Entrepreneurial Versatility, Resources and Firm Performance in Russia: A Panel Study

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ABSTRACT: Drawing on the Upper-Echelons Perspective and Resource-Based View of the firm this paper explores effects of human-based resources of entrepreneurs, *viz.*, social capital, human capital and entrepreneurial versatility, on firm performance in the context of a large transition economy – the Russian Federation. The empirical data is comprised of the face-to-face interviews with 75 Russian entrepreneurs in 1995 and the follow-up interviews with 56 original respondents in 1999. The finding suggests that entrepreneurial versatility have stronger positive impacts on firm performance in comparison to general human-based resources such as social capital and human capital.

KEY WORDS: *Entrepreneurial versatility, resources, firm performance, Russia*

EXECUTIVE SUMMARY

This study found that entrepreneurial versatility as an ability to predict resource needs and resource sequencing has positive impacts on firm performance. General human capital, i.e., industry and managerial experience, and social capital, i.e., extensive and diverse personal networks, have weaker effects on performance of entrepreneurial ventures. Although the context of the study is the transition economy of Russia, the findings may yield some practical implications for those who start businesses and those who manage new and mature businesses for better and stable performance. The ability to anticipate and structure what types of resources are needed, how much resources are needed, and when (in what sequencing order) resources are needed may lead to better assessments of entrepreneurial opportunities, and this enables entrepreneurs to formulate the right strategy to exploit recognised opportunities. Ingenuity to visualise resource needs also may reduce environmental uncertainties and harmful effects of external shocks. The research implies that entrepreneurs and managers should learn to predict what categories of resources are needed. This quality may enable entrepreneurs to substitute one type of resource that may be unavailable or costly by another type of resource that may be available and cheaper to be deployed. Entrepreneurs are advised to learn how to calculate resource (tangible and intangible) volumes. These skills may help to economise valuable and rare resources and reduce costs. Entrepreneurs are urged to develop the sense of timing or sequencing in resource deployment. While wrong sequencing of resource deployment may lead to waste of resources the accurate and stepped deployment may enable entrepreneurs to combine various kinds of resources creatively to get best performance indicators. For example, entrepreneurs may mobilise their own knowledge and experience to solve a certain business problem at the beginning. If they can not solve the issue they might approach their friends for advice and help. In case the contacts are unable to help out the entrepreneur may hire professional consultants who possess the necessary skills. In this case, human capital was deployed first (free and available), and then social capital (friends) was mobilised, and finally, financial resources were used to solve the problem. An important implication is that educational case studies on entrepreneurial resource prediction should be developed and used in training programmes.

INTRODUCTION

A key question in management and entrepreneurship research is, Why some new ventures survive longer and grow at spectacular fast rates than others in the same contextual environment, e.g, industry or region. One of the popular explanations for performance diversity of entrepreneurial firms is the perspective of human-based resources of entrepreneurs and entrepreneurial teams. Human-based resources, i.e., skills, judgement and relationships (Barney, 1992, Barney & Wright, 1998), are assumed to neutralise the liability of newness of entrepreneurial firms (Stinchcombe, 1965), enable entrepreneurs to marshal tangible resources and formulate and implement the right strategy in the right industry determining venture survival and growth. Previous studies, thus, found that personal networks (Aldrich, Rosen & Woodward, 1987, Lerner, Brush & Hisrich, 1997) and human capital of entrepreneurs and entrepreneurial teams (Bates, 1990, Bruderl, Preisendorfer & Ziegler, 1992, Brush & Chaganti, 1999, Chandler & Hanks, 1998, Cooper & Gimeno-Gascon, 1992) were positively associated with new venture longevity and eventual growth.

In addition and contrast to the previous studies of the new venture performance, in this paper, I argue that *specific entrepreneurial resources*, i.e., entrepreneurial versatility (Penrose, 1959: 36) have stronger and direct impacts on firm performance in comparison to general social and human capital resources such as networks or industry experience. In this study, I attempt to test propositions driven from the principal assumptions of the Upper Echelons Perspective (UEP) (Hambrick & Mason, 1984) and Resource Based View of the firm (RBV) (Barney, 1991, Conner, 1991, Wernerfelt, 1984) on the interrelationships of personal resources of entrepreneurs and organisational performance in the context of a large transition economy – the Russian Federation.

It is hoped that this paper contributes to the existing literature in three ways: First, this research is one of the first scholarly studies that examines performance of Russian new ventures and privatised firms, and offers a systematic explanation of its variety. Second, by applying the UEP and RBV that were developed in the Western social context to the Russian reality, I expand the paradigms' boundaries to transition economies. Third, I demonstrate that human-based, specific entrepreneurial resources are likely to generate greater entrepreneurial rents than human-based, general resources such as social networks or education. In this way, I establish the hierarchy of the human-based resources of entrepreneurs in terms of its effects on firm performance.

The Upper Echelons Perspective

The Upper Echelons Perspective (Hambrick & Mason, 1984) assumes that organisational outcomes – strategic choices and performance levels - are partially explained by managerial background characteristics. Age, cognitive ability, functional tracks, education, socioeconomic roots and financial position of top managers are regarded as factors that affect firm performance through mediating influences on strategic choices of firms.

