros on an account and making them into rubles and making sure they are ours. For every payment we get from abroad, we have to produce about 20 pages of documentation. Every payment.” (Ben, OM4)*

Participants suggested that the depletion of one resource (e.g. time) had implications for the way other resources were utilized (e.g. money, manpower). This sentiment is well captured by the following statement made by one owner-manager of a small business specializing in the production, distribution, installation and maintenance of intercoms. He described what bureaucracy meant according to his experience:

*“Bureaucracy is always related to not making decisions, doing papers, spending a lot of money. They [bureaucrats] steal your time and in time they steal your money. This is what they do.” (Vadim, OM26)*

The previous extracts show that among many owner-managers there is a strong sense that regulations and regulatory officials in particular, serve to harass businesses in ways that are both time consuming and expensive. Officials were seen as ‘wasting’ or ‘stealing’ important resources from small businesses. In financial terms, in all of the former statements there was either a direct or implied reference to the fact that managing regulatory barriers involved bribing officials (need to bribe officials), which may further exhaust already limited resources. The strongest account of this was provided by Marcus (OM14) who spontaneously admitted paying local officials, on an annual basis, between “\$15,000 and \$30,000 in bribes just not to close down” his restaurant.

Example – Marcus: *“They will find something which is not clean, if they want.”*

Marcus (OM14) first came to St. Petersburg in 1994 at the suggestion of an Austrian business partner who moved to Russia three years prior. Marcus told his colleague that he would come, but just to look. *“I said ok, let’s go and look. But I don’t go and freeze my ass off in Russia”*. At that time, Marcus had been operating his own company back in Switzerland which hosted tours for English, German, French and Chinese tourists. Despite his initial apprehension to his colleague’s suggestion, he described the wealth and opportunity he encountered on his first visit to Russia:

*“When I came here in 1994, all the Russians were running around just with dollars in their pockets, between their legs, you know with pistols on. I mean guns on the table. It was really nice to. And they had only three places to go, nice restaurants [...] and there is no question about opening a restaurant. You have to open a restaurant, because there is nothing. I mean there were all these cafes, in Russian style, Russian kitchen. And anyway, it took one year to start the building.”*

Marcus said that in 1994 all businesses in Russia started by foreigners had to be joint ventures with Russian citizens and giving the Russian partner 51% ownership. Therefore, in 1995 he and his Austrian business partner joined together with a Russian

partner who they later found out was part of a powerful ‘roof’ (i.e. Mafia). Thus, when Marcus had the idea of building his restaurant on city property in the passageway between two buildings, he was advised by his roof to proceed without planning permission. Ten years later, he continued to bribe local officials in order to keep the business open; his relationship with the Mafia had long since ended and he is still without planning permission. *“They [i.e. officials] can close us down in 24 hours if someone has an interest because there are still no permission”*. He explained why every year he chose to pay off local officials rather than acquire the necessary licenses:

***“And is there any way you can just get this permission and move on?”***

*“No. It’s always, people are changing so you pay one guy bribes and he guarantees you that as long as he stays on this chair, nothing will happen. And as soon as he changes [...] And people know, you know, because all this administration chairs, the thing is they want to make money, all of them. They all have the possibility to make money. Ok so new guy comes and sits on this chair he is looking and says “What do I have in my region? Ah, what is this company? They already paid and they have this and this problem” maybe. And they send you the letters you know. And make you problems, and you get again letter. And then they will tell you as long as I am sitting here it’s ok.”*

***“And may I ask, is part of the problem if you start paying, then you always have to pay?”***

*“No. I mean, every guy has other connections, other relations, you know? So I had on administration here a guy, he was hungry more or less, let’s say like this, but he is coming from a side which our roof [local organized crime group]. Our roof we had has very good connections to another guy to him. And I could just solve this problem. And they told through another guy on him “look they have to get permission, you close your eyes and you get a bottle of wine for it. Did you understand?” “Understand”. [...] They had no connections to them so they pay bribes. All you wait a long time and you risk that something to happen and better pay bribes. It’s closed for a certain time, and you get the permissions. It’s also bribes. So you think about it. You could pay \$50,000-70,000 to get things clean, and anyway, even when everything is clean, they will find something which is not clean, if they want. Or you pay \$5000, \$10,000, something like this and you just close again your problem for a certain period.”*

It appears that Marcus’ initial connection to the Mafia eased entry barriers back in 1995, particularly the administrative barriers and did so in a cost effective way, at least begin with, so it seemed. At the same time, Marcus’ connection discouraged him from acquiring the necessary building permits, a factor which had considerable negative implications for the business’ resources later on in that it established a

tradition of paying bribes to officials. Marcus said that bribes were especially necessary when personal connections to officials were absent. However, even connections to officials were not always entirely helpful because officials changed positions frequently (frequent changes in administrative staff), and all officials were looking for the same thing – money (need to bribe officials). These barriers may partly explain Marcus' willingness to pay off officials. However, his willingness to bribe officials might also be explained by his anticipation of another financial crisis and his (related) decision to diversify his portfolio and channel his efforts into a second business, as noted in the discussion of the previous theme (*Barriers stop individuals from intending to grow*). Together all these considerations may have prompted his decision to keep the restaurant the 'same size'.

#### Other examples:

Bribery was referred to by one participant as a “*short-term policy*” (Ben, OM4). He added, “*if they [i.e. officials] take money once, they will take it again*”. Nevertheless, across accounts it seems that many participants felt they had to manage regulatory barriers by resorting to bribery, by building relationships with officials, and/or by taking some other illegal action. Why do owner-managers undertake such activities even when they know that doing so might have little or no positive effect and may in fact deplete the business of important resources that could otherwise be invested? Participant accounts suggest that in most cases there were two possible reasons for this, both of which related to feelings of vulnerability.

The first reason related to the belief of some owner-managers that in practice the legal system was expensive (high legal fees) and ineffective (weak rule of law), and that without legal recourse they were powerless when it came to the demands of officials. One participant captured these issues by saying, “*As a rule going to court is more expensive*” than doing nothing (Pyotr, OM9). He continued, “*it's very hard to go to court. And even if we are successful in court it's not a fact that they really will pay.*”

Yegor (OM18), for one, said he was forced to close down a CD/DVD shop when, in the previous year, tax inspectors levied a very high fine on the business for reportedly failing to meet regulations:

*“The tax police they said we made one thing not according to the law, but we showed them we are making it according to the law and according to one law it is good, but according to another it is not very good. So they are making large penalties for us. And we said that we will go to judge, but in fact it is very expensive for example for us to take a lawyer and we need to go through one enterprise and open the next, because it was very hard to pay all the penalties.”*

Yegor explained that closing his shop meant doing so only officially, only on paper. *“It changed only in the papers”*. He went on to say that the practice was commonplace:

*“A lot of people do such things when they have problems with authorities. So they may close all of the bank accounts and open another enterprise and it’s just working. And you just close the enterprise that has some problems.”*

Nevertheless, he felt that the first shop had a *“good history”* and that its closure was a loss. He also claimed that officials had the power to fine companies at any time, and this made him feel uncertain about the business’ prospects in the long term:

*“I understand according to our laws they [inspectors] will find anything I do not according to the law and for example, make large penalties that I have to close enterprise. So I’m not sure I can develop, develop in this business exactly.”*

In Yegor’s case it seems that his encounter with tax inspectors not only diminished his chances of growing the business for the meanwhile, but potentially it undermined his future intentions to grow. He believed that authorities were not supportive of small businesses because these businesses did not always pay taxes and were therefore more difficult to control. For this reason, officials were tougher on small businesses and quick to fine them:

*“I think it is possible [to lose the business] because as I understand the situation the authorities don’t want small businesses at all. They want large shops in malls and supermarkets.”*

***“What makes you think this?”***

*“Because it is very hard to control small businesses with taxes and so on. And I suppose it is very large lobby of large enterprises. And so I suppose when they have large enterprises it is easier to get taxes and control them. And so as I understand they want to control all the businesses of the country. So, it is, I suppose it is very stupid thing. But as I understand the situation it is so, they*

*want to control for example, they have large enterprises, and they have people from the authorities who are working and they know the situation here and for small business it is very small and they don't want it [...] When I told you there are a lot of check-ins [i.e. inspections] when you talk for example with the tax police you understand that they don't interest in you at all. They say for example there are some problems so you may close the enterprise."*

Another participant also complained of frequent inspections and said that because of them he did not intend to grow and develop his business into a big business:

***"And now you think you want to grow step by step?"***

*"I don't know. Too many inspectors. I don't want too big business in Russia."*

***"Why"***

*"It's too dangerous for different reasons." (Denis, OM2)*

The second reason owner-managers choose to comply with officials had to do with the notion that officials could, at any time, increase the administrative burden on businesses – mainly, more frequent inspections. Findings suggest that at one time or another most participants had acquiesced to the financial demands of officials because they believed that the consequences of not doing so would attract all kinds of negative attention and result in high penalties that could lead eventually to business failure.

One participant Yelena (OM5), the owner-manager of a bakery with two locations in St. Petersburg, implied that because her second bakery/café was new to the district it was important to make a good impression on local officials. To accomplish this she worked with the local administration to organize a business competition for the best bakery in the district. She discussed the prizes that were being proposed for the competition, one of which was directed at lessening payments to the state for a period:

*"If they gave us first place, they might give a break in paying the rent for half a year, or give us the right to choose another premises in the same district, without bribes and without a second payment on rent".*

She suggested that this would be a "token" of the administration's support for local business. Nevertheless, in organizing the event she would invest a significant amount of her own time and money. When asked why she bothered, she explained:

*“I have to make their acquaintance. One year passed and I began to live in this district. And I have to be a good girl. It’s better to be friends, otherwise we will have one control [i.e. inspection] after another and they won’t let me live quietly. And if you really want you can always find something you can criticize.”*

In the previous statement Yelena evokes a parent-child narrative to describe how she sees her place in the world as a business owner in relation to that of the administration, and the perceived vulnerability of this relationship. She implies that in the event she fails to do good by the administration – be a “good girl” – she will be punished. This punishment would entail more frequent inspections, which she believed would by all means incur much heavier losses of resources for the business than would her attempts to please officials. For this reason, she absorbs the costs and avoids punishment by acting in accordance with what she believed to be the wishes of the administration. Earlier in the interview Yelena implied that she did not want to make waves when it came to dealing with different local and regional state departments providing services which ranged from garbage collection to the supply of electricity. She explained why:

*“Whenever you lift your head higher than everyone else, you at once become a debtor of everyone else. Because you are a big one.”*

*“So what do you do?”*

*“I am just navigating through.”*

Therefore, it seems from the preceding examples that regulatory barriers, particularly too much bureaucracy and frequent inspections, were perceived by participants to be particularly demanding, as were the actions taken by owner-managers in response, especially those actions relating to the need to bribe officials and form connections. These things, in turn, directed attention and resources away from growth-oriented activities and undermined intentions to grow, as was the case with the examples provided by Marcus, Yegor and Yelena. These participants perceived non-compliance as having particularly negative consequences, and feared for the survival of the business. L.S., a consultant, said that owner-managers pay bribes to officials because they have “obligations”, and he said this was true for both those for whom the business is “the basis of survival” and those who want “very big money”.

#### 8.2.1.3 Sub-theme A.3: Barriers add to the ambivalence around intentions to grow

In several instances barriers added to the ambivalence around intentions to grow. That is, while on the one hand owner-managers appeared to be thinking about growth and were able to identify specific growth intentions, they were unclear as to whether or not they would act on these intentions. These mixed feelings were fuelled partly by fears that growing the business might expose them to those barriers that either were difficult to manage or which they were not prepared to manage, and these barriers might, therefore, compromise the *survival* of the business. Participants felt strongly that they would only act on intentions in ways that allowed them to retain control.

Two striking examples of this ambivalence stood out across the interviews. In both cases owner-managers described going through a particularly painful experience which they were afraid (or so they alluded to) would be repeated if certain actions to grow the business were taken.

##### Example 1 – Yegor: “You are quieter by yourself”

In the first example, the participant’s ambivalence towards growing is shaped by certain barriers to growth, and previous and anticipated business losses.

Yegor (OM18), the owner-manager of a chain of CD/DVD shops across St. Petersburg, was only in his early 30s but had been in the music business for nearly ten years. In the early 1990s while still a university student he began buying CDs in Moscow then selling them to shops in St. Petersburg. At the time, the CD recording format was new to the market and, as such, when he first approached shop owners with the CDs, they would often say, “*What are these?*” His reasons for starting the business could be explained by a “*lack of money for living*” and an interest in music: “*It was the period that any person in our country had some money, he bought and sold anything. And the CDs it was closer to me because I like music very much.*” Yegor said his intention for the business in those days was only to “*earn some money for living and study*”. His brother later joined him in 1993/1994, at which time they acquired their own commercial space in the back of another shop. Yegor said that eventually it was important to have their own space because the period between the

time which he, as a middle man, could sell CDs to shops and the time when shops began to buy them directly from plants was “*not very large*”. And so he explained, “*we need to grow up in our own shop*”. They opened their first shop in 1996 and had expanded to five shops by 1998. To fund the expansion, Yegor and his brother acquired external capital from the private sector. According to Yegor, “*there was not a lot of money*” or profit being made at the time, and banks “*didn’t give the credits to such small business men*” (lack of access to capital). Money from the private sector was more affordable but still expensive (high cost of debt capital):

*“So there were some people who gave such credits with per cent. Some very high per cent as I remember for this time.”*

The expansion of the business came to an abrupt halt following the financial crisis of 1998 (financial/economic crisis). As discussed in the first theme (*Barriers stop individuals from intending to grow*), four of the five shops closed down during the crisis. The shops closed, according to Yegor, because it was “*very hard*” to pay back the loan when the ruble devalued. It appears that the experience of losing these shops and nearly going out of business completely was an influence on Yegor’s current cautious position on acquiring external capital. When asked during the interview what intentions, if any, he had for growing the business, in response to the prompts Yegor said that he wanted to ‘open a shop’ and ‘expand the product line’. He identified a lack of access to capital as one of the biggest “*problems*” to fulfilling these intentions. “*If I have some capital [i.e. external capital] it will be easier for me to develop my business, to open new shops, to make the number of products wider*”. However, he was quick to say that while it was “*easier*” to realize these goals by acquiring external capital, he was reluctant to take money once again from private sources. Yegor explained:

*“[I]f you take money from other people, you need to give some part of the profit to them. And it is good when the situation is stable and everything is going around. For example, if you have crisis, as we had in 1998 it is very hard because you have to give money for the rent and give money to people because you are taking the capital and don’t have anything to sell. So we try to work using our own money. So it is easier morally. You are quieter by yourself.”*

***“You mentioned when you began you borrowed some money from investors.”***

*“Yes.”*

***“And what happened to these investors?”***

*“So in 1998, we have to give the money back and every investment was nominated in dollars. So when the ruble to dollar changed and changed 5 times it was very hard to give back the dollars. And to, so it was rather a hard situation because we have to restart this borrow money and some of this money we are giving back until this time.”*

***“You’re still paying it back?”***

*“Ya. So we started after a large period, to give it back. And after this we didn’t want to borrow money again. So borrow money but not a lot of it. Some small sums. For instance you need something now and you are sure you will give it back after three months, and it is not dangerous.”*

In the previous extract Yegor claimed that in the past it had been difficult to fulfil obligations to investors not only because interest payments were so high to begin with (high cost of debt capital), but because the financial crisis had made them higher still (financial/economic crisis). Because of this experience, he preferred to fulfil his intentions to grow by reinvesting in the business, which he interestingly depicted as being “*easier morally*”. And so, while a lack of access to capital was the first reason Yegor used to describe why it was difficult to achieve his intentions to ‘open a shop’ and ‘expand the product line’, it may be that other perceived barriers coincided with accessing external capital to create concerns over paying off his debts on time. He said they would consider taking short-terms loans which he described as “*not dangerous*”, meaning that the risk of defaulting on the loan was minimal. It may be that he anticipated another financial crisis, although he did not say so explicitly. Yegor also noted that while he hoped to open another shop in the autumn of that year, which was only a few months away, doing so would depend both on the cost of rent which he said was increasing (high cost of premises) and the financial position of the existing shops as profits from these would be reinvested into the new shop:

*“[I]n the autumn I will try. But I don’t know what the situation will be because the rent prices are growing and the activity that occupies or people who buy our production is not grow like the prices the rent is growing. And so, I suppose we will try to find, to open a new shop, but I can’t say I am sure in the autumn there will be a new shop. It depends upon the situation in other shops. Because if we get the profit, we take some money and open the other shop. And if the other shops are good, it is easy to open the next and so on.”*

Therefore, in this example it is unclear as to whether or not the participant will act to fulfil his growth objectives, or whether he will do so in ways that are likely to be

successful. Possibly, his ambivalence towards the matter stems from a fear that he will not be able to manage barriers to growth, and in turn this fear has weakened his resolve to fulfil his intentions. Another possibility is that this participant's desire to grow was weak to begin with. There are two potential reasons to support this view. The first reason relates to past negative experiences, which involved encounters with barriers including the financial crisis and frequent inspections. When asked to comment on his main objective for the business Yegor replied, to "*grow moderately*". When asked why, he explained:

*"Because I can't understand the situation in our country at all. I think that the situation is, for example, you are working with some profit but the moral situation is you can lose your business at any time. Why it happens, you don't know".*

The previous comment captures this participant's feelings of uncertainty over the survival of the business, feelings which likely are driven by his previous experiences involving the closure of shops. As discussed in the current account and as noted in the first theme (*Barriers stop individuals from intending to grow*), the primary reason given by Yegor for closing his shops was the financial crisis. However, as discussed in the previous theme (*Barriers undermine growth intentions*), Yegor was also forced to 'officially' close one of his shops in the previous year because of a large fine imposed by the tax inspectors which he could not pay. However, his response to the fine was to do the paperwork to close down the shop officially on paper, which entailed changing the business name and registration while keeping the business location and stock the same, which, in Yegor's view, compromised the reputation of his business and added to his insecurities.

The second potential reason why Yegor's desire to grow the business may have been weak relates to his concerns about where or in what direction he would take the business next. In the following statement made at another juncture in the interview he attributed his current lack of direction to having acted three years ago. Three years ago he reorganized the business, delegated more responsibility to shop managers, hired better sales staff, and modernized the image of the shops:

*“Three years ago I understood what I must do to develop my enterprise [...] and I was sure that I would do these things and now I don’t know exactly what to do”.*

Now, uncertainty as to how to proceed seems to be an issue for this participant and this uncertainty appears to be stirred, in part, by previous negative encounters with barriers. These previous negative encounters with barriers may explain why this participant is anxious to avoid future encounters with them, even if it is at the expense of growing the business further.

Example 2 – Ben: “No hidden agendas”

The account given by a second participant also seems to incorporate a degree of ambivalence towards expressed intentions to grow. In this example, despite claims made by the owner-manager to grow the business substantially, the owner-manager appears cautious and ambivalent towards growth, as a result of prior negative experiences, and has imposed a maximum threshold on the size of the firm.

In 1992 Ben (OM4) came to Russia from Switzerland with a Swiss colleague. Their purpose was to start some projects on behalf of a Swiss organization. When the money for these projects did not materialize, they decided to stay and start a Russian language school for foreigners. Ben claimed that for three reasons they started the school at the “*worst*” possible time: first, the “*boom*” in Russia that began in the 1980s with Gorbachev and Perestroika subsequently had “*died down*”; second, as Ben said, “*we did not know anything*” about the business area (education) or the country (lack of experience); and third, at that time there was little to no demand for Russian language instruction (low market demand):

*“Nobody knew anything about Russia except the bad things coming out of the media. So when we talk about living with a Russian host family, they can make big eyes and it takes a lot of work [...] We have to convince our professional partners to launch and spend money to promote in Russia”.*

During the interview, when prompted Ben reported that he wanted to ‘increase the marketing and sales’ efforts of his language school. Among other things he said this would involve developing their website and sending out newsletters to potential

partners and to the international press. However, when asked about their progress in these areas he said that things were a bit “slow” due to a shortage in staff:

*“We are in the process. But, things take a bit slow. We don’t have the staff and I’m not hiring anyone.”*

***“So you mentioned, uh, your marketing and that it’s a bit slow at the moment because (he interrupts)”.***

*“We don’t have enough manpower at the moment and, uh, I don’t want to hire anyone.”*

***“Why is that?”***

*“Um, I want to keep the team as small as possible because it’s much easier to manage and uh, I think we have it in the pipeline, pretty similar jobs do this, I’m very, uh, I don’t have the space for staff, and it’s better to be overworked at times than lot of sitting around. Because the workload is not the same everyday, so.”*

Ben noted that the current premises could not accommodate more staff (lack of space), but this reason for not hiring seemed secondary to his concerns over managing new staff. He explained that in keeping the business small he had a better sense of the people involved. He feared that in a larger company this intimacy would be lost:

*“I wouldn’t [be] able to handle a big company as the management because I have to see and feel people”.*

To place the above statements in context it is useful to relate Ben’s ambivalence towards ‘expanding marketing and sales’ and his apprehension towards hiring more people to realize this intention, to an incident that occurred a few years prior which had threatened the survival of the business. At the beginning of the interview Ben spoke spontaneously about the importance of hiring people with “*no hidden agendas*”. It seems that he and his partner had “*problems in the past*” with one employee who “*created messy problems*” for them by bringing in the tax police. The employee, it seems, had aspirations to take over the business. Ben explained:

*“It was basically that the guy, he was behind a conspiracy. In Russia you always talk about this, but this was a real one. But the idea [was] that I would hand over the company to him”.*

The situation came to a crisis point when the tax police stormed the building while Ben was away on business in Switzerland. He discussed the chaos that ensued:

*“[T]hey [the tax police] had a search warrant and came into the school, and ransacked pretty much everything. They got computers. They were putting pressure on students and wanted to take students for questioning. So one day the school was closed and some of our students were not pleased about that. So the whole idea was that I would give up. And I was in Switzerland and I was told if I come back I would be arrested at the airport and all this shit.”*

Ben admitted to making “*mistakes at that time*”. He alluded to the fact that like so many small businesses he and his partner had committed some accounting indiscretions to avoid paying taxes. These indiscretions were exposed to the tax inspectors by one of his employees, whom Ben said, “*obviously had friends in our finance department*”.

