Use of Social Capital among Russian Managers of a New Generation

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Abstract

Social capital is used to explain how relationships, with particular emphasis on social relationships, provide a mechanism in which networks operate. Social capital has been used to describe the glue which holds business networks together during times of crisis. It has also been described as the lubricant allowing business networks to operate efficiently without the requirement for extensive control mechanisms. This research uses the three aspects of social capital, as outlined by Nahapiet and Ghoshal (1998), to investigate the operation of business networks within Russia. The dynamic changes in the Russian economy in the 1990's have seriously impacted on the relationships among individuals and organisations. The current level of social capital in Russia is very low due to the destroyed structures which used to maintain the elements of social capital: trust, social norms and networks. The networks established in the previous system are still considered as the most reliable and stable by most Russians. This research focuses on the new wave of Russian managers and their attitude towards the use of social capital when conducting business.

INTRODUCTION

Social capital is an umbrella concept used in a variety of disciplines to describe resources embedded within social networks (Adler and Kwon 2002). In particular, within business networks, it describes resources embedded within social relations used to lubricate network operations which improve efficiency. Social capital is defined as "the sum of the actual and potential resources embedded within, available through and derived from the network of relationships" (Nahapiet and Ghoshal 1998, p. 243). This definition broadly includes resources from a variety of sources and whether they currently exist or exist in the future.

There are numerous definitions of social capital (Adler and Kwon 2002), yet this definition considers both the internal and external aspects of relations and their present and future use. The use of social capital improves a firm’s value creation (Tsai and Ghoshal 1998) and develops an organizational advantage (Nahapiet and Ghoshal 1998). Yet, although this concept has been researched in a variety of different disciplines, there is a lack of research on social capital development within different national and cultural settings (Hitt, Lee and Yucel 2002). Social capital has even been touted as the concept

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to help integrate social relations into the cross-cultural management discipline emphasizing its importance within different cultural settings.

Adler and Kwon (2002) differentiate between social capital as operating within three different types of relations: market relations; hierarchical relations and social relations. These levels are not independent and actors can use resources from within any relational type for use within another relation. For example, it has been shown that the use of social relations assists in obtaining employment i.e. hierarchical relations. The differentiation between these types of relations blurs within different cultures. In Russia, social relations (friendships) are linked to market relations and hierarchical relations through the concept of *blat* (Butler and Purchase 2004). Similarly, within Chinese, Japanese and Korean networks, social capital is important in the use of *guanxi, kankei* and *inmak* (Hitt, Lee and Yucel 2002).

Social capital is embedded into the network in which the firm operates and is a consequence of both their actions and the actions of others. Therefore, firms really have little control over the resource base and need to rely on others within their network to access and search for resources they do not control internally. The development of the resource base embedded within the network is not under any single actor’s control, making the overall development of social capital within the network organic (Håkansson and Ford 2002).

Within this organic concept of social capital, three dimensions have developed – structural, relational and cognitive (Nahapiet and Ghoshal 1998, Tsai and Ghoshal 1998; Bourdieu 1986). These dimensions make up the fundamental base of this research and will be expanded upon later in this paper. Each dimension describes a different type of resource that is used and developed differently within the network. This research will build on these dimensions of social capital and consider how they are used and accessed within Russian business networks.

Russia has a culture of collectivism from a feudal society through to communism. Russian society has relied on business networks with their connections to overcome barriers imposed by a maze of bureaucracy and power networks that emerged during the communist era. Although Russia’s political situation has changed, the extensive use of social capital to ease the way for business and personal development still exists, although in a different form.

In the market economy, the former communist structures and the collectivist relationships no longer exist. As Russia’s leading sociologist Afanassiev (2002) noted, in the USSR, the Soviet nomenclature of the Communist Party was restructuring all public social groups in accordance with its own image. Consequently, diversity and complexity in the public sector were smoothed over and the experience of collective independent actions was lost.

“Social structure” in the Soviet sense is not the field and result of spontaneous group and intergroup relationships. It is an artificial community of the “working masses”, subdivided into “collectives” of various sizes for convenience of the administration and book-keeping.
Accordingly, the definition of "the post-Soviet public" which was used in the 1990's, meant verification of the collapse of the artificially organised socium due to lack of alternative forms of public self organisation (Afanassiev, 2001). Therefore, with the disintegration of the collectives as the basis of social capital, the concept has undergone a transition with new social capital bases forming.

