

DAS SOCIAL CAPITAL

**INSTITUTIONS AND ENTREPRENUERIAL
NETWORKS IN RUSSIA'S EXIT FROM
SOCIALISM**

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NETWORKS IN RUSSIA'S EXIT FROM
SOCIALISM**

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FOREWORD

Within hours of arriving in Moscow on my first trip, a seasoned officer of the Canadian diplomatic corps met me. He had arranged to brief me on what I should know as the Director of the Yeltsin Democracy Fellowship Program. I would be spending the next four years directing Canada's first large-scale technical assistance program in Russia. The program had been running for several years when I joined and had alumni across seven time zones and in influential positions in the public, private and social sectors. Given the profile of the program, I suspect that that late night meeting was part interview and part information. The interview component was short lived and then I listened to a generous review of Russian history and its contemporary political, economic and social challenges.

My interlocutor had been a student in Russia during the 1970s and had returned decades later to manage Canada's cooperation program. In any other country, his portfolio would have been referred to as a development assistance program but his Russian counterparts did not take kindly to the notion that Russia was a recipient of development assistance. After all, the Soviet Union had been an imperial power. To accommodate for the uniqueness of Russia's case, Canada and many other Western donors established 'cooperation programs' to assist with Russia's triple transition (i.e., political, economic and social) to a democratic market economy. As our conversation progressed, the theme of Russia as a special case repeated itself. It was probably a conscious decision on his part after I revealed that this was my first physical encounter with Russia. Presumably, the more I understood how unique Russia was, the sooner I would abandon any preconceived notions that I might have held.

Whereas Winston Churchill famously referred to Russia as a riddle wrapped in a mystery inside an enigma, my host likened Russia's uniqueness to an onion. The analogy had nothing to do with the tear inducing or supposed blood pressure reducing qualities of an onion. Rather, the metaphor referred to the layered complexity of Russian society. Indeed the name of project I was to direct, the Yeltsin Democracy Fellowship Program (YDFP), seemed to me then to fit this metaphor nicely. On the outside, President Yeltsin had endeared himself to the West and Western leaders viewed him as their best hope to establish a liberal democratic order. Many Russians shared this view as well but with time, and as successive layers of the onion were peeled off, new qualities emerged that questioned Yeltsin's ability to create a capitalist economy through democratic means. It was not without irony that my Russian history lesson took place on the first anniversary of President Yeltsin's transfer of power to his heir apparent, Vladimir Putin. The transition was smooth but I was reminded that President Vladimir Putin's first decree gave Yeltsin life-long immunity from criminal prosecution. Do democrats seek immunity? I left the hotel bar that night wondering how many layers there were to the Russian onion.

Subsequent meetings and conversations with hundreds of YDFP Fellows cast Russia's triple transition as an extraordinary period in the context of its tumultuous history. The personal accounts of plant closures, social dislocation and political instability had been amply covered in the literature but I had not fully grasped the enormity of the changes or the challenges. To

call Russia a country in ‘transition’ during the 1990s, as many analysts did, seemed far too innocuous.

My primary interest in directing the YDFP, and the decision to write this book, was to better understand how national policies and international assistance affected Russia’s state capacity and economic transformation. Once I became involved in the program, I was curious to know how the Yeltsin Fellows from the private sector navigated Russia’s chaotic environment to advance professionally, restructure their firms and promote economic development. After five years of researching these questions, I cannot state with any certainty how many layers I have peeled off the Russian onion.

The YDFP program was designed to empower young private sector entrepreneurs and reform-minded policy leaders by exposing them to management tools, policies and strategies employed by counterparts in Canada. Over the duration of the training program, more than 600 Russians visited thousands of Canadian organizations to study, work with, and to exchange experiences. It was a rich and varied interaction. For many Yeltsin Fellows, Canada was their first exposure to a liberal democratic country and it proved to be a life-changing experience.

Life-changing as it may have been, the impact of the training program played out very differently. My interest in understanding the reasons behind divergent program outcomes at the individual, firm and societal levels, led me to revisit theories of institutional change. In this pursuit, I was aided by my training in political science and applied research on the political economy of development. In previous studies and fieldwork, I had examined the politics of state-society interaction in framing agendas for local development. In that work, I had largely ignored the role of the private sector. This book corrects that oversight as I became particularly interested in the strategies employed by the private sector Fellows to advance professionally, restructure firm operations and build institutions for economic development.