Ben and his partner coped with the situation in several ways. First, they were able to resolve the situation by calling in some favours from his friends, those without an agenda: “*I still had some friends left and you have to use your network, your Russian network. And try to find out who is against you, who is for you, who has a hidden agenda.*” Second, after the incident was resolved, the employee and his co-conspirators were dismissed. He remarked, “*There are few people left. Even those we were not really sure of*”. In trying to make sense of the situation, Ben suggested that the behaviour of his employees was driven by a loyalty to the collective which he attributed to former Soviet times:

*“And the funny thing is that most people [i.e. employees] knew about it but they didn’t tell me. It’s something to do with the Soviet mindset that, it’s a teaching collective, and no body wanted to be the traitor of the collective. But they paid a high price for that.”*

*“Did they?”*

*“Most of them aren’t working here anymore [...].”*

Third, Ben said that nowadays they were more careful with their taxes. However, he noted that while their current practices were legal, they still left room for working around the system: “*We now work by the written Russian rules. We pay absolutely the full amount of taxes. We bend the rules somehow but we limit it*”.

Finally, it may be the case that another way in which Ben and his partner learned to cope with the takeover attempt was by exercising caution when taking on new staff.

Thus, Ben's ambivalence towards acting on his intention to 'increase marketing and sales', may stem from his concern that doing so would require hiring more employees which in turn could increase his exposure to barriers such as threat(s) to security.

Security was a key issue for Ben and one that repeatedly surfaced throughout the interview. The previous example of the takeover attempt was described by Ben as "*security from within*". Ben distinguished security from within from "*security from without*". He defined "*security from without*" as those occasions where competitors or other parties outside the business used their contacts within the administration to drive someone out of business. During the interview he shared an experience of this which involved threats by Leinergo (i.e. the state electricity provider) to shut off the school's electricity. He learned later that a neighbour in his building, who had contacts in Leinergo, was unhappy with the noise the students were making and as a result wanted Ben and his school to vacate the premises. This matter was resolved when Ben showed officials he had all of the necessary permits.

Therefore, it may be that Ben's concerns over managing growth and potential barriers to growth have shaped his attitudes towards growth. His intention to expand has become secondary to his desire to retain control. Also, it may be that his desire for control shapes the way in which he chooses to act on his intentions to grow.

Otherwise stated, he may choose to 'expand marketing and sales' but only in ways that do not entail hiring more people. As well, it may be the case that Ben's desire to grow is generally more modest than otherwise would be suggested by his response when asked about growth objectives. Ben reported that he wished to grow the business "*substantially*". However this, he suggested, did not entail doubling in size each year but rather, making "*more money for my staff and my business*". He also said, "*I could handle a company with maybe 70, 80, or 200 people*". Beyond that, "*I don't know. Maybe when we reach 100 we think that 200 is possible. I don't know because I'm not a workaholic, absolutely*".

And so it appears from the previous examples that barriers add to the ambivalence around intentions to grow either when these barriers are perceived to threaten the survival of the business and/or when they are seen as being difficult to manage and/or when they further weaken an already weak desire to grow.

#### 8.2.1.4 Sub-theme A.4: *Barriers provide incentives to grow*

A few participants seemed to suggest that the desire to grow was not weakened by barriers but rather, it was facilitated by them. Barriers, in this case, were perceived to have both facilitating and inhibiting effects on business growth. In these instances participants believed that if barriers went unmanaged, high competition mainly, they threatened the long-term *survival* of the business. Hence, participants felt only by pursuing specific growth intentions could they regain control of the situation and reduce the threat. A few participants claimed that if they did not grow the business it would “*die*” or “*be killed*” (Artyom, OM1). One commented:

*“When you don’t grow substantially you can feel something is just trying to press on you or overrule you. It’s just in order to reduce risk”. (Galina, OM10)*

Two detailed examples of how barriers both facilitate and inhibit growth at the same time are provided in this section. In both examples participants were motivated to act on intentions to grow and to manage barriers to growth in the process thereby reducing the likelihood of business failure over the long-term.

##### Example 1 – Vadim: *“It pushes me, it pushes my people”*

In the first example the participant describes how his growth objectives became more ambitious once he confronted certain barriers and realized specific growth intentions.

To put the first example in context it is useful to consider Vadim’s (OM26) account of the business during the first round of interviews in March of 2003. At that time Vadim was in his early 40s and working as General Director for a small business that specialized in the distribution, installation and maintenance of German intercoms in the Russian market. Vadim explained that the first couple of years following the business’ initiation in 2000 were hard. Contracts, particularly those with the state, were often pre-determined; at times there was no money coming in and he did not know how he was going to pay staff. However, by 2003 the company was doing well and management was looking at opportunities to increase their profits. One option

under consideration was to produce and distribute a company intercom system. Another was to sell off the business.

When Vadim was interviewed again in 2005, a number of developments had taken place. Employee numbers had increased from seven in 2003 to 35. Internally there were structural changes. Departments were established in the areas of finance, production and sales. Vadim had become a part-owner of the business while retaining his position as General Director. The direction of the business had also changed. They had invested a significant amount of time and money in 'research and development' which resulted in the creation of an affordable intercom system, the 'production' of which had begun in 2005. Finally, the business had been relocated to 'larger premises' to accommodate the aforementioned changes.

When asked how he was able to grow the business over the last couple of years, Vadim answered that growth had been facilitated by investing in production, with the purpose of protecting their position in the marketplace from the actions of their own suppliers:

*"You know because I was not protected. My company was not protected at all. My suppliers, because there are two companies in this business, and both of them are German. They have very strong positions and the market is very narrow. It's a niche market. So what happens is that every time a factory or a big plant decides to buy a system like this, industrial intercoms, immediately we going into this project and the customer runs a bid and tries to squeeze our margin. So, and at the same time I have a representative office with my supplier here and the customer also tries to get the direct sales. Instead of going to me, he tries to go to the representative office. And they give the price instead of giving me a commission they move in".*

Fear of being cut out of the supply chain induced Vadim and his partner to make the decision in 2002 to begin producing their own intercom system, one that was 25% cheaper than that produced by their German suppliers. Vadim says that the project was in the research and development stage for three years after which time they were able to realize their intention. He said, *"Now I have this product that could replace the German [product]"*. Vadim stressed that production was necessary for the survival of the business: *"[Before production began] I was not protected and my*

dealer could go to my representative office”. He referred to the consequences he believed would result by not realizing the intention to produce:

*“Otherwise, I would have to go into another business, out of the market, because those two companies, the suppliers, would have said, ‘We don’t need dealers. It’s just another company’”.*

According to Vadim, producing their own intercom system effectively gave the company more control over their German suppliers by raising the competitive stakes of the intercom business in Russia. Only after this experience did Vadim believe it made more sense to grow. In response to being prompted about his growth objectives, Vadim indicated that he wanted to grow the business ‘moderately’ but that this had not always been the case. When asked how long it had been his objective to grow moderately he said, *“I wanted to stay the same size always. But now I understand I cannot do that.”* In the following bit of dialogue he explained why:

***“When did your intention change from always wanting to stay the same size to grow moderately?”***

*“You know it has been since I have been thinking about it since May really. Before then I wanted to stay the same size. But since, my competitors they are breathing down our necks. So maybe we have to do that because now we have a product. Otherwise it didn’t make any sense to grow and develop because we didn’t have a product. Then we would have just promoted somebody else’s product. And then those people when they know that we already have got a bigger share of the market they just come and step us and say thank you, we don’t need you anymore. Now they can’t do that”.*

Vadim attributed the change of objective to the business’ increased exposure to high competition in his field and increasing competition in the marketplace generally. Competition, it seems, had both facilitating and inhibiting effects on business growth. When asked what ‘the’ most important barrier affecting the growth of the business was, he stated:

*“For me at the moment it’s competition. Because competition it pushes me, it pushes my people. At the same time it protects me from uh, my supplier because [...] if we didn’t have competition then my supplier wouldn’t need me at all. They’d be very happy just to do what they want. But I assume all the costs of the business and they just produce the product and they don’t care of the marketing. [...] The higher the competition, they need me more. Sometimes I try to dictate and they say “if you try to dictate, I will leave to the competitors”, so it’s a game. It’s politics.”*

Vadim's account seems to imply that their ability to successfully manage competition in demonstrable ways sent signals to his suppliers that his firm was a legitimate business in its own right. Perhaps it was also the case that in making a significant investment in the business and successfully achieving their intentions, Vadim and his partner gained confidence which resulted in an incentive to grow and which may have strengthened their desire to grow overall. Vadim's personal desire to grow also may have been elevated once he had become a business partner.

Example 2 – Dmitry: *“So what can I do? I need to grow my revenues”*

The participant in the following second example was in the process of pursuing specific growth intentions and managing related barriers. As in the first example, his desire to succeed appeared to be driven partly by the pressures of competition.

Dmitry (OM25), the owner-manager of a small company specializing in software programming, started the business in 1993 with his wife and daughter. This came after his initial training as a hardware engineer, followed by a short career in academia, later experience working in research and development for the state, and later still experience working for a small state-owned computing and software firm, and a joint venture specializing in software in the 1980s. Now in his early 60s, Dmitry said his younger colleagues in the industry refer to him as the *“grand-daddy”*.

Like Vadim, Dmitry was also interviewed by the author two years prior. During the first interview in 2003, he reported that the company was among the top five software developers in St. Petersburg; it was one of the larger local firms employing over 100 people. The business had a strong client base in Finland, Denmark and the USA primarily. While Dmitry felt that the prospects of the business were good, he expressed concerns about increasing labour shortages resulting from the influx of foreign firms into the Russian marketplace. When Dmitry was interviewed a second time in 2005, his worst fears had been realized. He reported that in 2004 they had suffered a sharp reduction in staff numbers, losing more than 30% of their programmers to *“very serious”* competition from large international companies like

Alcatel, Motorola and Intel who offered young programmers “*enormous*” salaries. Several times throughout the interview Dmitry mentioned that it was very difficult to hire programmers (lack of suitably qualified labour). At one point he said:

*“You know cream of the crop is already gone, so now we need to go to other cities and invest a lot in training [...] I mean these people are with big international companies. I mean that’s what refers to cream of the crop. They are with big guys in Russia. And these big guys hire people in the 1000s. So we don’t have enough of them. These programmers.”*

Despite the setback in 2004, projects continued to roll in and in 2005 they were in a position to hire 30 new employees, bringing staff numbers up to 100. Dmitry reported that sales revenues also had increased over this period; nevertheless they were still “*struggling*”. He believed that high revenues were the key to retaining staff. Money was, he claimed, the “*number one*” requirement for attracting programmers:

*“Competition on labour its coming. So hard to find new talent. I need to pay more. So what can I do? I need to grow my revenues.”*

Dmitry felt that his only option was to grow. To retain staff and to ensure that revenues continued to increase, he argued that they had to ‘move up the supply chain’ into more value-added areas of programming:

*“[W]e are struggling in our goal to get more revenues. We understand that we need to focus. So we are a service company and we need to find the area where we have our strong skills and we need to narrow down our proposal within this area. But within this area we need to move up the supply chain. [He refers to his drawing] So while we are at the moment, we are in the coding phase and design, architecture phase, mostly this part is on the customer side and we need to move up and get more into design and architecture phase. We are not able to at the moment because we have very little domain knowledge.”*

Unprompted, Dmitry complained that a lack of experience made it difficult for Russian companies like his to make this leap up the supply chain. The only foreseeable solution, he believed, was to increase the variety of projects they undertook, also to increase the level of skills associated with these projects and to filter this learning throughout the organization:

*“We are here [between coding, at the bottom, and design, in the middle]. And at a certain point we are here [between design and architecture, at the top] already and we are moving up. But it is very painful and difficult process because again we are here with nothing around us that will give us exposure to this [...] I can tell you the history of the Soviet Union. Do you need it? No. I cannot sell these skills.”*

***“So how will you move from the design phase to the architecture phase?”***

*Learning. Learning. Learning. Learning. I am taking more and more projects within a certain area. I am trying to focus [the business] within a certain area where we are learning more and more. And then we will be able to sell these skills to other customers.”*

When asked directly if anything affected his ability to make the leap from coding and design to architecture, Dmitry answered “*competition*”. Dmitry indicated that competition was the main barrier. In the following extract he talked about the inhibiting effects of competition and how they coped with it:

*“Absolutely. Competition. You guys do not want us to grow. While we are coding it’s like if you are running a restaurant and you are excellent cook and full of recipes. You can outsource your cooking to someone and your recipes stay with you. And they value you because you know these recipes. And you can always make these wonderful dishes because you know and all you have to do with the actual cook is to dictate. So the architecture of the cook, and design of the dish is yours. So we are cooking and they are happy paying us 20 dollars because they pay 60 dollars back home for the same cooking so they make money on us.”*

***“They as the in the West?”***

*“Ya. Our customers. At the moment we are going to design an architecture, they say “wait a moment, of course we still want you to do that, but we afraid you guys become competitors. So either we limit your knowledge because we don’t want you to know this and that, or we will just buy you, you know become a part of us”. So this is what is going on. Companies like [business name] who are very much involved in something, usually become offices, affiliates for western companies who the work with. Or they just survive on being coding monkeys.”*

***“But that’s not what you want?”***

*“That’s not what we want. And again one of the reasons I don’t want it is because Indians are doing it better than us and they charge less. So we cannot afford to do that so they kick us out of the market.”*

***“So what do you do about that? How do you respond?”***

*“Learning. Learning. I’m sending people out to workshops with the customers. And I collect them here and I say to them “hey guys the most important thing which we do in the project is your knowledge, so try to build it up”. This is something which we will offer to other customers. It’s extremely difficult.”*

From the previous extract it appears that the perceived effects of high competition on the intention to ‘move up the supply chain’ were two-fold. On the one hand competition was seen as stifling growth by limiting the attainment of skills the business required to act on growth intentions. Dmitry claimed that Western clients kept his firm in check by providing them with only very basic programming projects; this limited their prospects of moving up the supply chain and increased their vulnerability to acquisition or business failure. On the other hand, the incentive to grow was fuelled by the threat of failing to manage competition at the lower end of the market, the coding phase of the supply chain, which he explained was dominated by the Indians. Therefore, it seems that in this example competition has driven the participant to pursue specific growth intentions. These intentions may help the firm retain staff and avoid competition at the low end of the market. At the same time, competition makes it difficult for the business to get the kinds of projects they require to improve the skills level of programmers and, in so doing, realize intentions. It also may be the case that in the absence of skilled programmers, more money must be spent on training leaving fewer resources to invest in realizing their intentions to grow.

And so, as the previous examples show, barriers also may facilitate the desire to grow and pursue specific growth intentions. This seems to be the case where barriers are perceived by owner-managers to threaten the long-term survival of the business and where the only way to reduce this threat is to move to the next level of development.

### *8.2.2 Theme B: Barriers shape intention realization*

Analysis of interview data also generated themes related to intention realization, particularly as they concerned how quickly and how much firms grow. Two sub-themes were identified within this main theme. These are discussed here.

#### *8.2.2.1 Sub-theme B.1: Barriers postpone intentions to grow*

This theme captures those accounts given by several owner-managers which suggest that barriers play a role in postponing specific growth intentions until such a time as the resources necessary to act on intentions have been acquired. That is, while owner-

managers appeared to have the desire to grow and reported having specific growth intentions, because they did not have adequate internal financial resources or could not accumulate resources quickly enough and could not overcome barriers to acquiring additional resources, they conveyed they were not in a position to act on specific growth intentions. For these reasons, intentions to grow remained unfulfilled for a period of time, indefinitely in some cases. One participant commented, “[We] lack investment in order to make a big leap into the market” (Maksim, OM7). Another said, “The capital we need is beyond our reach” (Anton, OM6).

Most accounts touching on this theme focused on inadequate financial resources. To illustrate, two extended cases are provided, followed by shorter examples from four participants. In all cases, participants described postponing their intentions to grow because they lacked the financial resources to do so. In the two extended cases, participants divulged that having made recent investments in the business, in conjunction with external financial barriers, diminished the likelihood that they would be in a position to act on growth intentions in the short-to-medium term.

Example 1 – Anton: “I just have to wait [...] for better times”

In the first example the participant requires a significant amount of capital to expand and as a result he explains that his intentions to grow are postponed for the meanwhile by external factors beyond his control, mainly by a lack of access to capital.

Anton (OM6) was a young man in his early 30s with 10 years’ experience in publishing. His career in publishing began in 1993 when he, along with two colleagues, started a popular English-language newspaper in St. Petersburg; this newspaper was later sold. Two and a half years prior to the interview, he, along with two other business partners, started a regional newspaper. This paper was a free publication; it provided local content to different communities in and around St. Petersburg. Since founding the business, Anton reported that it had doubled in size from 30 to 60 employees. Also, he noted that 330,000 people were receiving the publication on a weekly basis.

Recently, Anton and his partners had acquired a small business loan at an interest rate of 7.5% from an American funding body, the Media Development Loan Fund, which specialized in granting loans to businesses operating in the media industry in developing countries. While Anton was confident the loan would help them realize their intention to ‘double the circulation’ of the publication, it would not enable them to act on their intention to ‘expand distribution to Moscow’. He spoke spontaneously and assuredly about ‘expanding distribution’ to Moscow, despite being unable to access the capital required. While it remained his preference to attract foreign investment and he had in fact identified possible foreign investors, he mentioned that these individuals, while interested in his ideas, were afraid to invest in Russia. For this reason, he said his plans would “*just have to wait*” for “*better times*”:

*“In general, our long term strategy to attract a strategic investor, western media company into Russia, and the challenge here is just that Western media is just really afraid to come to newspaper industry in Russia especially in line of Khordokovsky<sup>34</sup> case. For example, I have some good connections with some western partners, really big ones, and one of them said to me about a week ago, “no one, my management, board of directors would allow me”. The project I am suggesting to him, to investor, to go to Moscow. He said he found very interesting but his board of directors would not allow him to go to Russia because they would consider too risky and dangerous.”*

***“So what will happen?”***

*“I just have to wait.”*

***“You just have to wait?”***

*“Yes for better times. And just when they consider investing in Russian media is less risky.”*

Asked again later to confirm whether or not he would expand distribution to Moscow, Anton replied yes, but not for the time being:

*“If we want to move to Moscow it’s beyond our reach at the moment.”*

***“So you are thinking about moving to Moscow?”***

*“Yes, but the capital that is needed is beyond our reach.”*

In the previous extracts Anton reports that although he would like to expand distribution at this time his options for doing so were limited by a lack of access to

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<sup>34</sup> Mikhail Khordokovsky, the former head of Yukos Oil, was arrested in October 2003 on embezzlement and tax evasion charges. Some Russians think these charges were created by the government with the purpose of blocking Khordokovsky’s political aspirations and punishing him for his political activities (British Broadcasting Corporation (BBC) News, 2004).

capital and the high cost of debt capital. He also indicated that his options for managing or overcoming these barriers were limited. For instance, when asked whether or not he could borrow money from friends or family members he said he had done so in the past but that *“the amount of money you can borrow from friends is limited”* and therefore inadequate in terms of realizing bigger goals. Because the cost of debt capital was *“really expensive”* with interest rates on loans approaching *“at least 15-16%”*, a bank loan was also deemed to be out of the question. Also, he concluded that Russian banks required a significant amount of collateral of which companies like his in the service industry had very little: *“[F]or our business it means we do not have a chance to raise any substantial capital for spending on business”*. Anton suggested that whereas equity capital was an option, he implied that Russian investors would be problematic. He felt it was important to maintain the integrity of the publication but doing so might be difficult should he take the business public. He said, *“you don’t know who would be buying and how much pressure would be put on your company from outside investors”*. In any case, he said the business was too small to take this option seriously.

Anton perceived that potential foreign investors were afraid to invest in Russia in the foreseeable future. Given this, he indefinitely postponed his intentions to expand to Moscow. Nevertheless, he reported staying in contact with some large media companies and doing additional PR work. In any case, he said he hoped to fulfil his intention in the long term, in the next five to seven years. For the meanwhile he stated that in terms of expanding beyond St. Petersburg, *“we can’t anticipate much now because of the capital limitations”*. Based on comments made by Anton early in the interview it seemed likely that he would persist in his attempts to find the necessary funding. That is, in response to being asked about his objectives for the business, he replied that he wished to grow the business ‘substantially’. When asked why he said, *“Because I have ambitions! [...] And there is a lot of opportunities here.”* He added, *“The media sector is really underdeveloped. There hasn’t been substantial investment in, uh, there was a lot in magazines, but not in newspapers.”* Anton also explained what he meant by substantial growth, *“[W]hen I talked of growing substantially it means moving to other regions”*. This, he said, was his objective from the *“beginning”*.

Example 2 – Yelena: “It’s not so quick”

In the second example, the owner-manager postpones her intentions to grow until such a time as she is capable of reinvesting in the business; when she has cleared her existing debt and has accumulated further financial resources. In contrast to the previous example, the participant’s intentions to grow are more modest and not dependent necessarily on acquiring external capital, perceived here to be unattractive.