This research uses the concepts of social capital to explore the use of business relationships and networks within current Russian society. Given the lack of research on the dimensions of social capital within different cultural environments and the changing nature of the Russian business networks, this research combines these two areas to contribute to the understanding of social capital within different environments. The focus of the research is: How do the dimensions of social capital operate within Russian business networks?

As little research has been conducted into the use of social capital within Russia, an exploratory research approach was used. The researchers conducted interviews with current Russian business entrepreneurs operating private businesses. Data was coded and analyzed according to the three dimensions of social capital.

RUSSIA IN TRANSITION

Russian society is undergoing a change in political and social development with the fall of communism resulting from perestroika. This has resulted in public apathy towards involvement in the community and low levels of social capital among individual Russians. The low level of individual social capital has added a special depth and heaviness to post-Soviet life. It also presents a difficulty for new organisations as they need to develop new bases of social capital. Nevertheless, results of the Presidential election (2000) and public opinion polls indicate that Russians are learning to operate in the new environment rather quickly. Most Russians are not striving for the elimination of private property, or freedom of speech and a free election. It is not that Russians are against the new government or private organisations; rather, they are against the role that these institutions are playing within society. Intolerance of people to new institutions has lead to alienation and indifference and therefore it cannot be considered as ingrained in social reality. The lack of social participation and control reverts the meaning of democratic institutions and inevitably leads to their damage (Radaev 2001). Thus, individuals are not content with the previous or current bases of social capital and are instead searching for reliable and trustworthy social capital bases.

According to Afanassiev (2002), a post-Soviet person does not bear the traditional communal or socialist collectivism mentality. Generally, post-Soviet people are individualists who count on themselves and people in their closest circle. According to Fukiyama (1996), the situation with trust in Russia is catastrophic. No one trusts anybody and this mistrust is extended to the "state individual", "state organisation" and to "inter-organisational" relations. Consequently, the change from communal social capital to other forms of social capital has been dramatic. Most people tend to form close ties relying on personal connections to achieve desirable results, both for themselves personally and their organisations (Afanassiev 2002, Radaev 2001). Among
Russian officials, personal devotion and patronage is considered the main factor of a successful career with informal agreements between participants within shadow alliances determining the activities of official organisations. Business networks in Russia are primarily informal in character and to a large extent are built on personal connections (Afanassiev 2002). This research investigates the role of social capital within this transitional phase in Russia.

SOCIAL CAPITAL

People operate in social systems and the interactions that occur reflect the social systems we develop. Social capital is a broad concept that brings together the social aspects of human interaction and describes a broad accessible resource base. Social capital is a lubricant ‘smoothing the way’ for a variety of business transactions that would otherwise be costly, risky or difficult to conduct. Yet, this concept is enigmatic in that it is difficult to fully describe as it is based on perceptions of participating actors rather than concrete structures.

Different forms of capital were highlighted by Bourdieu (1986). Capital in all its forms requires further analysis if the whole picture is to be developed. Social capital is one such form that allows access to resources which are embedded into a group (or network) of members as the result of an individual’s membership in the group. From this basis, three dimensions of social capital were developed – structural, relational and cognitive (Nahapiet and Ghoshal 1998). Each of these dimensions operates in their own right and will now be described in more detail below.

Structural Aspect

Research within the social network analysis discipline has shown how the structural dimensions of a network play an important role in the operation of the network and the role of the actors within the network (Wasserman and Faust 1994). The structural aspects of the network play an important role on how different actors can access resources from within the network. In particular, measures such as centrality and betweenness look at the position of the individual actor and whether that actor gains an advantage in being able to access resources. Central actors operate in privileged network positions as they act as an important conduit for the flow of resources through the network. Other structural dimensions include network density; the existence of structural holes; network patterns; and connectivity (Wasserman and Faust 1994).

Structural dimensions look at the existence of links between actors yet, to a certain extent, do not consider the strength of the relationships between the actors (Bourdieu 1986). Network structures need to be configured to facilitate the flow of resources between actors. For example, if there are no central actors within the network, then the distribution of resources within the network will be less efficient than with the existence of large central actors.

Nahapiet and Ghoshal (1998) described structural social capital through network ties, network configuration and appropriate organization. Tsai and Ghoshal (1998) used
centrality for their measurement of social capital. Their research indicated that structural capital has an important and significant effect on the exchange of resources within the network, yet it does not fully describe the process of resource exchange. Overall, structural capital considers the number of connections, proximity of connections to the major powerful players, diversity of the connections and the network position of the actor relative to other network players. The structural dimension of social capital investigates how the overall network configuration assists or hinders the flow of resources within the network.

