

SIM 2015 / 13th International Symposium in Management

Business Success of Small and Medium Sized Enterprises in Russia and Social Responsibility of Managers

Pletnev D.^{a*}, Barkhatov V.^a

^a Chelyabinsk State University, Kashirinykh Br. str., 129, Chelyabinsk, 454021, Russia

Abstract

This article introduces the authors' approach to the study of business success factors for small and medium sized enterprises. The approach is based on the currently dominant practice of estimating the success of an enterprise as its ability to produce profit. The authors have analyzed the success criteria used by managers of Russian small and medium sized enterprises based on the survey carried out among the managers of 212 small and medium sized enterprises in the period of September – November, 2014, and described the correlation between the business success of small and medium sized enterprises and the level of their managers' social responsibility. To estimate the social responsibility, the authors used the values of average salaries and the proportion between the salaries of average executives and those of their managers. Hence, a nonlinear relation has been established between the business success of a small and medium sized enterprises and the manager's social responsibility.

© 2016 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of SIM 2015 / 13th International Symposium in Management

Keywords: small and medium sized enterprises, business success, social responsibility.

1. Introduction

Small and medium sized businesses (SME) play an important role in the modern economy. In many European countries, they comprise up to 80% of the gross domestic product and employment structure. The situation in Russia is quite different; the country still has certain leftovers of the Soviet type of economy, with preference given to large organizational forms of economic activities. Today, SMEs are developing, and the government is supporting them, but they still act as auxiliary elements and have not yet established themselves as self-sufficient economic agents.

* Corresponding author. Tel.: +7 932 303 1235; fax: +7 351 799 7050.
E-mail address: pletnev@csu.ru

The only exception occurs in enterprises operating in online trade, IT and marketing sectors. However, in the national economy in general there are some examples of successful small and medium sized enterprises. Hence, an important task is to find them and reveal the “secrets of their success” that give them the opportunity to remain successful in an environment which is actually not quite favorable to them.

The goal of this article is to analyse the relation between the business success of small and medium sized enterprises and their managers’ social responsibility. This analysis was performed based on the suggested triad of criteria for a successful SME as well as on the survey carried out by the authors among the managers of small and medium sized businesses in November 2014.

The issue of success for small and medium sized businesses has been reviewed by many authors. Romar (2009) analyzed the relationship between strategic expectations and the business success of various companies. Sieger (2011) devoted his research to the estimation of long-term success of family enterprises. Jensen (2001) pointed out some possible ways to resolve the contradictions in the two competing indicators of business success: cost maximization and social well-being. Bronsteen, Buccafusco and Masur (2013) examined a new dimension of business success; this is the “well-being analysis”, considered an alternative to the “cost-benefit analysis”.

Some authors paid special attention to studying the factors that influence the success of small and medium sized businesses. Among the works of those authors, particular emphasis must be made on the ones that determine the influence produced by the manager’s “beauty capital” on the success of the business. Brown (2006) pointed out the possibility of business failures as a factor of future success, based on the concept of S. Beckett. Wang et al. (2011) applied the “motivation-abilities” approach to estimate the business success of small and medium sized vendors in China dealing with electronics production. Of particular importance, they established the effect of informal relations on the success of the Chinese companies. Berger-Walliser et al. (2011) mentioned how important precision of contractual relations is for small and medium sized businesses to be successful. They also suggested using a new form for such contracts, such as a “visualized” one.

Factors of business success for SMEs such as the manager’s sex (Gottschalk and Niefert, 2011) and his or her attractiveness as well as the “beauty capital” (Pfann et al., 2006) are also discussed in great detail. Furthermore, the manager’s “emotional intelligence” (Webb, 2011) is recognized as an important factor that impacts the employees’ fidelity to the company and their involvement in the production process.

There has been a series of studies aimed at detecting national peculiarities of business success. For example, a group of researchers from the University of St. Gallen (Success Factors, 2013) studied the success factors of the SMEs in Switzerland. Among the factors that have positive effects, they mention the professional qualities of the employees, infrastructure, accessibility to financial resources, and social values as well. Negative effects are produced by factors such as the economic environment, including recession, and government control, including taxation.

