

## CONTEMPORARY ISSUES OF RURAL FAMILY ENTREPRENEURSHIP: CASE OF RUSSIAN INDIGENOUS FAMILY BUSINESSES

Sergei Polbitsyn – Anna Earl – Anna Bagirova – Aleksey Kluev

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### Abstract

**Purpose:** The study focuses on the research of rural family businesses of indigenous people in Russia. The social problems that these people face are related to ensuring the stability of the rural family business, which also impacts the stability of rural development. We attempt to identify the main pain points in the development of the rural family business, which require deeper understanding and examination.

**Design/methodology/approach:** We employed quantitative methodology and use an applied survey data analysis as the pilot study that was conducted in April 2019. The participants include 30 indigenous people in family businesses based in the Ural region of Russia.

**Findings:** We found that family business presents the social foundation that bridges the gap between social and economic institutes. We also identified common and most important economic and social factors that shape rural family business including, economic stability of families and transfer of family values to the next generations.

**Research/practical implications:** Our study contributes to the understanding of main factors influencing rural family business. We argue that family binds create unique managerial approach in family firms and close attention must be paid to the research of this specific approach.

**Originality/value:** We challenge the existing research on the factors that influence rural family business generation and development, and identify contextual factors that influence rural family business in Russia. We distinguish between rural family businesses from any other entrepreneurial firms, which is the cornerstone for more exhaustive research of rural family business.

**Keywords:** family business, rural entrepreneurship, parental labor, indigenous people, agriculture

**JEL Codes:** Q12, L26

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## **Introduction**

Family firms present a significant economic force worldwide. In former communist states, where family business was prohibited, family business was developing with higher rates than corporate business. Jervell (2011) argue that family business is a better organization of small business than corporate business, especially in rural communities. Despite family business potential advantages, such as higher loyalty and greater faith in long term stability, Backman and Palmberg (2015) warned that family businesses cannot serve as locomotives for local economy. This position of the ‘second plan players’ and family ‘bread-winners’ leads to risk avoidance and loosing profitability in family firms.

Russia presents a unique contextual setting to examine family business (Barkhatova et al. 2001). This creates an exciting opportunity to investigate history and development of rural family business. This in turn, can help to examine fundamental principles of rural family business applicable to different countries with different context (Polbitsyn and Earl, 2019).

### **1. Rural family business**

In order to present a comprehensive yet disciplined review of the research on family business, we have conducted a literature review focusing the scope of the analysis on family business and family entrepreneurship. Family business is not a new phenomenon and it is often categorized by the combination of the three dimensions: family, management, and ownership (Leskova and Shalashnikova, 2016). Furthermore, family involvement, the competitive advantage that is derived from the interaction of the three dimensions mentioned above and the owner’s obsession with creating a family legacy also characterize family business (Gupta et al. 2008).

Seaman (2015) argues that one family may have more than one business and conclude that family is more important than business. The author suggests exploring business families rather than family business and argues that family relations are more important for family business succession. These relations must create social net, where business will be developed. One of the main reasons to start up a family business is to create social networking (Seaman, 2015; Seaman et al. 2017). It is futile not to agree with authors that family business paves the best way to create sustainable relations not only inside one family, but between families that cooperate in business, thus establishing socioemotional wealth (Gomez-Mejia et al. 2011). Customer-business relations is a critical element of social networking as well as of family business. These relations are built on loyalty and attachment of customers to the family. Consumers generally feel that when buying from family business, they become the part of the family and develop closer relations with the business (Carrigan and Buckley, 2008). The

creation of social network with customers is an advantage of family business, because of the meaning of 'familiness' in consumers' minds when linked to family business. This is particularly important in rural communities because 'familiness' for these communities means support and sustainable development.

This argument serves mostly for the social origin of family business. The social identity theory (Wielsma and Brunninge, 2019) gives us the opportunity to describe family business as an institution for developing social relation within family. The social value of family business is fundamental in rural territories (Bosworth, 2012). Sustainable social and economic development of rural territories is based primarily on local family businesses because of their social responsibility for the rural community.