Yelena (OM5) is the owner-manager of a small plant specializing in baked goods for wholesale and another small plant with a café in St. Petersburg. Her forays into the baking industry began in 1994 when she made some tarts for a friend. At the beginning of the interview she discussed these humble beginnings:

*“When my son was two or three years old, I invited my best friend for a tart, she liked it very much and she proposed to me to make them regularly for her café. And this was the beginning of everything. Everything was not legal. I produced it at home.”*

Over time, because more and more friends asked her to bake tarts for their cafés she quickly ran out of production space at home. So she rented a one-room flat and hired an employee, but this lasted only three months as the business was illegal. She said:

*“[...] all the time there was a nice smell on the staircase. And all the time somebody is bringing something in sacks, or taking something away in boxes. And curious old women started to become interested in what was going on. And in order to evade problems we had to leave.”*

This was followed by another stint in the kitchen of a kindergarten during the summer holidays. And then, in 1995 she formed a legal business with three colleagues. Between 1995 and 1998 they opened a plant for baked goods in the city centre, also a café and a dessert hall. In 1999 the owners parted ways due to “*differing notions about how [...] to lead the business*”. Yelena was left with the small plant in the city centre. A year prior to the interview she opened a second plant in the suburbs.

In response to being asked what kinds of intentions, if any, she had for the business, Yelena said she wished to move her plant in the city centre to ‘larger premises’ and

would do so gradually by reinvesting her profits in the business. She explained, *“The first premises [in the city centre] we still have. But it’s quite stuffed.”* In the meanwhile she would devote her existing resources to financing the ‘new equipment’ she recently purchased for her second premises in the suburbs. She regarded external sources of financing as neither attractive nor feasible:

*“Of course I would like to open a new shop because we really need it on [name of street] for the new premises. We have been needing it for a very long time already.”*

***“What’s stopping you from getting it now?”***

*“Money. Money.”*

***“And have you thought about going to a bank to borrow the money?”***

*“No. I don’t like the interest rates.”*

***“Have you tried to go to a bank?”***

*“Of course.”*

***“And what happened?”***

*“They proposed to me a very high interest rate. The bigger the amount, the bigger the percentage. I cannot earn the money right away after I spend it because I have to buy the premises, then I have to renovate them, and buy equipment. It’s not so quick.”*

***“Where will the money come from?”***

*“I will economize myself. I will solve the issue about financing and then afterwards I will start to put money on the side.”*

Yelena felt she could not move the plant to ‘larger premises’ any time soon because she lacked the financial resources to do so. She gave two reasons to explain her weak financial position. The first related to her reluctance to acquire a bank loan, an option to which she gave little consideration because the lending conditions (e.g. high cost of debt capital, lack of access to capital) were so unattractive. The second reason for her weak financial position related to the fact that she already had made a fairly significant financial commitment to her second premises. This commitment involved renovating the premises then buying equipment (limited cash flow); in the latter case she referred to financing some refrigerators. For both reasons she postponed her intentions to grow. When asked if she would eventually reinvest in the business and purchase larger premises for the first bakery, she replied:

*“Yes. Step by step. For example, you see those 3 rubles we have on the side? We are investing them into something new. And we are doing this, not the government of our city. This is why everything goes step by step.”*

In the previous statement, Yelena alluded to the fact that businesses like hers were trying to invest in Russian business, whereas the government was not. She was frustrated with the numerous local and regional taxes (number of taxes) that plagued her business, that drew money from her business as was suggested in the second theme (*Barriers undermine growth intentions*) and she referred to this as the biggest problem she encountered. In response to being shown the prompt lack of state support, she remarked, *“There is absolutely no support from the state”*.

In contrast to the previous example, Yelena appears to have more modest growth objectives than Anton. Yelena admitted that she never intended to be a big company. Her reasons for this had to do with the “*features*” of the business. She said that sales on tarts peaked at New Years, the Eighth of March (i.e. International Women’s Day), on Valentines’ Day, and in the summer, and that it was “*physically impossible*” to sustain these numbers year round. Yelena was clear that she wanted to keep the business the ‘same size’ but “*make it a little bigger*”. She explained: *“This means that a chicken picks little seeds bit by bit and by doing so it becomes a very big chicken.”* When asked why this was the case, she replied:

*“We don’t want to lose what we have already. And I don’t want to grow substantially at once, because I won’t manage. But I want to grow step by step.”*

Yelena’s concerns over control may have been fuelled in part by her prior experience of business expansion, after which she and her business partners parted ways and she said, *“it took three years to get the company reorganized after splitting up”*.

#### Other examples:

Other participants gave examples of barriers postponing their intentions to grow, including Inna, Stepan and Fydor (business partners), and Maksim.

Inna (OM24) is the owner-manager of a small business specializing in the design and distribution of women’s clothing. Inna said that she and her business partners had spent the last couple of years reorganizing the company internally. During this time they hired more people, improved their production schedule, changed their

collections, and cut production costs. A year ago they had taken a bank loan for \$30,000 at an interest rate of between 18% and 19%. She discussed why getting this loan was important: *“So it’s high percentage, but it was the only way for us to be living at the level we like to. And if we pay it out we will have a reputation and next time we will get it much easier. It was also important. So it’s worth it”* - high cost of debt capital. They used this money to pay off their debts and open their own shop, extending the distribution of their clothing label. *“For us it was good because we paid out our loans and we started distributing. Because we had our own money for production, but didn’t have money for distribution.”*

Despite saying in the first interview in 2003 that she and her business partners did not consider applying for a bank loan because they did not have the collateral (high cost of debt capital), in the second interview (conducted in 2005) she explained that their recent acquisition of the \$30,000 bank loan was made possible by two things. First, by using one partner’s flat as collateral and second, by relying on a personal contact of Inna’s, an old school friend who was now employed with Sberbank. This individual was working as a manager in the credit department of the bank’s head office. Inna described her friend’s role in the process:

*“He said ‘go to this branch because the people are better’. For instance, we had negative in tax profit. We had financial profit, but tax profit for the period is negative and they have problems with giving loans to companies that have negative tax profits. That’s loss. He helped explain them that when you have tax loss it doesn’t mean you have balance losses. So he helped explain their staff that we qualify in other matters we qualify. And that really helped us, otherwise we would have never got it.”*

Inna said that over the next year she and her partners wanted to ‘open two shops’ but to do so they required a significant financial investment. To open the new shops she reported they required no less than \$100,000. Inna said they were now looking for an investor but stressed they only were targeting people they knew. They had identified a potential investor and were awaiting his response. Inna explained why it was so important to be acquainted with investors:

*“In Russia if you find an investor, you don’t know how he will act. You [the investor] may say, ‘Ok. You don’t make distribution [of profit] for one month, come on, hand over your business’”* (OM24).

When asked if she had such an experience, she said she had not, but added, “*We know of such stories. Not good stories*” (limited number of suitable sources of capital).

Therefore, it appears that in Inna’s case, her options for acquiring external capital have been shaped by the amount of money she requires, high interest rates, and the perceived risk in taking on unknown investors.

Stepan (OM22), the owner-manager of a multi-media firm specializing in publishing and advertising, spoke about increasing ‘marketing and sales’ and ‘expanding the product line’. In response to being shown prompts of barriers, a lack of access to capital, Stepan implied that in general it was not difficult for them to raise capital because they had experience: “*I’ve been dealing with business for 12 years now and in these 12 years I’ve had the possibility to show everybody that I had the ability to lead a company and that I was worthy of being given money*”. When asked whether or not his comment applied to acquiring bank credit, Stepan replied, “*Banks don’t work, absolutely*” (OM22). Fyodor, his business partner, added, “[Banks] *don’t work. Bank money is extremely expensive and nearly inaccessible*” (OM22). (This refers to the high cost of debt capital and lack of access to capital.) After two years of reorganizing the company, creating formal departments and developing systems of communication between departments, Stepan and Fyodor believed that only now were they ready to expand in the ways suggested and thus were looking for investment from outside of Russia. Stepan discussed their previous focus:

*“Two years ago we came to an understanding that we were not really ready for outside investment and my main challenge or goal, was to figure out which directions we had to grow and develop in order to become a good partner for investors. The main challenge for [Fyodor] during this time was to come to an effective way of organizing the company”.*

Stepan clarified why he preferred not to work with Russian investors: “*Western investors have higher priority for me because the West invests into the business. This is more long term more perspective*”. Alternatively, the interests of Russian investors were more political in nature: “*A Russian investor decides to have an investment on our direction of the business only when resolving some political issues [...] I don’t want to take part in political fights*”. Stepan explained that they would begin looking

for investors at upcoming international exhibitions in the publishing field, but that the process would take time, and they were “*ready for the beginning of negotiations*”. He added, “*I don’t believe in quick development*”. For these participants, applying for a bank loan was not an option. Also Russian investors were considered unattractive.

Maksim (OM7), the owner-manager of a small publishing company specializing in education of children and families, said he would require external capital to ‘create a directory service’. However, like Stepan and Fyodor, he discounted applying for a bank loan on the basis that, “*Banks have a very high percent*” (high cost of debt capital). Maksim believed that his only option was to identify a local, rather than foreign, investor. He explained why foreign investors were not an option: “*foreign companies can’t invest in this market*”. When asked why, he replied, “*because they’re afraid to invest money in our country*” (lack of access to capital). He went on to explain that foreigners were investing in basic areas such as oil, gas and production, but not in publishing. He described the publishing business as “*higher risk*”. Therefore, his plan was to identify a Russian investor or investors within the next couple of years, a task he hoped would be facilitated by completing a course on venture capital in which he was currently enrolled. “*During the next two years we will look for outside investors in order to develop this direction*”.

Overall, Maksim appeared confident that the business would grow. He claimed that it was his objective and the owner-founder’s objective to ‘grow the business substantially’. He gave two reasons for this. The first reason had to do with being clear about where they wanted to take the business. Without prompting, near to the beginning of the interview, Maksim indicated that he and his partner would develop their business in several directions – by publishing books, expanding their advertising and creating a telephone directory service for clients. He stated that whereas they had the money for the first two directions, because of financial constraints it was not yet possible to create a directory service. He commented, “*we lack investment in order to make a big leap into the market*”. The second reason he offered for growing the business was that the more successful the business became, the more successful he would be personally: “*I have a part of the turnover in our company and if I raise the turnover of our company I take more money than I have.*”

Finally, all these examples show that even in those cases where the desire to grow is evident, growth is not perceived to be feasible because certain barriers are present; that is, participants do not believe they are able to fulfil growth intentions in the short-to-medium term because barriers take time to manage or overcome. For this reason, intentions to grow are postponed.

#### 8.2.2.2 Sub-theme B.2: Barriers slow down the process of realizing intentions to grow

In some cases owner-managers appeared to have the desire to grow the business and were acting on specific growth intentions but even so, certain barriers made it difficult to act efficiently. Specifically, barriers seemed to affect the pace of realizing growth intentions, and possibly, the pace of growth overall. The loss of growth potential was prevalent in this theme. According to participant accounts, a degree of loss was perceived to be inevitable by participants who felt they could do very little either to cope with barriers or to intervene in an effective way other than to wait for the situation to improve. Across accounts, two kinds of barriers were particularly salient to this theme: too much bureaucracy and lack of suitably qualified labour. Short examples of each are provided to illustrate how barriers work in this case.

##### Examples – too much bureaucracy:

Several participants complained about the length of time it took to carry out certain growth-related activities such as obtaining official permission from the local administration to build, buy or rent premises. The bureaucracy involved with these activities appears to have had the effect of slowing the realization of specific growth intentions. Mihail (OM13) for example, reported that in the near future he would ‘build a car wash site’ at his auto-body design and repair shop; he explained however that to do so, the paperwork required would “*take you lots of time, nearly “half a year”*” in processing time. Ivan, the owner-manager of an architectural studio, reported that to realize his intention to ‘move the business to new premises’ would take “*at minimum, one year*”. When asked if he could elaborate, he replied, “*There is no conflict going on. It’s just that everything takes a very long time.*” Bureaucratic delays left most participants feeling frustrated. In response to being described as the

most important barrier to growth one participant said that in his case it was too much bureaucracy because, *“It takes a very long time to get or process documents”*. When asked what kinds of documents, he replied: *“For instance, the building license, contracts with big state organs. It’s a nauseating thing and I don’t want to talk about it.”* (Leonid, OM3)

Central to participant accounts was the belief that things ‘will happen’, intentions will be realized, but not at a time of management’s choosing. This was captured by one participant’s account of how bureaucracy slowed down business activities in Russia:

*“You can’t do it on time [i.e. manage the business in an effective manner] because there are too much problems or too much things to do which take more time here in Russia than it takes in the West for management. So if you have the goal that this should happen in the next 10 days, it might be happening in one month, but it will happen. But you didn’t think about this, and there are no laws for that, and for this you have to get a permission and before you didn’t have to have permission. Or you have to go to this office and this office takes two weeks to get an answer. As soon as it’s connected to an official thing, you just get out of schedule.”* (Marcus, OM14)

According to Marcus, too much bureaucracy in conjunction with the absence of clear laws and frequent changes in regulations made it very difficult for managers to plan ahead with any degree of certainty. He further concluded that these kinds of barriers and the corresponding delays were more of an issue in Russia than in the West.

Another participant, the owner-manager of a small business that specializes in coordinating projects for Russian bakeries and brings together foreign equipment suppliers with Russian clients, made a similar comparison between Russia and the Czech Republic, and how bureaucracy, in this case, limited the number of projects that could be made:

*“In Czech Republic I visited recently, they spend no more than one month to make new project for the bakery. If you start here in Russia it will be 15-18 months minimum, up to two years to make project bakery. Of course it’s not influence for us directly, but it’s limit to create a new production facilities.”* (Boris, OM27)

The implication of the previous example is that in some cases delays may affect the growth potential of firms. Boris implied that bureaucracy had an indirect effect on the growth of his business in that it limited the nature and therefore the size of client projects to renovate existing bakeries or confectionaries.

While the previous examples would suggest that it is possible to put an estimated time limit on delays, this was not always the case.

Another participant, Dmitry (OM25), used a metaphor to explain the slow pace of small business development in Russia, as compared to the West. As he spoke, he drew a picture of a hill half way submerged under water and a person walking under the water up the hill. The person, he said, represented Russian small businesses:

*“So my vision is that small businesses in Russia lives under water. This [the person standing above the water walking up the hill] is small business in UK, France, wherever. So I feel that this is the major problem. When you are swimming I believe you can understand how a person feels in water. So for this guy [the Russian under water] to walk this distance [the same distance as the West, to catch up to the West] requires many many jolts of energy to reach this place. Yes, I mean this amount of energy. So the guy uses wifi, RFD whatever [...] I mean a lot of advancements. We use the same terms. It’s just the situation that to walk the same distance requires a lot more energy.”*

He went on to explain that there was a time when Russia and the West were equal:

*“Before the revolution. It was like we used to live in the same situation as you guys.”*

However, since the Communist revolution, Russia was playing the catch up game. It was also the case that the revolution brought with it many problems that still plagued businesses today, mainly bureaucracy and the Soviet style of business, both of which Dmitry said would take a long time to overcome:

*“In Soviet times it was difficult and now it’s easy again. But the problem is that we now live under water. And the main problem is the progress. We move ahead. We now have internet. We have everything. So what will happen if I move up here [i.e. further up the hill, but still under water]? Nothing! So from 1995 until 2005 nothing changed because I’m still under water. And only when I appear up then something will change. And only when I am like you guys, still I will have to go over this steep part. So this is the 40/20 years we spoke about when perestroika started, we all said it took Jesus Christ 40 years. (we laugh) Or Moses. Whoever ok.”*

***“But why such a long way to go to get out of the water and over the hill?”***

*“Because first of all, you guys keep moving. So we will be catching up. And then even if we are out of the water, we still have a lot of things to get rid of in ‘mentality’. So when I say water it’s our current bureaucracy and Soviet style in running business and everything. And then if you would start here [the point above the water line] from the very beginning we would definitely make it faster but, we now still move much slower than you. You keep on moving, we don’t. In water it’s more difficult.”*

#### Examples – lack of suitably qualified labour:

According to a few participant accounts, delays were also incurred for reasons associated with labour. Two participants, Timofei and Artyom, suggested that due to a lack of suitably qualified labour they were unable to grow quickly. Timofei (OM8), the owner-manager of an e-commerce consultancy in operation for less than three years, said that business was good and that his main priority now was to ‘increase sales’. However, given the country’s history, there were few qualified people in new information based fields who he could recruit to increase sales:

*“[W]e are too young. It’s just 15 years. And I am talking about country. It’s just too young. Uh, business, information business just too young and the technologies we are using too young.”*

Timofei explained that out of every 100 applicants he was able to hire only one person every three or four months with “*no guarantee [this person] will work in my company more than two months*”. For this reason he said that despite wanting to ‘increase sales’ and grow the business “*quickly*” so that he might eventually start another business was to “*quickly die*”. He had to grow the business ‘moderately’ because recruitment was slow:

*“[...] the speed of growing for every business depends on a lot of things.”*

***“What does it depend on? In your experience?”***

*“Well if we talking about service things, the most important service thing for us is the people, the experience and staff. And they cannot grow very very quick.”*

However, at another point in the interview Timofei said it was also the case that he could not hire people with a lot of experience because it “*costs a lot of money*”, and for this reason, he only used experienced people when there were “*problems*”. This suggests, that financial barriers may compound skills-related barriers. Nevertheless,

Timofei made it clear that the difficulties in finding skilled labour were paramount for his business while other potential barriers including those listed as prompts, were just excuses for being unsuccessful:

*“My opinion is that there is no problem, except lack of skills labour [...] Ya. Everything else is you know just reason to say I didn’t do that because. I didn’t do that because we are high competition. Or I didn’t do that because there was lack of state support. It’s all fake. In my opinion. It’s all fake and it’s all uh, it’s all words from poor people.”*

According to this participant, a lack of suitably qualified labour effectively slowed down the business’ prospects of increasing sales, and modified growth intentions. In part, this may explain why he chose to diversify into other areas such as publishing and recruitment as they are less dependent on the work of skilled specialists.

Artyom (OM1), the owner-manager of a small company specializing in the production and installation of commercial lifts, said his first priority was to ‘hire more employees’ for this would enable him to ‘expand the product/service line’. Like Timofei he complained of labour shortages and the implications this had for growing the business. He said that over the last couple of years the business had grown slowly; it was “*not ready*” to grow quickly because “*the building industry was not very popular for the newcomers*” and companies like his could not offer young people “*good salaries*”. Further, he reported that the system of education in the building and production industries had been “*destroyed*”, and for this reason newcomers required “*long training*”. Training necessitated a lot of time and money on the part of the business, the latter of which was especially in limited supply. He said, “*we have not a lot of money to invest in the business to grow very rapidly*”.

Accounts suggest that barriers slow down the realization of specific growth intentions and may affect growth potential. Depending on the barriers concerned, this may have the effect of making growth objectives more conservative as was the case with Timofei and Artyom. Participants felt they could do little to manage or overcome barriers and quicken the pace of realizing intentions to grow.

### 8.3 Chapter summary and conclusions

The purpose of this chapter was to address the second research sub-aim: to explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours. Six key findings emerged from participant accounts.

First, barriers work in at least six discrete ways: barriers 1) *stop owner-managers from intending to grow*; 2) *undermine intentions to grow*; 3) *add to the ambivalence around intentions to grow*; 4) *provide incentives to grow*; 5) *postpone intentions to grow*; and, 6) *slow down the process of realizing intentions to grow*.

Another related finding was that certain barriers operate differently, meaning they operate in discrete and particular ways, in terms of how they are perceived to influence growth intentions and behaviours. For instance, financial barriers seemed to *postpone* actions to grow, whereas institutional barriers served mainly to *undermine* intentions to grow or *slow down* intentions realization. This realization sets these findings apart from prior research discussed in Chapter 2 which implies that barriers work in similar ways to affect business growth.

A third finding was that the effects of barriers are *acute* or *chronic*. The effects of the Financial Crisis of 1998 (financial/economic crisis), for instance, on business growth can be said to be acute in the sense that owner-managers reported having to shift their immediate focus to business survival rather than growth. Nevertheless, the influence of the crisis on small business growth was limited to a certain period of time. Alternatively, certain institutional barriers such as too much bureaucracy, frequent inspections, and need to bribe officials were perceived by owner-managers to be chronic, with no likely end to their influence in sight; and this was the result of weak formal institutions and associated barriers, particularly a weak rule of law.

Intriguingly, a fourth finding was that some owner-managers construed barriers in individual and idiosyncratic ways. To illustrate, one participant referred to the effects of too much bureaucracy on business growth and development as similar to a person trying to walk while submerged under water. The same participant described the

effects of high competition from large foreign companies on business growth as being similar to learning how to cook while the competition holds the recipes.

Barriers were also found to operate at the emotional level. One participant described certain barriers as “*suffocating*” him, and another regarded them to be “*nauseating*”.

Paradoxically, the sixth finding was that barriers are not always barriers, meaning in some cases barriers might not fit into traditional conceptualisations – as factors which have *negative* effects on growth. That is, while most barriers were regarded as having negative influences on growth intentions and behaviours, in a couple of instances, the effects of competition were felt to be positive (i.e. competition spurred owner-managers on to grow the business), and in one case, both positive and negative (i.e. competition made it both necessary and difficult to grow).

The significance of these and other findings are discussed in the next chapter. Chapter 9 also considers the contributions and limitations of this research, the implications for policy and practice, and recommendations for future research.

## **9 Discussion and Conclusions**

### **9.1 Introduction**

This final chapter draws together the research findings from the main empirical study and then concentrates a discussion of these findings on how and to what extent they address the aim of the thesis. The central aim of this thesis is to elaborate on our understanding of barriers to small business growth. Over the course of the research project an examination of the relevant literatures, in conjunction with an examination of findings from the initial exploratory study, revealed that extant research on barriers to small business growth was underdeveloped both conceptually and empirically and from this realization, two sub-aims emerged:

- i) to examine barriers to small business growth from the perspective of the individual owner-manager, with an emphasis on the meaning of barriers and the context in which they are perceived.
- ii) to explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours.