Chittithaworn et al. (2011) analyzed the business success factors of SMEs in Thailand and after considering specific features of the Thai economy and the results of their large-scale survey found out that the major factors were: relations with the customers, how the business was managed and cooperation (i.e. the relationship with the suppliers), access to financial and other kinds of resources and finally the external environment. On the contrary, factors such as management of innovations, after-sales service and business strategy did not produce any significant effect on the success of the business. This study did not analyse any of the factors related to human resources. It is most probable that in the Thai economy, it is not reckoned among the factors requiring any analysis due to the high-degree of uniformity of the resources used there.

A group of authors (Jasra et al, 2011) introduced a detailed study of business success factors for SMEs in the national economy of Pakistan. In that country, all seven factors selected for the survey appeared to be quite important: financial resources, technological resources, entrepreneurial skills, government support, marketing strategy, business planning quality, and access to information. The authors do not mention whether they considered the human factor, including the employees’ professional and personal qualities. However, the fact that they are missing from the list of the important factors is quite significant in and of itself: for the large Pakistani economy, where small and medium sized businesses are concentrated in light industry and metallurgy, human resources seem to represent a uniform mass.

Researchers in most of the published works try to find the success of small and medium sized in factors outside the business itself: for example, it may be government support or lack of it, banks or the legislative system. In our

opinion, one should pay more attention to studying the internal reasons for success and finding factors the business itself can control.

One such factor is the relationship between managers and their employees in SME. The influence of a success factor like the social responsibility of the business must be examined. Social responsibility is normally considered to be a prerogative of large corporations, but this issue is critical for small and especially medium sized businesses, too. Several works have been written about this issue, including those by Epstein (1987), Donaldson and Preston (1995), and Barhatov, Pletnev and Nikolaeva (2013). The main proposition, common in all the studies, is that social responsibility improves business efficiency due to direct or indirect involvement of the many employees in the profit distribution process. That means employees feel that they are parts of the enterprise and that they work for themselves rather than for the “master”. The goal of this article is to verify this statement using empirical evidence from Russian small and medium sized enterprises.

2. Methodology and data

This study uses data collected by the authors as a result of the survey that they organized and carried out among the managers of SMEs. Over 250 managers participated in this survey. After the preliminary analysis, 212 of them were selected for the study. Along with other questions, the managers were asked about the key and critical success factors, about the barriers preventing their businesses from becoming successful, about each manager’s personal feeling whether his or her business is successful or not, and about the level of the workers wage in the enterprise in comparison with the manager’s income. The results, grouped and compared, built up the foundation of this study. For the analysis, the authors used the following methods: analytical grouping, graphical method, and correlation analysis of the qualitative attributes. Based on the analysis of the existing approaches and established norms in the small and medium sized business sphere in Russia (Round table, 2014), the business success was estimated using the efficiency values of the equity capital. Simply put, social responsibility is the “obligation to act for the benefit of society at large” (Palmer, 1995). In this paper, the author uses a narrower point of view to social responsibility of businesses which reflects features of small and medium-sized enterprises. The social responsibility of managers of small and medium-sized enterprises is understood in this view as the obligation to act for the benefit of its stakeholders and first for the benefit of enterprise employees. This approach is similar to P. Drucker’s understanding of social responsibility (Drucker, 2008) and to the point of view of A. Regil from The Jus Semper Global Alliance (Regil, 2003). For this reason, the social responsibility of the business was assessed using two indicators: the employees’ salaries and comparing them with the manager’s income.

3. Results

In general, the businesses selected for the study represented different areas of activity, though it is still quite significant that in the service industries prevailed. A considerable share of the businesses dealt with various kinds of activities related to the construction industry. There were practically no businesses from the agricultural, light industry or IT sectors. The survey showed that the overwhelming majority of the managers believed that the employees, along with their professional and personal qualities, were the key factor of the business’ success. In total, more than 75.9% of the respondents were sure that those factors were of key importance, and 16.5% thought they were quite significant (so in total, 92.4% of the business managers pointed out those factors). Among the factors producing the biggest effect on the business success, the managers also mentioned good and confidential relations with customers and suppliers (there were two separate options in the questionnaire): 52.4% said it was the key factor, and another 18.8% considered it quite significant; in total, 71.2% of the respondents. The entrepreneurial skills of the top executives and the managers themselves were mentioned as well; 29.2% said it was the key factor, and another 13.7% considered it quite significant (in total, 42.9% of respondents thought so). The numbers collected for the rest of the factors appeared to be substantially lower (see Fig. 1).

