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Use of social capital among Russian managers of a new generation

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ABSTRACT

Dynamic changes in the Russian political economy during the 1990s led to a unique combination of low levels of social capital at the general (state) level and very high levels of social capital at the interpersonal level. This research uses the three dimensions of social capital as outlined by Nahapiet and Ghoshal [Nahapiet, J. and Ghoshal, S. (1998) Social capital, intellectual capital and the organizational advantage. Academy of Management Review, 23, 242–266.], to investigate the operation of business networks within Russia. Focusing on a generation of Russian business managers who had minimal exposure to the previous regime and who experienced western education/business practices, this study illustrates one snapshot of social capital in Russia in 2004. Results highlight how this generation of business managers operates and how they conduct their business networks. It is expected that there will be changes in Russian business networks, as formalized legal systems become stronger and the new generation of Russian managers, who have had little exposure to socialist systems and nomenklatura emerge.

1. Introduction

The 'renewed' Russia is the fastest growing economy in Europe, with 6.4% and 7.2% GDP growth in the first three months of 2006, compared to the same period in 2005 and 2004 respectively (Federal State Statistics Service, 2006). Despite previously well publicized failures from the early 1990s (Johnanson, 2003), multinational corporations are actively investing in Russian industries.

Over the last fifteen years, many scholars have discussed Russian business culture and its impact on managerial practices (Ayios, 2005; Hendley, Murrell, & Ryterman, 2000; May, Puffer, & McCarthy, 2005; Puffer, 1992; Salmi, 1996; Sedaitis, 1998). In some publications during the 1990 s and early 2000s, Russian managers were presented as "robbers" whose success resulted from their Mafia connections, government corruption or ill-prepared entry into a market economy (Hendley et al., 2000; Kets de Vries, Shekshnia, Korotov, & Florent-Treacy 2004; May et al., 2005; Puffer & McCarthy, 1997). Yet this perception is becoming dated as a new generation of Russian managers emerge who are able "to learn new ways of doing business" (Salmi, 1996, p. 43) and bring their companies up to international standards (Johnanson, 2003; Kets de Vries et al., 2004).

Russian society represents a unique situation in that there is a lack of trust at the general (state) level and very high levels of trust at the interpersonal level (Batjargal, 2003; Rose-Ackerman, 2001). Historical conditions, the collapse of the communist order during the revolutionary changes in the 1990s, the floating of the ruble and the financial crises in 1998 explain much of the low level of societal-wide social capital (Rose-Ackerman, 2001). Most Russians consider state and public organizations to be unreliable and unpredictable entities that cannot be trusted.

Conversely, high levels of trust are placed in interpersonal networks, with social connections playing an important business role (Butler & Purchase, 2004; Michailova & Worm, 2003; Rehn & Taalas, 2001), especially for information transfer (Batjargal, 2003). Interpersonal networks are important in uncertain and unstable economic environments, as interpersonal trust mitigates risk and reduces the influence of turbulent macro-environmental changes (Batjargal, 2003). Therefore, understanding how interpersonal social capital is developed and used by a new generation of emerging Russian business managers is critical to gaining a better understanding of future developments.

Social capital is an umbrella concept used in a variety of disciplines to describe resources embedded within social networks (Adler & Kwon, 2002). In particular, within business networks, it describes the resources embedded within the social relationships that are used to lubricate network operations and to 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 & Ghoshal, 1998, p. 243). This definition broadly includes resources from a variety of sources (internal/external) and whether they currently exist or are likely to develop in the future.

The use of social capital improves a firm's value creation (Tsai & Ghoshal, 1998) and develops an organizational advantage either

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directly or indirectly (Batjargal, 2003; Nahapiet & Ghoshal, 1998). Although social capital ha s been researched within a variety of different disciplines, there is a lack of research on social capital development within different national and cultural settings (Hitt, Lee, & Yucel, 2002). Social capital has even been touted as the concept which could help to integrate social relations into the discipline of cross-cultural management, emphasizing its importance within different cultural settings.

Adler and Kwon (2002) describe social capital as operating within three different relationship types: market relationships, social relationships and hierarchical relationships. These types are not independent and resources drawn from within any relationship type can assist other relationships. For example, using social relationships can assist in obtaining employment; i.e. hierarchical relationships (Lin, 1999).

Differentiation between relationship types is blurred within different cultures. In Russia, social relationships (friendships) are linked to market relationships and hierarchical relationships through the concept of *blat* (Batjargal, 2003; Butler & Purchase, 2004; Michailova & Worm, 2003; Rehn & Taalas, 2001). Similarly, within Chinese, Japanese and Korean networks, social capital is important in the use of *guanxi*, *kankei* and *inmak* (Hitt et al., 2002; Michailova & Worm, 2003).

