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## **Employees' entrepreneurial contributions to firms in Russia, 1995-2004**

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### **Abstract**

This article examines how employee self-reported entrepreneurial contributions evolved in firms operating in Russia in 1995-2004 and whether changes can be explained by Akerlof's (1982) theory of implicit gift exchange in labour contracts. We find that these contributions were indeed influenced by wage premia and shifting work norms, declining by about a half during the period and with a particularly marked fall in contributions by manual workers. The trend was found among foreign-owned, private Russian-owned and state-owned companies. Akerlof's model therefore helps explain Russian workers' changing behaviour.

**Key words:** employee entrepreneurship, implicit gift exchange, labour contracts, Russia, transition

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## **Employees' entrepreneurial contributions to firms in Russia, 1995-2004**

### **INTRODUCTION**

This article investigates the evolution of entrepreneurial contributions made by employees of firms operating in Russia between 1995 and 2004. These contributions may be characterised by the phrase 'going the extra mile' or, in Whitley's (1999) conceptualisation, by non-contractual 'employee contributions to organisational capacities'; we discuss the concept in more detail below. Their incidence appears likely to reflect shifts in how Russian employees related to their employment. The subject is significant since it reveals the effectiveness or otherwise of approaches to labour management in unlocking employee contributions, an explicit aim of HRM. In particular, it allows us to examine how far if at all foreign-owned firms have been able to introduce specific practices which more effectively unlock these contributions.

Employee entrepreneurial contributions, it has been argued, are important drivers of organisational success and profitability (Thornberry, 2001), strategic renewal (Zahra, 1996), and organisational change (Kuratko et al., 2005). They have been at the centre of 'High Performance Work Systems', grounded in the argument that previously withheld employee contributions may be unlocked to establish competitive advantage (see for example, Appelbaum et al., 2000). Indeed, a central aim of HRM has been to seek 'commitment not compliance' from workforces, where a key component of commitment is a willingness to make higher contributions to organisational success (see for example, Walton, 1985; Boxall and Purcell, 2003). Foreign-owned companies in Russia are familiar with such ideas, but how far they have been able to put them in practice is unclear (Domsch and Lidokhover, 2007).

Researchers have asserted the importance of managers supporting in-enterprise entrepreneurship across all hierarchical levels and occupations (Kuratko et al., 2005; Mair,

2005; Zampetakis et al., 2009). The few works on corporate entrepreneurship in transition economies (for example, Filatotchev et al., 1992; Kaufman et al., 1995; Filatotchev et al., 1999) focus predominantly on corporate governance issues and the role of managers in restructuring former state-owned organisations. Yet Western managers, when compared to non-managerial employees, have been shown to respond quite differently to incentives to perform in these ways (Kinnie et al., 2005). A handful of studies analyse employee entrepreneurship within organisations in market economies (for example, Mair, 2005; Zhao et al., 2005; Zampetakis et al., 2009). As far as we have been able to ascertain, no research has been published on the wider and significant issue of the entrepreneurial contributions made by non-managerial employees in the transition context.

The article is structured as follows. We first develop an analytical framework applicable to the Russian context, deriving two hypotheses. These are tested by using Russian Longitudinal Monitoring Survey (RLMS) data in 1995 and 2004. Finally, we discuss our econometric results and draw conclusions.

## **ANALYTICAL FRAMEWORK**

### **Employee entrepreneurial contributions and implicit gift exchange**

We first delineate and describe the forms of contribution under discussion and then introduce Akerlof's (1982) implicit gift exchange model of labour contracts.

Entrepreneurial activities have been seen as diffuse and difficult to define. As Hornsby et al. (2002) point out there is little agreement regarding the specific actions that constitute entrepreneurial behaviour in intra-organisational contexts. At the lowest level, they may include but cannot be defined simply by the extent of working time, as would be shown for example by a propensity to work overtime. Not only does this fail to capture the full range of discretionary employee contributions, it may in the Russian context simply reflect

managerial pressure. The various conceptualizations are often of discrete events such as the creation of new organisations or new product development (for example, Covin and Slevin, 1991; Lumpkin and Dess, 1996; Endres and Woods, 2006). For employees of Russian organisations, especially those lower down organisational hierarchies, the larger scale activities encompassed within these latter definitions seem likely to be inappropriate, given the strongly hierarchical nature of the companies and the low-trust relations within them. Pearce et al.'s (1997) entrepreneurial behaviour model allows both large-scale and more day-to-day possibilities, since it encompasses strategic vision, creation of an energetic working environment, change of orientation and the ability to 'cut red tape'. In other international conceptualisations, positive employee contributions along these lines include a preparedness to share information and knowledge both tacit and explicit, which may in turn generate innovation (Ekvall, 1996; Gooderham et al., 2011).

Mair (2005) offers a description that is more likely to characterise what is involved in 'day to day' entrepreneurship in Russia. Individuals can become entrepreneurial, in the ways they cooperate with their colleagues, organize their daily tasks, or in the ways they meet challenges from work organisation, top management or customers. In this view, individual entrepreneurial behaviour may be modest in scope and encompass a spectrum of activities ranging from independent/autonomous to integrative/cooperative behaviours; overall, they generate new ways of getting things done. They may therefore be envisaged as non-strategic activities and practices which nevertheless lead to value creation for the organisation. These are the types of input envisaged when the 'entrepreneurial' term is used here.