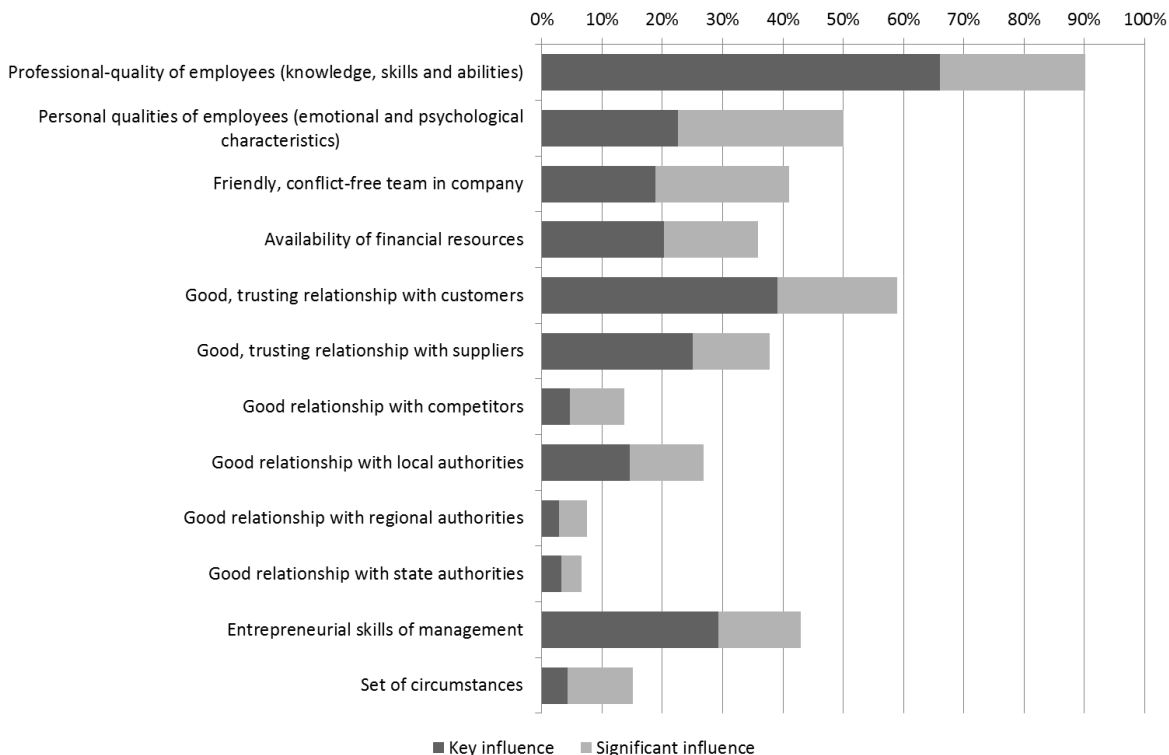


Fig. 1. Key and significant factors of business success (according to the survey carried out among the managers of Russian SMEs in November 2014).

The general character of the survey results can also be seen by examining the breakdown of the answers to the questions about the essential success indices. The managers were allowed to choose multiple answers (Fig. 2).