The private sector YDF Fellows came to Canada in search of management solutions for their companies. With the reverberations of Russia’s 1998 financial crisis still at play and the frequent signs of economic disorganization, the pursuit of management solutions seemed of little significance to me. I wondered why the private sector Fellows, as the next generation’s business elite, were so intent on learning micro-level business techniques when the business environment was relatively so much more pressing. Why, for example, were not these Fellows working more closely with YDFP public sector Fellows, other government officials and political parties to overhaul public policies that erected barriers to economic development? As it appeared to me, the causes and solutions to Russia’s economic crisis were political; firm-level technical skills seemed insignificant and perhaps irrelevant.

The intellectual task of framing my inquiry was aided by another early conversation in 2000. In the fall of 2000, I was asked to host Professor Niels Röling, the International Development Research Centre’s Hopper Lecturer, who was to give a presentation on how western science misunderstands the ecological challenges of our time. His interest in ecology at first seemed far removed from the issues I was becoming immersed in. However, Röling’s work on collective action, knowledge systems and on how communication and communities influence

innovation spans decades. These interests were likely sources of his inquisitiveness in the issues I was grappling with. My early views on the challenges facing Russia's first generation entrepreneurs and their tendency to act independently and avoid rather than engage government in a dialogue all spoke to Röling's interest in the potential of platforms and social learning to facilitate collective action. By the end of his visit, he had offered in principle to be my PhD supervisor, should I be interested.

While Niels was a major influence behind this book, he is not alone. I owe a special gratitude to Professor Asit Sarkar who was the 'father' of the YDFP program. Asit hired me to direct the YDFP in its final years and to work with him to internationalize the research and learning environment at the University of Saskatchewan. Asit's interests trespass disciplines and geography, and his commitment to research without borders was an inspiration to me.

In researching and writing this book, I also benefited from numerous collaborators in Canada and in Russia. As the penultimate director of the YDF program, I was responsible for organizing a ten year program evaluation (University of Saskatchewan & Universalialia 2003). This evaluation was informed by three separate initiatives. First, an association of YDF Fellows called the Russian-Canadian Club of President's Fellows coordinated the *Profiles in Transition* project (Mikheev, O'Brien, et al. 2003). The objective of this book project was to give space to YDF Fellows to reflect on how the program impacted their personal and professional lives. Many YDF Fellows contributed articles and opinion pieces to this project. Second, a public sector conference and three private sector workshops brought together YDF Fellows and partner organizations in structured forums to assess the design and the impact of the program. Finally, the Canadian International Development Agency sponsored a focused research project. Together with Professors Li Zong and Harley Dickinson, from the Department of Sociology at the University of Saskatchewan, and Drs. Marina Larionova and Galina Gradoselskaya from the Federal Commission Secretariat, we examined the emergence and contribution of graduate networks to a range of program goals. A considerable portion of the empirical data and analysis from the two reports and an article emerging from this research project are incorporated into this book (O'Brien, Zong, et al. 2002a, 2002b; O'Brien, Zong, et al. 2003). I would like to thank these collaborators and the Canadian International Development Agency for supporting this work.

ACRONYMS

| | |
|-------|--|
| ABA | Alumni Business Association |
| BEEPs | Business Environment and Enterprise Performance Survey |
| CEO | Chief Executive Officer |
| EBRD | European Bank for Reconstruction and Development |
| EU | European Union |
| FC | Federal Commission on Organization of Management Training for Enterprises of the National Economy of the Russian Federation (Federal Commission of the PMTP) |
| FCS | Federal Commission Secretariat |
| FIGs | Financial Investment Groups |
| FSU | Former Soviet Union |
| GoRF | Government of the Russian Federation |
| HSE | Higher School of Economics (Moscow) |
| IMF | International Monetary Fund |
| LFS | Loans for Shares (privatization arrangement) |
| MBA | Masters of Business Administration |
| MEDT | Ministry of Economic Development and Trade (GoRF) |
| MPP | Mass Privatization Plan (privatization arrangement) |
| NIS | Newly Independent States |
| NTF | National Training Foundation |
| PMTP | President's Management Training Program |
| RCs | Regional Commissions (of the PMTP) |
| RTI | Regional Training Institution (of the PMTP) |
| SMEs | Small and Medium-sized Enterprises |
| WVS | World Values Survey |
| YDF | The Yeltsin Democracy Fellowship Program |