Russian business networks have strong structural networks developed out of the changing political environment. For example, the criminal networks that emerged after the fall of the strong communist regime developed with the lack of a strong legal authority within the country. Networks based on previous communist party connections also play an important role within the Russian business community. Much of the nationalized industry was bought by these people who still use their connections to ensure their organizations prosper. Therefore, the following research question has been developed: What aspects of an actors’ network configuration help improve their current business operations?

Relational Aspect

Even although the structural dimension plays an important role in the operation of the network, it does not fully describe the ability of the individual to be able to access social resources. Just because a link exists does not mean that social capital will be forthcoming (Bourdieu 1986). The link may not be ‘strong’ enough for a high amount of risk to be taken within the relationship, limiting the ability of the link to transmit a high level of social capital. Without high levels of trust, actors are not going to give other actors access to confidential and damaging resources if they feel there is a chance of opportunism taking place. Therefore, the relational dimension of social capital is also important when considering the amount of capital flow through the network.

The relational dimension is described by the actor bonds that are developed between organizations and individuals. Actor bonds allow actors to develop an identity in relation to other actors in the network (Håkansson and Snehota 1995). Aspects of the relational dimension include trust, commitment, understanding, honesty, etc.; in other words, the emotional aspects of relationships (Naudé and Buttle 2000). Actor bonds allow individual actors to develop consistency in their interactions. Behavioural expectations lower the levels of control within the network. A strong relational dimension lowers the chances of opportunistic behaviour from occurring within the network.

Relational dimensions of social capital are unique to the individual actor, even though that actor may have similar connections to other actors close by. This uniqueness develops as different actors develop different friendships and emotional connections with the same people. The uniqueness of the relational dimension of social capital is similar to the concept of ‘network pictures’ highlighted within the IMP Group (Henneberg, Mouzas and Naudé 2004).
Tsai and Ghoshal (1998) measured the relational dimension of social capital through the constructs of trust and trustworthiness. They highlighted that this dimension had a significant effect on the resource exchange process. Nahapiet and Ghoshal (1998) took a much broader focus on the relational dimension of social capital and considered trust and trustworthiness, norms and sanctions, obligations and expectations, and identity and identification. Overall, the relational dimension of social capital allows actors to determine the amount of capital and level of risk when exchanging resources. The importance of the relational dimension is necessary if an understanding of the types of resources and extent of resource exchange needs to be understood. Therefore, the following research question has been developed for this research: *What aspects of the relational dimension of social capital play an important role in improving business outcomes within Russian business networks?*

**Cognitive Aspect**

The cognitive dimension of social capital is one of the least discussed dimensions when referring to social capital (Nahapiet and Ghoshal 1998). The cognitive dimension refers to the ‘shared representations, interpretations and systems of meaning among parties’ (p. 244). This description is similar to that of cultural capital where culture plays an important role in the development of the patterns of ideas and symbols through which we interpret meaning. Bourdieu (1986) separates this dimension of capital into three aspects: embodied state; objectified state and institutionalized state (p. 243).

Overall, the cognitive dimension of social capital describes the lens through which the individual makes sense of the behaviours and actions of other actors surrounding them. Understanding the patterns of culture and how they affect the resource exchange process is important in interpreting patterns of behaviour within the network. The cognitive dimension allows actors to determine common patterns of behaviour, develop expectations on what future patterns of behaviour will occur and understand when new knowledge or information is brought into the network. The cognitive dimension allows network actors to learn from new information and develop new knowledge which can then be transmitted through the network.

Network learning is an important aspect of network development and growth which allows actors to flex according to the changes both internally within the network and externally from outside their immediate network. Network learning has been previously found to be an important aspect of resource development and value creation (Håkansson and Johanson 2001).

Nahapiet and Ghoshal (1998) described the cognitive dimension as intellectual capital, shared language and codes, and shared narrative. Tsai and Ghoshal (1998) measured the cognitive dimensions through shared vision and showed that this dimension had a strong affect on the relational dimension of social capital. Such an effect is expected, given that the ideas and interpretation of ‘trustworthy behaviour’ needs to be similar between each of the actors. While the cognitive dimension of social capital did not have any affect on the overall resource exchange and combination of resources (Tsai and Ghoshal 1998), the cognitive dimension describes the ability of individuals to create understandings of network behaviour and the aspects involved in the joint learning...
process. Therefore, the following research question has been developed: What aspects of the cognitive dimension of social capital are important in the development of Russian business networks?