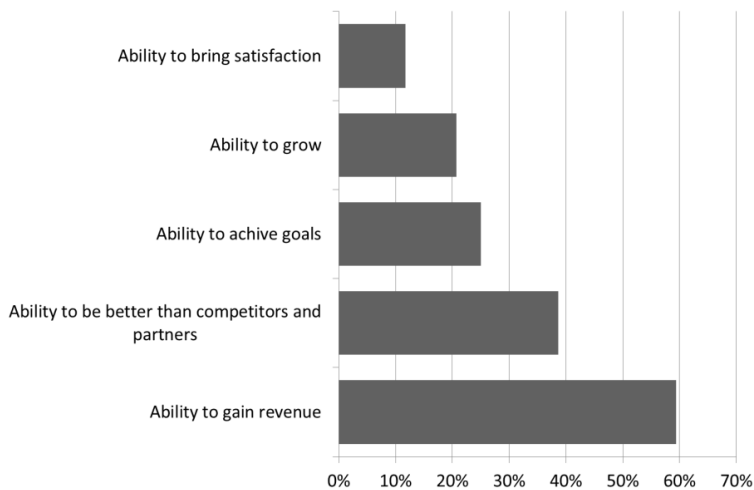


Fig. 2. Breakdown of the answers to the question “How do you assess your business success?” (according to the survey carried out among the managers of Russian SMEs in November 2014).

The most popular answer was “The success of a business is assessed on its ability to produce profit” (59.4%). This was quite expected. The runner-up, which was certainly unexpected, was the ability to be better than others, i.e. competitors and partners (38.7%). Exactly a quarter of the managers focus on the ability of the business to reach the intended goals, while 20.8% of them choose the ability to grow. The fewest number of the respondents chose “the ability of the business to bring satisfaction” (11.8%). This kind of breakdown of the answers is evidence of the managers’ formal approach to the business success assessment, of their orientation to short-term perspectives and fixation on the external aspect of the assessment process; in fact, both profit and good comparison results represent a reflection of the “fetishistic” motives of the managers of Russian small and medium sized businesses.

The analysis of the answers to the question about the business economic efficiency and return on the invested capital show some interesting results. First, more than a half (52.0% of the managers said their efficiency was under 12%, which is the actual level of inflation in Russia. According to the normal criterion, their capital thus did not grow but rather depreciated in one way or another. However, over three quarters of them (79.1%) said their businesses were successful. Despite the fact that they declare profit to be the main indicator of success, a business can still be considered successful even if there is not enough profit to “compensate” inflation to the business owners. Totally, the economic efficiency breakdown of the enterprises appeared quite even, with an average value of 19.4%.

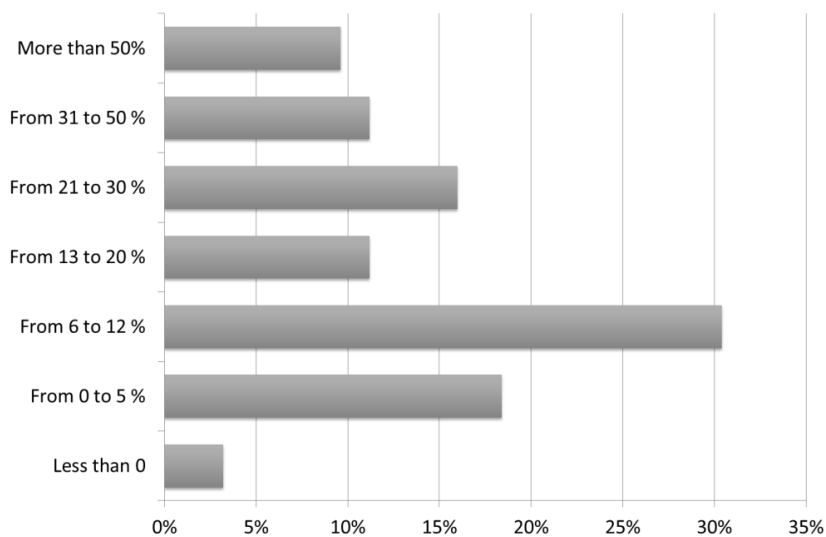


Fig. 3. Return on the invested capital (business efficiency) (according to the survey carried out among the managers of Russian SMEs in November 2014).

Now it is necessary to proceed to the analysis of the effect produced by the manager’s social responsibility on the business success. The questionnaire provided two questions on the subject: “What is the average wage in your company?” and “How many times is the manager’s income higher than the wage of the full-time employee with the minimal income?”

One of the critical issues regarding the correlation between business success and the entrepreneur’s social responsibility is the correlation between the average wage level and the business success. Both variants of explanation are possible: the workers wage level can influence the business success, and vice versa (Fig. 4).