As we demonstrate below the 'HRM' paradigm is ill-suited to analysis of the Russian context since strong continuities with the Soviet past persist. Therefore, we prefer a more fundamental paradigm focussing on the employment relationship itself – Akerlof's (1982) implicit gift exchange model of labour contracts. Norms are highly significant within

Akerlof's model, making it particularly appropriate in our context. In our framework, important factors such as changes in ownership and work norms, argued by Soulsby and Clark (2007) to be essential in analysing transition contexts, are explicitly incorporated.

In Akerlof's theory, the firm's gift to the worker (in return for the worker's non-contractual gifts to the firm) consists in large part of a wage that is fair; the term can be equated to the industrial relations term 'felt fair', since it is in part normative. Using reference-individual-reference-group theory, Akerlof argues that the perceived fairness of wages depends on how other individuals in the employee's reference set are treated.<sup>1</sup> The key component of the wage's perceived fairness will be the remuneration received by other similar individuals, both employed and unemployed.<sup>2</sup> The 'fair' wage received by the employee depends on perceptions of the entrepreneurship he/she contributes according to and in excess of work rules, the wages of other employees, the work rules themselves and the benefits of unemployed individuals. While empirically unemployment at any moment encompasses a fairly small fraction of the labour force, flows in and out of unemployment are large. In the Russian context, the probability that a whole reference set will be free of unemployment for a significant period is small; there is also a very large 'grey' or 'informal' labour market (Clarke, 2009). In brief, the framework proposes that extra contributions will be extracted from employees when a credible implicit gift exchange relationship can be established. We therefore hypothesise: *employee entrepreneurial activity is positively associated with the 'fair' wage premium* (Hypothesis 1).

If the hypothesis is upheld, this may mean that foreign-owned companies, which frequently attempt to establish competitive advantage in the labour market by paying premium wages (Domsch and Lidokhover, 2007), may enjoy higher levels of reported entrepreneurial activity than their Russian counterparts. Since they also tend to have equal opportunities policies (*ibid*) we might further expect that these could have a motivational

effect on female employees, causing them to raise their entrepreneurial contributions in relative terms.

### **The Russian 'transition' and the evolution of work norms**

Literature suggests that discretionary employee inputs are most likely to be stimulated in corporate environments with high levels of shared decision-taking and trust between managers and owners on the one hand and employees and managers on the other, and similar levels of worker team participation (for a review see Chang, 2000). A further characteristic will be that corporate policy emphasises intrinsic rather than extrinsic employee rewards (Birkinshaw, 2010). Thirdly, high levels of 'social capital' are developed encouraging the development of trust, building knowledge and information sharing, and internal innovation (Minbaeva et al., 2003). Conversely, strongly bureaucratic or hierarchical corporate cultures operate in the opposite direction, stifling discretionary contributions (Gooderham et al., 2011). Negative conditions are therefore most likely to be found in enterprises that are, or have recently been, state-owned. Private companies, and especially foreign-owned MNCs, are more likely to foster more positive climates.

It appears unlikely that any of the positive conditions have been enhanced in Russia during our period. First, high levels of distrust both between owners and managers and between managers and employees, have been widely emphasised as a problem, hampering the development of labour management more broadly throughout the period (Frydman et al., 1996; Blasi et al., 1997; Morrison, 2007). Second, Russian managers favour the use of extrinsic rewards and payment-by-results systems, continuing late Soviet practice. Third, both cause and consequence of the previous point, levels of manager-employee trust are low (Domsch and Lidokhover, 2007).

Thus, Russian transition is likely to have affected the work norms incorporated in Akerlof's model and both limited and defined the extent of the employee-employer 'gift' exchange relationship. How this situation developed is therefore an important matter.

During the late Soviet era, extrinsic rewards were perceived as more influential than intrinsic ones in motivating workers (Welsh et al., 1993). However, the scope of reward and punishment was limited due to the worsening economic and political situation (Ivancevich et al., 1992). Lacking formal extrinsic rewards and faced by a joint need to achieve external targets, workers and managers engaged in a 'favour for favour' exchange process (Hermann, 1994; Shershneva and Feldhoff, 1998). The strong (often explicit) gift exchange was combined with a distorted price of labour (the 'fair' wage) and full employment. The result was weakened incentives and norms leading to low employee motivation and low levels of employee contributions, as Akerlof's (1982) model (p. 566, equation 37) predicts (see also Kornai, 1992).

The decade beginning in the mid-1990s saw major shifts in labour market conditions. At the beginning of the period, voucher privatisation nominally provided employees with an ownership stake in companies although vouchers moved rapidly out of most employee hands (Morrison, 2007). This may have raised expectations of increased employee involvement, improving worker incentives (McCarthy et al., 1993; McCarthy et al., 1997). The second half of the last decade saw new private financial-industrial groups taking over much of industry. During Putin's rule the consolidation of ownership in the hands of oligarchs through 'Nomenklatura privatisation' alienated and disillusioned workers, as many lost their company ownership stake and suffered from wage arrears (Freeland, 2000; Sonin, 2003). This was a significant aspect of 'state-controlled democracy' as Kuchins (2006) described it. By the end of the period, a new Russian Labour Code (coming into effect in early 2002) was embedded in practice (Bronstein, 2005). The Code *inter alia* greatly reduced unions' statutory role in



influencing employers' dismissal decisions (Burnham et al., 2004). While it contained some clauses that were relatively protective of workers in international terms, this must be seen against the background of widespread non-observance of all laws (Ashwin and Clarke, 2003; Royle, 2005). Across our period of analysis and beyond, wage arrears in both the private and public ('budgetary' in Russian parlance) sectors persisted despite representing a fundamental and unlawful breach of the employment relationship. Thus, the period may have seen disappointment of initial hopes of an environment more conducive to stimulating discretionary employee inputs (Domsch and Lidokhover, 2007). Relations within organisations started to depart from the implicit gift exchange behaviours characteristic of our framework (Linz and Semykina, 2008; Rutkowski, 2006).