On other hand, any family business organization must be treated and evaluated as a commercial entity, because the primary goal of any entrepreneurial organization is to generate profit (de Lima et al. 2015). To explore family business strategies authors view family business as entrepreneurship organizations with specific management and attempt to develop strategies for family business based on this peculiarity.

One of significant peculiarities of family business is the easier transition process from one generation to another (Jervell, 2011). The author claims that family business has better sustainability than any entrepreneurship organization, giving the opportunity to foresee its development for a longer period of time. Although the easier transition process can be seen as an advantage for family businesses, for this transition process to run smoothly there is a need for sophisticated management practices.

Another oddity of family business is the attitude to innovation and new technologies. The research on digital behavior of rural entrepreneurs illustrates that family entrepreneurs are less ready to enroot new technologies (Philip and Williams, 2019). Family business owners argue that they need to protect family traditions, rather than follow the market. The challenge that family business faces is to balance being profitable and not compromise family traditions. Bozhkov (2019) interprets family business in Russia as any entrepreneurial business, aimed to gain profit. However, in rural territories any business must bear social responsibilities. This in turn creates a challenge of balancing act for family business.

We state that human capital is challenging to imitate because it is tacit and as a result it becomes a valuable business resource. Human capital incorporates the experience, skills and knowledge of management, as well as networks of personal and professional ties. Human capital enhances competitive advantage of firms, hence human capital resource is vital in business succession (Ployhart and Moliterno, 2011).

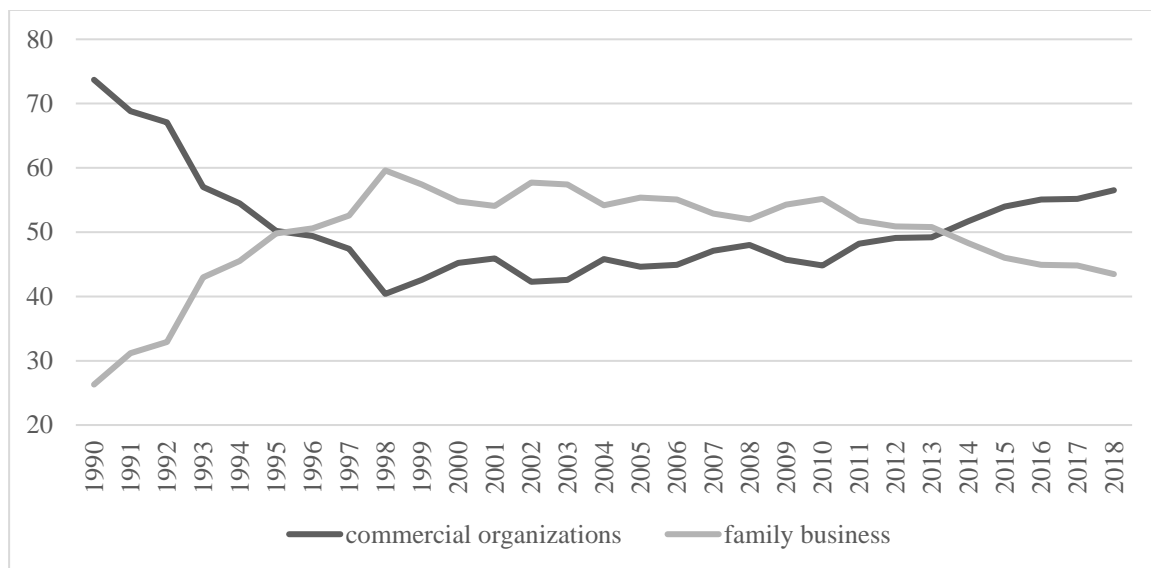
We argue that in rural family business in Russia, human capital presents a fundamental recourse that helps to develop entrepreneurial intent (Kalendgan and Volkov, 2011). For the purpose of our study, we view human capital through the lens of parenthood, the concept that has been overlooked in the literature. Yet, parenthood is crucial in developing success factors for rural family business.