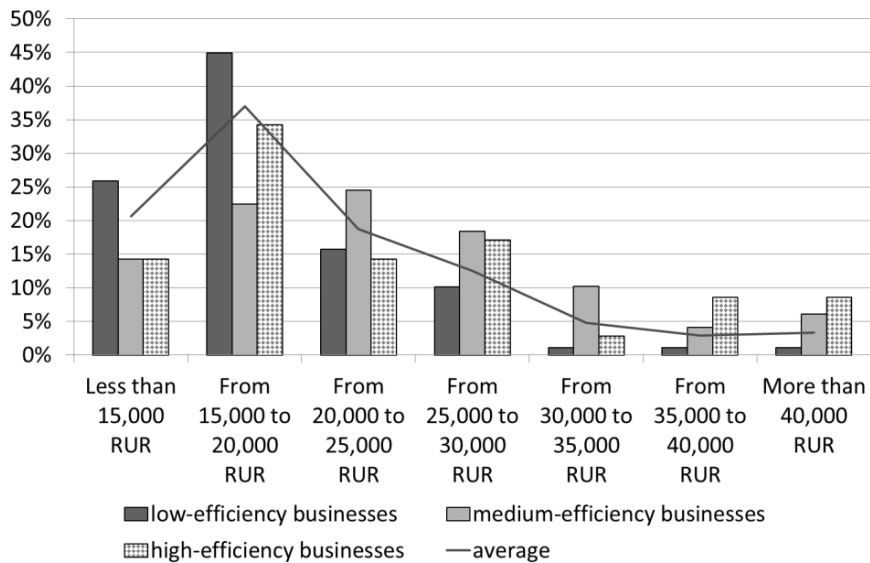


Fig. 4. Breakdown of the answers to the question about the workers’ wage level for businesses with different economic efficiency (according to the survey carried out among the managers of Russian SMEs in November 2014).

In the overwhelming majority of the enterprises with low business efficiency, the monthly income of the employees does not exceed 20,000 rubles, which is considerably lower than the average salary level in Russia. Moreover, in a quarter of the enterprises the employees get less than 15,000 rubles a month which makes them balance on the poverty line and certainly does not motivate them to show their best qualities in the business or feel any involvement in it. The enterprises with medium business efficiency have a higher modal efficiency value of 20,000 to 25,000 rubles; the distribution itself is more uniform here as well. The enterprises with high business efficiency are characterized by a more complex correlation with three modal intervals in the salary distribution: 15,000 – 20,000, 25,000 – 30,000, and over 35,000 rubles a month. By all appearances, the managers of the highly efficient enterprises follow different logical approaches to establishing the workers’ wage level. Some of them think that there is no need to change anything or provide any extra incentives to the employees when everything appears fine the way it is. There are others who believe that the workers’ wage should depend on business efficiency and they subsequently increase the former proportionally to the growth of the latter. And the third group, the smallest but still a considerable one (6 highly profitable enterprises out of 35), can be characterized by an essentially different approach: they consider the workers’ wage level to be one of the top priorities in their activities and the key factor of their success.

There is also the analysis of the answers to the second question to consider. In general, the answers were distributed the way it is shown in Fig. 5. It had been quite expected that the income differentiation appeared to be insignificant in most SMEs and to lie within the limits of the ratio described by P. Drucker (8:1). However, a significant share of the enterprises had a much greater difference. About 25% of the respondents said that their ratio was 10:1 or higher. There were even 12 enterprises with ratios exceeding 25:1. This kind of distribution can be explained by the peculiarities of the business or by its dependence on the quality of the employees’ work, or possibly by the manager’s personal position in that respect.