Several studies document workers' disillusionment as transition proceeded (Siegelbaum, 2004; Morrison, 2007; Clarke, 2009). Workers increasingly felt that their job security and prospects were worsening (Linz and Semykina, 2008). Lower level managers themselves became increasingly resistant to owners' and more senior managers' initiatives (Johnson, 1997). Demoralisation was particularly evident in certain strata, notably men at the bottom of the labour market (Ashwin and Lytkina, 2004). Banai and Reisel (2007) show that workers in companies with concentrated private ownership had often lost their previous jobs in state-owned companies and, besides experiencing a devastating personal event, also lost many welfare benefits. Consequently, private companies' workers may have been even more alienated than state (or former state) owned companies' workers.

Foreign-owned companies (mostly MNCs), increasingly important to the Russian economy, might have been able to resist or overcome such effects by their HRM policies and practices. Yet how far they have brought HRM approaches with them is unclear since these are only weakly established in Russia even at the rhetorical level (Domsch and Lidokhover, 2007). These companies clearly interact with host countries' institutional frameworks to

produce ‘hybrid’ sets of practices. In transition countries these may be viewed both as ‘modern’ and career-enhancing (Meardi and Toth, 2006). Nevertheless, local environments exercise influence over foreign-owned companies’ practices and companies’ portrayal of these as home-country driven cannot be accepted at face value (Doerrenbaecher, 2002). In Russia, where power in the employment relationship is strongly weighted towards employers, institutions are weak and there are no pressures to ‘Europeanize’, senior foreign managements may simply allow labour management to be determined by local managers (Croucher and Cotton, 2009).

Although developments might have brought the labour market closer to the neoclassical model where firms never choose to pay more than the market clearing wage, Akerlof’s model would still explain the presence of wage premia were implicit gift exchange relations in place. Given prevailing work norms, some firms may find it advantageous to pay a wage premium because of the benefits that ensue. Then the labour market would be characterised by heterogeneity through segmentation into primary and secondary markets, and transitory unemployment. Such a framework seems to correspond well to the Russian situation.

In summary, until the mid 1990s the incentives for employee entrepreneurship were relatively strong but the norms that play such a central role in Akerlof’s model appear likely to have shifted considerably away from the ideal. We therefore hypothesise: *The share of workers in-enterprise entrepreneurial contributions declined between 1995 and 2004* (Hypothesis 2).

## **ECONOMETRIC FRAMEWORK AND DATA**

Theoretically, the differential (premium) between the market (predicted) wage and the individual (actual) ‘fair’ wage will influence employee contributions, and identify those

likely to be more entrepreneurial.<sup>3</sup> We econometrically test Hypothesis 1 in two stages. In the first, we estimate the ‘fair’ wage premia, and then, in the second, we estimate the effects of the wage premium and other factors affecting employee entrepreneurial behaviour and effort. The dependent variable in the second stage - entrepreneurial contribution - is measured by self-reported involvement in entrepreneurial activity as encapsulated in our survey data described below.

In the first stage, we estimate the differential between the actual and the estimated wage for each individual in our sample by applying a Heckman selection model to a Mincerian wage equation (Heckman, 1974). Thus, we control for selection into employment when estimating the wage rate as a function of individual characteristics such as age, education, gender, occupation, and ethnicity (Russians vs. non-Russians). We include in the estimated sample (selection equation) both employed and unemployed individuals in the labour force. The approach reflects the assumption that the reference group for each individual comprises all other similar individuals. Implicitly, we also assume that individuals have homogenous expectations. To account for regional differences we include regional (*oblast*) dummies in the specification, capturing characteristics such as unemployment, prices, and inflation levels; the rate of unemployment benefits is determined at national level and is essentially uniform across regions. The predicted wage reflects the characteristics of all individuals in the reference set and the wages paid to them as well as the impact of regional rates of unemployment and, indirectly, the extent of unemployment benefits. The main identifying variables in the employment selection equation of the Heckman model are the level of non-labour income and individual and household characteristics such as marital status and numbers of children in the household.

In the second stage we focus on employee entrepreneurial contributions. The ‘fair’ wage premium constitutes the main explanatory variable, as defined in Akerlof (1982; p.561,

equation 14). The norms at any given point are exogenous to the firm and largely depend on the returns to other individuals in the employees' reference sets as well as on institutions. Over time, as we argued above, norms are likely to have evolved. Factors related to changes in ownership and organisation (for example, the privatisation of state-owned enterprises and the arrival of MNCs) partially affecting employees' entrepreneurial contributions correspond to what Zampetakis et al. (2009) call 'perceived organisational support' (POS). Such factors include the firm's work rules, the average wage paid by the firm and the firm's wage incentive system. We use information on wage arrears as a proxy for the wage (dis)incentives in the firm. We also control for any explicit employee firm ownership stake, employee characteristics such as tenure and occupation, firm size, and type of firm ownership. Most such variables are endogenous to the organisation and have been changing over time, affecting norms (Hypothesis 2). Finally, in the second stage specification we also include regional dummy variables to control for geographical variation in institutions and the heterogeneity of the transition process.