This chapter is structured around two main sections. *Section One* discusses the findings in relation to the two research sub-aims. *Section Two* concludes the research and is divided into five parts. Part one provides an overview of the conceptual and empirical contributions of the current research to the literatures. Part two provides some reflections on the method and additional contributions. Part three considers the implications of this research for small business policy, practice, and research. Parts four and five discuss the limitations of research, and recommendations for future research, respectively. The thesis closes with a few final remarks.

### **9.2 Discussion of the findings**

The overall aim of this thesis - to elaborate on our understanding of barriers to small business growth - was achieved by focusing the results and the discussion on two sub-aims which together build on the current understanding of barriers and how they work

to influence business growth. Before discussing whether these aims were met by the current research, a reminder is provided of how they were approached. While the discussion of findings draws mainly from the literatures examined in Chapters 2, 3 and 5, in a few cases, notably where findings were unexpected, additional support is drawn from existing literature found elsewhere. Also, some explanations are grounded in the findings presented in Chapters 7 and 8 (page numbers provided).

*9.2.1 Sub-aim one: to examine barriers to small business growth from the perspective of the individual owner-manager, with an emphasis on the meaning of barriers and the context in which they are perceived.*

The first aim captured the approach of the current research. To address this aim, several literatures were examined, and two empirical studies were conducted. In the former case, the current understanding of barriers to small business growth was based on reviews of three different areas of the literature:

- The small business/entrepreneurship literature, particularly the literature on small business growth;
- the general growth literature;
- the transition literature, particularly the literature on entrepreneurship and small business development in this context.

Prior research was found to be empirical, mainly cross-sectional in nature, and focused on the identification and prediction of potential barriers to growth. Data were mainly collected through surveys, and structured questionnaires. Evaluations of barriers were based on judgements of perceived importance. The approach, methods and limitations of this research were similar to those adopted by two other streams of research in the small business literature, of which barriers were also part:

- Characteristics that predict firm growth
- Stages of growth

In the first exploratory empirical study undertaken by the researcher in St. Petersburg Russia, 10 owners/managers and 8 small business stakeholders were interviewed.

Several owner/managers reported that barriers influenced specific intentions to grow, yet prior research was unable to explain and account for these findings.

It was concluded that one way to elaborate on our understanding of barriers to small business growth, was to examine their relationship to growth intentions and behaviours. Intentions were used as a mechanism for broadening conceptualisations of barriers. The literatures on entrepreneurial cognition and cognitive psychology were examined and intentions were defined. The Theory of Planned Behaviour (Ajzen, 1991) and the Shapero-Krueger Model of Entrepreneurial Intentions (Krueger et al., 2000) provided some insights into the relationships between intentions and behaviours, and they, along with limited empirical evidence from a few studies that identified potential barriers to growth in small firms, pointed to possible relationships between perceived barriers, growth intentions and behaviours; albeit, relationships not well understood.

In the main study, 27 owner-managers in St. Petersburg were interviewed. This study was driven by the aim to explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours. The focus and nature of this research represented a significant shift from prior research:

- from simply identifying *what kinds* of barriers affect growth, to exploring *how* perceived barriers influence growth intentions and behaviours;
- from embedding barriers in characteristic and stage model research and relating barriers to the presence or absence of certain characteristics, to relating barriers to owner-managers' intentions and behaviours;
- from prediction to *understanding*, which involved situating research in a constructivist-interpretivist research paradigm and taking a more subjective view of the phenomenon;
- from collecting quantitative survey-based data to collecting *qualitative* interview-based data focused on the perceptions of owner-managers;
- from focusing on the firm as the main unit of study to focusing on the individual owner-manager;

- from identifying barriers from a closed-ended list of predetermined barriers, to leaving room for owner-managers to come up with new barriers and allowing them to describe barriers;
- from analysing barriers according to their frequency to analysing them according to three techniques – template analysis, matrix analysis and interpretive phenomenological analysis – examining their meaningfulness and the context (personal and external context) in which they were perceived;

Forty barriers were identified from owner-managers' accounts. Descriptions of barriers were created from participant accounts. From accounts, new barriers were identified while a few traditional barriers were revised or extended after finding they were double-edged. For instance, while a lack of state support was perceived to be a barrier, so too was state involvement. It was also revealed that some barriers overlapped and interconnected within and across five categories – financial, skills-related, institutional, market-related and other barriers. This finding suggests that barriers should not be examined in isolation, as was the case with prior research.

Finally, while research was largely successful in addressing this aim, descriptions of barriers and how they worked, may have been limited by using barrier 'prompts', and so many prompts. These and other limitations of research are discussed further on.

*9.2.2 Sub-aim two: to explore and examine how, or the ways in which, perceived barriers may influence owner-managers' growth intentions and behaviours.*

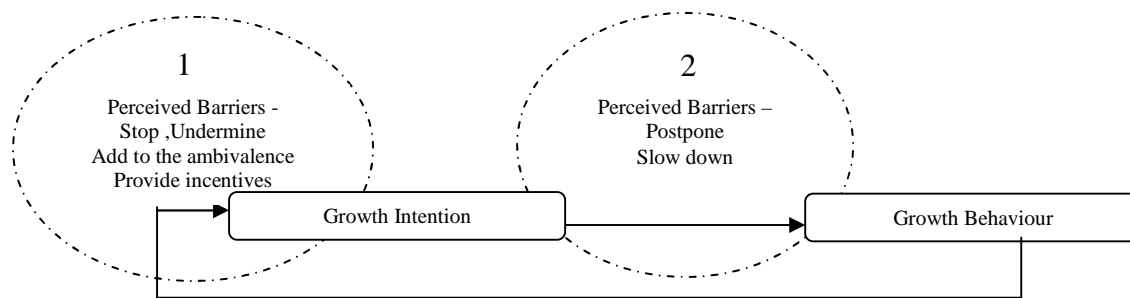
In exploring how or the ways in which perceived barriers may influence owner-managers' growth intentions and behaviours, *six* key findings emerged.

#### 9.2.2.1 Finding 1: Barriers work in discrete ways

The first and most important finding was that barriers work in at least *six* discrete ways. Looking back at prior research examined in Chapter 5, very limited theory and evidence could be found in entrepreneurial cognition research about the relationship between barriers, growth intentions and behaviours. From prior research it was proposed that barriers may influence growth intentions and behaviours 1) by stopping owner-managers from intending to grow, and 2) by stopping owner-managers from

acting on intentions to grow. A model was devised by the researcher to capture these possible relationships (see Figure 4, p. 119). This study has added to this model, the revised version of which appears in Figure 5.

Figure 5: A model of possible relationships between perceived barriers, growth intentions and behaviours based on the accounts of owner-managers



To discuss these findings, the researcher draws on the entrepreneurial cognition literature, specifically the concepts of ‘perceived feasibility’ and ‘perceived desirability’, as they relate to the intention to grow the business. As discussed in Chapter 5, the ‘perceived desirability’ of performing the behaviour depends on the perceived attractiveness of growing, while the ‘perceived feasibility’ of growing depends on the belief that one is capable enough to perform the behaviour and has the resources or opportunities required (Krueger et al., 2000; Ajzen, 1991); it is similar to the concept of ‘perceived behavioural control’ (Ajzen, 1991).

According to the accounts of owner-managers it was found that barriers do *stop* owner-managers from intending to grow, but they also *undermine intentions to grow*, *add to the ambivalence around intentions to grow*, as well as *provide incentives to grow*. In all of these ways barriers shape owner-managers’ intentions to grow or not to grow. These themes coincide with the first circle in Figure 5.

In the first three sub-themes (*stop, undermine, add to the ambivalence*), barriers were perceived by owner-managers to be negative and to have a negative influence on growth intentions and behaviours. The intention to grow is absent, weak or unclear.

As discussed in Chapter 5, studies on small businesses in mature market economies have found that owner-managers do not intend to grow because of certain perceived barriers (e.g. Cliff, 1998; Aston Business School/Department of Trade and Industry, 1991), without explaining why or how this occurs. The first sub-theme in this study is *barriers stop owner-managers from intending to grow*. This occurred when barriers were perceived to threaten the survival of the business and these threats were perceived to be imminent. Growth was believed to be neither desirable nor feasible and the intention to grow was absent, overshadowed by the need to survive (“*the basic challenge of the firm was to survive*”, Maksim OM7, see p. 203). Barriers also stopped intentions to grow when they were perceived to be overwhelming. This was the case with one owner-manager who, because of different financial and institutional barriers, reported being focused on survival: “*I put it as my first level aim not so much to develop the firm but to survive*” (Eduard, OM15, p. 208).

It was also found that certain *barriers undermine intentions to grow* – the second sub-theme. A study conducted by Aidis and Mickiewicz (2004) on SMEs in Lithuania found that institutional barriers, specifically taxation and corruption, were perceived by participants to be negative and to have a negative affect on intentions to grow. In the current study, certain institutional barriers were perceived to undermine intentions to grow by directing resources away from growth-oriented activities and directing them instead towards managing institutional barriers. These barriers negatively influenced both the perceived desirability and feasibility of growing, mainly the latter.

It was also found that *barriers add to the ambivalence surrounding intentions to grow* – the third sub-theme. Barriers were used by a couple of owner-managers to explain why it was difficult to grow (why growth was not feasible), and second, to justify why growth was not desirable. In the latter case, participants alluded to the perceived negative consequences of growing the business or pursuing certain growth intentions, consequences which were associated with past negative experiences involving institutional uncertainty and economic instability. These experiences were so strong and so negative, they shaped future intentions to grow and how to grow. Yegor said he required capital to grow and expand the business, to ‘open a shop’ and ‘expand the product line’. Yet, his previous experience in taking capital had been negative and for this reason he preferred either not to borrow money again or to borrow small amounts

of money even if it meant growing slowly. Other studies have found that the perceived negative consequences of growth, such as a loss of control, influences attitudes towards growth, the desire to grow (Wiklund, Davidsson and Delmar, 2003), and shapes how quickly owner-managers are prepared to grow (Cliff, 1998).

In contrast to the previous sub-themes and conceptualisations of barriers in the literature (Chapter 2), it was also found that *barriers provide incentives to grow* – the fourth sub-theme – and have a negative and positive effect on intentions to grow (“*competition it pushes me, it pushes my people*”, Vadim OM26, p. 227). This finding is discussed further in Section 9.2.2.3 - ‘Finding 3: The effects of barriers are acute or chronic’, p. 260, and Section 9.2.2.6 - ‘Finding 6: Barriers are not always barriers’, p. 267.

It was also found that *barriers postpone intentions to grow* and *barriers slow down the process of realizing intentions to grow*. In these ways barriers shape intention realization. These themes coincide with the second circle in Figure 5.

Several owner-managers reported that they had intentions to grow, but that *barriers postpone intentions* – the fifth sub-theme. Owner-managers postponed intentions to grow when they did not have sufficient resources, particularly financial resources (e.g. “*The capital we need is beyond our reach*”, p. 232, “*I just have to wait [...] for better times*”, Anton OM6, p. 233). In this case, the desire to grow seemed to be present but the perceived feasibility of growing was weak. This finding adds some credibility to Krueger’s (2003) proposal that barriers which cannot be managed or overcome stop entrepreneurs from acting on intentions to grow. It also coincides with traditional conceptualisations of barriers which suggest that barriers are negative and prevent those firms that wish to grow from growing. However, unlike traditional conceptualisations or Krueger’s proposal, this finding suggests that growth will be pursued at some point in the future when barriers have been managed or overcome (e.g. “*During the next two years we will look for outside investors in order to develop this direction*”, Maksim OM7, p. 240). It also provides further justification for the notion that not only do intentions change over time (e.g. Cliff, 1998; Dutta and Thornhill, 2007), but the ability to act on intentions to grow also changes as perceptions of the relationship between the environment and the barriers change.

Finally, it was found that barriers *slow down the process of realizing intentions to grow* – the sixth sub-theme. Several participants complained that it took a long time to act on intentions to grow, to carry out growth-oriented activities that depended on too much bureaucracy such as obtaining necessary permits, purchasing or leasing premises (“*It takes a very long time to get or process documents*”, Leonid OM3, p. 242), or the experience and skills of employees ([“*the experience and skills of staff*”] *cannot grow very very quick*”, Timofei, OM8, p. 244). This finding extends previous conceptualisations of barriers, as discussed in Chapter 2, which regard barriers as preventing growth. Barriers in this case may affect the extent to which a business can grow, but does not prevent growth or interfere with the intention to grow specifically.

#### 9.2.2.2 Finding 2: Different barriers operate in discrete and particular ways

Second, it was found that different barriers operated in discrete and particular ways in terms of how they influence growth intentions and behaviours – this concerns mostly institutional barriers, financial barriers and the market-related barrier, high competition. This finding challenges the traditional assumption in prior research that all barriers influence growth in similar ways. The discrete ways in which these three types of barriers operated will now be discussed.

##### 1) Institutional barriers

Institutional barriers predominantly worked in one or both of two key ways: first, *barriers undermine intentions to grow* and second, *barriers slow down the process of realizing intentions to grow*. The weight in this discussion leans towards the former.

Participant accounts of how institutional barriers *undermined* intentions to grow were entwined with, and magnified by, their responses to these barriers. To explain this finding, the researcher draws from Oliver’s (1991) research on strategic responses to institutional processes. Oliver identified five strategies firms may use to respond to institutional pressures: Acquiescence, compromise, avoidance, defiance, and manipulation. Owner-managers in this study appeared to use strategies of ‘compromise’ and ‘avoidance’ in response to institutional pressures. Oliver described

compromise and its tactics (balancing, pacifying, bargaining) as dealing with “conflicting institutional demands or inconsistencies between institutional expectations and internal organizational objectives” (p. 153). She also described avoidance strategies and its tactics (concealment, buffering, and escape) as “attempts to preclude the necessity of conformity” (p. 154). It is argued here that these strategies served to further undermine intentions to grow.

It was found in the current study that certain institutional barriers (e.g. too much bureaucracy, frequent inspections, high cost of premises) *undermined* intentions to grow by directing resources away from business growth towards managing barriers which involved bribing state officials (need to bribe officials) and networking with them. Owner-managers felt that by appealing to state officials, officials would be more lenient towards them when it came to inspections and licensing, or rent on premises. Owner-managers believed it was necessary to ‘compromise’ or comply partly with informal institutional rules, those created by the state officials themselves, even though doing so was contrary to their goals for the business. It was noted in Chapter 2 that when formal institutions (rules and regulations) are weak, informal institutions (culture and norms), come into play (Scott, 1987; 1992). In the context of the current study this involved building relationships with state officials and might explain why some participants referred to frequent changes in administrative staff as a barrier.

It was also found in the current study that in response to some formal institutions and formal regulations, strategies of non-compliance were devised and incorporated ‘avoidance’ behaviours. These strategies further undermined growth intentions. Examples from accounts included not paying for official permits, or avoiding tax penalties. In the latter case one participant, Yegor, admitted to closing down one of his shops in order to avoid tax penalties. This behaviour corresponds to what Oliver (1991) refers to as ‘escape’, an avoidance strategy in which the firm “may exit the domain within which pressure is exerted” (p. 155). In Yegor’s case, the exit was temporary as he re-registered the business under another name; he felt however that the reputation of his business suffered from this response. Many owner-managers also said they used double accounting systems to reduce the level of tax. This corresponds with Oliver’s (1991) description of ‘concealment tactics’, a particular

kind of avoidance strategy which involves “disguising nonconformity behind a façade of acquiescence” (p. 154). This strategy affects a firm’s chances of getting a business loan (Pissarides, 1999), and undermines intentions to grow. Manolova and Yan’s study (2002) also found that small firms in Bulgaria, a formerly planned transition economy, adopt certain avoidance strategies to deal with institutional pressures, which coincided with short-term goals and limited growth strategies.

A second way in which institutional barriers, too much bureaucracy in particular, influence growth intentions and behaviours, is by *slowing down* the process of realizing intentions to grow. It can be said that while bureaucracy may undermine intentions to grow, it may also affect growth behaviours more directly, slowing down owner-managers’ actions and again directing resources to officials.

In both of the previous themes (*barriers undermine intentions to grow* and *barriers slow down intention realization*) the accounts of participants seemed to stress the effects of perceived barriers on the perceived feasibility of growing, more so than the perceived desirability of growing. Nevertheless there was some evidence that certain institutional barriers also curbed the desire to grow. One participant, for instance, in response to being asked about his intentions to grow said: “*I don’t know. Too many inspectors. I don’t want too big business in Russia. It’s too dangerous for different reasons*” (Denis, OM2), p. 215. For a couple of participants there appears to be a size threshold beyond which it is perceived to be unsafe to grow.

## 2) Financial barriers

While accounts suggested that certain institutional barriers *undermine intentions to grow* and *slow down the process of realizing intentions to grow*, financial barriers, in contrast, tend to operate by *postponing* intentions to grow by reducing the perceived options for growing. The notion of trust was integral to how this barrier worked.

An example of how this occurred is taken from Anton’s account of his intention to expand his newspaper business into Moscow, but having to postpone his plans for the meanwhile. Anton felt that his expansion plans and financial requirements had outgrown the lending capabilities of friends and family. In turn, he clearly identified

and discussed supply-related financial barriers to growth, which included: 1) the high cost of debt capital charged by Russian banks, which incorporated high interest rates and collateral requirements which he could not meet, making this option unavailable to him; 2) the lack of access to capital (which he described as foreign capital) was also unavailable to him at the time because his contacts in the West were “*afraid*” (p. 233) to invest in Russia. However, Anton’s decision to wait to work with foreign investors may have been motivated by a fear of giving up control - a demand-related barrier - and in particular, a fear of losing control to Russian investors, thus raising the issue of *trust*.

It has been argued by Welter and Smallbone (2006) that in post-Soviet societies like Russia, the concept of *personal trust* serves as a substitute for underdeveloped formal institutions. ‘Personal trust’ depends on the “characteristics of a group” or relationships where “persons have come to know each other”, and “relationships are governed by norms, values, and code of conduct inherent in a business environment [...] and the wider society” (p. 466). Alternatively, ‘institutional trust’, which depends on the presence of strong personal institutions “refers to trust in the institutional environment, which includes formal organizations, sanctioning mechanisms (such as through the implementation of the legal process), and informal codes of conduct and values” (p. 466). It has also been argued that when institutional trust is low, as in the case of Russia, entrepreneurs must rely on *personal trust*, on their networks to mobilize the resources (Welter and Smallbone, 2006; Smallbone and Welter, 2001).

Returning to the example of Anton, this participant preferred to work with his foreign associates whom he knew and trusted. Another participant said he preferred to work with foreign investors because, unlike their Russian counterparts, they were interested in the business, not politics (“*the West invests into business [...] A Russian investor decides to have an investment in our direction of the business only when resolving some political issues*”, see p. 239). Inna (OM24) also preferred to work with those she knew because she feared losing control of the business otherwise. She said that to satisfy the financial part of her expansion plans, she would only consider getting a big investment from a friend or acquaintance. She explained why: “*In Russia if you find an investor, you don’t know how he will act. You [the investor] may say, ‘Ok. You don’t make distribution [of profit] for one month, come on, hand over your*

*business*’”, p. 238. Inna’s comment emphasises the importance of personal trust in an environment where institutional trust is low. Low institutional trust was hinted at by Anton who suggested his foreign colleagues were afraid to invest. Another participant, Maksim, also said he believed that foreigners were, in his words, “*afraid to invest money in our country*”, p. 240. Other studies examined in Chapter 3 also stressed that owner-managers in Russia typically rely on personal connections for mobilizing resources (e.g. Batjargal, 2003; Alasheev, 1995). Therefore, this finding points once again to the relationship between financial and institutional barriers. It also suggests that the perceived feasibility of growth is, in this context, dependent on having connections.

### 3) Competition

It was also found that for a few owner-managers, competition spurred on growth, providing incentives to grow (e.g. “*competition it pushes me, it pushes my people*”, Vadim OM26, p. 227). It was interesting to learn that Vadim, for one, believed that only recently his intentions to grow had changed; they had become more ambitious moving from ‘stay the same size’ to ‘grow moderately’. This coincided with a change in his perception of the competitive environment which he described as being manageable only once he and his partner had made a decision to invest in research and development and to create a new product, a new intercom system. He said that before this decision was made “*it didn’t make any sense to grow and develop because we didn’t have a product*”, p. 227.

There is some evidence in the literature that intentions to grow change, either increase or decrease, in relation to entrepreneurs’ perceptions of competitive conditions. For instance, Dutta and Thornhill (2007), in their research on the relationship between growth intentions, cognitive style, and perceived competitive conditions, found that “growth intentions are subject to change as entrepreneurs *revise* their perception of competitive conditions” (p. 12). Dutta and Thornhill proposed that “competitive conditions perceived as being more accommodating than initially assessed lead to an increase in growth intentions”, while those competitive conditions “perceived as being more hostile than initially assessed lead to a decrease in growth intentions” (p. 12). Applying these points to Vadim’s account, it can be said that Vadim’s changing

perception towards competition for the better led to an increase in growth intentions. However, Dmitry, in contrast, described competition as worsening, becoming more intense and/or hostile over time and yet, his intentions to grow also had become more ambitious; this finding is unexplained by Dutta and Thornhill's research.

Therefore, while barriers are traditionally seen as having wholly negative effects, in some cases the effects may be perceived to be positive. This is discussed further in Section 9.2.2.6 – 'Finding 6: Barriers are not always barriers', p. 267.

#### 9.2.2.3 Finding 3: The effects of barriers are acute or chronic

A third finding was that some barriers were described in *acute* or *chronic* terms, meaning they were perceived to affect business growth either for a defined period of time or had no discernible end in sight. As discussed in Chapter 2, prior empirical research does not take this temporal element of barriers into sufficient account.