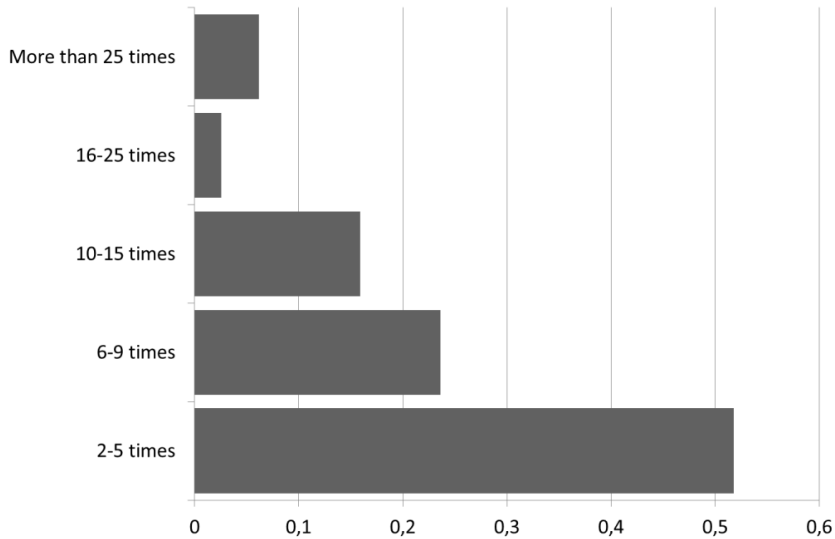


Fig. 5. Excess of the business manager's income over that of the lowest paid employee (according to the survey carried out among the managers of Russian SMEs in November 2014).

The next step would then be to analyse the responses to the same question in enterprises with different business efficiency levels. There were three groups: those with low efficiency (return on equity under 12%), medium efficiency (return on equity of 13% to 30%) and high efficiency (return on equity over 30%) (Table 1). It shows that there were considerable differences in the distribution of the SMEs according to income in the groups with different levels of efficiency. The statistical significance of the differences is confirmed within one-tenth of a percentage point (i.e. 0.1%); the calculated chi-square value is 34.04 while the value in the table is 26.1. The relation between those variables is nonlinear. The enterprises with low business efficiency were characterized by a more uniform distribution of income, while the share of enterprises which are highly differentiated according to the labor wage is, on the contrary, small. At the same time, the share of the managers with bigger differences between their income and that of the average executives was growing as the level of business efficiency was approaching the average. However, the distribution in the SMEs with even higher business efficiency was becoming similar to that of the low-efficiency businesses. An explanation for this phenomenon can be found if the issue is examined in terms of cause-and-effect. When business efficiency is low, managers simply have no opportunity to increase their own remuneration. But when the business efficiency starts to grow, they get that opportunity. This is evident in the drastic growth of the SMEs which have an income ratio of 10–15:1. However, further growth of the business efficiency allows the enterprise to redirect certain portions of their resources to increase the salaries of all the employees, which makes the differentiation lower again, but at a generally higher labor wage level. Hence, social responsibility mainly shows among low-efficiency and high-efficiency businesses, while medium-efficiency ones are characterized by a considerably lower concern about the employees' well-being and are oriented at maximization of the manager's income instead. The survey results, in their absolute values, are represented in Table 1, and Fig. 6 shows them visually. The table also shows that a considerable part of the entrepreneurs do not think about the economic efficiency of their businesses at all, which surely contradicts the followers of the neoclassical interpretation of the behavior of small and medium business representatives. In total, nearly 20% of those surveyed are this kind of business owner.

Table 1. . Breakdown of the answers to the question about the comparison of the manager's income to that of the lowest paid worker

Excess of the business manager's income over that of the lowest paid employee	In the entire sample	In low-efficiency	In medium-efficiency	In high-efficiency	Where managers do not care about
---	----------------------	-------------------	----------------------	--------------------	----------------------------------

	businesses	businesses	businesses	efficiency	
2 to 5 times	101	48	21	16	16
6 to 9 times	46	22	9	7	8
10 to 15 times	31	7	14	6	4
16 to 25 times	5	3	1	1	1
More than 25 times	12	3	4	2	2
Total	195	83	49	32	31