We employ data from the Russian Longitudinal Monitoring Survey (RLMS) between 1995 (round 5) and 2004 (round 13). The RLMS is a nationally representative survey of individuals and households which samples the population of dwelling units annually.<sup>4</sup> The data include a wide range of information concerning individual and household characteristics such as demographics, education, labour force participation, occupation, time allocation, wages and other incomes. Importantly, data also include detailed information about the enterprise where each individual is employed. Our sample consists of all adult individuals of working age - 16 to 65 years - who are surveyed in rounds 5 and 13 respectively as the samples are representative for each period.<sup>5</sup> When referring to different categories of employees in the data, the terms we use are as follows. The 'Managers' category includes individuals holding medium or higher level management positions in an enterprise.

‘Professionals’ includes lower categories such as nurses as well as those, like lawyers and teachers, more often associated with the term. The ‘Blue collar’ category covers skilled technical and clerical workers and includes many described as ‘cadres’ in Russia. The ‘Manual workers’ category comprises those employed in semi- and unskilled work.

The main dependent variable is self-reported involvement in entrepreneurial activity. We use a question in which individuals are simply asked if they feel they are performing entrepreneurial activities in their workplace:

*“Как Вы считаете, на этой работе Вы занимаетесь предпринимательской деятельностью?” (“Do you feel that you are doing entrepreneurial activities in this job?”)*

Clearly, the measure we use reflects respondents’ subjective perceptions, allowing them to define for themselves what constitutes entrepreneurial activity. Much of this has historically been socially modelled by ‘cadres’ (Arnot, 1988, Morrison, 2007). While it is difficult to define the type of activity it seems likely to encompass some of the activities discussed in previous sections and to capture at least some elements of their discretionary contributions.

## **ECONOMETRIC RESULTS**

Table 1 presents definitions and summary statistics for all the regression variables used in our econometric analysis by year. Overall, the main individual demographic characteristics at the two sampling points appear similar while the size of the estimated samples increases slightly, from 2,437 to 2,889 observations. We find a significant decline in the employee entrepreneurship rate (*Entrepreneur*) – from 8.1 to 4.7 percent, accompanied by a similarly significant decline in the ‘fair’ wage premia (*WagePremium*) and employees’ explicit firm ownership stake.

- Table 1 -

Comparing summary statistics for the explanatory variables over time we can see from the individual and household characteristics affecting the 'fair' wage premium that the proportion of individuals with only primary school education declined by 8 percentage points while the proportion of those with high school education increased by 6 percentage points. The university-educated proportion of the labour force has also increased, by 2 percentage points. The proportions of different occupational categories have also changed significantly. The proportion of managers has more than doubled while the proportion of professionals has slightly decreased. The decline in the proportion of manual workers with low skill levels (labourers) by more than 5 percentage points is significant, while the proportion of blue collar occupations has increased by about the same percentage. There is a relatively significant decrease in non-labour income and in the number of adolescent children in households over the period.

Among the determinants of employee entrepreneurial contributions, besides the significant decline in the 'fair' wage premia and in the proportion of employees owning an explicit firm ownership stake, there are also significant changes in the proportions of firm ownership categories. The proportion of state owned firms has declined significantly, by almost 20 percentage points, while the proportion of privately owned firms has increased by about the same percentage. Foreign-owned firms do not seem to have increased and their proportion has remained almost constant at about 3.4-3.8 percent. In our sample, the average firm size has declined, as has the incidence of wage arrears. A decline in average job tenure may be taken as evidence of higher labour market turnover – a characteristic of an increasingly active labour market. Overall, important changes in the variables influencing work norms and thus, theoretically, entrepreneurial contributions have occurred over the period.

The results from estimating the wage equation with the Heckman model are reported in Table 2. In all regressions the explanatory variables are jointly statistically significant at 1 percent. In the selection equation, the probability of employment is highest for middle aged, university-educated men. In 1995, individuals seeking managerial employment are less likely to be employed while ten years later professionals and blue collar workers are more likely to be employed. Employment opportunities are significantly lower outside the Moscow and St. Petersburg metropolitan areas. In the wage equation, the wages of younger to middle aged university educated men are highest, with managerial, professional and blue collar occupations all commanding higher wages than manual workers. Wages in regions outside the Moscow-St. Petersburg metropolitan areas are consistently lower and the gap seems to have widened over the period.

- Table 2 -

In the second stage of our analysis we estimate the total samples from the 1995 and 2004 survey rounds and subsamples by occupation and gender for each round. In terms of the subsamples by occupation, because of the small sample size and their relative similarity, we group manual and blue collar occupations in one subsample and professional and managerial occupations in another. Table 3 shows the rate of entrepreneurship (*Entrepreneur*) by four categories of occupation and two gender categories, by year, and reveals significant heterogeneity. The rate of employee entrepreneurship is strikingly low among manual workers and only slightly higher in among blue collar occupations. Professional occupations are also characterised by low employee entrepreneurship, while, unsurprisingly, entrepreneurship is significantly higher for managerial occupations.

The changes over time are remarkable. The drop in employee entrepreneurship is highest for manual workers - almost 65 percent -and is similarly high for blue collar occupations. For professional and especially for managerial occupations the drop is smaller –

about 50 and 35 percent, respectively. There is a significant difference in the rates of decline in employee entrepreneurship when gender is considered; the decline for male employees is almost 55 percent while that for female employees is less than 40 percent.