There were some reported cases of certain barriers being perceived as particularly *acute* and threatening to the survival of the business and for this reason they deserved immediate attention and superseded thoughts of growth. This included the financial/economic crisis. A longitudinal study conducted by Puffer and McCarthy (2001) of five entrepreneurial firms over a decade, the 1990s (as first discussed in Chapter 5, p. 116), found that the growth of these firms was occasionally interrupted by external circumstances, including the financial crisis of 1998, which led firms to focus on the survival of the business. Puffer and McCarthy also reported that Russian entrepreneurs "focused on firm survival, growth, and profit, with varying degrees of emphasis, and their decisions reflected constantly changing circumstances" (p. 33). A few owner-managers in this study noted that it was only some time after the crisis that business returned to normal ("*In 2000 we felt that we had come back to the same level as we had been in the summer of 1998*", Stepan OM22, p. 205).

Other barriers were described in *chronic* terms. Such descriptions were limited to certain institutional barriers such as frequent inspections and too much bureaucracy (e.g. "*I always have to expend energy by trying to get around these government controls [i.e. inspections]*", Lyudmila, OM7, p. 210). Several owner-managers felt

they were continually focused on managing, but not necessarily overcoming, these barriers (e.g. “*they [officials] will find something which is not clean if they want*”, Dmitry, OM25, p. 212).

Finally, some owner-managers described experiencing both acute and chronic barriers simultaneously. One of the best examples of this is Eduard who described some barriers as overwhelming and in *acute* terms, as having a defined period of time (e.g. high cost of debt capital – interest payments; high cost of premises – waiting for the government to sell), and others he described in *chronic* terms (e.g. number of taxes). Together these barriers appeared to sap Eduard’s desire to grow for the meanwhile and turn his attention away from business growth towards business survival (“*I put it as my first level aim not so much to develop the firm but to survive*”, p. 208).

#### 9.2.2.4 Finding 4: Barriers are construed in individual and idiosyncratic ways

It was intriguing to find that owner-managers construed barriers in individual and idiosyncratic ways. A few used illuminating metaphors to describe barriers and the influence of these barriers on their growth intentions and behaviours. Three metaphors stood out from participant accounts: 1) the *water and hill*, 2) *cooks and coding monkeys*, and 3) the *school*. Each of these metaphors represented ways in which owner-managers construed barriers and, in so doing, each elaborates on our understanding of barriers. The focus here, therefore, is on metaphors generated by participants, not by the researcher.

Before discussing these metaphors, it is useful to briefly consider what the literature says about them. Lakoff (1993) defines a metaphor as a “mapping” of entities from the ‘source’ domain to the ‘target’ domain (p. 208). For example, he explains that in the metaphor ‘love is a journey’, *journey* represents the source domain, and *love* the target domain (p. 208). For each metaphor discussed hereafter, the source and target domain will be identified. It has been argued that the use of metaphors in organizational research “*implies a way of thinking and a way of seeing that pervade how we understand our world generally*” (Morgan, 1997: 4). By facilitating understanding, metaphors serve as conceptual building blocks of theory (e.g. Cornelissen and Kafouros, 2007; Weick, 1989). Furthermore, metaphors are also

revealing in that they elicit emotions, which may be indicative of the meaningfulness of an event. Hill and Levenhagen (1995) have argued that metaphors “contain emotional content and are likely to evoke an emotional response” (p. 1065). For these reasons, metaphors are usual devices to understand and explain barriers.

### 1) The water and hill

One participant, Dmitry, used a *water-and-hill metaphor* to explain the relationship between too much bureaucracy and the pace of small business growth and development in Russia and, how it compared to small business growth and development in more mature market economies. The water, he explained, was symbolic of the bureaucracy and Soviet mentality in the country which thwarted attempts made by small businesses to advance (“*When you are swimming in water I believe you can understand how a person feels in water*”, p. 243). Swimming in water also represented the amount of “energy” that was required to grow and develop a small business (“*It’s just the situation that to walk the same distance [the same distance as the West, to catch up to the West] requires a lot more energy*”, p. 243). The hill symbolized the continuing technological advancements in the software programming market with which he must contend. Marcus felt that Russian businesses are always playing catch-up to the West because they still operate under water, meaning they have to contend with bureaucracy and the Soviet mentality that espouses it (“*we now still move much slower than you. You [the West] keep moving. We don’t. In water it’s more difficult*”, p. 244).

The source domains in this example are the water and hill, while the target domain is bureaucracy and its effects on the development of small businesses. This metaphor helped the researcher come to grips with the weight of bureaucracy on small businesses and pointed to the frustration and heaviness owner-managers feel towards it as they navigate through the business environment. It also illustrated the perceived gravity of bureaucracy and the sense of helplessness it engenders. The water-and-hill metaphor also suggested to the researcher that even when owner-managers like Dmitry are making progress, when they are doing things to grow and develop their businesses, because of the amount of effort required and the seemingly minimal results, their sense of development was diminished along with their enthusiasm. This,

in turn, may encourage owner-managers to question whether the goal - reaching the top of the hill - is possible or even desirable.

## 2) Cooks and coding monkeys

Dmitry also used a metaphor of *cooks and coding monkeys* to represent the precarious position he felt his company occupied in the software programming market in relation to foreign competition (the cooks), should he choose not to develop the business in more value-added areas of the industry which would generate more revenues, for example, design and architecture, and in relation to those Indian businesses that were more proficient in coding (the coding monkeys). The source domains in this metaphor are cooks and coding monkeys and specifically the desire to cook rather than code, while the target domain is managing the competition and carving out a market position.

This metaphor assisted the researcher in understanding both the inhibiting and facilitating roles of barriers in relation to intentions. Dmitry intimated that as long as his business operated in the low end of the market which focused on coding, the West would have the upper hand in the high end of the programming market because they had the knowledge, the domain knowledge (the West is like an “*excellent cook*”, “*running the restaurant*”, creating “*recipes*”, “*the design of the dish is yours [the West’s]*”, p. 230). He implied that the real power and money lay in programming architectural designs (creating recipes), rather than coding, but that competition from the West made it difficult (“*So we are cooking and they [the West, the customers] are happy paying us 20 dollars because they pay 60 dollars back home for the same cooking so they make money on us*”, p. 230) He also added that companies like his “*survive on being coding monkeys*” p. 230, but he didn’t want this as his business focus because the Indians were doing it better (“*Indians are doing it better than us and they charge less. So we can’t afford to do that so they kick us out of the market*”, p. 230). So in this way competition made it more difficult to grow, but also more necessary to grow.

### 3) The school metaphor

A couple of participants used the metaphor of a *school* to describe both how they responded to the difficulties they experienced in attracting qualified labour, and in response to the barrier lack of suitably qualified labour (“*my company is like a school, like a university*”, Timofei OM8, p. 185); they attributed this barrier to the transition environment and to an insufficient number of training institutions (“*we are too young. It’s just 15 years. And I am talking about the country*”, Timofei OM8, p. 185). The source domain in this case is the school, while the target domain is the barrier a lack of suitably qualified labour.

The school represents the absence in the marketplace of skilled labour in certain specializations. This metaphor reminded the researcher of the feelings of pressure some owner-managers experience as a result of training their employees – feelings both of pride and vulnerability. In the latter case, this may suggest that owner-managers feel vulnerable because there is always a chance that after training the employees will leave their employ like students leaving school once they have earned their qualifications. This was evident in Dmitry’s comments about his business supplying skilled labour to the market (“[we are regarded as a] *good school that is supplying people everywhere*”, Dmitry OM25, p. 185). It was also the case that he had, over the last couple of years, lost a large number of employees to the competition and whereas he subsequently reacquired the same number of employees, he was nonetheless affected by this.

#### 9.2.2.5 Finding 5: Barriers operate at the level of emotions

A fifth finding was that barriers operate at an emotional level. This aspect of barriers was surprising and has not been addressed by prior research (Chapters 2).

A discussion of these findings may benefit from delving further into the cognition literature and specifically research on the *cognitive processing perspective* of emotion and organization, a key area of emotions research and one that compliments the cognitive orientation adopted by this research. At the core of the cognitive processing perspective is the notion that emotion is a response to appraisal, a response to

meaning (Parkinson, 1997; Lazarus, 1999). Parkinson explains (1997): “During emotion, our perspective on the personal world changes and things look different: bleaker or more appealing than usual” (p. 63). The nature and intensity of emotion is said to be the product of two kinds of appraisal: ‘primary appraisal’ (“Does the situation affect me personally?”) and ‘secondary appraisal’ (“What if anything can be done about the situation?”) (Lazarus and Folkman, 1984: 31). This perspective of emotion may serve to elaborate our understanding of barriers by reflecting appraisals of barriers, both primary and secondary, and their impact on past and future growth. Not surprisingly, in this study negative appraisals of barriers seemed to have the effect of leading to more conservative intentions to grow.

A few participants expressed some *anger* when describing certain barriers and the impact of these barriers on their growth intentions and behaviours. A good example of this was Eduard’s emotional account of his business’ development which incorporated details of several barriers including the high cost of debt capital, high cost of premises, and number of taxes. Eduard used strong language when referring to his interest payments on a bank loan as “*barbaric*” and when complaining that these payments, in conjunction with payments for rent to the government, were “*outrageous*”, p. 207. Eduard’s negative appraisal of events reflected his concerns about business survival and his ability to cope. When asked about his intentions to grow he replied that the question was “*provocative*” because everyone was “*suffocating*” him, and for this reason he was unable to think about business growth, p. 208. Another participant, Leonid, had a notably visceral emotional reaction of *anger* and *disgust* to the barrier too much bureaucracy which he regarded as “*nauseating*”, so much so that he continued to say “*I don’t want to talk about it*”, p. 242. Ben also expressed anger in discussing his experiences with threat(s) to security. He talked about being out of the country at the time his employee, one who had contacts in the tax office, attempted to take over his business. He was also annoyed that his other employees knew about the takeover attempt but didn’t tell him, but said in response “*they paid a high price for that*”, p. 223. Ben’s negative experience seems to have contributed to his somewhat cautious approach to business growth and in particular, to hiring more people: “*I want to keep the team as small as possible because it’s easier to manage*”, p. 222.

Feelings of *fear* were also evident in the accounts of Yelena, Marcus and Yegor, specifically in relation to state officials. Yelena's comment about working with officials is a good example of this: "*It's better to be friends [with state officials], otherwise [...] they won't let me live quietly*", p. 216. This comment illustrates her concerns about business survival and her ability to cope in the absence of playing by the rules. Yelena and Marcus both stressed that state officials could always come after the business and inflict punishment if they did not cooperate ("*I have to be a good girl [...] if you really want you can always find something to criticize*", Yelena OM5, p. 216; "*they will find something which is not clean, if they want*", Marcus OM14, p. 212). Marcus' fears of being closed down led him to pay officials exorbitant amounts of money on an annual basis, money which could be otherwise invested. Yegor (OM18) also appeared fearful and helpless in relation to the barrier frequent inspections and was uncertain about the implications of continued inspections for the future growth and development of his business: "*I understand according to our laws they [inspectors] will find anything I do not according to the law and for example, make large penalties that I have to close the enterprise. So I am not sure I can develop, develop this business exactly*", see p. 214.

Also, interestingly, in response to the same event, the financial crisis of 1998 (financial/economic crisis), several participants had different emotional reactions. Marcus' account of the crisis was laden with *anger* and *fear* partly in relation to future crises. He said, "*I never forget this day. Never. Never.*" He also felt that the days were numbered before the next financial crisis. "*It's a matter of time. We will have crisis again*", p. 204. In response to the previous crisis, to anticipated crises, to increasing or high competition and, to what Marcus (OM18) described as the need to bribe officials, he would 'keep the business the same size'. In contrast, Stepan (OM22) and Fyodor (OM23) expressed positive emotions towards the 1998 crisis and communicated feelings of *pride* when recounting their experience. Stepan said the crisis "*gave us very much*", "*we became strong*", and "*we could show to the market we were a wealthy company*", p. 205. Having gone through the financial crisis of 1998, they felt they could survive anything (e.g. "*the problems we experience now are a piece of cake*", Fyodor, p. 206). These owner-managers intended to grow their business 'substantially'.

#### 9.2.2.6 Finding 6: Barriers are not always barriers

The sixth finding was that barriers are not always barriers in the traditional sense, meaning that once again, in some cases, barriers might not correspond to traditional conceptualisations of factors that are *negative* and prevent growth in firms when growth is desirable, as discussed in Chapter 2. Instead, a few owner-managers in this study noted the positive and facilitating effects of the barrier high competition. Evaluations of barriers may depend in part on whether the barriers are perceived by owner-managers as having the attributes either of opportunities or of threats.

Krueger (2003), in his paper on real and perceived barriers to implementing entrepreneurial intentions, proffered that barriers to entrepreneurial intentions, like entrepreneurial triggers, can be categorized along five dimensions which include the *internal-external* dimension and the *opportunity-threat* dimension (Schindehutte et al., 2000). Krueger argued that where a barrier falls within these dimensions depends largely on the entrepreneur's perception. Perception of the opportunity-threat dimension may be influenced by the extent to which events are perceived to be positive or negative, to be controllable, and to lead to losses or gains. Dutton and Jackson (1987), in their research on strategic issue interpretation with managers, found that the notion of *threat* had a "negative connotation", and was associated with a "lack of control" and the "expectation of loss", while *opportunity* had a "positive connotation" and was associated with "a feeling of control" and the "expectation of gain" (p. 384). These attributes help make sense of the findings in the current study.

Vadim's account of high competition is a good example of this. Vadim explained that before his company began to invest in research and development and to eventually produce their own intercom system, competition was perceived to be negative ("*I was not protected*", p. 226). Also, he felt he had little control ("*Instead of going to me, he [the customer] tries to go to the representative office [to the supplier directly]*", p. 226) and expected losses ("*[without producing our own product] I would have to go into another business, out of the market*", p. 227). Afterwards, competition was seen as a positive force ("*competition it pushes me, it pushes my people*", p. 227), as more controllable ("*the higher the competition, they need me more*", p. 227) and as producing gains like market share ("*Now I have this product that could replace the*

*German [product]*”, p. 226). Control was possible because the resources to grow and the opportunity to grow were present – growth was feasible. In turn, Vadim’s growth intentions became more ambitious, from ‘to stay the same size’ to ‘grow moderately’ (*“I wanted to stay the same size always. But now I understand I cannot do that”*, p. 227).

### **9.3 Contributions of this research**

This thesis makes several contributions to understanding barriers to small business growth, some conceptual and others, more empirical in nature:

One of the main contributions of this study is that it expands previously limited conceptualisations of barriers to include possible relationships between perceived barriers and the growth intentions and behaviours of owner-managers. It was found that perceived barriers shape owner-managers’ intentions to grow or not to grow, and shape intention realization. Unpacking this further, it was discovered that perceived barriers influence owner-managers’ growth intentions and behaviours in at least six discrete ways. These findings augment previous research findings in the entrepreneurial cognition literature which see barriers as stopping owner-managers from intending to grow, and as potentially stopping owner-managers from acting on intentions to grow. In the broader sense, these findings also contribute to the literature on small business growth by strengthening the case for a relationship between perceived barriers and business growth, one that is expressed through intentions and behaviours. They also reinforce the value of exploring how barriers affect growth rather than focusing solely on identifying what kinds of barriers exist.

Another contribution of this study was the finding that different barriers operate in discrete and particular ways to influence growth intentions and behaviours. Until now, previous studies have assumed that all barriers affect small business growth in similar ways and, attempts have not been made to tease out and examine the different possible effects. In line with the previous finding, this study also showed that barriers were not always barriers in the traditional sense of being negative and preventing firms from growing. Instead, in a few participant accounts barriers were seen as unimportant or in some cases, even as positive and facilitating, thus extending the

concept of barriers. As well, it was revealed that the effects of some barriers were perceived to be acute whereas others were perceived to be chronic. Prior research thus far has ignored the temporal effects of barriers.

Other contributions were uncovered; these related to the ways in which barriers were perceived to be meaningful to owner-managers and can be attributed to the qualitative approach to data collection and analysis. In previous studies the meaningfulness of barriers is mostly limited to the identification of barriers through quantifiable evaluations of perceived importance to business growth. In this study, however, it was found that meaning *also* was expressed in relation to other barriers and unique individual experiences, and meaning was expressed in the form of metaphors and emotions. Emotions were indicative of participant appraisals of barriers and their effects on growth. They appeared to indicate whether or not the impact of barriers had a personal effect on the owner-manager and his/her abilities to cope. In this way, emotional responses to barriers tell us something about entrepreneurial cognitions. Emotion is not widely explored in entrepreneurship research, with few exceptions (e.g. Goss, 2005; Goss, 2007; Ket de Vries, 1985), and for this reason, this finding also makes a contribution to the wider small business/entrepreneurship literature.

This study further adds to research on barriers to small business growth by generating descriptions of barriers based on accounts of owner-managers. This improves upon the majority of studies where predetermined barriers either are presented to respondents but are not described to respondents prior to examining their effects on business growth or those that do not require respondents to describe barriers. In this study, some of these descriptions were found to overlap and interconnect both within and across barrier categories; thus, barriers were not treated in isolation, which is traditionally the case in previous research. Findings from this study also uncovered that some descriptions were double-edged, meaning that while the presence of certain barriers was problematic, equally, the alternatives to these barriers raised other concerns and interventions should be viewed in context.

Another contribution to the wider small business/entrepreneurship literature, the literature on small business growth, and the literature on entrepreneurial cognitions, is the evidence which points to the impact of the institutional environment on shaping

growth intentions and behaviours. Bruton, Ahlstrom and Obloj (2008) have argued that very little is known about the impact of institutions on the behaviour of entrepreneurs in either transition or mature market economies. In this study institutional barriers persistently featured in several owner-managers' accounts of growing the business or thinking about growing the business. Owner-managers felt these barriers undermined their intentions to grow and slowed down intention realization. In many cases institutional barriers were perceived to be chronic and, either alone or in collaboration with other barriers, they had a negative influence on the perceived desirability and feasibility of business growth. Furthermore, while formal institutional barriers were identified to be problematic, evoking even more negative emotion were those barriers participants associated with informal institutions and state racketeering. In response to these barriers owner-managers devised strategies which, ironically, further undermined intentions to grow.

This study also makes a broad contribution to the literature on entrepreneurship and small business development in transition economies by exploring the perceptions of some small business owner-managers in this context. It has been argued that while studies in entrepreneurship and small business increasingly have focused more and more on how entrepreneurs think and act (Mitchell, Busenitz, Bird, Gaglio, McMullen, Morse and Smith, 2007), this does not appear to be the case in research on formerly planned transition economies (Bruton, Ahlstrom and Obloj, 2008). This study adds to knowledge in this area by highlighting how some owner-managers think about business growth and about certain barriers to growth, and the perceived effects of these barriers on growth intentions and behaviours.

#### **9.4 Reflections on method and additional contributions**

A key contribution of the current research to our understanding of barriers to small business growth is that it sheds light on the uniqueness of individual experiences and the variations in these experiences, as well as themes that are common to many participants. This was accomplished by collecting data by qualitative interviews and, by using template analysis and interpretive phenomenological analysis. As far as the researcher is aware, this may be the first study which has used these analytical techniques to understand the research phenomenon and has applied these techniques

to research on business growth more generally. It should be noted that these analytical techniques were exceedingly time consuming and involved different levels of analysis and continuous iterations, a process for which King (2004) has argued there is no clear end in sight. They also involved a certain amount of subjectivity and interpretation on the part of the researcher. For all of these reasons it became important to explicate the complex process by which decisions were made by the researcher and this added to the time and effort that was involved.

Finally, very few entrepreneurship researchers have taken an interpretivist approach to research (Jennings, Perren and Carter, 2005). The current research contributes to the small body of studies in the entrepreneurship/small business literature that takes an interpretive/phenomenological approach to understanding entrepreneurial phenomena (e.g. Berglund and Hellström, 2002; Cope 2003, 2005).

## **9.5 Conclusions**

### *9.5.1 Implications for small business policy, practice, and research*

Previous studies on barriers to small business growth tend to conclude by discussing the implications of findings for small business policy by alerting policy makers to potential barriers to business growth and development, and by calling for the removal of barriers that discriminate against small businesses. Rather than argue for the removal of frequently identified barriers, this research brings to the attention of policy makers the importance of owner-managers' perceptions of barriers and their reactions to barriers. It seems that perceptions of barriers, institutional barriers especially, and reactions to these barriers in the context of the current study, contribute to unproductive entrepreneurship (Baumol, 1990), taking the form of certain avoidance behaviours like tax evasion. This behaviour seems to be encouraged by weak formal institutions, particularly legal institutions, and strong informal institutions, particularly state officials and the continuing negotiations and to-ing and fro-ing between businesses and these officials. Avoidance behaviours, in turn, undermine owner-managers' intentions to grow. A lack of perceived institutional trust also limits the possibilities for growth. Continued efforts should be made by policy makers in Russia to strengthen formal institutions and improve 'institutional trust'.

It has been suggested that research on entrepreneurial intentions provides much scope for working with policy makers and educators to change owner-managers' perceptions, as they relate to the perceived desirability and feasibility of performing a certain behaviour (Berglund, 2005), in this case business growth. However, it was abundantly clear in this study that several owner-managers were wary of attracting attention from the policy makers, government or government organizations and for this reason, working with educators may be a more promising route for changing perceptions in the Russian context. In this regard, links could be made with universities and small business associations to develop short, affordable programs around the needs and concerns of owner-managers in relation to business growth, focusing on access to capital, skills training, and even working with officials.