Parental labor differs in different types of families, especially in family businesses. We argue that there are specific characteristics of parental work in families engaged in family business in agriculture. Shipitsyna (2015) finds that higher levels of exposure to a prior family business, attitudes towards ownership, family support and entrepreneurial self-efficacy significantly influence a family business intent to be entrepreneurial. We add to the existing literature and argue that earlier training of children in labor skills, which may be due to the territorial proximity of the place of residence of the family and place of employment, play a significant role in rural family business success, especially in Russia. Parents, realizing professional entrepreneurial work directly observed by the children, can have more influence on the formation of character traits such as hard work, responsibility for the results of work, adherence to family values and traditions, to which family business is primarily related (Polyakov and Vinokurova, 2011).

We further argue that earlier development of the professional aspects of the human capital of children associated with the acquisition of entrepreneurial competencies, including the development of an entrepreneurial culture, entrepreneurial way of thinking and opportunistic nature (Leskova and Shalashnikova, 2016). Traditionally, the development of professional elements of human capital begins in the process of obtaining a vocational education. If the family is engaged in family business, then, the transfer of certain professional competencies is organically included in the process of early family education and development (Matusenko, 2014).

The juridical definition of family business in Russian jurisdiction is absent (Levushkin, 2018). According to the Russian Civil Code there are household businesses and individual farms, both terms cannot give clear understanding of what family business actually is. According to the Russian Law on farms, only family members are entitled to be employed. To assume that family businesses may be included in any of two groups, we must identify them as households or farms. To continue our statistical research, we accept all household businesses and farms as family businesses for the sake of clarity.

The structure of agricultural production in Russian Federation over time is presented in Figure 1. It demonstrates the importance of rural family business in Russian agriculture.

**Fig. 1: The structure of agricultural production in Russian Federation (in %%)**

Source: Russian Federal State Statistics Service (2020).

Three periods of the family business development are presented in the diagram. The first period, 1990-2000 is the time when entrepreneurship was allowed in Russia. During this time almost all rural households attempted to become business units. As illustrated in Figure 1, the growth of agricultural production is phenomenal. When former collective farms were unable to organize new type of business, oriented on consumer's market, family businesses flourished and rapidly increased agricultural production because they understood customers' demand. The second period, referred to as 'parity period' of 2001-2013, when family farms production and commercial organizations production were equal. The third period, 2014-2015, when sanctions on agricultural imported goods were announced and national agricultural production increased vigorously. However, family farms were not ready to meet the growing demand and they started to lose to commercial organizations.

Rural family business has become the second important player on the Russian agricultural market. However, family businesses have no necessary resources for rapid growth under fast changing conditions. Lack of experience and resources is a clear challenge in developing human capital in Russian rural family businesses. Furthermore, family business in Russia experiences higher level of unpredictability and lower level of stability. Family businesses in Russia are not adequately organized into associations and unions to protect their interests on local and national levels. We also consider family business as a social institution in which parenting and parental labor have the specific features (Bagirova and Shubat, 2018).

## **2. Research method and data**

The methodology of our research is based on the identification of the conceptual development of family business as the part of rural economic systems. The purpose of this pilot study is to identify the most dominant factors effecting intention towards family business in Russia. The focus of the study is Russia, the country with wiped history of family business that was developed in the country for centuries. The preliminary research was conducted during the special session dedicated to social and economic development of Bashkir communities as the part of the scientific conference in the Ural Federal University, Russia in April 2019. The Bashkirs are one of small indigenous Turkic people of Ural region in Russia with population of approximately 40,000 people in Sverdlovsk oblast. They stand on the strong position of preserving their national culture (Bashkirs, n.d.).