- Table 3 -

Results from estimating the probability of employee entrepreneurship – the focus of our analysis - are reported in Tables 4 and 5. In all regressions the explanatory variables are jointly statistically significant at 1 percent. In Table 4, the impact of the ‘fair’ wage premium is positive and statistically significant even when we control for an explicit employee ownership stake, as this latter effect is also positive and significant in all specifications. It is interesting to consider effects in two subsamples. The first comprises managers and professionals and the second consists of blue collar and manual workers. The positive effect of the ‘fair’ wage premium is stronger in the second subsample in 1995, while in 2004 it becomes more important in the first subsample. Tenure and wage arrears have negative and significant impacts on employee entrepreneurship in 1995 but this effect weakens and becomes insignificant in 2004. Firm size and state ownership are also negatively associated with employee entrepreneurship. Interestingly, the effect of foreign-owned firms on employee entrepreneurship does not differ significantly from the effect of private ownership by Russian entities. Regional controls suggest that incentives for employee entrepreneurship are much weaker in regions outside the Moscow-St. Petersburg metropolitan areas. In general, the magnitudes of the effects are lower in 2004 than in 1995.

- Table 4 -

The results from estimating subsamples by gender reported in Table 5 are also quite interesting. The magnitudes of estimated effects in the male subsamples are generally larger than in the female subsamples. For female employees, tenure appears not to have any statistically significant effect on entrepreneurship, and in 2004 the effect of the ‘fair’ wage



premium is also insignificant. Furthermore, in 2004, there are no statistically significant differences across most regions, including the Moscow-St. Petersburg metropolitan areas. The most relevant result, however, is that in foreign-owned firms women employees seem to be more entrepreneurial than their male counterparts although the effect weakens over the period.

- Table 5 -

## **CONCLUSION AND DISCUSSION**

Our main contribution has been to examine two hypotheses. The first was that entrepreneurial activity could be explained by 'fair' wage premia and was upheld. We found convincing evidence that higher wage premia positively influence entrepreneurial contributions by men and women employees as well as by those in managerial and professional occupations, even when we control for an employee explicit ownership stake in the firm. Thus, Akerlof's model of implicit gift exchange applies to the Russian context and not only to the Western environment in which it was originally developed.

The second hypothesis was that the rate of employee entrepreneurial activity declined in the ten-year period. This was upheld for the majority of occupations, especially for employees in the lowest graded positions and male workers. Indeed, it fell considerably. The overall decline in employee entrepreneurship is accompanied by a significant reduction - also by about a half - in the 'fair' wage premia. Such a decline cannot be attributed solely to the increasing efficiency of the Russian labour market. In the neoclassical model the firm never chooses to pay above the market-clearing wage. In Akerlof's model, however, the firm finds it advantageous to pay a wage premium because there are some benefits given prevailing norms.

The results from the analysis of subsamples by occupation and especially gender provide evidence for the labour market segmentation and heterogeneity which flows from Akerlof's model. Taken together with Ashwin and Lytkina's (2004) findings, this suggests a significant gender aspect to workers' willingness to contribute, since men have reduced their entrepreneurial activity more than women. It may therefore be that foreign companies' emphasis on equal opportunities and developing positive cultures in relation to women may have had some effect, although this appears to have weakened over time. There is evidence of a decline in the effect of the 'fair' wage premium on incentives for female workers over the ten-year period. The implicit gift exchange appears to be decreasingly credible for manual and blue collar workers as opposed to managers and professionals. Manual and blue collar workers had a high propensity to become unemployed, possibly adding to their reluctance to contribute.

It may have been possible for some Russian firms to create positive gift exchange relationships. But overall, entrepreneurial behaviour declined, especially among manual and blue collar workers and male workers more generally. This is consistent with other studies from very different schools of thought and using quite different methods, notably case studies (for example, Linz, 2003; Morrison, 2007; Clarke, 2009). The development is especially significant since these workers include 'cadres', skilled workers traditionally considered to have a much wider degree of initiative (Morrison, 2007). Foreign-owned firms showed the same trend as Russian-owned private firms, apparently demonstrating their incapacity to introduce motivational tools that would allow them to insulate themselves from the wider context. While in the case of women they were able to mitigate the wider context's impact, this effect weakened over time. These are important underlying realities for the practice of HRM in Russia.

At a theoretical level, our findings demonstrate the fluidity of employee behaviours during 'transition', suggesting that teleological 'transition' and institutionalist 'path dependence' approaches may obscure important counter-currents. Our analysis suggests that the first school's stress on linear development and the second's emphasis on institutional continuity mask important attitudinal shifts among workers.

## Notes

1. In Thompson's (1991) terms, this is the 'customary wage', part of the employees' 'moral economy'.
2. Although individuals do sometimes have reference groups, or reference individuals who are dissimilar (Akerlof, 1982), in matters of fairness it appears safe to suppose along with much industrial relations literature that most persons compare themselves to persons who are *similar*.
3. The argument is formally outlined in Akerlof (1982). If a worker with convex utility and positive marginal product of effort has a positive utility for wage income and zero disutility for added effort, the firm can increase his compensation and force him to work harder, to the advantage of both. If the worker was satisfied with his job before this additional trade, he will be even more satisfied afterwards and therefore more willing to remain at his work place and make entrepreneurial contributions.
4. This is not a true panel survey where sample individuals and households are followed and interviewed in each round. However, after 1999 the original design was modified and some individuals and households who moved away were surveyed at their new locations. Analyses of the RLMS data for attrition, carried out by the Institute for Social Research at the University of Michigan, show that the exits can be characterized as random and that the sample distributions remain unchanged (Heeringa, 1997).
5. Linz and Semykina (2008) use a similar RLMS sample of individuals in the labour force and estimate two cross-sections for 1995-1998 and 2000-2004 periods. We also use two cross-sections but for one year each - 1995 and 2004 - spanning a period of ten years because our goal is to capture and contrast the differences in HRM practices in Russia between early and late 'transition'.