This research also has practical implications for individuals who own and/or manage a small business in Russia and other transition economies and, it also has practical implications for individuals in mature market economies who are growing their business or are thinking of doing so, also for those employed by the business and for those working with the business such as customers or suppliers or investors. It was noted at different places in the thesis that a few owner-managers in this study were hesitant to discuss barriers or, to discuss them in any great detail. Other studies in mature market economies also have shown that owner-managers are reluctant to talk about their problems because they fear their reputation will be damaged in some way (Curran et al., 1993). In the context of the current research it may also be the case that some owner-managers were reluctant to discuss certain barriers, particularly those relating to state racketeering or corruption in general, because they feared recrimination. Therefore, in both mature and transition economies a better approach might be to alert owner-managers to the benefits of identifying perceived barriers to growth in their own environments, to encourage them to consider some ways in which barriers might be influencing their intentions and behaviours, and to identify strategies to manage these barriers and their implications - including the negative implications.

Finally, this study also has implications for other researchers interested in researching small businesses in transition economies, Russia especially. In particular, it highlights to these individuals some of the difficulties they may encounter in trying to get access

to firms, and stresses the importance of utilizing local networks. It also alerts researchers to some of the sensitivities that may be involved when discussing barriers to growth with small business owner-managers and stakeholders.

### *9.5.2 Limitations of research*

#### *9.5.2.1 Language and culture*

Because the researcher is not Russian and speaks and understands only at a basic level of the Russian language, an interpreter was required for 14 of the 25 interviews with owner-managers. This may have affected the data in one of three ways. First, to some degree the use of an interpreter distanced the researcher from the participants, and this was likely to affect rapport between them. Second, it may have increased the possibility of misunderstanding, despite steps taken to minimize this, as discussed in Chapter 6. Third, in some cases using an interpreter also limited the depth of questioning, in part because it was time consuming.

The 11 remaining interviews were conducted in English which is the native language of the researcher, not the participants. As such, the power dynamic shifted in favour of the researcher and this may have increased the distance between her and the participants (Song and Parker, 1995). While there is little research in the literature on this issue of power relations between native interviewers and non-native interviewees (Shono, 2006), and no research on non-native speaking interviewers conducting interviews in their own language with native interviewees, in this study the researcher was careful to thank participants for agreeing to speak in English and complimented them on their language skills. While most participants agreed to speak in English and seemed to enjoy it, some may have construed it as an imposition and an example of their continuing need to conform to the West. Also, while most of the 11 participants spoke English fluently, to minimize the likelihood that information would be misunderstood, the researcher was attentive to their body language and emotion (Shono, 2006), both of which helped to convey understanding and their ability to reflect on the topic. Also the researcher's prior experience interviewing non-native English speakers in Russia made her sensitive to possible misunderstandings.

Finally, it is also the case that the researcher's Western culture likely influenced the style in which the interviews were conducted and, the directness with which some questions were asked which also may have shaped participant responses. This was further complicated by the fact that the majority of participants were interviewed only once. The issue of directness was hinted at by one participant who, when asked by the researcher if the questions were okay for him, replied "*In terms of Anglo-Saxon mentality it was normal. I would put it slightly in another way. But we don't have the time*" (Leonid, OM3). Thus, the researcher did make an effort to establish rapport with participants and offset the more direct and structured questions by giving participants time at the beginning of the interview to speak freely about their experiences, also by following up on many of the issues raised by participants in the course of the interview.

#### 9.5.2.2 Interviewing participants at one point in time

Because data were collected from owner-managers at one point in time, with the exception of the four owner-managers who were also interviewed two years prior for the first study, it was not possible to follow through on how perceived barriers to certain growth intentions manifested and the implications for this. Nevertheless, because the interviews were focused on owner-managers' perceptions of events, rather than actual events, and because interviews gave owner-managers the opportunity to discuss future plans and reflect on past activities, the limitations of this are lessened.

#### 9.5.2.3 Semi-structured interviews and the use of prompts

To maintain some consistency across the interviews and manage language differences, all participants were asked three standard questions relating to general and specific intentions; barriers and prompts were used for each. Thus, participant responses may have been limited by the use of prompts, particularly responses concerning barriers. Responses to barriers may have been limited in one of three ways. First, prompts focused on mostly external barriers, to reflect this focus in prior studies on the topic, particularly those in transition economies. Second, the researcher may have used too many prompts (i.e. examples of barriers), which limited the depth

of some of the responses. Some participants when skimming through the list of barriers gave 'yes/no' answers. Third, participants may have felt that examples of growth intentions had to match the examples given of barriers (one participant commented on this). Yet, for the most part the structured questions followed a more general discussion, during which time many participants described their experiences and noted certain barriers, and the implications of such, on their own terms. In these cases, prompts were used to confirm barriers identified and to jog participants' memories of the barriers to growth intentions and behaviours.

#### 9.5.2.4 Focus on perceived barriers

Because the focus of research was on barriers perceived and reported by owner-managers, this excluded hidden barriers and made the likelihood of identifying internal barriers related to the owner/managers themselves, less likely. However, in light of the methodological approach adopted which puts the stress on the subjective experience of participants, this is not a serious limitation of research.

#### 9.5.2.5 Researcher effects

It is important to note what effect the researcher's status as a woman, her age, her position as an academic, and her status as a foreigner may have had on the data, as well as the effects the researcher's own biases had on the interpretation of the data.

It is unclear what kinds of effects the researcher's status as a woman and the interpreter's status as a woman had, if it had any effect at all, on the data and the reported experiences and feelings of both male and female participants. Nevertheless, there is some evidence to suggest that the business environment in Russia is male-dominated, with some surveys showing that up to 80% of businesses are owned by men, unlike in more mature market economies where the ratio of male to female business owners is nearly equal (Lynch and Makoukha, 1997). As well, one female participant in the study made some comments to this effect. She said:

*"We live in a world of men. And business is also a world of men. And very often I have to cheat a little bit in order to step over the stereotypes of women*

*in general. So whenever you had some serious looking men around you, they wouldn't pay attention to the little women that is trying to take everything for themselves. It's difficult. So in the beginning I got very confused by this. I found it degrading. But then I got used to it. So now I just do it. I invite a professional looking man to stand with me whenever I have some negotiation"* (Galina, OM10).

While the above points would suggest that the researcher's status as a woman may have been a negative issue when interviewing male participants, following the argument above, the effects also may have been positive in the sense that women may be perceived as less intimidating. The researcher was told by a Russian consultant that in his view and experience, female interviewers were the best: *"The best interviewer is a woman between 50 and 60 years old because of her life experience, and because it's hard to refuse such a woman"* (I.D. from study one). The researcher was, however, in her early 30s at the time of the interviews, which would indicate some life experience but not as much as her consultant friend would deem preferable.

The researcher's status as an academic also may have influenced how some participants responded, perhaps in terms of limiting the amount of technical jargon or detail, or limiting discussions of those topics the researcher was presumed to know well. On the latter point, one participant, who was asked at the end of the interview whether there were other issues he would like to discuss in relation to growing his business, replied: *"I could just say lots of other things, all basic things. You're an educated person and you know how to ask your questions"* (Leonid, OM3).

Finally, the researcher's status as a foreigner and a Westerner, in particular, seemed to have an influence on some of the comments made by participants. This was likely to fuel more comparisons between Russia and the more mature market economies and more comments about Russians being different from others as discussed in Chapter 6, than would have been the case if the interviewer had been Russian. A few participants, for instance, felt it was important to mention during interviews that 'problems' facing small businesses in Russia were very different than those problems facing small businesses in the West. One stakeholder (L.S.), proceeded to say at the outset of the interview that *"the way people in the West look on Russian small business and the way they think they can develop it is very strange"*, p. 158. He explained that the business environment and regulations were most problematic in

Russia. This comment and another comment made by one participant who implied that foreigners might not be able to understand the complexity of the situation in Russia (“*I think that you don’t really understand the specific features of business in Russia*”, Pyotr OM9, p. 157), could stem in part from historical views as to how Russians perceive themselves in relation to Westerners generally, and Europeans particularly. That is, in Nineteenth and Twentieth Century Russia there was a view that Russians were very different from Europeans and even superior to Europeans. Neumann (1996) elaborates:

“Russians are morally superior to people of the West because they have grown spiritually as they have been faced with hardships such as communism, which have not been present in the West [...] Western economic models are morally inferior to their own vision of a Russian old-style village economy because the latter is ecologically sounder” (pp. 199-200).

Therefore, it may be the case that there still exists a strong notion in Russia that Russians are very different from Westerners, and this notion may affect how Russians construct their experiences in business, and, in particular, how they feel these experiences compare with those of Westerners.

The fact that the researcher was a foreigner also may have encouraged owner-managers to say either more about barriers (i.e. they may have used it as an opportunity to complain) or less about barriers (i.e. they may have wanted to maintain appearances because they were looking for foreign investors). However, because participants made references to working with foreigners and to looking for foreign investors this might also imply that to some participants foreigners are trustworthy. It was also the case that the researcher, while working in Russia in the year prior to beginning her PhD, had been told by former Russian interpreters that Russian participants were surprisingly open and revealing towards her, more so than they would be with other Russians.

Finally, it is important to consider the researcher’s own biases when interpreting the data. To reduce potential biases some of her presuppositions and reflections on the data collection process were noted in Chapter 6. Also, she was careful to check her interpretations with others. For instance, any discrepancies or difficulties involved in

the interpretation of data, as shown in early versions of the coding template, was checked with a third party, a PhD colleague. Also, interpretations at later stages were checked with other more experienced, more senior qualitative researchers.

#### 9.5.2.6 Use of established theory

In Chapter 2 prior research was criticized partly for neither drawing on traditional growth theories nor for contributing to theory development explicitly.

The current research contributes to theory development by examining possible relationships between perceived barriers, growth intentions and behaviours. It also draws on established theory to explain the research findings. The use of established theory was limited to two kinds of theories: first, to those theories concerned with the relationship between intention and behaviour, specifically the Theory of Planned Behaviour (Ajzen, 1991) and the Shapero-Krueger Model of Entrepreneurial Intentions (Krueger, Reilly and Carsrud, 2000); and second, to theory which explained the relationship between institutions and behaviour – i.e. new institutional theory. Referring to the latter, Oliver's (1991) research, which was discussed in Section 9.2.2.2 – 'Different barriers operate in discrete and particular ways', applied some insights of new institutional theory to the prediction of strategic responses to institutional processes. Advocates of new institutional theory argue that individuals and organizations are believed to be active agents in devising and disrupting institutions (Oliver, 1991; DiMaggio, 1988); this is dependent in part on having institutional legitimacy. However, it has been argued that small businesses lack institutional legitimacy because they are reluctant to conform to institutional pressures (Oliver, 1991), are prone to failure and may therefore be regarded as institutionally unfavourable forms of organization (Stinchcombe, 1965), also because they receive little formal institutional support and are therefore dependent on informal connections which may be costly and ineffective (Manolova and Yan, 2002). For this reason, institutional theory may be limited in its ability to explain the behaviour of small business owner-managers. The application of these established theories to the research findings was modest, for two additional reasons: first, partly because the

researcher supports the argument against applying established theory developed in mature market economies to transition economies, without regard to context (Bruton, Ahlstrom and Obloj, 2008). Other researchers have acknowledged that established theories should be adapted to suit the unique transitional context (Young, Peng, Ahlstrom and Bruton, 2008). Second, these theories are concerned with prediction rather than understanding. It was more important in this study to contextualize findings, to ground them in the accounts of owner-managers. This may be regarded as a strength rather than weakness of this thesis. Further, it was also the case that no single theory served to explain all of the findings, particularly the ways in which barriers influence growth intentions and behaviours.

#### 9.5.2.7 Validity of interpretations

While the validity of interpretations was discussed in Chapter 6, there are two issues which deserve attention here. The first issue, once again, concerns language and the need for an interpreter in more than half of the interviews. As suggested, several steps were taken to improve the validity of interpretations and to minimize possible translation effects, especially in those interviews where an interpreter was required. Nevertheless, it cannot be said with certainty that meaning equivalence was achieved. The second issue concerning validity relates to the decision taken by the researcher to count the barriers identified across interviews, as was the case in Chapter 7. This may be considered problematic for two reasons. First, because the meaningfulness of quantification is viewed with suspicion by some qualitative researchers, also because the researcher herself made a point of mentioning this as a limitation of prior research. Nevertheless, quantification in this study, in contrast to previous studies, is only *one* of several ways in which the meaningfulness of barriers was assessed, and certainly it is not the most important. Second, quantification in this study is problematic because prompts of barriers were utilized during interviews and, in some cases, participants did not elaborate as to how barriers identified from a possible list of barriers to be problematic, indeed were problematic. As a result, when discussing barriers, the researcher made a note of which were prompted and which were not, also which prompted barriers were elaborated on and which were not.

#### 9.5.2.8 Generalizability of research findings

This study does not make strong claims for generalizability. Specifically, this study does not make any claims about the statistical generalizability of findings, which was compromised by the purposeful selection of the research sample and by the orientation of the study - focused on the unique experiences and perspectives of owner-managers and the unique interaction between the researcher and the research subjects. Nevertheless, it can be said that other researchers with research parameters similar to the parameters of this study may find some of the findings useful (Marshall and Rossman, 2006).

This research aligns itself with another kind of generalization, ‘theoretical generalization’ (Yin, 1994) or ‘abductive reasoning’ (Kelle, 1995; Coffee and Atkinson, 1996), as it is sometimes referred. In abductive reasoning, concepts are created and refined and generalization achieved, by locating these concepts in existing interpretive or explanatory frameworks (Coffee and Atkinson, 1996). Kelle (1995) says it is not uncommon for qualitative researchers to work with concepts that stem from positivist traditions, concepts which have been reduced to “enumerating and summarising observables” (p. 48). Kelle argues that concepts can be created and refined in three ways, each of which resonated with this research. First, concepts can be created and refined by acknowledging previous knowledge (which may include the researcher’s own presuppositions). This thesis has discussed how barriers have been traditionally defined as concepts and studied empirically, and this chapter has shown how this concept of barriers has been extended – to include intentions. Second, concepts can be created and refined by *not* simply reducing qualitative reasoning to a “mere generalization of observed facts” (p. 48); a point that was respected by the methods adopted in the current study. Third, concepts can be created and refined by showing the “rational and methodical aspects of discovery” (p. 48). Finally, steps were taken in this research, in Chapters 6, 7, and 8, to clearly document how barriers were analysed, specifically how descriptive and more interpretive themes about barriers were generated, and done so in relation to growth intentions and behaviours.

In sum, while this research does not make any strong claims of generalizability, and certainly not statistical generalizability, it does approach theoretical generalization.

### 9.5.3 *Some recommendations for future research*

This thesis, in beginning to unpack and elaborate our understanding of barriers and how they affect small business growth, has identified numerous possibilities for further research. *Nine* possible research directions are briefly outlined here:

First, although it was not possible in the current research to conduct a longitudinal study, largely due to the time restrictions imposed on the PhD and modest financial resources, this is something that future research and future researchers should consider. Our understanding of barriers would benefit from examining more about the perceived changes in barriers over time and the cognitive processes involved.

Second, following from the previous point, future research should adopt more process-based methods, like diary studies. As discussed in Chapter 6, diary studies embrace both subjectivity and process, and as such are in many ways well suited to research on perceived barriers to small business growth. Nevertheless, more practically speaking, it was also argued in the same chapter that diary studies require a great deal of commitment from research subjects and as a result this commitment may be easier to attain if the researcher has a relationship with participants.

Third, the model constructed in this research for the purposes of understanding the possible relationships between perceived barriers, growth intentions and behaviours would benefit from further development and testing ultimately, a process aided partly by suggestions in points four and five below.

Fourth, one of the main findings of the study was that different barriers operate in discrete and particular ways in terms of how, or the ways in which, they influence growth intentions and behaviours. This finding should be explored further in future research to reveal whether new ways in which barriers work may be revealed, and/or whether it is the case that barriers found to be dominant in a particular way in this study also influence growth intentions and behaviours in other ways identified. For instance, is it the case that a lack of access to capital may not only *postpone* intentions

to grow, but also may *stop* intentions to grow, *add to ambivalence* around intentions to grow, and/or *slow down* intention realization, and if so, under what circumstances?

Fifth, it also might be interesting to explore in detail whether or not a specific intention to grow (e.g. ‘work with more partners’, ‘hire more employees’ or ‘increase market and sales’), is likely to be associated with specific barriers to growth. This research might benefit from not using barrier prompts, but by allowing participants to raise and describe potential barriers entirely on their own.

Sixth, there is much scope for further exploring the meaningfulness of certain barriers to owner-managers through emotions, either alone or in conjunction with metaphors. It would be interesting to look more closely at what the kinds of emotions identified in this study – i.e. anger, fear, disgust, pride - tell us about barriers to small business growth. Goss (2007) contends that further research on entrepreneurial emotion will benefit from methods that are “thick in texture” and “rich in meaning” (p. 14).

Seventh, it would be interesting to look more purposefully at the kinds of metaphors owner-managers might use to describe barriers, and how they affect the growth of their firms, as the few metaphors discussed in this chapter were identified by participants, but not at the prompting of the researcher. As well, there is much scope for studies that enable researchers to develop their own metaphors for barriers and the ways in which they work. The metaphor of a *journey* for example immediately springs to mind. In this way, business growth and development may be seen as a journey to be taken by owner-managers and barriers may be seen as the road ahead filled with possible potholes, detours and dead-ends. It also might be interesting to look at what kinds of metaphors owner-managers in different countries generate to describe similar barriers to growth and their cultural references for such. On this point, it might be intriguing to see if metaphors used by owner-managers in more mature market economies are more positive than those in transition economies.

Eighth, future research would benefit from further exploring the tension between intentions to grow, barriers to growth, and the use of certain avoidance strategies to manage barriers, either in Russia or other transition economies where formal institutions are weak and informal institutions are strong.

Ninth and finally, another more practical suggestion for future research includes using some of the ideas raised in this study in interventions with small business owner-managers. That is, if perceptions of barriers are individualistic and idiosyncratic, as some of the findings from this study would suggest, it would be interesting to investigate whether these perceptions, and therefore behaviours, change following certain interventions designed by researchers in cooperation with owner-managers.

## **9.6 Concluding remarks**

The literature suggests that few small businesses grow and that barriers internal and external to the firm may be partly responsible for preventing growth in some businesses that would otherwise wish to grow. The current research has shown this topic to be rather complex, and that this complexity has not been captured by previous studies. The current research has illustrated some of the possible ways in which to elaborate on our understanding of barriers to small business growth, which include examining perceived barriers in relation to owner-managers' intentions, in relation to how meaningful barriers are perceived to be, and in relation to the context in which they are perceived. Findings would suggest that for some owner-managers, perceptions of barriers have contributed to their decisions regarding whether to grow the business and how. The scope for further research is enormous and it is hoped that others researchers will continue to explore and advance study on this topic.

# Appendices 1 Study One

## Appendix 1.1 Request for participation

From power point presentation, last slide – ‘Entrepreneurship and Small Business Development: SME Developments in Russia and the United Kingdom’ (presented at the Stockholm School of Economics on February, 18, 2003)

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### The Next Step

The next step will be to explore the situation facing small firms (in Russia). This will be accomplished by:

- Meeting with members of supportive organizations
- Meeting with owners/managers of small firms

If you are a manager or owner of a small firm and would like to participate in this study or if you have an questions or comments about this research, please let me know during the break or contact me through one of the following options: the Stockholm School of Economics in St. Petersburg, my email (rrd1@st-andrews.ac.uk), or on my mobile at +44 7974 -----

I will be in St. Petersburg between February 18 and March 23, 2003. During this period I can be reached at +7 911 942 ----

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## **Appendix 1.2 Letter to participants – Stakeholders**

Dear \_\_\_\_\_,

I am a PhD student at the University of St. Andrews in Scotland, the United Kingdom. My research explores: Contextual Influences on Strategic Planning Activities in Small-to-Medium Sized Russian Firms.

The first stage of my research runs from February to March 2003. While in St. Petersburg I will be speaking with owners and managers of small-to-medium-sized enterprises (SMEs), and with representatives of supportive organizations. In the latter case, my intention is to speak with small business stakeholders about the context for SME development in Russia and about the needs of SMEs in this context. I will be conducting interviews over a five-week period, beginning on February 18th. Interviews either will be conducted by me in English or they will be conducted by me and an interpreter.

Please let me know by responding to this letter (either in English or Russian as I can have your correspondence translated) advising if you wish to participate in this research and, should you wish to participate, please advise if you would prefer the interview be conducted in English or in Russian. Your contribution would be most valuable to my research!

Every participant will be kept updated on the progress of my research and will receive copies of my findings. This research will be used to better inform Eastern and Western academics, practitioners and policy makers alike of the context for SME development in Russia.

Kind regards,

Rachel Doern

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(This letter was provided to individuals in both English and in Russian. Note, an email address was not provided as the letter was sent as email attachment or fax.)

## **Appendix 1.3 Interview guides for owner/managers and stakeholders**

### **A. INTRODUCTION TO RESEARCH**

Purpose and nature of research: This academic project, which constitutes the researcher's PhD research, broadly explores the effects of the external environment on strategic planning activities in small-to-medium sized firms in Russia.

Researcher's prior work experience in Russia: The researcher has lived and worked in Russia. Prior to beginning the PhD, she worked for the Stockholm School of Economics in Russia on different research projects, some of which involved speaking to owners and managers of small businesses.

Confidentiality: Owners and managers of small businesses will be assured that their names and the names of their companies are kept confidential in any published or unpublished findings to be presented or otherwise.

Tape recorder: A tape recorder will be used to prevent the possibility of misquoting the participants, and to enable the researcher to transcribe the interviews for the purpose of data analysis during later stages of the research.

Questions for the researcher: All participants will be asked if they have any questions they would like to ask the researcher about the project.

### **B. QUESTIONS - FOR OWNERS OR MANAGERS**

These questions will be asked flexibly.