METHODOLOGY

The research questions developed from the literature review have two components: (1) practical questions and (2) conceptual questions about the aspects, indicators and processes of social capital. The complex character of the research required the use of a range of qualitative techniques for data gathering and analysis. Furthermore, a qualitative approach was used because of the sensitive character of the issues being dealt with which are not appropriate to quantification. In addition, the objectives of the research were related to understanding, rather than measuring.

The data was gathered via open-ended in-depth interviews with Russian business leaders from diverse backgrounds and discussion of the results of preliminary research with Russian academics in the business area. Eleven respondents were selected through one of Russia’s leading business schools – the Institute of Retraining of Specialists (it is an equivalent of graduate schools of business) at the Ural State Technical University. The graduates are alumni of the President program (a prestigious postgraduate program funded by the Russian Government which is the equivalent of western MBA degree). Entry criteria into this program requires a graduate degree and strong evidence of entrepreneurial activity such as at least five years of work in business, managerial responsibility as a top level manager of a small or medium sized company, or a middle level manager of a large company. Participants must be less than 40 years old. Table 1 gives details of respondents.

Table 1. Respondents of open-ended in-depth interviews

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Age</th>
<th>Position</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>39</td>
<td>Head of the Department of Development of New Services, a Leading Regional Bank</td>
<td>Banking</td>
</tr>
<tr>
<td>2</td>
<td>36</td>
<td>Head of the Department of Informational security</td>
<td>Mobile phone connection</td>
</tr>
<tr>
<td>3</td>
<td>38</td>
<td>Owner and Director of IT company</td>
<td>Informational Technology</td>
</tr>
<tr>
<td>4</td>
<td>36</td>
<td>Head of Department, a Leading Regional University</td>
<td>Higher Education</td>
</tr>
<tr>
<td>5</td>
<td>31</td>
<td>Owner, Director and Programmer of IT company</td>
<td>Informational Technology</td>
</tr>
<tr>
<td>6</td>
<td>37</td>
<td>Owner and Director of the auto service company</td>
<td>Services</td>
</tr>
<tr>
<td>7</td>
<td>45</td>
<td>Owner and Director of IT company</td>
<td>Informational Technology</td>
</tr>
<tr>
<td>8</td>
<td>40</td>
<td>Business Analyst, Business Consulting Company</td>
<td>Services</td>
</tr>
<tr>
<td>9</td>
<td>30</td>
<td>Commercial director of a regional airline company, one of the 20 largest transport companies</td>
<td>Airline</td>
</tr>
</tbody>
</table>
Respondents were asked about their business relationships rather than research questions directly. All interviews were conducted in Russian and then interpreted into English in two way translation by two bi-lingual academics. The experience of one of the authors who is Russian, helped in interpreting the meaning of the responses.

Data analysis

Aspects of social capital, with examples confirming the importance and practices of social capital, were coded according to the research questions. Consistent themes were generated and compared among interviews. The gathered data was used as a resource for comparison of the emergent research themes. The authors felt that if they could understand the ‘how’ question, analysis would allow them to address the conceptual issues. Consequently, in-depth interviews were employed, followed by analysis of the data using the constant comparative method (Silverman 2000).

The constant comparison method involves comparing contrasting emergent themes in the data to develop an explanation. Our initial design was, according to the literature, to first, identify possible exploratory themes from the interviews; refine these with further interviews, then to test dimensions of social capital and their indicators and processes. The literature was used to identify the emergent themes in the data, allowing us to use the constant comparative method to verify and validate the reliability of these themes.

RESULTS

Structural capital

Structural capital is an important dimension that has been shown to have a greater affect on outcomes than the other dimensions (Tsai and Ghoshal 1998, Yli Renko et al., 2001) therefore results highlighting the structural aspects will be presented first.

Table 2 indicates that structural capital can be categorised into three main areas: positioning close to the central network actor; central actors are well connected; and continuity of relationships. Developing each area highlights how business people in Russia position themselves to maximize network opportunities.