Younger executive managers have more physical and mental stamina, and they are receptive to new ideas and information and less conservative in decision making, and these qualities may facilitate corporate growth (Child, 1974, Hart & Mellons, 1970). Likewise, functional tracks of top managers also may influence firms' strategies: managers with marketing, sales and product R&D experience emphasize outputs in its strategy whereas those with production and accounting background emphasize throughputs in its strategy (Hambrick & Mason, 1984, Miles & Snow, 1978). Socioeconomic background has also been theorised as a variable that affects firm performance: firms whose managers come from lower classes will experience greater growth and profit than will firms whose top managers come from higher socioeconomic groups (Hambrick & Mason, 1984: 202).

Arguably, the assumptions of the Upper Echelons perspective are relevant to the context of new entrepreneurial ventures because founding entrepreneurs are often "the firm" at early stages of venture formation. Even at growth stages firms have 'birth marks" of the characteristics of entrepreneurs because of the path dependence. In this perspective, social, demographic and personological attributions of the entrepreneur may explain diversities in venture performance (Shaver & Scott, 1991).

The Resource-Based View

The Resource-Based View of the firm postulates that firms within an industry (or group) are heterogeneously endowed with strategic resources, and immobility of resources provides sustainable competitive advantage to those firms that possess and develop these resources (Barney, 1991, Wernerfelt, 1984). Three basic types of resources may provide competitive advantage (Barney, 1991). *Physical capital resources* include the firm's plant, equipment and finances. *Organisational capital resources* include firm's structure, planning, controlling, co-ordinating and HR systems. *Human-based resources* are knowledge, experience, skill, and commitment of a firm's employees and social relationships (Barney & Wright, 1998: 32).

Intangible resources of firms that are socially-complex and embedded in human capital are likely to lead to rent generation only if they are valuable, rare, difficult-to-imitate and organised (*VRIO* framework) at the same time (Barney &

Wright, 1998). Valuable but common and easy-to-copy attributes of human resources provide only competitive parity, ensuring that a firm is not at a substantial competitive disadvantage because it does not possess that characteristics (Barney & Wright, 1998: 34). Human-based resources, therefore, should have all four attributes in order to produce dynamic entrepreneurial capabilities that ensure sustainable competitive advantages (Alvarez & Barney, 2000, Teece, Pisano & Shuen, 1997).

In the main postulates of the RBV, resources are embedded in established organisations, and therefore, the standard carriers of resources are established firms and corporations. In the entrepreneurial context, however, an entrepreneur or entrepreneurial team may be regarded as resource carriers (Bamford, Dean & McDougall, 1999, Chrisman, Bauerschmidt & Hofer, 1998, Greene & Brown, 1997, Mosakovski, 1998). The unit of analysis in the entrepreneurial context is an individual or group whose personal resources impact upon their firms' competitive advantage and performance. Resources of entrepreneurs exist as idiosyncratic and personalised collections of assets whereas firm resources are embedded in institutions as attributes of their structure, routines and culture.

Venkataraman (1998: 123) stated that *enterprising individuals are different and these differences matter*. Entrepreneurs vary in terms of endowment with tangible and intangible resources, and this difference may have significant but systematic impact on venture performance. The uneven pattern of resource dispersion among entrepreneurs at a given moment in time is a function of social structure (Stinchcombe, 1965). Different resources including knowledge are dispersed unevenly across the hierarchical as well as segmented groups in society (Hayek, 1945). This uneven resource dispersion is referred to the *resource heterogeneity of entrepreneurs*. The resource heterogeneity forms the set of constraints that governs the functioning of society in a durable way determining the chances of success for instrumental actions of individuals, e.g., entrepreneurs (Bourdieu, 1986).

The resource heterogeneity of entrepreneurs is bi-dimensional: *the resource asymmetry dimension* and *the resource diversity dimension*. The resource asymmetry refers to the fact that individuals across the social hierarchy hold uneven resources and capabilities (Anheier, Gerhards & Romo, 1995). The resource diversity means the different instrumental value of resources. The former refers to the fact that individuals as members of various groups possess different kinds of resources. The latter means that the volume and kind of services obtainable from each category of resource is different (Penrose, 1959), and thus, different classes of resources have asymmetric convertible power in gaining more resources or to be exchanged in commercial transactions.

A key difference among individual entrepreneurs is the difference in endowment with human-based resources*:* entrepreneurs differ in terms of *specific knowledge*, *cognitive ability* and *behavioural propensity* (Venkataraman, 1998: 123). Unique knowledge, creative talent and entrepreneurial aptitude of the upper-echelons (Hambrick & Mason, 1984) are likely to be valuable, rare and hard-to-imitate (Barney & Wright, 1998) and therefore, may influence strongly the relative success of the entrepreneurial process.

In this study, I focus on how heterogeneity in knowledge, cognitive ability and social behaviour of entrepreneurs as the upper echelons of firms influences organizational performance. Knowledge heterogeneity means the difference in *general human capital* such as education and experience (Becker, 1975). Heterogeneity in cognitive ability refers to the difference in a *specific entrepreneurial ability* such as the entrepreneurial versatility (Penrose, 1959: 36). Heterogeneity in social behaviour refers to the difference in *entrepreneurial networking*, i.e., *social capital*. Heterogeneity in social capital is the uneven endowment with social resources that are linked to possession of durable connections of mutual friendship, acquaintance and recognition (Bourdieu, 1986, Burt, 1997, Coleman, 1988).