Within this organic concept of social capital, five dimensions have developed: structural, relational, cognitive, cultural and resource embeddedness (Batjargal, 2003; Bourdieu, 1986; Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998). Structural, relational and cognitive dimensions make up the fundamental base of this research and will be expanded upon later in this paper. Cultural capital is not included, a s it covers similar aspects to cognitive capital. Resource embeddedness is not included, as it is a combination of both structural (ties to powerful actors) and relational (ability to influence relations) capital. The three dimensions chosen for this paper each describe a different type of resource base and have been commonly used within the literature (Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998; Yli-Renko, Autio, & Sapienza, 2001).

The use of social capital as the theoretical basis for this research is useful for the following reasons: (1) social capital integrates different types of relationships into the one concept allowing for the integration of social, market and hierarchical relationships which is pertinent for Russian business networks; (2) social capital has been used in a variety of academic disciplines and is becoming an important avenue for research; and (3) understanding social capital within different cultural contexts needs to be considered in more detail. Our contribution is the analysis of the development of social capital within Russian business networks.

The paper consists of five sections. Firstly, a new generation of Russian managers will be described, followed by the three main dimensions of social capital. The third section outlines the methodology and data analysis undertaken. Finally, the results highlight how Russian managers use social capital. The relationships between the dimensions of social capital and managerial implications conclude the paper.

2. Emerging Russian business managers

The transformation of the Russian economy began in the early 1990s, with the decline of the old communist system, the emergence of the 'second economy' and the rise of private enterprises (Hendley et al., 2000). The chaotic transformation proces s resulted in disorder, with previously strong vertical connections becoming redundant and other connections, such as alumni, becoming more relevant (Kryshtanovskaya & White, 1996). Yeltsin's period was renowned for its lawlessness, political chaos and thuggish business practices (Chazan, 2002), resulting in the attitude of 'bespredel': the easing of what used to be tight control which led some Russian managers to behave in an opportunistic way (Salmi, 1996). Such ambiguity initially resulted in a new form of entrepreneurship where businesses often declared themselves bankrupt to avoid paying debts (taxes, suppliers, customers, creditor, banks and so on) only to emerge again as a new company (Stiglitz, 2002). This practice resulted in perceptions of opportunism and general distrust, eliminated long-term planning and resulted in market instability. Vertical relationships, developed in previous communist regime, particularly political relationships, lost influence, while new business links were being created (Hendley et al., 2000; Kryshtanovskaya & White, 1996). New business links relied on personal trust to lubricate business operations, yet were grounded in an understanding of the developing legal systems (Hendley et al., 2000).

From the period of transition in the early 2000s, a new type of business manager emerged who had limited connections to the previous nomenklatura (former Communist parties functionaries) (Hendley et al., 2000; Kryshtanovskaya & White, 1996) and who had been exposed to western business practice through either a western-style business education or working holidays. This emerging business elite was not necessarily part of the existing oligarchs or Russian Godfathers, but included the new entrepreneurs driving the Rus sian economy.

"The new breed of [Russian] entrepreneurs" (Ayios, 2005, p. 216) are entrepreneurs who started their career in the late 1980s to early 1990s. They have more in common with their Western counterparts than with Russian business attitudes. Their companies, established in a hurry during the 1990s, have undergone formal registration to meet current legal requirements. These entrepreneurs have stopped asset-stripping and now pay their taxes (Johnanson, 2003).

Trust and credibility are important components of Russian business culture. Reputation has now become critical for developing trust with the public and building a strong identity (Kouchtch & Afanasiev, 2001). Hendley et al. (2000 p. 640) highlights that the "possibility of damaging a customers' reputation with other enterprises" has emerged as an important enforcement mechanism. No longer is the wild capitalism of the early 1990s operating, rather, respectability, integrity and responsibility have become critical aspects of new Russian business practice. Personal relationships are imperative for developing an understanding of the other partners' integrity and trustworthiness during the early stages of relationship development (Hendley et al., 2000). Understanding this new breed of Russian entrepreneur is critical for any business wishing to enter the Russian market.

3. Social capital

Social capital is a broad concept, bringing together the social aspects of human interaction and describing a broad accessible resource base. Social capital lubricates or 'smoothes the way' for business transactions that would otherwise be costly, risky or difficult to conduct. Social capital allows access to resources embedded within a group (or network) of members as a result of their membership within the group. Since the concept is based on perceptions of participating actors' rather than on concrete structures, it is difficult to describe.

This research follows three dimensions of social capital — structural, relational and cognitive (Nahapiet & Ghoshal, 1998). Each of these dimensions operates in their own right and will now be described in more detail.

3.1. Structural dimension of social capital

The structural dimensions of networks play an important role in determining the efficiency of network operations, resource access and actor participation (Wasserman & Faust, 1994). Measures such as 'centrality' and 'betweenness' indicate how an actor's network