All respondents emphasised the importance of structures in developing networks: networks can be initiated and maintained via formal structures such as work and educational institutions. Interestingly, people build their networks at the formal level at work or in inter-organisational communication (with organizations, clients, partners, superiors such as in taxation offices and organisations of a higher hierarchical level “in Moscow”, “on top”, “at the centre” and “abroad”). However, they keep and nurture their networks at the personal level by contacting former colleagues, congratulating them, developing personal relationships with interesting and useful people they have met via work. Informal communication includes smoking, drinking beer, playing sport, hunting together, an exchange of handshakes, greetings and gift-giving for public celebrations. “This relationship cannot be called friendship but is a very useful mutually beneficial relationship” ([2], [6]).
<table>
<thead>
<tr>
<th>Structural Capital</th>
<th>Importance of an aspect</th>
<th>How the aspect can be achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positioning close to central network actor</strong></td>
<td>“The centre of all the economy is Moscow. The manager of our bank goes for close contacts with managers of other banks [in Moscow], I think if you are on good terms with Moscow banks, it may improve something.” [1]</td>
<td>Centralised control over companies, institutions and branches</td>
</tr>
<tr>
<td></td>
<td>“government controls strategic resources” [2]</td>
<td>Alumni and other professional seminars, workshops, conferences, postgraduate study, informal contacts (greetings)</td>
</tr>
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<td></td>
<td>Information determines and defends structure: “the media can destroy any bank by giving away information that a bank does not have 100% liquidity or other similar negative information... There is the need to explain in a very simple and comprehensive for non-professionals way what is going on in the [banking] industry...One successful manager of a bank can protect to maintain a good reputation to all banks.” [1]</td>
<td>Keeping contacts with colleagues from previous place of work, seeking their advice and assistance, sharing experience</td>
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<td></td>
<td>“We are the leaders [on the market]. We make our products in time and we are copied. We know who is copying and when. This market [of banking services] is not protected by patents. It is quite flexible and changeable.” [1]</td>
<td>Leadership within a network</td>
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<td></td>
<td>“We know that if we introduce something new to the market we can lead this during maximum six months. Then, it will be copied” [9]</td>
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<tr>
<td><strong>Central actors are well connected</strong></td>
<td>Informal structures are more important than formal.</td>
<td>Relationships ‘on good terms’ with an official controller (officer) at the personal level</td>
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<td></td>
<td>“In Russia, if you take away the structure of informal communication, everything will stop...Informal structures can be used as an instrument of effective management... If we take the formal way of communication in our company in the case of a problem, I would have received a response to my memorandum stating a problem tomorrow or the following day It is too late to deal with a problem...” [2]</td>
<td>Informal communication: smoking/drinking beer together, exchange of handshakes. “This relationships cannot be called friendships but a very useful [mutually beneficial] relationships” [2]</td>
</tr>
<tr>
<td></td>
<td>“in my current work I constantly stay in contact with FSB [former KGB], both at the formal and informal level” [2]</td>
<td></td>
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<tr>
<td></td>
<td>“smoking room effect”: obtaining information of a sensitive nature and in a shorter period compared to the official way” [2], [4], [5].</td>
<td></td>
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<tr>
<td></td>
<td>“We have close relationships with professionals of other banks who are working in the area relevant to ours.”[1] Structure determines network communication.</td>
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<tr>
<td></td>
<td>“I have worked in this area for more than ten years and know everyone there personally.” [5]</td>
<td></td>
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<tr>
<td></td>
<td>“The leaders of the middle business are well connected” [3]</td>
<td></td>
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</table>
Continuity of relationships

"First, we conduct business, provide services and then a present can be given. It [present] is directed to the future. However, a present creates temporary and unstable connection. One cannot build connections on presents only" [2]

Stability of the network is important. New structures are coming to the [banking] industry therefore it is important to keep perception of stability. A stable network helps to keep existing customers and to attract new ones [1].

"We have a backbone that works together for more than ten years... It means that we are not afraid of any crises at the moment. We will resist to the end" [1] Time [more than 10 years] can indicate stability.

Keeping informal personal relationships in which there are common interests beyond one transaction or "not concerning a certain problem" [2]

Some acquaintances might leave their formal positions but they still keep their competence/skills which make them attractive for continuous relationships. The basis of connections are professional expertise and experience.

The structures of the previous regime were clear from the top to the bottom, or from the central ministries to regional departments and then to local companies, whereas the current structures are much more flexible and complex. Moscow is still the centre of the Russian economy ([1], [2], and [9]). Good relationships ("good terms") with central structures in Moscow remain important for the success of various businesses where Federal and regional institutions play a role as central actors. Position within a network is also important for access to information and resources and to have greater power in decision making. ([6], [8]) Some organisations are acting as network leaders, while others learn from them and copy their innovations. At the same time, our respondents admit that they and their competitors are constantly learning from each other ([5], [9]).