Penrose (1959: 36) provided the definition of *entrepreneurial versatility* as the instinctive recognition of what will catch on or how to make it catch on, and the sense of timing. It is referred to a *specific* entrepreneurial resource the limited volume of which may restrict firm growth (Penrose, 1959). I operationalise entrepreneurial versatility as the *ability* to predict the ways in which various resources are required and when required in the entrepreneurial process. Entrepreneurs that possess this quality are assumed to have a wide range of opportunities and choices than those with less entrepreneurial versatility (Mosakowski, 1998, Penrose, 1959).

Entrepreneurial opportunities are embedded in certain situations and these situations exist as structured parts of the world discriminated and individuated by entrepreneurs within spatial and temporal locations. The discrimination process structures and internalises the resource demand of an opportunity by identifying what resource is needed how much, and links the entrepreneurs' vision with real existing opportunities. Any opportunity has a temporal location, and therefore, it requires a certain sequence or timing order of resource deployment. Sequenced resource deployment is a stepped, multi-staged commitment of resources in such an order that it matches the temporal need of each entrepreneurial situation. The entrepreneurial versatility, therefore, has two dimensions: (i) the ability to recognise instinctively *what* resources are needed *how much*; (ii) the intuition to anticipate *when* a certain type of resource is required, i.e., the sense of sequencing of resource deployment.

The Russian Context

The structure of status attainment in Soviet Russia, arguably, was uni-dimensional: political power played the predominant role for favourable outcomes of instrumental actions (Shkaratan & Figatner, 1992). Other resources such as wealth, connections and education had been of secondary importance in comparison to political power. With the transition to market economy leverages for instrumental actions in Russia are becoming multi-dimensional (Kosova, 1999). Political power has lost its former "absolute might" although it clearly remains one of the most useful assets (Kryshtanovskaya & White, 1996). Wealth is gaining new grounds as the mightiest resource in its utilitarian value. Social and human capital are increasingly becoming instrumental assets in the disoriented, chaotic transition (Zaslavskaya, 1997). The uneven pattern of resource distribution in Russian society endows some entrepreneurs with larger and diverse resources but puts other entrepreneurs at disadvantage. The pre-transition resource heterogeneity of individuals and subsequent changes in the utilitarian value of resources, thus, creates the resource heterogeneity among Russian entrepreneurs.

HYPOTHESES

Social Capital

Research findings on effects of networks on venture performance were mixed despite conclusions about its vitality for entrepreneurial success (Aldrich & Zimmer, 1986, Birley, 1985, Burt, 1992, Larson, 1992, Nohria, 1992). The presence of networks and its low density were found to increase the profitability of new ventures (Aldrich, Rosen & Woodward, 1987, Lerner, Brush & Hisrich, 1997). Reese &

Aldrich (1995), however, found no evidence to suggest that the network size and the amount of time invested in developing a network affects business survival.

It is assumed, however, that extensive networks enable entrepreneurs to locate clients and suppliers who are socially bound. This may facilitate sales stabilization and eventual growth since the embeddedness provides a flexible room for negotiations that might allow entrepreneurs to convert the social bonds into revenue growth. The personal chemistry between the entrepreneur and the supplier is likely to enable the entrepreneur to purchase raw materials and other production inputs at stable prices, and that might positively influence profit margin. There is empirical evidence that personalized relations between entrepreneurs and their bankers lead to cheaper interest rates on loans (Uzzi, 1999), and spin-off firms get favourable rates on equipment leasing from their parent companies (Webster & Charap, 1993). These arrangements may improve firm's financial performance ratios such as return on assets.

Diverse networks are conducive to interactions of entrepreneurs with others of different attributes. Bankers may be able to build a broad range of clients' base with differentiated needs across different industries, and this may enable them to customize their products building customer loyalty and spread risks of defaults. In this way, bankers are likely to build customers' dependence that may enhance their client retention and wallet penetration capabilities. Trading firms may get better access to overdraft facilities, speedy cash management and other services from embedded relationships with bankers whereas production firms may deliver goods in time and be flexible to *ad hoc* customer demands. Diversity of contacts may be crucial for manufacturing firms in the Russian conditions: the wide-spread phenomenon of inter-enterprise arrears and barter exchanges that plagued the Russian economy ever since the late 1980s (Dolgopyatova, 1995) may have forced Russian manufacturers to diversify their networks in order to survive. The simple production chain of resource firms makes them less reliant on personal relations with managers of trading or manufacturing firms although they are likely to gain negotiated rates from bankers on services such as foreign currency exchange or international money transfer and etc. The available empirical evidence supports the proposition that firms in transition economies enter and build deliberately a complicated web of interconnected firms where assets and liabilities are creatively dispersed in order to reduce the harming effects of environmental uncertainties (Sedaitis, 1998, Stark, 1996).

> Hypothesis 1: *Social capital of entrepreneurs is positively related to firm performance*.