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**TABLE 1** *Summary statistics*

<b>Variable</b>	<b>Definitions</b>	<b>1995</b>	<b>2004</b>
(1)	(2)	(3)	(4)
<i>Dependent variables</i>			
Wage	Log of hourly wage (real 1995 new Roubles)	2.162 (0.854)	2.682 (0.918)
<i>Entrepreneur</i>	Dummy variable equal to 1 if the employee performs entrepreneurial activity and 0 otherwise	0.081 (0.272)	0.047 (0.212)
<i>Determinants of 'fair' wage</i>			
Age	Individual age (year)	39.38 (10.87)	38.77 (11.28)
PrimSchool	Dummy variable equal to 1 if the individual has only completed primary school and 0 otherwise	0.264 (0.451)	0.201 (0.401)
HighSchool	Dummy variable equal to 1 if the individual has completed high school and 0 otherwise	0.486 (0.499)	0.526 (0.498)
University	Dummy variable equal to 1 if the individual has completed higher education and 0 otherwise	0.250 (0.434)	0.273 (0.448)
Male	Dummy variable equal to 1 if the individual is a male and 0 otherwise	0.452 (0.498)	0.427 (0.495)
Russian	Dummy variable equal to 1 if the individual is of Russian nationality and 0 otherwise	0.849 (0.358)	0.810 (0.313)
Manager	Dummy variable equal to 1 if the individual is in a managerial occupation and 0 otherwise	0.017 (0.127)	0.047 (0.212)
Professional	Dummy variable equal to 1 if the individual is in a professional occupation and 0 otherwise	0.238 (0.426)	0.214 (0.410)
BlueCollar	Dummy variable equal to 1 if the individual is in a blue collar occupation and 0 otherwise	0.309 (0.462)	0.355 (0.478)
Labourer	Dummy variable equal to 1 if the individual is in a manual work occupation and 0 otherwise	0.436 (0.496)	0.384 (0.486)
Married	Dummy variable equal to 1 if the individual is married and 0 otherwise	0.773 (0.419)	0.769 (0.444)
Children7	Log of number of children in the household age 7 years or younger	0.195 (0.340)	0.162 (0.306)
Children16	Log of number of children in the household age 8 to 16 years	0.428 (0.457)	0.325 (0.403)
HHSize	Log of number of adult household members	1.110 (0.373)	1.053 (0.417)
NLIncome	Log of monthly non-labour income per household member (real 1995 new Rubbles)	7.191 (3.275)	5.210 (4.005)

**TABLE 1 (continued)**

(1)	(2)	(3)	(4)
<i>Determinants of employee entrepreneurship</i>			
<i>WagePremium</i>	Proportional 'fair' wage premium	0.386 (0.733)	0.179 (0.870)
<i>OwnStake</i>	Dummy variable equal to 1 if the employee owns up to 50% share in the firm and 0 otherwise	0.249 (0.433)	0.060 (0.237)
<i>Tenure</i>	Log of number of years working in the same firm	1.994 (0.888)	1.604 (1.084)
<i>Arrears</i>	Dummy variable equal to 1 if the firm owes the employee wages in arrears and 0 otherwise	0.299 (0.458)	0.112 (0.316)
<i>FirmSize</i>	Log of total number of employees in the firm	4.784 (2.050)	4.504 (1.990)
<i>PrivateRussian</i>	Dummy variable equal to 1 if the firm is owned by a private Russian entity and 0 otherwise	0.244 (0.429)	0.415 (0.493)
<i>ForeignOwn</i>	Dummy variable equal to 1 if the firm is owned by a foreign (private) entity and 0 otherwise	0.034 (0.181)	0.038 (0.191)
<i>StateOwn</i>	Dummy variable equal to 1 if the firm is owned by the local of central government and 0 otherwise	0.741 (0.438)	0.557 (0.497)
<i>Regional fixed effects</i>			
<i>Moscow&amp;SP</i>	Dummy variable equal to 1 if the individual resides in Moscow or St. Petersburg region and 0 otherwise	0.113 (0.317)	0.116 (0.187)
<i>North&amp;NW</i>	Dummy variable equal to 1 if the individual resides in the North or North-West region and 0 otherwise	0.079 (0.270)	0.076 (0.248)
<i>Central</i>	Dummy variable equal to 1 if the individual resides in the Central region and 0 otherwise	0.191 (0.393)	0.191 (0.393)
<i>Volga</i>	Dummy variable equal to 1 if the individual resides in the Volga region and 0 otherwise	0.166 (0.372)	0.176 (0.380)
<i>NorthCaucasus</i>	Dummy variable equal to 1 if the individual resides in the North Caucasus region and 0 otherwise	0.128 (0.334)	0.123 (0.317)
<i>Ural</i>	Dummy variable equal to 1 if the individual resides in the Ural region and 0 otherwise	0.142 (0.349)	0.145 (0.342)
<i>WestSiberia</i>	Dummy variable equal to 1 if the individual resides in the West Siberia region and 0 otherwise	0.093 (0.290)	0.086 (0.255)
<i>EastSiberia</i>	Dummy variable equal to 1 if the individual resides in the East Siberia region and 0 otherwise	0.088 (0.284)	0.077 (0.266)
Total obs.		2437	2889

Note: Summary statistics reported for each variable are mean and standard deviation (in parentheses).