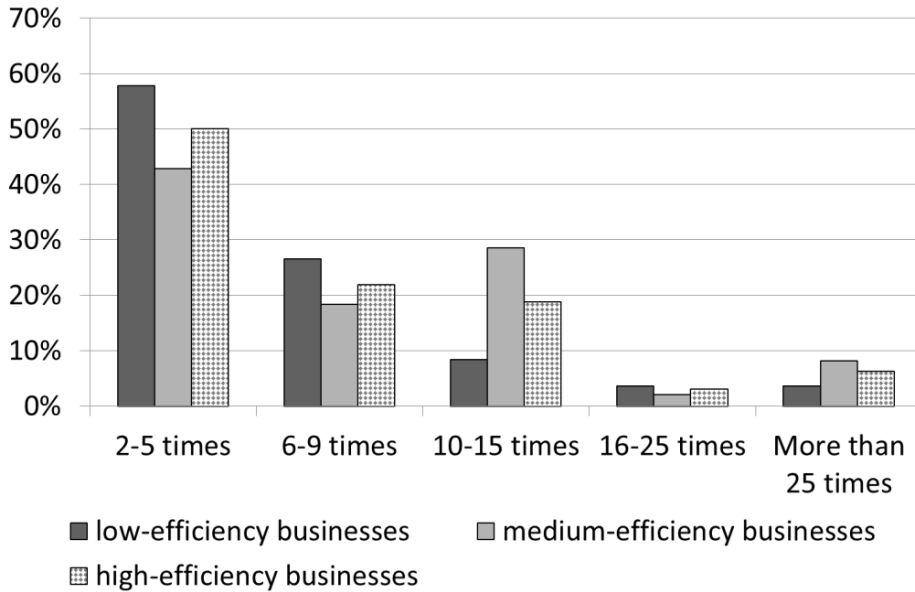


Fig. 6. Breakdown of the answers to the question about the ratio between the manager’s income and that of the lowest paid employee, depending on the business efficiency of the enterprise (according to the survey carried out among the managers of Russian SMEs in November 2014).

Finally, an analysis of the average economic efficiency level for each group of the SMEs was determined by income ratio. The economic efficiency level is low for the enterprises with low income difference; for example, 18.6 with the income difference of 2 to 5 times and 18.3 with the income difference of 6 to 9 times. With medium income differences (10 to 15 times), the economic efficiency shows a drastic growth (up to 23.2), and any further difference growth is accompanied with an insignificant but stable decrease of the economic efficiency. The optimal point in the levels of income difference can be determined at the interval from 10 to 15 times. On the one hand, when this ratio observed, it provides an adequate labor wage to the manager who is often the owner of the SME. On the other hand, it ensures enough motivation and involvement for the employees.

4. Conclusion

The effect of the manager’s social responsibility on the business success of SMEs is rarely studied. This paper presented an approach to studying this phenomenon based on the wide-spread understanding of the business success through its economic efficiency (i.e. return on the invested capital), and the interpretation of the social responsibility of SMEs managers as their attitude to the level of the employees’ labor wage and its ratio to their own income.

According to the results of the survey carried out among 212 managers of Russian SMEs, the overwhelming majority of them consider their employees’ professional and personal qualities to be the key or significant factor of their business success. However, they do not always show due concern for their employees; the salaries are mostly at a level that does not allow the employees to show their best qualities and be totally devoted to what they do. At the same time, there is a direct relation between the labor wage level and the business success. SME managers will certainly have to take this fact into consideration in the future. In the majority of cases, the ratio of the manager’s

income and the employees' salaries lies within the norm mentioned long ago by P. Drucker (1:9). This result characterizes the social responsibility of SMEs managers positively. It means that the manager show his or her solidarity with the employees, and, in spite of their low income, they do not feel so exploited. They can see that they are "sailing in the same boat" with their manager. There is a slight decrease of the social responsibility in medium-efficiency businesses. Enterprises with high economic efficiency have lower income differences. This makes us come to the conclusion that the manager's social responsibility has a positive effect on the success of small and medium sized businesses. The relative optimum of the labor wage level (20,000 to 25,000 rubles) and of the income difference (10 to 15 times) which may be required to make an enterprise successful are determined. At the same time, this study can be and must be supplemented with some analysis of other kinds of social responsibility and with some methods that have to be developed further to get a better estimation of the cause-and-effect relations.