Human Capital

Prior research on the relationship between general human capital of entrepreneurs and firm performance produced positive associations in general. The literature review by Cooper and Gimeno-Gascon (1992) reported that 10 of 17 earlier studies had found positive relationships between education and firm performance. Years of schooling, managerial and industry experience were correlated with new venture survival and positive cash flows (Bruderl, Preisendorfer & Ziegler, 1992, Brush & Chaganti, 1999).

Industry experience enable entrepreneurs to understand better the regulatory framework of the industry, analyse the industry structure and dynamics and possess market and product knowledge. Those who worked in the industry before are likely be alert to new opportunities created by regulatory changes. Industry knowledge will be vital for identification of the strengths and weaknesses of major competitors that would enable firms to have the right strategic positioning. Knowledge of product quality and range is likely to lead to the right marketing and pricing policy that may increase revenue.

Entrepreneurs that worked as managers are likely to have greater ability to lead and set up better organisation routines and HR policies. In this way, managerial experience and tacit knowledge are assumed to influence positively firms' performance indicators. The empirical evidence from Russia suggests that the Soviet enterprise directorship and industry experience, *viz.,* banking, found to enhance performance of new ventures and privatised firms (Bunin, 1994).

> Hypothesis 2: *Human capital of entrepreneurs is positively related to firm performance.*

Entrepreneurial Versatility

Developing new markets, expansion of product range and output in spite of unfavourable market conditions is a function of versatile type of entrepreneurial leadership (Penrose, 1959). Versatile services are not likely to be equally available to all firms. The deficit of entrepreneurial instincts to anticipate the resource need – volume and type - of an opportunity may lead to eventual failure whereas the presence of ingenuity to individuate what opportunities may catch on and how they are internally structured and sequenced may enable entrepreneurs to maximize profits.

There is virtually no systematic study that examines effects of entrepreneurial versatility on performance. Ethnographic studies in Russia, however, seems to suggest that small firms grow in this hostile environment, for the most part, by virtue of a special entrepreneurial ability. The case studies by Khait, Suvorova & Ageev (1997) found that the majority of Russian companies that increased their revenue have creative and visionary leaders who anticipate new opportunities and act upon them. Oleg Kiselev, chairman of MOSEXPO, a large trading company in Moscow, said:

"*Svyazi* (connections) within the academic community themselves will not be very useful for business. Therefore, I have to look for connections with those who distribute resources. No matter how far-reaching your connections, they do not always give you the outcome that you were looking for. So you have to look for various ways, channels and assets to get deals done in Russia" (Author's interview, May 1995, Moscow). The example substantiates the importance of prediction of network and political power as resources in Russian entrepreneurship. It is assumed, therefore, that the ability to anticipate resource needs is the factor that governs why one of the two entrepreneurs endowed with similar volumes of resources succeeds and the other does not.

> Hypothesis 3a: *Entrepreneurial versatility is positively related to firm performance.*

> Hypothesis 3b: *Entrepreneurial versatility has a stronger positive impact on firm performance than human capital and social capital of entrepreneurs.*

METHODOLOGY

Sample and Data Collection

The empirical data of the study is composed of the face-to-face interviews with 75 Russian entrepreneurs in February-June 1995, and the follow-up interviews with 56 original respondents in March-May 1999. Pilot interviews with six Moscow firms were conducted in August 1994.

In 1995, I selected firms on the basis of a stratified random sampling procedure in three Russian cities, *viz*., Moscow, Ekaterinburg and Petrozavodsk. The computerised database of registered businesses of the Moscow City Committee of Statistics, Business Assistance Centre of the Sverdlovsk Regional Administration in Ekaterinburg, and the State Committee of Statistics of the Republic of Karelia in

Petrozavodsk were used as sampling populations. I created twelve lists of firms (four industries and three sizes) each of which contained twenty firm names.

Banks were classified in accordance with the following criteria: small charter funds < US$50 000, medium charter funds US$50 001-250 000, and large charter funds > US$250 001. This grouping was confirmed in interviews with Russian experts and Central bank officials. A similar classification has been established in another study of Russian banks (Lapidus & van de Waal-Palms, 1997). In manufacturing and the resource sector, firms were grouped: small – < 100 employees, medium - 101-500 employees, and large - > 501 employees. Trade firms were classified: small - < 50 employees, medium – 51-200 employees, and large - > 201 employees. The classification is based on the definition of small firms in the Russian law and discussions with Russian experts (Rossiiskaya federatsiya, 1995).

Every second firm on these lists was selected for contact. In 1995, 120 entrepreneurs were contacted and 82 agreed to be interviewed. The response rate was 68 percent. 7 respondents were discovered as ineligible in the field, so that the final sample consisted of 75 entrepreneurs and directors. There were 50 new ventures and 25 privatized companies. Interviews were conducted with a specially designed questionnaire that contained questions on entrepreneurial networks and firm characteristics. In 1999, I re-interviewed 56 original respondents.