- Questions on 'personal background' –

What is your official position within the company? Your role? Your responsibilities?

What did you do before you started this company/worked for this company?

- Questions on 'company profile' –

Could you tell me a little bit about your company and your main activities?

When did it start? When did you register the business?

How many people work for the company?

- Questions on the 'company's past, present, and future developments' –

Where are you now in your business? What is business like now?

How did you get here?

Where are you going with the business?

How will you get there? What will help you get there?

How far in advance do you plan, if at all?

- Questions on ‘attitudes towards the business climate’<sup>35</sup> –

How would you describe the business climate in Russia today?

How do you compete? How do you separate yourself from the competition?  
Who are your main competitors?

How do you attract people to the company?

At any time did you seek out external capital? If so, were you successful?

Have you ever gone to someone external for advice?

- Other –

What makes your job easy? What makes it difficult?

Do you have any questions for me?

### **C. QUESTIONS - FOR STAKEHOLDERS**

- Questions on ‘personal background’ –

How long have you been involved with the organization?

How would you say your job has evolved from when you first started to now?

What did you do before you began working for the organization?

- Questions related to the ‘description of the organization’s activities and contributions to the support infrastructure for small businesses’ –

What is the role of the organization? Has it been successful in its role?

What kinds of organizations does your organization work with?

Does the organization model itself after other similar organizations in Russia?  
In the world?

Where does your funding come from?

Can you give me an example of a recent program/initiative that has been successful? One that has not been successful?

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<sup>35</sup> Several of these questions were developed during data collection.

Is there anything you are not doing now that you plan to do in the future?

- Questions on ‘small business needs’ –

What kinds of services, if any, do you offer small firms?

What kinds of services would you say are most needed by Russian firms?

In your findings or experience, what does it take to be a successful small firm in Russia? What are some of the causes for failure?

- Questions on ‘the business climate and its relationship to small business development’ –

How would you describe the business climate for small firms in Russia?

Is the business climate better or worse than it was five or ten years ago? (Is the same or different since the organization was founded?) How do you see it changing/improving over the years?

What are the biggest challenges facing small firms?

- Questions on ‘working with small businesses and conducting research on small businesses’ –

What’s the most difficult information to get from firms? What information, if any, may be sensitive?

When is the best time of year to conduct research?

Do you have any advice for me in terms of carrying out the current research?

## Appendix 1.4 Excerpts from the field diary

### **STRUCTURE OF THE PRESENTATION OF EXCERPTS:**

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#### A. Interviews with small business owners or managers

- Notes on surroundings and other issues
- Notes on non-verbal behaviours
- Other
- Reflections on the interviews

#### B. Interviews with stakeholders

- Issues raised and general comments<sup>36</sup>
- Reflections on all interviews with stakeholders

#### C. Informal discussions with others (i.e. friends, colleagues, practitioners, students)

- Overview of discussion, issues raised and general comments
  - Reflections
- 

### **EXCERPTS:**

#### A. Interviews with small business owners or managers

*e.g. Anastasia*

*Date of interview: March 4, 2003*

*Location: Stockholm School of Economics in Russia (St. Petersburg)*

*Interview length: 60 minutes*

- Notes on surroundings and other issues

I was referred to Anastasia by her friend, a young woman who attended a presentation I gave on February 18, 2003 at the Stockholm School of Economics in Russia.

The interview was conducted in the School library because, as Anastasia mentioned several times, the location of her business was unsuitable ... her business, she stated, was located in a former bomb-shelter.

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<sup>36</sup> Notes on surroundings and non-verbal behaviours from interviews were also kept on interviews with stakeholders, but because these individuals have been identified, these details will not be expressed here. Only issues raised and general comments, as well as reflections, are given as examples. While the initials of these individuals have not been provided, the content of reflections might provide some clues.

Anastasia is in her mid 20s. As well as being CEO of her parents' business, she is also doing a PhD on self-employed entrepreneurs (to which she referred as 'his own business'). She mentioned she would send me materials on the subject but never did.

- Notes on non-verbal behaviours

Anastasia appeared confident. She laughed often and on occasion seemed embarrassed when she could not remember a word in English. Her English was satisfactory.

- Other

After the interview ended, Anastasia and I spoke informally about the differences between Moscow and London. She said she didn't care much for Moscow, also that she found Russians to be closed while foreigners were more open and smiled more often. She said things were changing in Russia; they were getting better, also that she liked Putin. Nevertheless, she felt it was too late for her generation to change.

- Reflections on the interview

Anastasia used the word 'problem' several times (12) during the interview. She noted on several occasions that there were many problems facing 'his own business' in Russia and specifically, there were many problems facing her company. In the former case, she may have been speaking as someone who had researched small businesses in Russia. In the latter case, the problems her business faced in terms of growing were numerous and these she attributed mainly to financial and institutional factors. She also mentioned that her parents were not experienced in management and marketing matters (her father was a scientist who had a business idea); she herself had been educated in marketing and had hoped to be responsible for marketing alone in the family company but instead was required to take on a lot of managerial responsibilities. She appeared also to be frustrated with the company's competitive position and with her lack of ability to grow the business.

*e.g. Vadim*

#### First interview

*Date of interview: March 11, 2003*

*Location: cafeteria in his office building*

*Interview length: 30 minutes*

#### Second interview

*Date of interview: March 17, 2003*

*Interview length: 60 minutes*

- Notes on surroundings and other issues

I was referred to Vadim by a colleague at the School who gave me a list of former students who, approximately five years prior, had attended the Hans Rausing program on entrepreneurship. The interview was to have been held in Vadim's office but unfortunately, as he had given me a wrong address I arrived at the interview 45

minutes late! Thus, we met over a hurried lunch in the cafeteria. Also, it became necessary for me to take hand-written notes during the interview because my tape recorder malfunctioned. During our first meeting Vadim spoke of his family and his daughter, whom he mentioned he takes to swimming lessons twice weekly; therefore the second meeting we planned should not be scheduled for one of those days.

Whereas our first meeting took place in the cafeteria of his office building, our second meeting was held in a small conference room in Vadim's suite of offices. The suite of offices was small generally, with only two main rooms. He seemed pleased by the fact that the company now had a secretary and he called on her to bring us tea and chocolate biscuits.

Vadim appeared to be in his late 30s. His English was excellent. He reported that he had started the intercom business with a classmate from the entrepreneurship program at the Stockholm School of Economics in Russia. His classmate was the main investor and owner. Vadim was the General Director.

- Notes on non-verbal behaviours

Vadim was amiable and personable, a bit nervous but friendly. Although our first meeting was somewhat rushed, he appeared to be open and forthright and wanting to talk. He had a lot to say. He invited me to visit the company again so that we could talk further.

- Reflections on the interview

Vadim appeared to be uncertain about the future. A few times he implied that it was difficult to trust people – staff in particular.

*e.g. Dmitry*

*Date of interview: March 3, 2003*

*Location: his office*

*Interview length: 40 minutes*

- Notes on surroundings and other issues

I was referred to Dmitry by the Business Development Manager (BDM) of his programming enterprise, a woman who had attended a presentation I gave at the School. She arranged the interview with Dmitry. It was held at their offices. I was invited to speak first with the BDM who described their product and client base to me. The BDM and I met in a general office which she shared with others. I was somewhat concerned about disturbing the others but no one seemed to mind. After our discussion I was taken to Dmitry's office, a large space which he shared with his Director of Strategy.

The business which employs approximately 100 people shared the large old building with one or two other companies. A security guard was on site at the front door. The BDM met me at the front door after I called her on the company phone.

In his office, Dmitry showed me a wall of photos he had taken of his clients, all of whom were foreigners (given that the business specialized in offshore programming). After the interview he attempted to take my photograph but was unsuccessful as his camera had run out of film.

Dmitry was in his early 60s. He was very personable and his English was excellent. He had started the business with his wife and daughter.

- Notes on non-verbal behaviours

Dmitry was animated and engaging, and used his hands a lot when speaking. He was proud of his business, his people and his connections. He was also self-deprecating, stating more than once that he was continuously learning. He had many anecdotes to share. He appeared enthused by the questions, and reported more than once that I had done my “homework”. I found his presence to be energizing.

- Other

Several times throughout the interview Dmitry referred in negative terms to the Russian government. He said that companies in his field were joining together to “fight this monster the government”.

- Reflections on the interview

The most serious issue for this participant seemed to relate to human resources – access to good people. He complained there was considerable competition for talent from big foreign companies.

## B. Interviews with stakeholders

*(Name)*

*Date of interview: February 19, 2003*

*Location: her office*

*Interview length: 60 minutes*

- Issues raised and general comments

This stakeholder appeared to be nervous when I asked if I could record the interview; she seemed to relax however once I began speaking about my project.

She maintained constant eye contact and smiled continuously, causing me to smile as well, although after a while the smiles felt forced and somewhat exhausting.

One noteworthy point which stood out from this interview was the way in which the participant spoke of research conducted on small businesses in the UK and the support dedicated to small firms in the UK. She mentioned for instance that in the UK there were many activities supporting the development of start-up firms but in Russia there was really nothing of the sort. Further, she was impressed by the sheer number of start-ups in the UK, which she mentioned to be 400,000 or so per year, with a similar number of deaths.

- Reflections

I may have talked too much in this interview. I came away thinking I needed to ask fewer questions and listen more.

This participant appeared not to want to respond directly to questions about the environment for small businesses in Russia. Indeed, she appeared to be uncomfortable when speaking about it. At one point during the interview, when asked this question she suggested that as it was our first meeting she preferred to speak mostly about her organization and that perhaps we could discuss other issues at a next meeting. (Due to the participant's busy schedule I was unsuccessful in arranging another interview.)

*(Name)*

*Date of interview: February 9, 2003*

*Location: his office*

*Interview length: 60 minutes*

- Issues raised and general comments

This stakeholder appeared to be serious minded and distant at first. At first he maintained little eye contact. He also appeared at first to be somewhat hurried and impatient when asked general questions about the organization replying several times that everything I wanted to know was available on the company website. However, both prior to the interview then again later when I attempted to access this website, the links were always down.

The participant lit a cigarette 30 minutes or so into our discussion. He expressed more interest in the conversation when I asked him about his background and experiences. Until that point I thought I would have to cut the interview short. It was particularly noteworthy however that when referring to conditions in Soviet times as compared to conditions now, he said: "*Life was bad then and it is bad now*".

- Reflections

Perhaps I could have begun the interview by asking him more about his experiences, followed by a discussion of the role of his organization?

*(Name)*

*Date of interview: March 6, 2003*

*Location: her office*

*Interview length: 30 minutes*

- Issues raised and general comments

This participant's name was provided to me by an acquaintance. I wrote to her several times but received no reply. Thus, on the day prior to the interview I contacted a secretary in her company and through the secretary arranged for this participant to provide a 30-minute window of time for me.

She seemed somewhat interested in my study and mentioned other areas of research that might be interesting to pursue. She also seemed to be somewhat serious minded at first, but relaxed more with time. At one point she stressed that she was an economist and that my field of management was an entirely different endeavour. It occurred to me that she did not fully understand my reasons for meeting with her. She mentioned she would send me some references, but did not do so.

- Reflections

I gave considerable thought to this participant's comments on how small firms survived, the strategies they used to survive, and how this was not a concern of hers given that she was an economist. By her comment that if one counted the number of regulatory barriers it was evident that these firms would not survive I was further reminded of the way in which barriers are traditionally examined in the literature – objectively and without reference to their impact on behaviour and without discussion as to how some firms manage to survive and grow nevertheless.

- Reflections on all interviews with stakeholders

Meetings with stakeholders seemed to be more formal and closed than were meetings with owners and managers.

#### C. Informal discussions with others (i.e. friends, colleagues, practitioners, students)

*Raj*

*Date of informal discussion: February 25, 2003*

*Location: Stockholm School of Economics in Russia (St. Petersburg)*

- Overview of discussion, issues raised and general comments

One young EMBA student shared a negative experience of running a tea import business in Russia with his brother. He was 22 when he started the business. He reported that things had been going well until the day he received a phone call from a man who told him to get out of the market. He agreed to a meeting with this man. Upon arriving at the meeting place in his car, he said that four or five cars pulled up, surrounding his vehicle. A number of men then approached him telling him that he could either leave the Russian marketplace or pay them a fee for the permission to operate his business. He said that because he was young and frightened he sold off his goods and immediately closed the business. He now works for an international company.

- Reflections

This account highlights some of the difficulties in starting a business in Russia. Corruption and sometimes intimidation in particular can be a problem.

*Yuri*

*Date of informal discussion: February 26, 2003*

*Location: restaurant*

- Overview of discussion, issues raised and general comments

I met for lunch today with a colleague, Yuri, with whom I had become acquainted through my previous work at the School. When I arrived at the restaurant the sign on the glass door said 'closed'. I waited briefly after which a man came to the door. I asked him if the restaurant was closed; he asked me if I had a reservation. I said yes and entered. This man then sent for a woman who spoke English. Later, my colleague told me that the restaurant was not open to the general public. Meals were very expensive, about £70 per person in the evening. He told me that the business lunches was much more affordable. His office was nearby; thus he frequented the restaurant regularly. He also told me that recently someone had been shot in the restaurant and for this reason they were selective with the guest list.

Over lunch we spoke about his company, his future plans, and life in Russia in general. We also spoke about my research. Yuri mentioned that he was now forced to focus on administrative and managerial tasks which were no longer as interesting to him as when the company was new and growing quickly. He mentioned that now the company must decide on business strategies. Yuri told me that I should explore consulting opportunities in Moscow, that there was a lot of money for consultants in Moscow and many opportunities for Westerners with business know-how. He found my research topic to be of interest and believed it to be an area that as yet had not been sufficiently explored, even by Russians. We also discussed whether Western business strategies could work in Russia. He believed they could; he believed the best thing to do was to "copy" western standards and strategies. He believed that Russia perhaps was 30 or 40 years behind the West (the UK and America) but that its people were not so different.

- Reflections

This discussion raised several issues for consideration, including the reference to violence in Russia, more especially the violence involving businesses, also that Russians feel Russia is behind the West.

*Anya*

*Date of informal discussion: February 25, 2003*

*Location: travelling on the underground in St. Petersburg*

- Overview of discussion, issues raised and general comments

Anya is a friend of mine who, like many young people I have met in Russia, dreams of being financially independent and more especially of owning her own business. She is unsure however as to how to go about it. She and her partner have contacted several Western franchises. She says however that competition for franchises is fierce and only a superior business plan together with experience will win them one. Anya mentioned a Russian business magazine called 'Dengi', (which translates as 'Money'). She said that it often features success stories of Russians who have made a great deal of money in Russia. She thought she must be "stupid" because if so many people are making money then "why can't she?" She had often thought about opening her own restaurant. A friend had told her to open an exclusive restaurant and target

customers with lots of money. But Anya was not as interested in doing so. She said that people who open businesses of this kind have “political ties”, of which she had none. “Who would come to my place?”, she wondered. She would prefer instead to have a place for young professionals in St. Petersburg.

- Reflections

Anya’s account suggests there are many opportunities in Russia. However, some are available only to those with political connections.

*Danya*

*Date of informal discussion: February 28, 2003*

*Location: friend’s kitchen*

- Overview of discussion, issues raised and general comments

I had been discussing the war in Iraq with Danya, a young acquaintance. Danya believed that Russia would not get involved in the Iraq war because it was not their problem. I related the United States’ going into Iraq to the former war between Russia and Afghanistan. He responded that the two situations were completely different, that Russia had wanted to impose Communism on Afghanistan and that the military capabilities today were so much greater. He believed that Russians harboured no animosity towards the US. The conversation evolved and when I mentioned that Russians and Eastern Europeans generally were still portrayed as the enemy in some American films he attributed this to the American’s continuing fear of Russians because they recognized that Russia was a “great country”. He said the Americans took advantage of this when they took in many Russian scientists during the Cold War.

He said he did not know why scientists in Russia were still not better paid by the universities. I agreed and mentioned that I knew Russians who were employed by the same school for whom I worked in St. Petersburg. These people held on to their positions in the university because of their status, but they also did consulting work and held other jobs because the university did not pay well. Danya commented that while it was true that the universities did not pay well, the professors were not necessarily badly off because many of them accepted bribes from their students. He said a similar situation existed with policemen who also were poorly paid and also accepted bribes from the public. He added that the police were quite “stupid”. I asked whether, if the pay was better things would change. He said “never” because it was “the way”. He said that things were bad in Russia now, but that perhaps they would be better when he had children and they were grown and running the country.

- Reflections

To this individual Russia is a great country. It has talented specialists, even though many have left the country. Again, this evidences a view that things in the country won’t get better for quite some time (also that Russia is *behind*).

## **Appendix 1.5 List of descriptive codes from interview transcripts**

(1) Challenges, difficulties and problems facing the firm in the past -

- Being the first in the marketplace
- Registration and licensing
- Establishing credibility in the marketplace (proving oneself)
- Lack of basic business know-how
- Lack of professionalism
- Generating sales
- Securing funding
- Planning ahead

(2) Challenges, difficulties and problems facing the firm now -

- Lack of market knowledge
- Finding and attracting skilled employees
- Managing the supply chain
- Competing
- Competing as a small firm
- Changing regulations
- Bureaucracy
- Soviet systems, Soviet mentality
- Planning ahead
- Many responsibilities
- Few resources – financial/human resources
- Finding/attracting skilled people
- Managing staff
- Keeping staff happy
- Investing in staff
- Not easy to find buyers in the regions
- Developing with strict regulations in place
- Breaking through old networks
- Uncertainty
- Giving away control
- Trying out new things
- Not easy to do a business plan – things are changing so quickly
- Surviving
- Ensuring honest practices

(3) Challenges, difficulties and problems that may prove difficult in the future -

- Growth
- Planning ahead

## Appendices 2 Study two

### Appendix 2.1 Letter to participants – Owner-managers

Dear \_\_\_\_\_,

Over the period June 13 to July 8 2005, I will conduct interviews in St. Petersburg with small business owner-managers. At these interviews I will discuss with owner-managers the kinds of growth intentions they have for their businesses and the difficulties they face in realizing these growth intentions. This project constitutes a significant part of my doctoral thesis at the University of St. Andrews and will, over the next year and a half, culminate in a thesis report and several articles written especially for academics, practitioners and policy makers. Interview questions will include the following:

1. What is your intention for the business? (i.e. Do you want your business to 'stay the same size', 'become smaller', 'grow moderately', or 'grow substantially'?)
2. What kinds of things, if any, have you done to fulfill this intention?
3. What kinds of things, if any, have you not done yet but are planning to do in future to fulfill your intention?
4. Has anything made it difficult to achieve this intention? How so?

Included among the participants will be those individuals who own and manage small businesses employing between 10 and 100 persons. Businesses must be at least two years old. We are particularly interested in speaking with individuals who have grown their business over the last 2 or 3 years, or have plans to do so within the next 2 to 3 years. If you fit this description, I would very much welcome your participation in this important study. Until now, most research on small businesses in Russia (and in other transition economies) has involved large structured surveys which tell us very little about the experiences of small business people, or the reasons why small business people do what they do. Therefore, the aim of my research is to uncover the issues which affect small business people as they attempt to grow their businesses. The outcome of this research will be to better inform practitioners, academics and policy makers with an interest in small businesses.

The interviews, administered by myself and a colleague, will last approximately 45 minutes each. Once all research has been collected, participants will be provided with a copy of the research findings. Please note that as a participant, your name and the name of your company will be kept anonymous; they will not be noted in any published or unpublished findings.

If you would like to participate, please contact me via email. My email address is [rrd1@st-andrews.ac.uk](mailto:rrd1@st-andrews.ac.uk). Thank you for your consideration.

Kind regards,  
Rachel Doern

Doctoral Candidate  
University of St. Andrews  
The School of Management  
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Visiting Researcher  
Stockholm School of Economics in Russia  
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191186 St. Petersburg, Russia  
(This letter was provided to individuals in both English and in Russian.)

## **Appendix 2.2 Interview guide**

### **A. INTRODUCTION TO RESEARCH**

Purpose and nature of research: This academic project, which constitutes the researcher's PhD research, looks at the growth intentions of small business people and those things that might get in the way of realizing intentions. The emphasis in research is on understanding the experiences of owner/managers as they relate to business growth and possible barriers to such. On completion of the project, participants will be given a copy of the research findings.

Researcher's prior work experience in Russia: The researcher has lived and worked in Russia. Prior to beginning the PhD, she worked for the Stockholm School of Economics in Russia on different research projects, some of which involved speaking to owners and managers of small businesses.

Confidentiality: The names of the participants and their companies will be kept confidential, in any published or unpublished findings to be presented or otherwise. Details of the interviews or comments made by the participants that might reveal the identity of the participants or their companies will also be protected.

The role of the interpreter: The dialogue between the researcher and the participant will be interpreted after every two or three sentences, so as to preserve as closely as possible the words and meaning of the dialogue.

Tape recorder: A tape recorder will be used to prevent the possibility of misquoting the participants, and to enable the researcher to transcribe the interviews for the purpose of data analysis during later stages of the research.

Questions for the researcher: Participants will be asked if they have any questions they would like to ask the researcher about the project.

### **B. BACKGROUND**

(Preamble: I think a nice place to begin is for you to tell us a little bit about your company, how and when you started, what kinds of things you are doing, and what your responsibilities are within the company.)

Business beginnings and history:

When did you start your business?

Can you tell me a little bit about your business? What are your main activities?

How many people do you employ?

How has your business evolved since the time you founded it?

Has the business grown over the last 2-3 years? What has been your biggest period of growth until now?

Education, experience, and employment history including current position:

How would you describe your background? What kind of experience/education did you bring with you to the company?

Can you describe your role/responsibilities within the company?