Our respondents indicated that they keep in contact with those who are at the same hierarchical level as themselves:

"We have close relationships with professionals of other banks who are working in the area relevant to ours, and our managers keep in contact with managers at their level and in Moscow [with controlling institutions]" [1]

"in my current work, I constantly stay in contact with my former colleagues at FSB [former KGB], both at the formal and informal level" [2]

"The leaders of the middle business are well connected" [3]

The conclusion can be made that central actors are well connected. People use their previous work experience and contacts to fulfil their current work commitments. They rely on their social capital which enables them to access resources and information.

People often make friends with those with whom they currently work or have worked with in the past. It is very common that private companies were established by groups of like-minded people or friends. All our respondents stressed that they tend to continue
relationships if contacts are useful and there are common goals and understanding ([1]-[9]). Time [more than 10 years] can indicate stability.

“We have a backbone that works together for more than ten years... It means that we are not afraid of any crises at the moment. We will resist to the end” [1]

Stability of the network is important. In the market economy, there are new structures which are coming to the market all the time, adding to the market infrastructure. At the same time, other structures are leaving the market due to bankruptcy and restructuring. It is important to send a clear message to clients and the general public that the network is stable. This improves the market position of all structures in the network.

An analysis of networks in Russian business leads to an important conclusion about structural capital. Although former communist structures no longer exist, existing connections persist that empower their participants. This statement can be confirmed by using the following examples: a former KGB official keeps in contact with his former colleagues to get important information ([2]); experience working for a governmental organisation helped the entrepreneur to obtain the state support for his current business ([1], [2]). Moreover, having common ground, that is having common working practices and attitudes [with Aeroflot] still helps the director of the private regional airline to maintain competitiveness and grow in the highly competitive Russian airline market [9].

Formal mechanisms of regulation in networks were destroyed during the market reforms as the main regulating power of the previous regime – the Communist Party – lost its dominance. A replacement has not been developed to the same extent due to the continuous development of Russian law and establishment of appropriate institutions. Current networks, based on both former connections and developed around former structures, are also emerging often intertwined with new structures both within the country and outside.

**Relational capital**

Relational capital has also a significant effect on the development of social capital (Yli Renko et al. 2001). Accordingly, results highlighting the relational aspect are presented in Table 3.

Relational capital can be categorised into three main areas: trustful and stable relationships; commitment to do favours for others; and expectations of reciprocation. Developing each area highlights how business people in Russia maintain relationships to maximize network opportunities.

Trustful and stable relationships are vitally important in Russia due to a very low level of trust. In the situation where no one trusts anybody and people are not sure if the state will protect them, Russians are forced to develop close personal ties and rely on them. Trust can help where there is no legislation.

“Russians prefer to do business with the people who they know. It is very important that a person trusts and understands who they are dealing with” [3]
<table>
<thead>
<tr>
<th>Relational</th>
<th>Importance of an aspect</th>
<th>How the aspect can be achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trustful and stable relationships</td>
<td>“Russians prefer to do business with the people whom they know. It is very important that a person trusts, understands who he deals with. An economic part is a secondary. A profit might be gained elsewhere. When people are united by the purpose of an economic benefit only the relationships are temporary and short-term” [3]</td>
<td>Previous work experience creates trust</td>
</tr>
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<td></td>
<td>“The past experience of our manager [in the telecommunication industry] helps in solving current problems and helped to win a tender from the local government initially” [2]</td>
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<tr>
<td></td>
<td>Trustful relationships can improve image of banks and increase confidence in customers</td>
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<td></td>
<td>“We [leaders of the middle business] know each other personally and we try to do things [for our community, region] together” [3]</td>
<td></td>
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<td></td>
<td>“We do not need to see your calculations and cost structure. Your word is enough for us” [3] People do not need to look at calculations because they had previous experience together. Their past is affecting how they interpret current experience</td>
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<tr>
<td>Commitment to do favours To others</td>
<td>“If you look at the Tsarist Russia, there used to be classes such as merchants with private estates, aristocracy and other class connections. When a person was belonging to a certain class so were his children, grandchildren and great grandchildren” [3]</td>
<td>Belongings</td>
</tr>
<tr>
<td></td>
<td>Acquaintances help each other by giving advise, assistance, useful information [1]-[8]</td>
<td>Keeping contacts at a similar to one’s level</td>
</tr>
<tr>
<td></td>
<td>Relationships with other specialists who work in the area of similar interests. [1]-[6]</td>
<td></td>
</tr>
<tr>
<td></td>
<td>“your friends, family and other close people would not let you down and you can rely on them in business” [3]</td>
<td></td>
</tr>
<tr>
<td>Expectation of reciprocation</td>
<td>If an important client asks you to employ his relatives acquaintances the request will be fulfilled [1], [5]</td>
<td>Providing others with good experience, assistance and advise</td>
</tr>
<tr>
<td></td>
<td>“I like to collect information about useful people: what do they like, what are their interests... I might invite an important person to a restaurant. It does not matter that there will be no immediate benefit. I can get an important contact. This person might have had a good time. Some time I can ask him about a favour” [6]</td>
<td></td>
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</table>
Trust is a very important asset and can replace a formal document. As our respondents stated, many companies nowadays publish their financial reports, but the public does not believe in such reports. This is because it is possible to hide the real results in the official data. At the same time, business people do not need to see calculations and cost structure of those to whom they trust.