Insert Tables 1 and 2 about here

Performance data was obtained from firms as well as other sources such as the Central Bank of Russia, Association of Russian Banks, the Foundation for Small Business Development in three cities, and local tax offices. About a half of the sample firms provided annual reports that contained accounting information. In most occasions, financial directors or chief accountants were interviewed additionally on financial issues. The reliability and consistency of company financial statements still remains questionable in Russia although significant progress has been made for the last few years to bring Russian accounting practices in the line with the Western standard.

Dependent Variable

The dependent variable is **firm performance**. Organisational performance may be measured in various ways (March & Sutton, 1997, Meyer, 1994). In this study, I adopt *average revenue growth* for 1996, 1997 and 1998 as the indicator for firm performance.

Independent Variables

Independent variables are social capital, human capital and entrepreneurial versatility.

Social capital is measured by network size and network heterophily. *Network size* is defined as the number of direct ties involving individual units (Marsden, 1990, Moore, 1990). Network size is measured by the number of ties indicated by respondents. I presented a table where the following fifteen types of occupations were listed in rows: CPSU, *Komsomol* (Young Communist League), Union secretary and official, *Ispolkom* (Soviet local government) chairman and official, official in ministries, officer in the Soviet army, KGB and police, official in *Gosplan* (State Planning Agency) and *Gossnab* (State Supply Agency), enterprise director, banker, trade sector employee, university lecturer, doctor, cultural worker, engineer and second economy entrepreneur. Two types of tie strength, i.e., friendship and acquaintance, were placed in columns (Lin & Dumin, 1986). I asked the respondents to indicate how many people were in each cell.

Network heterophily refers to the degree which an ego network contains diverse alters, e.g., demographic characteristics or occupational status (Ibarra, 1993, Marsden, 1987, Renzulli, Aldrich & Moody, 1999). Network heterophily measures the degree to which an egocentric network contains alters from industries other than the respondent's own occupational background. Entrepreneurs were grouped into five categories by occupational background: (i) party and state bureaucracy; (ii) enterprise directors; (iii) engineer and shop floor managers; (iv) research scientists; (v) others. Heterophily captures the proportion of non-industry contacts within the total number of ties.

Human capital. Entrepreneurs' human capital is measured by *industry experience* and *managerial experience*. Each variable is a binary variable of one if the respondent has experience and zero if the respondent has no experience.

Entrepreneurial versatility. Proxies for entrepreneurial versatility are *prediction of financial resources' needs, prediction of social resources' needs, prediction of human resources' needs, prediction of finance sequencing, prediction of social capital sequencing* and *prediction of human capital sequencing.*

Prediction of resource needs is measured by matching between the need of a certain resource at the start-up stage and the actual deployment of the resource in the process of venture development (Light & Rosenstein, 1995). In 1995 interviews I asked two questions to identify the demand for a particular resource: First, please describe the entrepreneurial opportunity you perceived when you started the business (the company was privatised)? What kinds of resources, e.g., money or connections, the opportunity demanded? The question was asked to let the respondent to conceptualise the resource demand of the opportunity and prepare for the next close-ended question. Afterwards, I displayed a table that contained a list of resources, i.e., finance, network and human capital, in rows, and three levels of resource demand, i.e., “much needed”, “needed”, and “less or not needed”, in columns, and asked to tick the appropriate cell for each resource. Thus, resource need at the start-up stage was identified.

A female entrepreneur–shop owner in Ekaterinburg responded to the open-ended question: “In order to buy this small shop we sold our old car, rented out *dacha* (country house), and borrowed money from my brother-in-law. Then we bought it. It was not difficult because the shop was in a terrible condition and nobody wanted it anyway. However, soon after the deal when we tried to obtain consumer goods for sale our “*khozhdenie po mukam”* (going through sufferings) started. It was so difficult that besides money you have to have powerful connections, and you should know whom to approach among local bureaucrats and when and how to bribe them. In short, we were so fed up with these complicated rules that we wanted to give up once. Now everything is stable, and we know how to operate in this environment.” (Author’s interview, April 1995, Ekaterinburg).

In 1999 interviews, I asked respondents to rank the three types of resources (finance, network and human capital) to the extent they were - “much used”, “used”, and “less or not used”. After the follow-up study, I matched the resource need at the start-up stage and deployment in the process of new venture development. Variables are binary of one if “much needed” matches “much used”, “needed” matches “used” and “less needed” matches “less used”, and the rest is zero denoting mismatch.

Prediction of resource sequencing was measured by matching between the resource sequencing need and the actual sequencing of resource deployment. In 1995 interviews I asked: How did you start? What was your first step? Have you contacted your friends for advice first or you started to raise money? Then, I asked to order resources (finance, network and human capital) in terms of sequence they were needed: “first needed”, “second needed”, “third needed”, “fourth needed”, and “fifth needed”. In 1999 follow-up interviews, I asked to indicate the sequence of resource deployment: “first used”, “second used”, “third used”, “fourth used”, and “fifth used”. Finally, I matched the sequence need at the start-up stage and the actual sequencing. Variables are binary of one if “first needed” matches “first used”, “second needed” matches “second used”, “third needed” matches “third used”, “fourth needed” matches “fourth used”, “fifth needed” matches “fifth used”, and the rest is zero denoting mismatch.