### **C. GROWTH INTENTIONS AND BARRIERS**

Preamble: Small business owner-managers have different kinds of intentions for their business. I am interested in how you approach your business, and your experiences. There are no right or wrong answers to the following question. Please tell me -

1. a) At the moment, what is your intention for the business?

\* *Question prompt:* Is your intention to -

Stay the same size  
Become smaller  
Grow moderately  
Grow substantially

- b) Why do you want to \_\_\_\_\_? (1a)

- c) How long have you had this intention?

- d) How important is this intention to you?

Preamble: Small business owner-managers do different things to grow their business. Tell me, in your experience -

2. a) How do you intend to grow the business? What kinds of things, if any, have you done or are planning to, to fulfill this intention? Please explain in detail.

\* *Question prompt:* For example, will you -

Expand the product or service line  
Work with more partners  
Hire more employees  
Purchase new or used equipment  
Open a shop/factory  
Move to new premises  
Upgrade premises  
Increase marketing and sales efforts  
Increase R&D spending

Preamble: Some small business owner/managers report that certain things get in the way of achieving their intentions. Tell me -

3. a) Has anything prevented or interfered, in any way, with your attempts to achieve your intention generally, or your plans, more specifically \_\_\_\_? (1a, 2a)

\* *Question prompt:* For example -

Lack of experience  
Lack of management time  
Poor labour relations  
Lack of access to skilled labour  
Lack of access to capital  
High cost of capital  
High profits tax  
Too much bureaucracy  
Lack of secure property rights  
Low market demand  
High competition  
Lack of state support  
Lack of market information

b) Which, if any, are the most important to you? Why?

c) Please explain in detail what you mean by \_\_\_\_ (3a). If nothing has interfered with your intention, GO TO QUESTION 4.

d) Is there anything else that gets in the way? Perhaps something that does not appear on the list?

e) How has \_\_\_\_ (3a) made it difficult to achieve your intention? Can you give me an example?

f) How, if at all, have you responded to (3a)?

g) How does \_\_\_\_ (3a) make you feel?

4. Will you fulfil your intention(s) to grow? (If there is an intention to grow – 1a) Why?

#### **D. OTHER**

5. Would you like to discuss any aspect of your experience that is related to growing your business or barriers to such that you feel has not been covered in this interview?

6. Do you have any questions for me?

#### **E. CLOSING COMMENTS**

Thank you!!

### **Appendix 2.3 Excerpts from field notes – From diary**

Where relevant, notes will include mention of the surroundings – the interview environment, non-verbal behaviours of participants, and reflections – i.e. my thoughts on the interviews, participants, and participant comments.

#### **EXAMPLES OF NOTES ON INTERVIEWS WITH OWNER-MANAGERS**

*Lyudmila*

*Date of interview: 01/07/05*

*Location: her office*

*Interview length: 72 minutes*

*Transcribed: 03/07/05*

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An interpreter was required.

On the door of the building there was a sign saying the company was moving. To the right of the main room there was another room where the production of garments appeared to be taking place; to the left of the room was an office with two desks. Lyudmila was a bit late for our interview. (She later said she had been to the bank.) There were many bags and garments lying both in the entrance way to the building and in the first room, which made the room appear cluttered. Several women were working in the building (no men were present as far as I could see). The women were friendly and checked in on us frequently as we waited in Lyudmila's office.

Lyudmila was professional. She was well dressed and spoke confidently. She appeared to be in her early 50s.

Several times during the interview Lyudmila said that they were growing the business “*step by step*” – she said this had been their strategy at start-up and remains their strategy today. However, when I specifically asked her about her intentions for the business and showed her the prompts, she replied “to grow substantially” to which she added she had “no choice”.

*Maksim*

*Date of interview: 17/06/05*

*Location: café in the city centre*

*Interview length: 69 minutes*

*Transcribed: 18/06/05*

---

An interpreter was required. She translated most but not all of the time as Maksim occasionally conversed in English.

Maksim appeared to be in his mid 20s. He said he understood English and spoke a little during the interview. On several occasions he understood my questions and responded to them directly. However, because some confusion with language did arise we thought it best to have the interpreter translate everything. During the interview Maksim asked several times which companies we were meeting with in St.

Petersburg. He may have been concerned that we were working for the competition for, he reported that his previous experience with direct competition had been painful. At times during our interview he appeared to be in a rush.

The interpreter said later that she found him to be a bit unpleasant. For my part, I wondered if Maksim felt that the interpreter was unimportant, being someone who just worked for me.

*Boris*

*Date of interview: 05/07/05*

*Location: His office*

*Interview length: 99 minutes*

*Transcribed: 07/07/05*

---

An interpreter was not required. Boris' English was satisfactory. I first interviewed Boris during the first study in 2003. At that first interview he came to the School. For this second interview I met him at his office.

I was unable to arrange an interview with Boris until shortly before I left Russia as he had been away a lot throughout the data collection period. When I arrived at his office building there were security guards, pensioners, dressed in military fatigues at the entrance working security. The building and its elevator were considerably run down and were being renovated. Boris' office was pleasant and quiet. It appeared that only he and a secretary worked in that part of the building.

As I did for other participants I interviewed during the first study, I brought Boris a box of cookies from the United Kingdom. We ate cookies and drank tea during the interview. Boris was as pleasant and still as animated as I remembered him to be. He said he was keen to see the results of the study.

*Galina*

*Date of interview: 20/06/05*

*Location: Galina's restaurant*

*Interview length: 95 minutes*

*Transcribed: 25/06/05*

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An interpreter was required.

When Galina was first contacted by telephone, she said she was very excited to meet with us to share her experiences. And indeed, at the end of the interview she told me she always enjoyed meeting with people from different countries.

The interview with Galina was conducted outside the premises on the street because she did not want her employees to overhear. Because the restaurant was just off a main road, the noise of the traffic was loud and I worried I might have problems transcribing the interview.

Galina appeared to be in her late 40s. She was bubbly and friendly and laughed a lot. She spoke frequently about her family and her children and seemed proud of her business and her ability to reinvent herself several times over the years.

I sensed from our interview that Galina was not much interested in the bar/restaurant anymore. Indeed, she mentioned that recently she had hired a general manager and that many responsibilities would be passed along to her. She became more animated when she spoke about an idea to open a wellness centre in St. Petersburg. She said she was looking for investors at the moment. Interestingly, a few weeks following the interview, when we called Galina to confirm a few details with her, Galina reported that she had just sold the bar/restaurant business, even though at the time of the interview she did not mention her plans to sell; indeed, at the time of the interview she said her goal was to grow the business substantially.

## Appendix 2.4 Stakeholders

### **A. STAKEHOLDERS AND DESCRIPTIONS OF THEIR ORGANIZATIONS**

Note: As in the first study, only the initials of the participants are given.

<i>R.P., President, and I.V. Vice President and Director of the International Department, St. Petersburg Union of Entrepreneurs (St. Petersburg)</i>
The union holds presentations and seminars on topics including taxation. It also offers at its office free advice to small businesses on different aspects of the business.
<i>L.S., Senior Researcher and Consultant, Leontief Centre (St. Petersburg)</i>
Established in 1991, the centre is a not-for-profit organization focusing on research and consulting in areas such as investment, public finance, privatization and corporate behaviour. The centre and its staff have been involved in projects within small business environments.
<i>M.P., KMB Bank, Small Business Credit Bank (St. Petersburg)</i>
Founded by the European Bank of Reconstruction and Development (EBRD) in 1992 to provide project financing to Russian businesses, in 1998 after the Russian Financial Crisis it changed to focus on micro businesses, small businesses and, small-to-medium sized businesses only. It is the only foreign bank in Russia to provide loans and banking services to small businesses specifically.
<i>O.A., Opora Russia, Russian Non-Governmental Organization of Small and Medium Businesses (St. Petersburg)</i>
Established in 2002, Opora Russia lobbies for the elimination of administrative barriers, support of entrepreneurial activity, and a role for small business in state policy, among other things. It also promotes partnerships between Russian and foreign small businesses, provides training seminars to this effect, and carries out research on small business activities in Russia.

A meeting was also held with two academics - economists:

*S.S., Professor of Economics, and O.T., Associate Professor of Economics, St. Petersburg State University (St. Petersburg)*

### **B. QUESTIONS FOR STAKEHOLDERS - GENERAL**

- How would you describe the environment in which small businesses are developing in Russia now? Are there conditions for growth? How did this atmosphere change in the last 15 years?
- In your opinion, what are the main tasks and the biggest problems of small enterprises in Russia today?
- In your opinion, what kinds of support/assistance do small businesses in Russia need? (e.g. financial assistance, market information)

- How does your company contribute to the development of small businesses in St. Petersburg? In Russia generally?

### **C. QUESTIONS FOR BANKING OFFICIAL**

- Have the conditions for lending (giving credits) to small businesses changed over the last few years? If so, how so?
- What kinds of products/services does the bank currently offer to small business clients? Will this portfolio of products/services change over the next few years?
- What kinds of loans does the bank offer to small business clients? What are your requirements for lending?
- Does the bank face any challenges in serving this particular customer base – i.e. small business clients?

## **Appendix 2.5 Full coding template**

### **1. Participant details**

- 1.1 Work history
- 1.2 Education
- 1.3 Motivations for starting the business
  - 1.3.1 Personal
  - 1.3.2 Professional
- 1.4 Business beginnings
  - 1.4.1 legal/illegal
  - 1.4.2 Opportunity
  - 1.4.3 Friends/family
  - 1.4.4 Coincidence and luck
- 1.5 Personal vision for the company
- 1.6 Other

### **2. Growth intentions**

- 2.1 General intentions for the existing business
  - 2.1.1 Grow business substantially
  - 2.1.2 Grow business moderately
  - 2.1.3 Stay the same size
  - 2.1.4 Become smaller
- 2.2 Open another business
- 2.3 Intentions at start-up
- 2.4 Specific intentions for the business
  - 2.4.1 Expand product or service line
  - 2.4.2 Increase number of orders
  - 2.4.3 Work with more partners
  - 2.4.4 Open a new shop/factory/storage place
  - 2.4.5 Hire more employees
  - 2.4.6 Purchase new or used equipment
  - 2.4.7 Move to new premises
  - 2.4.8 Upgrade premises
  - 2.4.9 Increase marketing and sales efforts
  - 2.4.10 Increase research and development spending/activities
  - 2.4.11 Increase distribution
  - 2.4.12 Increase customer base
  - 2.4.13 Build a strong team
  - 2.4.14 Restructure internal departments
  - 2.4.15 Increase turnover
  - 2.4.16 Increase profits

#### 2.2.17 Other

### 3. Kinds of barriers

#### 3.1 Financial

- 3.1.1 Low initial financial investment
- 3.1.2 Lack of access to capital
- 3.1.3 High cost of debt capital
- 3.1.4 Limited number of suitable sources of equity capital
- 3.1.5 It takes a long time to find a source of capital
- 3.1.6 Limited cash flow

#### 3.2 Skills-related

- 3.2.1 Lack of direction
- 3.2.2 Lack of experience
- 3.2.4 Lack of suitably qualified labour
- 3.2.5 Lack of needed state run education and training programs
- 3.2.6 In-house training
- 3.2.7 Lack of management time

#### 3.3 Institutional

- 3.3.1 Weak rule of law
- 3.3.2 High legal fees
- 3.3.3 Lack of state support
- 3.3.4 State involvement
- 3.3.5 Too much bureaucracy
- 3.3.6 Frequent inspections
- 3.3.7 Need to bribe officials
- 3.3.8 Frequent changes in administrative staff
- 3.3.9 Frequent changes in regulations
- 3.3.10 Absence of clear laws
- 3.3.11 Threat(s) to security
- 3.3.12 High cost of premises
- 3.3.13 Location of premises
- 3.3.14 High profits tax
- 3.3.15 High social tax
- 3.3.16 Number of taxes

#### 3.4 Market-related

- 3.4.1 High customs charges
- 3.4.2 Cost of inputs/materials
- 3.4.3 Low market demand
- 3.4.4 High competition
- 3.4.5 Illegality of products/services
- 3.4.6 Late or no payments for products/services

- 3.4.7 Lack of efficient access to official information
- 3.4.8 Financial/Economic crisis
- 3.4.9 Economic stagnation at home or abroad
- 3.4.10 Political instability at home or abroad

### 3.5 Other

- 3.5.1 Lack of capacity
- 3.5.2 Lack of space

## 4. Consequences of barriers

- 4.1 Lower productivity
- 4.2 Fewer orders
- 4.3 Jeopardizes quality of products or brand
- 4.4 Jeopardizes reputation
- 4.5 Limits market expansion
- 4.6 Increases expenses
- 4.7 Lose money
- 4.8 Extends the length of project time significantly
- 4.9 Restricts customer base
- 4.10 Diminishes profits
- 4.11 Close business(es)
- 4.12 Other

## 5. Participant explanations of barriers

### 5.1 Transition effects

- 5.1.1 New to business
- 5.1.2 New industry
- 5.1.3 Collapse of former institutions
- 5.1.4 New institutions

- 5.2 Anti-small business culture
- 5.3 Get-rich quick culture
- 5.4 Collective mentality
- 5.5 Accountability
- 5.6 Money and power concentrated in Moscow
- 5.7 Greed of administration
- 5.8 Russia is unique
- 5.9 Russia is dangerous
- 5.10 The West does not want Russia to develop
- 5.11 Barriers are self-imposed

- 5.11.1 Concerns over diminishing quality
- 5.11.2 Concerns over attracting unwanted attention

## 6. Ways in which barriers influence growth intentions and behaviours

## 6.1 Barriers shape intentions to grow or not to grow

- 6.1.1 Barriers stop owner-managers from intending to grow
- 6.1.2 Barriers undermine intentions to grow
- 6.1.3 Barriers add to the ambivalence around intentions to grow
- 6.1.4 Barriers provide incentives to grow

## 6.2 Barriers shape intention realization

- 6.2.1 Barriers postpone intentions to grow
- 6.2.2 Barriers slow down the process of realizing intentions to grow

## 7. Responses to barriers

### 7.1 Managing or overcoming barriers

- 7.1.1 Learning
- 7.1.2 Building or restoring confidence
  - 7.1.2.1 Confidence in self
  - 7.1.2.2 Confidence of public
  - 7.1.2.3 Confidence of officials
- 7.1.3 Forging networks
  - 7.1.3.1 Networks for survival
  - 7.1.3.2 Networks for growth

### 7.2 Barriers are unmanageable

## 8. Feelings towards barriers

- 8.1 Positive
- 8.2 Negative
- 8.3 Ambivalent

## Appendix 2.6 Developing a case: An example of drawing on the full template

### Example – Interview with Anton, owner-manager of a regional newspaper:

#### A. Code: Growth intentions

General intentions - Grow business substantially

*“When I talked of growing substantially it means moving to other regions.”* (p. 5)

Specific intention - Work with more partners

*“In general, our long term strategy to attract a strategic investor. Western media company into Russia.”* (p. 10)

#### B. Code: Kinds of barriers

Barriers - Lack of access to capital, High cost of debt capital

*“[O]ne of the problems here is just access to capital.”*

***“Could you explain what you mean by that?”***

*[...]*

*“Uh, two problems. Capital is really expensive here. Like in dollar terms it will be at least 15-16%. At least.”*

***“That’s interest?”***

*“Yes. So it’s a bit expensive. But for our business the problem is even bigger cuz we can’t, we don’t have collateral.”* (p. 6) (unprompted)

***“Is there anything else on this list? That you have experienced?”***

*“Um. ‘High cost of capital’. But actually ‘access to capital’ is the bigger problem than high cost of capital. Because you can calculate just the cost of capital is high for everyone and, so, you compete on the same ground.”* (p. 14) (prompted)

#### C. Code: Consequences of barriers

Consequence – Limits market expansion

***“[Y]ou mentioned that you have acquired some capital.”***

*“Yes we worked out, the uh, we just solved the problem last week. For the capital for the St. Petersburg project[increasing circulation]. If we want to move to Moscow, it’s beyond our reach for the moment.”*

***“So you are thinking about moving to Moscow?”***

*“Yes but the capital that is needed is beyond our reach.”*

#### D. Code: Participant explanations of barriers

Explanation for lack of access to capital, high cost of debt capital - Anti-small business culture

*“So it’s [capital] a bit expensive. But for our business the problem is even bigger cuz we can’t, we don’t have collateral. And as far as it’s concerned, the central bank doesn’t want to allow any credit lines for businesses which do not have collateral. Uh, so because they probably would consider a money laundering scheme or just to move money away, to steal money from banks. And because this business has only employees and trademarks it means*

*you just don't get any chance to uh, to get, normal capital. And there is no such thing as project financing in Russia. Only, no, only lending. You have to provide something against the lending [...] For our business it means we do not have a chance to raise any substantial capital for spending on business."* (p. 6)

Explanation for lack of access to capital, threat(s) to security - Russia is dangerous

*"In general, our long term strategy to attract a strategic investor. Western media company into Russia. And the challenge here is just that western media is just really afraid to come to newspaper industry in Russia. Especially in line of Khardokovsky case. For example, I have some good connections with some western partners. Really big ones. And one of them said to me about a week ago, no one, my management, board of directors would allow me. The project I am suggesting to him to investor, to go to Moscow. He said he found very interesting, but his board of directors would not allow him to go to Russia because they would consider too risky and dangerous."* (p. 10)

E. Code: Ways in which barriers influence growth intentions and behaviours

How – Barriers postpone intentions to grow

*"If we want to move to Moscow, it's beyond our reach for the moment."*

***"So you are thinking about moving to Moscow?"***

*"Yes but the capital that is needed is beyond our reach."* (p. 11)

F. Code: Responses to barriers

Response – Barriers are unmanageable

***"So what will happen?"***

*"I just have to wait."*

***"You just have to wait?"***

*"Yes for better times. And just when they consider investing in Russian media is less risky."*

***"And is this a problem with other contacts as well?"***

*"Yes. Certainly."*

***"So there's nothing you can do about it now?"***

*"No. It's beyond our control."* (p. 10)

Response – Forging networks – networks for growth

***"Are you taking any actions or steps now to find capital for expansion into Moscow?"***

*"Ya for sure. I am keeping in contact with some large media companies and just doing some PR work."*

## Appendix 2.7 Examples of verifying translations

### **LEGEND:**

(Text in parentheses) – As reported by the interpreter / Text underlined – As reported by the third party.

*Text in italics* – Text missing, as reported by the third party.

### **SAMPLE EXTRACTS:**

*In most cases, differences between the interpretations provided by the two parties were minimal and noticeable mainly in terms of choice of wording, with the exception of a few notable omissions of words.*

Pyotr (Transcript, p.1):

“Uh, we are in the publishing business for about 10 years already. I’m the Editor in Chief and the owner of the company. We deal only with literature before school level. For kindergarten. And (instructional)/methodical literature for teachers and (people)/doctors who deal with *speech problems in children*. We have a design studio and we publish a magazine for the same category of people.”

Stepan and Fyodor (Transcript, p. 3):

F: “At this moment our company is a media group. And in this media group there are several different departments, who deal with basic directions. So (with)/our main business is publishing, advertising agency, design, and distribution web. So the basic business of ours is the (publishing business with everything connected to it)/full cycle of advertising and polygraphic issues. (With advertising and design.)”

S: “So at the moment when we started the project, we were not co-owners of (the magazine)/this publication. But at the moment we have become co-owners already. (There was an investor)/The investor who passed on to us this project; *noticed our complex of works*. Our business plan (guarantees for us a way of financing)/guaranteed us certain financing.”

Maksim (Transcript, p. 4):

“But the market is not too big. Until this time, we didn’t have any competitors. The second team published a directory that was very similar. So we needed to develop a program in order to become the (number one of the market)/market leader. So now the (market)/focus has become divided into more (wellbeing)/wealthy people who use the information in our directories and to the other group is less (wellbeing)/wealthy people that use the information that is published. This was the second *difficult* period. And it went on for about one and a half years, because we had to find new people to fill key positions within the company. And only after one and a half years could we form a (new team)/united team. The third period is connected to this change of the development of the company from one level to another. Before 2003 we worked like a family company. We have some key persons in the company and they live like family. But this caused serious difficulties in the third development of the company. We (were obliged)/needed to change the structure of the company.”

Pavel (p. 5):

“Step by step we just increased our production and we didn’t actually develop very quickly. In 1999 after the crisis we moved to very big premises into another factory. (There we worked until now)/We still work there now. But now it has become already (narrow)/too small. It is about approximately 3000 square metres. But at that place we can’t actually expand anymore. Now we have (new contemporary)/modern, foreign-manufactured equipment (with the problem of organization)/that is computer operated. And we are able to produce equipment of European quality. This was always the main aim, to produce high quality equipment. Even in 1993 when we made our first machine we spent a lot of time on the question of quality. It could be that’s exactly why we are (working until)/still operating today.”

***In the next example the third party’s knowledge of business law proved particularly useful; providing some legal jargon and clarifying, as well as expanding on, certain details.***

L.S., Consultant (Transcript, p. 6):

“For example, 50% of the (city)/commercial real estate belongs to the government. And it’s very difficult to figure out on what conditions something is being rented. And you can get very bad promises in this way. One can get these premises at a very high (cost)/price, or a very low (cost)/price. Furthermore, the situation can once again only be solved by negotiating. If you make a renovation in these premises, it’s very difficult (to have it taken into account by fixing the rent costs)/to deduct the cost of renovation from the rent payments. And furthermore, (the renting contracts are fixed in a way that the state, the one giving the rental premises, can just break the contract)/lease agreements provide that city authorities, as the lessor, may unilaterally terminate the agreement at any time. So the result is that you can pay quite a low rent to the city, but you will have to pay further amounts to the important people. For example, trade space is not connected to the (ministry of housing of the city)/city zoning/building committee, but with the district administration of trading. And the situation I told you about earlier can take place.”

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