“A word is enough in trusting relationships. People do not need to look at calculations because they have had previous experience together. Their past is effecting how they interpret current experience” [3]

Trustful relationships can help to win a business development grant from the authorities.

“The past experience of our manager [in the telecommunication industry] helps in solving current problems and initially helped to win a tender from the local government” [2]

All respondents stated that it is important to contact the person directly. Knowing people for a long period of time helps to understand each other better and maintain trusting relationships. In such relationships, people who belong to the same social group/class are committed to giving favours to the others of their class by giving advice, assistance, information etc. Generally, reciprocity is not immediate and material. Furthermore, a gift in return for a favour means that this connection is short-term oriented. In deeply rooted long-term oriented relationships, economic benefit is secondary. People are instead united by a common goal.

Our respondents emphasized the importance of “old” connections established in the previous system. Even if people change their place of work or retire “their professionalism, skills and knowledge remain” ([2], [6], [8]). The greater importance of “old” connections is explained by their nature: in the previous system, relationships were built on a non-material, non-monetary basis. The nature of the relationships was mutuality, common interests and respect ([1],[3],[6]). The relationships in the market economy have become more materialistic. If the purpose of the transaction is completed, relationships might no longer being required, thus, our respondents consider them less reliable and trustworthy. Relationships with longer roots coming from the previous system are more reliable.

If structural capital has been changing during the market economy, relational capital has not changed that much. Trusting relationships play the role of strategic asset. They enable people to gain important information and resources, improve the image of organizations and increase confidence in customers.

Cognitive capital

Cognitive social capital is an important dimension and has been shown to have a lesser or lower effect on outcomes than the other dimensions (Tsai and Ghoshal 1998, Yli Renkoet al. 2001) (Table 4).
Table 4. Cognitive Capital

<table>
<thead>
<tr>
<th>Cognitive</th>
<th>Importance of an aspect</th>
<th>How the aspect can be achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common grounds (interests)</td>
<td>“We are united by one goal - we are interested in what we are doing” [1], [2], [3]</td>
<td>Use of previous work experience, connections, working with professionals/business leaders of similar area of interests</td>
</tr>
<tr>
<td></td>
<td>“Our general director has important connections in the [airline] industry... We all came out of the AEROFLOT” [9]</td>
<td>The workshops of middle class managers</td>
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<td></td>
<td>“Frameworks [for providing information] are initially predetermined by the amount of damage that any of the parties could bring” [2]... The rules of communication require asking questions such as “Is it realistic to do this? Or “Could I obtain this or that? [2] There is common understanding of what is appropriate to ask.</td>
<td></td>
</tr>
<tr>
<td>Future Relationships Temporal</td>
<td>“We are still in contact with our acquaintances from previous work. We ask each other questions related to our current work, seek their advise, assistance” [1], [2]</td>
<td>The importance to send a strong message to the customers and the general public that everything is legal and the businesses will be sustained for a long term [1]-[7]</td>
</tr>
<tr>
<td></td>
<td>“We have a backbone that works together for more than ten years...It means that we are not afraid of any crises at the moment. We will resist to the end” [1] Working as a team is important and the ability to grow together.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I like to communicate with people. This is effortless way to obtain useful information [6]</td>
<td>Keeping informal contacts with useful acquaintances helps to obtain information</td>
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<td></td>
<td>I have worked in this area for more than ten years [since early stage of the IT industry] and know everyone there personally.” [5] Experience contributes into common understanding</td>
<td>Collecting information about a person (what he/she likes, the birthday dates) and reminding about oneself, just keep communication [6]</td>
</tr>
<tr>
<td></td>
<td>“We are not afraid of any crises at the moment We have experienced everything together... We went through serious shocks and crises” [1] It means that people were learning together and know what each of them thinks.</td>
<td>Providing services free of charge, entertaining. Financial benefits are secondary, the useful contact is more important [6]</td>
</tr>
<tr>
<td>Learning together</td>
<td>“We have studied together, we are constantly learning at various courses” [1], [3]</td>
<td>Postgraduate study, professional workshops, seminars, conferences</td>
</tr>
<tr>
<td></td>
<td>People are making career as a team</td>
<td></td>
</tr>
</tbody>
</table>
Table 4 indicates that structural capital can be categorised into three main areas: common ground, future relationships temporal, and learning together, where future relationships temporal is defined as the expectation of a continuing relationship and investment therein. Developing each area highlights how business people in Russia create value by having common grounds and learning together.