Control Variables

Industry (banking, trade, manufacturing, and the resource sector), *firm size* (large, medium and small), *firm age*, *region* (Moscow, Ekaterinburg, and Petrozavodsk) and *firm origin* (new venture versus privatised) were controlled in this study. Three cities represent Russia’s regional economic diversity well. Moscow is the financial and commercial centre whereas Ekaterinburg is famous for its heavy industry. The timber industry and trade is highly developed in Petrozavodsk, the capital city of the Republic of Karelia,

RESULTS

Descriptive Statistics

The performance indicator in Table 3 shows that Russian firms performed very poorly: the average revenue growth for three years was about two percent (s.d. =

0.33). The mean network size was 82 persons (s.d. = 24.25). The mean heterophily was 78 percent (s.d. = 0.13). About two-third of the respondents (59 percent, s.d. = 0.49) had managerial experience whereas almost a half (46 percent, s.d. = 0.50) worked in the same industry.

Insert Table 3 about here

More than 50 percent of the respondents were able to anticipate accurately needs of financial (s.d. = 0.50), social (s.d. = 0.57), and human resources (s.d. = 0.49). If 57 percent (s.d. = 0.49) of the entrepreneurs knew when to deploy their social assets to get things done, only one-third (s.d. = 0.30) predicted the correct sequencing of financial resources. The average firm age appeared 9.32 years (s.d. = 11.12) because of the lengthy ages of privatised firms.

Firm Performance

Table 4 provides the results of multivariate regression predicting firm performance as a function of social capital, human capital and entrepreneurial versatility, controlling for industry, region, firm size, age and origin.

Insert Table 4 about here

The baseline model (1) includes industry, size, origin, region dummies and age. Resource sector dummy, Petrozavodsk dummy, medium size dummy and privatised dummy were excluded in the regression analysis due to their weak contributions to the models. Model 2 shows the effects of social capital on revenue growth: neither network size (B= - 0.00) nor heterophily (B= 0.68) are significantly related to revenue growth. The model is not significant. Model 3 indicates that two human capital variables (industry experience, B= 0.18, and managerial experience, B= 0.00) have no impacts on revenue growth. The model is not significant. Models 4-5 report the effects of entrepreneurial versatility on firm performance. Model 4 demonstrates that prediction of social resources (B= 0.28, $p<0.01$) and prediction of human resources (B= 0.25, $p<0.01$) are positively and significantly correlated to revenue growth whereas prediction of financial resources (B= 0.04) has no impact on firm performance. The overall model is significant (F = 3.44, R^2 = 0.51). Model 5 reveals that only prediction of financial sequencing (B= 0.46, $p<0.01$) positively and significantly affects sales growth in contrast to prediction of social capital sequencing (B= 0.17) and prediction of human capital sequencing (B= 0.00). The overall model is significant (F = 2.08, R^2 = 0.39). Model 6 examines the effects of all independent variables and control dummies simultaneously on sales growth. The model suggests that network heterophily (B= 0.74, $p<0.05$), industry experience (B= 0.29, $p<0.05$) and prediction of human resources (B= 0.20, $p<0.05$) have positive impacts on firm performance. The overall model is also significant (F = 3.34, R^2 = 0.66).

DISCUSSION

It appears that extensive personal networks are not conducive to better sales records whereas network heterophily positively influences revenue growth. Hypothesis 1 that proposed positive relationships between performance and social capital, therefore, has only been partially confirmed. The social and institutional chaos in Russia that creates the low-trust society where people do not trust and co-operate may explain the lack of any effects of network size on performance. The absence of control mechanisms and high cost of monitoring for agency in extensive contacts is also a reason for the insignificance of network size for performance. The finding is consistent with the fact that Russians were three times less likely to co-operate than

Poles and Bulgarians (Pilikhovskii & Stolbov, 2000). Contacts with people from other industries seem to provide tangible and intangible benefits that boost revenue growth.

Human capital *viz.*, industry and managerial experience, have mixed impacts on sales increase. Industry knowledge appears useful though the dynamics of industries in planned and market economies do differ sharply. This finding supports the qualitative evidence from Russia that industry related resources increase the likelihood of firm growth (Bunin, 1994). Soviet managerial experience has a negative effect on performance although it is statistically insignificant. Leadership skills and organisational routines learned in the centrally planned economies where the main duty of managers was to carry out the Communist party's orders appeared obsolete and harmful for entrepreneurial performance in market conditions. The finding questions the empirical validity of the argument that enterprise director experience may provide some advantages for former "red" executives (Eyal, Szelenyi & Townsley, 1997).

The findings on entrepreneurial versatility tentatively confirm hypotheses 3a and 3b. Entrepreneurial versatility as a valuable, unique and hard-to-imitate resource leads to greater rent generation in post-Soviet Russia. Entrepreneur's skills to recognise what types of resources are needed how much and in what order they are needed prove to be the survival "tools" for Russian firms. Moreover, the talent to visualise what opportunities will catch on and what resources will be required appears as the engine for entrepreneurial growth in Russia. Entrepreneurial versatility as a resource, thus, has stronger predicting power for firm performance in comparison to general social and human capital.