Although there is a growing interest among researchers in rural entrepreneurship, the problem of family business, especially in territories, inhabited by indigenous people, is still unexplored. We attempt to find the factors to prove the hypothesis that family business is seen by rural indigenous entrepreneurs, mostly as the social institute, to develop family and national values. Family business is constrained by several factors that can not only reduce the entrepreneurial activities, but also negatively affect the rural social and economic development of territories inhabited by indigenous people as a whole. Our research presents a framework for the influence of the rural area indigenes on family business development and is based on socioeconomic and structural forces engaged in family business organizations.

Typologically factors were divided into two groups: external and inner factors. For our research, the following factors were chosen by experts:

1. Support of family business from local administration;
2. Necessity of marketing information on family business production;
3. Necessity for dissemination of information on specific features of rural areas development;
4. Necessity for the special supporting programs on family businesses;
5. Difficulties in interaction of family businesses.

The questionnaire for the survey was designed as a combination of Likert Scale (5 – Very Important; 4 – Important; 3 – Moderately Important; 2 – Slightly Important; 1 – Unimportant). This pilot survey serves as an illustration to demonstrate our desire to start the research process.

### 3. Results: Rural family business in Russia - case of indigenous people

The questionnaires were distributed during special session in April 2019 as a part of the research conducted by the Ural federal university dedicated to the development of indigenous people of the Ural region. A sample of 30 respondents was generated. Individual ratings were treated as continuous data (Harpe, 2015). The observed data was analyzed by applying classical tests of hypotheses. We expected that means of all factors, that were chosen as significant will be not less than 4 (“important”). One-sample mean comparison test for the 2019 data gave the following results (Table 1).

**Table 1. One-sample mean comparison test results**

Factors	N	Mean	Standard Deviation	[95% Conf. Interval]		T value	P value
Support of family business from local administration	30	3.5	.59	3.28	3.71	-2.72	0.01
Necessity of marketing information on family business production	30	3.6	.52	3.42	3.78	-2.28	0.03
Necessity for dissemination	30	3.2	.64	2.97	3.43	-5.77	0.00
Necessity for the special supporting programs	30	2.8	.61	2.58	3.02	-8.27	0.00
Difficulties in international interaction of family business	30	2.5	.57	2.30	2.70	-11.79	0.00

The results are unexpected: all factors, that were proposed by experts to be important were not named as important by respondents.

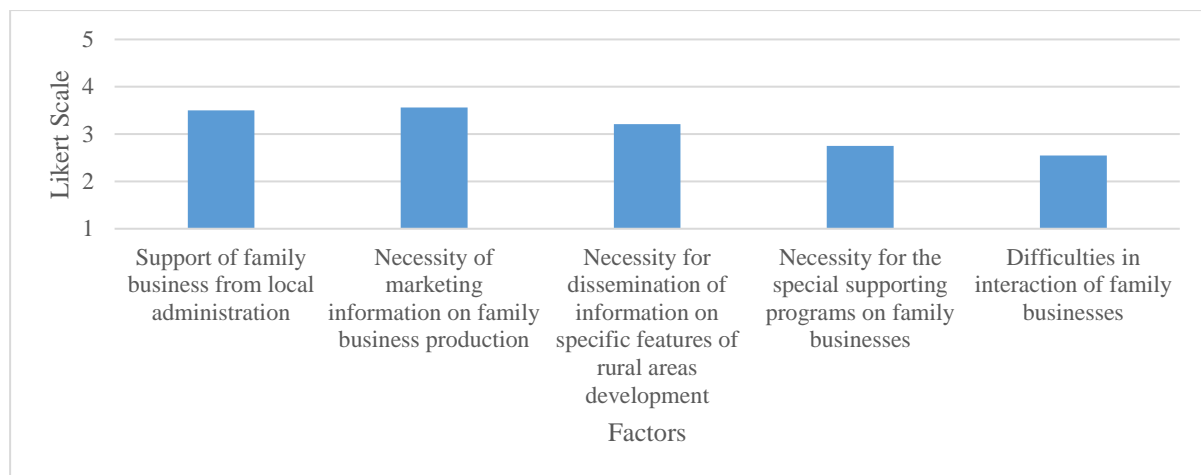
The survey results are presented graphically on Figure 2. The factor “Difficulties in interaction of family businesses” is the most interesting. It was supposed to be one of the main hurdles, but respondents graded it as unimportant or slightly important, responding that there is no competition between Bashkir families and no difficulties in interaction.