Our respondents emphasized the importance of long-term relationships:

"we have worked together for more than ten years" [1]

"I have been in this field for ten years and know everyone personally [6]

Common past experience has developed an understanding of how people think and their common organisational, professional area or branch culture. It reinforces previous work experience because specific skills, knowledge and networks are gained. Changing from the Communists to the market economy acted as a stress which all Russians have experienced. That stress made them learn new ways of doing things while working together. This common learning enabled people to develop their common vision. One of our respondents used a very strong emotional expression to explain how learning together helped her and her colleagues become a team:

"We will resist to the end [if another crisis appears or there are new challenges]" [1].

Long-term relationships made it possible to understand each others way of doing business and realise a common purpose.

Often common past experience determines the way people act nowadays. As one of our respondents noted: “we all came out of the Aeroflot” [9]. All airports and airline companies of the former USSR were centralised in one structure Aeroflot which no longer exists in its former form. All airports and airlines are now independent. However, having cultural roots within Aeroflot or being part of the former civil aviation industry is important. It enables people to share values, have common understanding, and the flexibility to move among various projects.

**DISCUSSION**

Analysis of the three main aspects of social capital in the Russian business context confirm the primary importance of structural capital. Structures pose relationships and empower their participants by providing certain access to decision making, resources and the ability to form new relationships. Building structural capital requires positioning close to central actors (those “on the top”, “at the centre” or “in Moscow”). Although, former structures no longer exist, they remain important for current relationships. “Old” relationships established within the previous structures are considered as the most trustworthy and reliable.
It is common that relationships are built on the formal level (at work), but developed and nurtured at the personal level. Often, people who are useful for each other in their business life keep informal contact. Personal devotion and patronage are a very decisive factor in a successful career. Business relationships are built on informal connections.

There are certain linkages among the dimensions. Structural capital may grow into relational capital if there is an understanding among participants, stability of connections and mutuality of interests. On the other hand, common ground and learning together enables people to be united into new structures: people tend to work together with those who they know best and understand.

Limitations of the study

The data was collected during one period of time and therefore cannot reflect all the dynamics of Russian business relationships. All respondents present one layer of Russian business class — the new wave of Russian businessmen who began their career in the early 1990’s. The two other main groups of Russian businessmen — Red directors and figures of the shadow economy were not considered for the study. All respondents also have a high level of education — the western equivalent of an MBA — and thus, demonstrate a broader understanding about the use of social capital. The advantage of the study is that the data was collected among respondents who extensively use social capital for their businesses both within and outside an organisation. As all participants in our study are senior managers or owners of their companies, these people have a lot of opportunities to develop and use networks for their businesses.

CONCLUSION

Personal relationships have become ingrained into the Russian psyche and are vitally important for business networks. The dynamic changes in the Russian economy and among the public in the 1990’s have seriously impacted on the relationships among individuals and organisations. The current level of social capital in Russia is very low due to the destroyed structures which used to maintain the elements of social capital: trust, social norms and networks of the previous system. The networks established in the previous system are still considered as the most reliable and stable by most Russians. This study showed only one snapshot of social capital in Russia in 2004. There will be new changes in the Russian business network and they need to be monitored and treated with respect.

References