CONCLUSION

The main argument of the study that human-based resources of the upper echelons of firms - in particular, *entrepreneurial versatility* – affect entrepreneurial performance has an empirical ground in the context of the transition economy of Russia. Arguably, the story that the presence of entrepreneurial versatility partially explains firm performance indicates the importance of human ingenuity and talent in all types of economy. In this sense, entrepreneurial versatility has a universal value not contingent upon context. The evidence provides an empirical ground for a postulate of the growth theory of the firm proposed by Penrose (1959) that firm growth occurs and sustains only if entrepreneurs are versatile enough to lead to growth.

Several limitations of the study should be emphasised. The sample size is relatively small, and therefore, one should be cautious of over-generalisation of the results. Operationalisation of core variables and their measurements, e.g., entrepreneurial versatility, are “rough” proxies. This may weaken the explanatory power of the argument that entrepreneurial versatility impacts firm performance more than other human-based resources. Company performance influencing variables such as strategy, were not incorporated in the model and therefore, the study may have over-emphasised the effects of human-based intangible resources.

The research implies that entrepreneurial versatility as a variable requires a more robust conceptualisation and precise operationalisation and measurements for further research. The research implies that entrepreneurs and managers should learn to predict what categories of resources are needed. This quality may enable entrepreneurs to substitute one type of resource that may be unavailable or costly by another type of resource that may be available and cheaper to be deployed. Entrepreneurs are advised to learn how to calculate resource (tangible and intangible) volumes. These skills may help to economise valuable and rare resources and reduce costs. Entrepreneurs are urged to develop the sense of timing or sequencing in resource deployment. While wrong sequencing of resource deployment may lead to waste of resources the accurate and stepped deployment may enable entrepreneurs to combine various kinds of resources creatively to get best performance indicators.

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TABLE 1
The Number of Entrepreneurs Interviewed in 1995

		Industry				Total
		Banking	Trade	Manufac.	Resource sector	
Moscow		7	9	12	2	30
Size:						
	Large	6	4	3	1	14
	Medium	1	2	2	1	6
	Small	-	3	7	-	10
Ekaterinburg		10	4	6	3	23
Size:						
	Large	4	1	4	1	10
	Medium	2	1	1	1	5
	Small	4	2	1	1	8
Petrozavodsk		5	8	4	5	22
Size:						
	Large	1	1	1	3	6
	Medium	2	5	2	2	11
	Small	2	2	1	-	5
Total		22	21	22	10	75

TABLE 2
Follow-up Interviews in 1999

	“Location” after 4 years	
No-Contact:		9
	Murdered	2
	Committed suicide	1
	Left the country	2
	Hiding from criminal charges	2
	Unreachable	2
Not in Business:		7
	Hired middle managers	2
	Civil servant	1
	Local politician	1
	Unemployed	1
	Retired	1
In Business:		59
	Refusal	3
	Interviewed	56

TABLE 3
Means, Standard Deviations and Pearson's Correlations

		M	S.D.	1	2	3	4	5	6	7
1	Network size	82	24.25							
2	Network heterophily	0.78	0.13	-.04						
3	Industry experience	0.46	0.50	-.01	-.04					
4	Managerial experience	0.59	0.49	-.14	.34¶	.04				
5	Prediction of financial resources	0.50	0.50	.18	.01	.10	-.21			
6	Prediction of social resources	0.57	0.49	.22	.05	.11	-.16	.43¶		
7	Prediction of human resources	0.57	0.49	-.05	-.02	.04	.05	.14	.19	
8	Prediction of finance sequencing	0.30	0.46	.16	-.04	.14	-.13	.42¶	.57¶	.10
9	Prediction of social capital sequencing	0.57	0.49	.08	.04	.11	-.02	.21	.19	-.16
10	Prediction of human capital sequencing	0.46	0.50	.14	-.08	-.03	-.13	.28*	.44¶	.15
11	Moscow dummy	0.39	0.49	-.02	.14	-.01	-.02	.00	-.04	-.04
12	Ekaterinburg dummy	0.31	0.46	.14	-.33¶	.01	-.09	.15	.05	.05
13	Petrozavodsk dummy	0.28	0.45	-.12	.19	.00	.12	-.15	-.01	-.01
14	Banking dummy	0.27	0.44	.01	-.10	-.09	-.04	-.17	.01	-.16
15	Trade dummy	0.31	0.46	.04	-.03	.01	.17	.22	.19	.04
16	Manufacturing dummy	0.25	0.44	.06	.02	.07	.06	.00	-.17	.06
17	Resource sector dummy	0.15	0.36	-.14	.15	.02	-.25*	-.10	-.05	.04
18	Small firm dummy	0.28	0.45	.19	-.09	.20	.05	-.18	-.06	-.14
19	Medium firm dummy	0.37	0.48	-.15	-.04	-.48¶	-.11	.07	-.10	.11
20	Large firm dummy	0.33	0.47	-.02	.13	.30*	.06	.11	.17	.02
21	New venture dummy	0.62	0.48	-.10	.11	.10	.04	.07	.12	-.09
22	Privatised firm dummy	0.38	0.48	.10	-.11	-.10	-.04	-.07	-.12	.09
23	Firm age (year)	9.32	11.12	.06	-.09	.07	.02	.05	.08	.18
24	Revenue growth	0.02	0.33	.09	.19	.33*	-.01	.26	.49¶	.41¶