**TABLE 2** *Wage equation*

Variable	1995		2004	
	Selection	Wage	Selection	Wage
(1)	(2)	(3)	(4)	(5)
Age	<b>0.050</b> (0.018)	<b>0.015</b> (0.009)	<b>0.028</b> (0.015)	0.017 (0.014)
Age <sup>2</sup> x10 <sup>-2</sup>	<b>-0.057</b> (0.023)	<b>-0.023</b> (0.012)	<b>-0.036</b> (0.019)	0.022 (0.018)
HighSchool	0.002 (0.063)	0.054 (0.038)	0.024 (0.061)	0.046 (0.061)
University	<b>0.180</b> (0.099)	<b>0.388</b> (0.057)	<b>0.172</b> (0.081)	<b>0.369</b> (0.078)
Male	<b>0.192</b> (.0064)	<b>0.297</b> (0.036)	0.073 (0.054)	<b>0.253</b> (0.053)
Russian	0.043 (0.073)	0.014 (0.044)	0.022 (0.073)	0.088 (0.073)
Manager	<b>-0.325</b> (0.192)	<b>0.216</b> (0.125)	-0.027 (0.097)	<b>0.352</b> (0.105)
Professional	0.086 (0.100)	<b>0.267</b> (0.056)	<b>0.172</b> (0.086)	<b>0.308</b> (0.081)
BlueCollar	0.075 (0.072)	<b>0.133</b> (0.042)	<b>0.118</b> (0.062)	<b>0.167</b> (0.060)
Married	-0.010 (0.067)	-	-0.090 (0.058)	-
Children7	-0.125 (0.085)	-	<b>-0.154</b> (0.075)	-
Children18	0.102 (0.074)	-	0.049 (0.064)	-
HHSize	<b>0.205</b> (0.087)	-	<b>0.129</b> (0.067)	-
NLIncome	<b>-0.272</b> (0.068)	-	<b>-0.135</b> (0.062)	-
North&NW	-0.119 (0.128)	-0.072 (0.074)	<b>-0.397</b> (0.109)	<b>-0.336</b> (0.109)
Central	<b>-0.293</b> (0.107)	<b>-0.520</b> (0.057)	<b>-0.182</b> (0.085)	<b>-0.584</b> (0.079)
Volga	<b>-0.426</b> (0.108)	<b>-0.791</b> (0.059)	<b>-0.287</b> (0.087)	<b>-0.821</b> (0.080)
NorthCaucasus	<b>-0.533</b> (0.119)	<b>-0.738</b> (0.066)	<b>-0.234</b> (0.096)	<b>-0.664</b> (0.090)
Ural	<b>-0.222</b> (0.115)	<b>-0.373</b> (0.061)	<b>-0.167</b> (0.089)	<b>-0.552</b> (0.082)
WestSiberia	<b>-0.244</b> (0.122)	<b>-0.210</b> (0.068)	<b>-0.371</b> (0.107)	<b>-0.920</b> (0.105)
EastSiberia	<b>-0.579</b> (0.121)	<b>-0.166</b> (0.069)	<b>-0.705</b> (0.091)	<b>-0.830</b> (0.097)
WaldChi2(16)	673.93		495.73	
Total obs.	4347		4955	
Uncensored obs.	3170		4115	

Note: Wage equation is estimated by two-stage Heckman model. **Selection** denotes selection equation; **Wage** denotes wage equation corrected for selection. Coefficients in **bold** are significant at the 10 percent level or better and represent marginal effects. Standard errors are reported in parentheses next to the coefficients.

**TABLE 3** *Rate of entrepreneurship*

<b>Occupation</b>	<b>Manual</b>	<b>Blue collar</b>	<b>Professional</b>	<b>Managers</b>	<b>Male</b>	<b>Female</b>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1995	4.97	11.79	7.72	52.38	10.43	6.12
2004	1.81	4.48	3.70	34.13	4.70	3.88
Change, %	-63.6	-62.0	-52.1	-34.8	-54.9	-36.6

Note: Tabulations are presented by occupation and gender for two survey rounds.

**TABLE 4 Entrepreneurship equation by occupation**

Variable	1995			2004		
	Total	Man&Prof	Blue&Lab	Total	Man&Prof	Blue&Lab
(1)	(2)	(3)	(4)	(5)	(6)	(7)
WagePremium	<b>0.014</b> (0.004)	0.010 (0.010)	<b>0.015</b> (0.005)	<b>0.009</b> (0.003)	<b>0.013</b> (0.007)	0.005 (0.003)
OwnStake	<b>0.059</b> (0.009)	<b>0.103</b> (0.021)	<b>0.042</b> (0.010)	<b>0.066</b> (0.010)	<b>0.094</b> (0.026)	<b>0.038</b> (0.010)
Tenure	<b>-0.017</b> (0.005)	<b>-0.032</b> (0.010)	<b>-0.011</b> (0.005)	-0.003 (0.002)	-0.004 (0.006)	-0.002 (0.002)
Arrears	<b>-0.017</b> (0.009)	-0.016 (0.016)	<b>-0.015</b> (0.008)	-0.006 (0.009)	-0.014 (0.012)	-0.015 (0.012)
FirmSize	<b>-0.017</b> (0.002)	<b>-0.015</b> (0.005)	<b>-0.018</b> (0.003)	<b>-0.009</b> (0.002)	<b>-0.009</b> (0.003)	<b>-0.008</b> (0.002)
ForeignOwn	-0.003 (0.019)	-0.026 (0.021)	0.023 (0.029)	-0.007 (0.015)	-0.013 (0.015)	0.013 (0.019)
StateOwn	<b>-0.100</b> (0.015)	<b>-0.076</b> (0.032)	<b>-0.101</b> (0.017)	<b>-0.035</b> (0.007)	<b>-0.095</b> (0.028)	<b>-0.025</b> (0.007)
North&NW	-0.019 (0.011)	-0.007 (0.032)	-0.011 (0.014)	-0.004 (0.008)	0.011 (0.028)	-0.006 (0.009)
Central	<b>-0.032</b> (0.008)	<b>-0.043</b> (0.016)	<b>-0.024</b> (0.011)	-0.007 (0.006)	0.001 (0.016)	-0.007 (0.007)
Volga	<b>-0.019</b> (0.009)	-0.014 (0.021)	-0.016 (0.012)	0.001 (0.007)	<b>0.035</b> (0.026)	-0.008 (0.006)
NorthCaucasus	<b>-0.023</b> (0.009)	-0.028 (0.017)	-0.016 (0.012)	-0.008 (0.006)	-0.014 (0.013)	-0.004 (0.008)
Ural	<b>-0.028</b> (0.009)	<b>-0.043</b> (0.013)	-0.016 (0.013)	0.002 (0.008)	-0.009 (0.014)	0.008 (0.010)
WestSiberia	<b>-0.030</b> (0.009)	<b>-0.038</b> (0.013)	-0.023 (0.012)	<b>-0.012</b> (0.005)	0.007 (0.030)	<b>-0.014</b> (0.005)
EastSiberia	<b>-0.022</b> (0.010)	-0.030 (0.017)	-0.015 (0.013)	<b>-0.015</b> (0.005)	-0.015 (0.012)	<b>-0.016</b> (0.006)
LRChi2(14)	327.46	117.08	230.42	294.15	222.92	200.91
Total obs.	2437	629	1808	2889	757	2132