The factor “Necessity of marketing information on family business production” showed its importance to family businesses. However, the problem was identified as the lack of accessible qualified marketing specialists. Cooperation with research organizations having experience in information management was suggested as an alternative solution, but most respondents rejected this possibility, appealing to the need to preserve the confidentiality of information.

When respondents were questioned on “special supporting programs” in their indigenous rural areas, they demonstrated a lack of understanding of the need to teach them not only national customs and traditions but also basic entrepreneurial skills.

The answers on information dissemination factor were supplemented with verbal comments from respondents about the dissatisfaction with the capacity of accessible information channels.

**Fig. 2: Likert scale of factors restraining the family business of Bashkir rural areas in Russia**



28 out of 30 respondents pointed out the lack of support from local and regional administrations, but respondents were requesting this support mainly in the form of subsidies. All respondents had no information and were not seeking information on federal and regional programs for national rural areas and entrepreneurship support. The described factors serve as the evidence of our hypothesis for the case of Bashkir people. We do not argue that our results are comprehensive and overwhelming, but as we said already, it is the first attempt to investigate the rural family business in Russia.

## Conclusion

The research indicated that indigenous family entrepreneurs in Russia view family business not only as economic activity but also as the way to preserve their national identity, and therefore their attitude to family business is based on the perception of entrepreneurship as one of conventional forms to strengthen their national exclusiveness.

The indigenous family business is based on a rigid division of the internal and external environment of the entrepreneurship. Indigenous entrepreneurs believe that family business, based solely on internal resources such as primarily intellectual, can occur within any family



enterprise. The results of this study indicate that family business and rural indigenous entrepreneurs have the same principles as any other type of social activities.

The pilot survey demonstrated that factors, named by experts to be the most influential are not so important to family business owners. The results of the pilot survey and further analysis lead us by three paths for future research, that are particularly important: qualitative research of Bashkirs' family businesses to clearly understand factors influencing their development, entrepreneurial adaptiveness and performance of family businesses, and how family businesses interact with the national identity. To further continue with our research of Bashkirs' family business we first need to identify clearly significant factors influencing the development of family business. On step one, we will improve database quality by preparing a tailor-made questionnaire that will help us better differentiate factors influencing family businesses. This will allow to move to the development of rural entrepreneurship model on the next step of our research.

To result the conducted research, it is necessary to acknowledge that hurdles are appearing on all steps of entrepreneurial activities of rural indigenous family businesses. The main role in developing rural indigenous family businesses is to surmount obstacles and overcome difficulties must be played by regional and local authorities by establishing new institutes for the development of rural entrepreneurs.

## **Acknowledgement**

The reported study was funded by RFBR, project number 20-010-00480 "The role of entrepreneurial ecosystems in the socio-economic development of rural territories of Russia"

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**Contact:**

**Sergei Polbitsyn**

Institute of Economics and Management

Ural Federal University

19 Mira street, 620002 Ekaterinburg, Russian Federation

Institute of Economics

Ural Branch of RAS

Moscovskaya Street, 29, Ekaterinburg, Russian Federation

s.n.polbitsyn@urfu.ru

**Anna Earl**

Department of Management, Marketing and Entrepreneurship

University of Canterbury, Christchurch

Private Bag 4800 Christchurch 8140, New Zealand

anna.earl@canterbury.ac.nz

**Anna Bagirova**

Institute of Economics and Management

Ural Federal University

19 Mira street, 620002 Ekaterinburg, Russian Federation

a.p.bagirova@urfu.ru

**Aleksey Kluev**

Institute of Economics and Management

Ural Federal University

19 Mira street, 620002 Ekaterinburg, Russian Federation

a.k.kluev@urfu.ru