TABLE 3
Means, Standard Deviations and Pearson's Correlations (Con't)

		8	9	10	11	12	13	14	15	16	17
9	Prediction of social capital sequencing	.57¶									
10	Prediction of human capital sequencing	.63¶	.22								
11	Moscow dummy	.26*	.32*	.13							
12	Ekaterinburg dummy	.04	-.09	-.02	-.55¶						
13	Petrozavodsk dummy	-.33*	-.25	-.11	-.51¶	-.43¶					
14	Banking dummy	-.06	-.16	.05	-.01	.16	-.16				
15	Trade dummy	.23	.26*	.27*	-.01	.02	-.01	-.41¶			
16	Manufacturing dummy	-.16	-.09	-.19	.02	-.03	.01	-.36¶	-.40¶		
17	Resource sector dummy	-.04	-.05	-.07	.01	-.19	.19	-.25¶	-.28¶	-.24*	
18	Small firm dummy	-.06	.24	-.13	-.03	.14	-.11	-.16	.28*	.08	-.26*
19	Medium firm dummy	-.16	-.25	-.02	-.18	.07	.12	.01	-.06	.04	.01
20	Large firm dummy	.24	.02	.16	.21	-.20	-.02	.14	-.20	-.12	.23
21	New venture dummy	.33*	.19	.37¶	.18	-.01	-.19	.05	.19	-.24*	-.01
22	Privatised firm dummy	-.33	-.19	-.37¶	-.18	.01	.19	-.05	-.19	.25*	.01
23	Firm age (year)	-.21	-.31*	-.20	-.21	.06	.17	-.18	-.26*	.41¶	.06
24	Revenue growth	.45¶	.08	.32*	-.12	.23	-.09	-.11	-.01	.05	.05

TABLE 3
Means, Standard Deviations and Pearson's Correlations (Con't)

		18	19	20	21	22	23
19	Medium firm dummy	-.49¶					
20	Large firm dummy	-.45¶	-.55¶				
21	New venture dummy	.01	.09	-.11			
22	Privatised firm dummy	-.01	-.01	.11	-1.00		
23	Firm age	-.26*	-.26*	.33¶	-.69¶	.69¶	
24	Revenue growth	.09	-.16	.07	.21	-.21	-.04

*=p<0.05 in two=tailed tests.

¶=p<0.01 in two=tailed tests.

TABLE 4
Regression Analysis Predicting Average Revenue Growth (N=56)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Region dummies						
Moscow	-0.04	-0.00	-0.00	-0.04	0.13	0.00
	(0.12)	(0.12)	(0.12)	(0.10)	(0.12)	(0.11)
Ekaterinburg	0.17	0.26	0.18	0.10	0.02	0.13
	(0.13)	(0.14)	(0.14)	(0.11)	(0.13)	(0.12)
Industry dummies						
Banking	-0.19	-0.18	-0.21	-0.21	-0.17	-0.21
	(0.18)	(0.18)	(0.18)	(0.14)	(0.17)	(0.15)
Trade	-0.14	-0.14	-0.13	-0.21	-0.17	-0.16
	(0.16)	(0.15)	(0.17)	(0.13)	(0.14)	(0.14)
Manufacturing	-0.05	-0.09	-0.06	-0.00	-0.02	-0.03
	(0.17)	(0.17)	(0.17)	(0.14)	(0.15)	(0.13)
Firm size dummies						
Small firms	0.11	0.13	0.00	0.16	0.16	0.05
	(0.11)	(0.17)	(0.14)	(0.10)	(0.10)	(0.11)
Large firms	0.14	0.12	0.02	0.17	0.03	-0.08
	(0.12)	(0.12)	(0.15)	(0.10)	(0.12)	(0.13)
New venture dummy	0.20	0.21	0.13	0.05	0.10	-0.05
	(0.14)	(0.14)	(0.15)	(0.12)	(0.14)	(0.13)
Firm age	0.01	0.00	0.00	-0.00	0.00	-0.00
	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Independent variables						
Network size		-0.00				0.00
		(0.00)				(0.00)
Network heterophily		0.68				0.74*
		(0.35)				(0.29)
Industry experience			0.18			0.23*
			(0.12)			(0.10)
Managerial experience			0.00			-0.02
			(0.10)			(0.09)
Prediction of financial resources				0.04		-0.01
				(0.09)		(0.09)
Prediction of social resources				0.28¶		0.16
				(0.09)		(0.10)
Prediction of human resources				0.25¶		0.20*
				(0.07)		(0.07)
Prediction of finance sequencing					0.46¶	0.30
					(0.16)	(0.15)
Prediction of social capital sequencing					-0.17	-0.14
					(0.12)	(0.10)
Prediction of human capital sequencing					0.00	0.02
					(0.12)	(0.11)
Model *F*	1.02	1.20	1.04	3.44¶	2.08*	3.34¶
R square	0.18	0.24	0.22	0.51	0.39	0.66

Values represent unstandartized coefficients; standard errors are in parentheses.
*=p<0.05 in two=tailed tests. ¶=p<0.01 in two=tailed tests. †=p<0.001 in two=tailed tests.

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