Acknowledgements

This study was performed at the expense of a grant of the Russian Science Foundation (Project No. 14-18-02508)

References

- Barkhatov V., Nikolaeva E., Pletnev D. (2013) The Possibilities of Positive Use of Residual Control and Income Rights of Stakeholders in the Corporation, *Procedia - Social and Behavioral Sciences, Volume 124, 20 March 2014*, 521–527
- Berger-Walliser, G., Bird, Robert C., and Haapio, H. (2011). Promoting business success through contract visualization, *Journal of Law, Business, and Ethics, volume 17, 55-75*
- Bronsteen, J., Buccafusco, C.J., and Masur, J.S. (2013). Well-Being Analysis vs. Cost-Benefit Analysis, *Duke Law Journal*, v. 62, 1603-1689
- Brown, S. (2006) Fail better! Samuel Beckett's secrets of business and branding success, *Business Horizons, Volume 49, Issue 2, March–April 2006*, 161-169
- Chittithaworn, Ch., Islam A., Keawchana T., Hasliza Muhd Yusuf D. (2011). Factors Affecting Business Success of Small & Medium Enterprises (SMEs) in Thailand, *Asian Social Science, Vol. 7, No. 5; May 2011*, 180 -190
- Donaldson T., Preston L.E. (1995) The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications, *Academy of Management Review, 1995. Vol., 20, No. 1*, 65-91
- Drucker, P. (1993). Post-Capitalist Society. *New York: Harper Press*, 208 p.
- Epstein E. (1987) The Corporate Social Policy Process: Beyond Business Ethics, Corporate Social Responsibility, and Corporate Social Responsiveness *California Management Review. 1987. Vol. 24. N. 3*. 53-63
- Gottschalk S., Niefert M. (2011) Gender Differences in Business Success of German Start-up Firms, *International Journal of Entrepreneurship and Small Business 18(1)*, 15-46.
- Jasra J.M., Khan M.A., Hunjra A.I., Rehman R.A.U., Azam R.-I. (2011) Determinants of Business Success of Small and Medium Enterprises, *International Journal of Business and Social Science, Vol. 2 No. 20; November 2011*, 274 – 281
- Jensen, M.C. (2001) Value Maximization, Stakeholder Theory, and the Corporate Objective Function, *Journal of Applied Corporate Finance, Vol. 14, No 3*, 8-21
- Palmer, K. (1995). Tightening Environmental Standards: The Benefit-Cost or the No-Cost Paradigm? *The Journal of Economic Perspectives 9 (4)*, 119–132
- Pfann, G.A., Biddle, J.E., Hamermesh, D.S. and Bosman, C.M. (2006) Business Success and Businesses Beauty Capital, *Economics Letters, Vol. 93*, 201-207
- Regil, A. de (2003) *Corporate Social Responsibility without Living Wages is Irresponsible and Unsustainable*, A TLWNSI Issue Essay, The Jus Semper Global Alliance (available at <http://www.jussemp.org/Our%20CSR%20Concept/Resources/CSRwithoutLW.pdf>)
- Romar, E.J. (2009) Strategic Intent, Confucian Harmony and Firm Success. *Acta Polytechnica Hungarica, Vol. 6, No. 3*, 57-67.
- Round table (2014) Materialy kruglogo stola «Faktoiry uspehnosti rossiiskikh predpriatii v sovremennykh usloviyakh» [in English: Round Table Discussion "Determinants of Business Success of Russian Enterprises in Modern Conditions"] (at the Conference "Sustainable Development in an Unsustainable World", Chelyabinsk, 26-28 June 2014), *Vestnik Chelyabinskogo Gosudarstvennogo Universiteta, No 18 (347)*, 178-185
- Sieger, P. (2011) Long-term Success of Family Firms: Investigating Specific Aspects of Firm-level Entrepreneurship and Individual-level Antecedents. *Dissertation of the University of St. Gallen, School of Management, Economics, Law, Social Sciences and International Affairs to obtain the title of Doctor of Philosophy in Management, Dissertation no. 3934, NiedermannDruck AG, St. Gallen.*
- Success Factors for Swiss SMEs. Company Succession in Practice (2013) *University of St. Gallen and Credit Swiss Global Research, Swiss Issues Industries June 2013*, 43 p.
- Wang, S., Hong, Y., Archer, N., and Wang, Y. (2011). Modeling the Success of Small and Medium Sized Online Vendors in Business to Business Electronic Marketplaces in China: A Motivation – Capability Framework, *Journal of Global Information Management, 19(4)*, 45-75
- Webb, Kerry S. (2011) Emotional Intelligence and Business Success, *Working Paper (available at: <http://ssrn.com/abstract=1948065>)*