Note: Entrepreneurship equation is estimated by Probit model. **Man&Prof** denotes managerial and professional occupation categories; **Blue&Lab** denotes blue collar and manual workers occupation categories. Coefficients in **bold** are significant at the 10 percent level or better and represent marginal effects. Standard errors are reported in parentheses below the coefficients.

**TABLE 5 Entrepreneurship equation by gender**

Variable	1995			2004		
	Total	Male	Female	Total	Male	Female
(1)	(2)	(3)	(4)	(5)	(6)	(7)
WagePremia	<b>0.014</b> (0.004)	<b>0.017</b> (0.007)	<b>0.012</b> (0.006)	<b>0.009</b> (0.003)	<b>0.010</b> (0.004)	0.006 (0.005)
OwnStake	<b>0.059</b> (0.009)	<b>0.095</b> (0.022)	<b>0.062</b> (0.020)	<b>0.066</b> (0.010)	<b>0.262</b> (0.061)	<b>0.164</b> (0.050)
Tenure	<b>-0.017</b> (0.005)	<b>-0.026</b> (0.008)	-0.008 (0.006)	-0.003 (0.002)	<b>-0.006</b> (0.003)	-0.001 (0.003)
Arrears	<b>-0.017</b> (0.009)	<b>-0.022</b> (0.012)	-0.013 (0.010)	-0.006 (0.009)	-0.001 (0.010)	-0.015 (0.015)
FirmSize	<b>-0.017</b> (0.002)	<b>-0.021</b> (0.004)	<b>-0.015</b> (0.003)	<b>-0.009</b> (0.002)	<b>-0.008</b> (0.002)	<b>-0.008</b> (0.002)
ForeignOwn	-0.003 (0.019)	-0.037 (0.017)	<b>0.052</b> (0.031)	-0.007 (0.015)	-0.020 (0.022)	0.001 (0.018)
StateOwn	<b>-0.100</b> (0.015)	<b>-0.110</b> (0.022)	<b>-0.076</b> (0.019)	<b>-0.035</b> (0.007)	<b>-0.038</b> (0.010)	<b>-0.033</b> (0.010)
North&NW	-0.019 (0.011)	<b>-0.036</b> (0.015)	-0.002 (0.018)	-0.004 (0.008)	0.001 (0.012)	-0.011 (0.009)
Central	<b>-0.032</b> (0.008)	<b>-0.051</b> (0.014)	<b>-0.015</b> (0.012)	-0.007 (0.006)	0.001 (0.009)	-0.010 (0.008)
Volga	<b>-0.019</b> (0.009)	-0.023 (0.018)	-0.014 (0.013)	0.001 (0.007)	-0.001 (0.009)	0.002 (0.010)
NorthCaucasus	<b>-0.023</b> (0.009)	<b>-0.044</b> (0.013)	-0.007 (0.015)	-0.008 (0.006)	-0.005 (0.008)	-0.010 (0.008)
Ural	<b>-0.028</b> (0.009)	<b>-0.044</b> (0.014)	-0.012 (0.014)	0.002 (0.008)	0.003 (0.011)	0.004 (0.011)
WestSiberia	<b>-0.030</b> (0.009)	<b>-0.044</b> (0.013)	-0.017 (0.013)	<b>-0.012</b> (0.005)	-0.013 (0.009)	-0.010 (0.009)
EastSiberia	<b>-0.022</b> (0.010)	<b>-0.038</b> (0.014)	-0.003 (0.016)	<b>-0.015</b> (0.005)	-0.010 (0.007)	<b>-0.017</b> (0.006)
LRChi2(14)	327.46	200.99	128.95	294.15	187.23	119.69
Total obs.	2437	1108	1329	2889	1237	1652

Note: Entrepreneurship equation is estimated by Probit model. **Male** denotes sample of men; **Female** denotes sample of women. Coefficients in **bold** are significant at the 10 percent level or better and represent marginal effects. Standard errors are reported in parentheses below the coefficients.