DATA AND GRAPHIC NOTATIONS

| | |
|---------|--|
| \$ | Current USD (unless otherwise noted) |
| N = | Total number of cases |
| n = | Number of observed cases |
| MS | Membership Survey |
| LS | Leadership Survey |
| GS | Graduate Survey |
| cp-asc | Collective pathway – association-based social capital |
| cp-hwsc | Collective pathway – high work-based social capital |
| ip-nasc | Individual pathway – no association-based social capital |
| ip-lwsc | Individual pathway – low work-based social capital |

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1. AN END WITH NO MEANS IN SIGHT

1.1. INTRODUCTION

This book investigates the role of entrepreneurial networks in creating opportunities and in building markets. The protagonists I focus on are Russia's first generation entrepreneurs. I examine their environment, the challenges they and their firms faced, and their strategies to succeed in an economy where uncertainty was the norm and where the institutional framework of a liberal economic system was part fact and part fiction. I do not devote time to recounting their individual stories, as fascinating as they are, but rather I concentrate on the networks they built for friendship, for advancing their individual objectives, for enterprise restructuring, and for nurturing a dialogue with the state to address local economic development.

The more commonly told story casts entrepreneurs in the first decade of transition as the antagonists of development: they broke rules; they embezzled money; they bribed government officials; they kept two sets of accounts; and they stripped the productive capacity of Russia's vast industrial sector. There were few saviours it seemed, let alone glimmers of hope in a land awash with gangster capitalists and officials on the take.¹ The Russian and Western media reported on these scandals time and again. Yet, the reports of graft and greed should not be surprising given the lack of organizations and institutions that help create stable and functioning markets. Without institutional frameworks and arrangement like the rule of law; public sector organizations capable of formulating policies and regulating private sector development; or societal associations organizing and advocating private sector interests, it should be no surprise that the environment presented many rent-seeking opportunities.²

The story that was less frequently told in the popular media was the challenge facing young Russians who aspired to succeed as legitimate entrepreneurs in the environment they inherited and how they responded to this challenge in the shift toward a liberal market economy. Unlike their contemporary Western protégés, Russian entrepreneurs had to create their markets from

¹ A few illustrative newspaper articles from around the globe include: Margaret Shapiro, 1994. "New Russia: A Country on the Take", *Washington Post*, Nov 13, 1994, A1; Michael Binyon, 1995. "Murmansk Corruption and Red Tape Put Nordic Business Links at Risk", *The Times* (UK) Oct. 12, 1995, A1; Carol Williams, 1998. "The Germ of Post-Soviet Russia Is Corruption", *Los Angeles Times*, Sept. 20, 1998, A1; A. Craig Copetas, 1998. "Fed Up and Fearful, Western Managers Bail Out of Russia", *Asian Wall Street Journal*, Sept. 22, 1998, A10.

² Thorton (1997) discusses business strategies employed to overcome the absence of market supporting institutions during the early period of economic reform. A concerning trend noted was the development of what Thorton refers to as political capitalism whereby well connected conglomerates emerged and sustained their operations through such practices as tax evasion and regulatory avoidance. Also see Leitzel (1997) and Schröder (2000).

scratch. They did not have access to reliable market data, capital markets for investment, commercial law for governing transactions, or trust in government.

At first, these challenges did not seem as daunting as some analysts would now recognize. When Boris Yeltsin's program for market reform was approved in November 1991 by the 5th Congress of the Russian Soviet Federal Socialist Republic, shortly after the August coup d'état³, he was confident that the Russian people would respond quickly to macroeconomic policy changes. In an interview, Yeltsin's first economic architect, Yegor Gaidar, recounts an affirming moment of hope after the government introduced a decree restoring the freedom to trade:

[The] decree on the freedom of trade ...[removed] all the administrative limitations on the activity of trading. After we published it, I hoped that in the course of time it would begin to work. I was driving to my office on Old Square ... I saw a huge, huge crowd of people. I was amazed and thought there was some kind of shortage Well, I sent my aides to find out what was going on, and they saw a crowd of people, hundreds of people, with some sort of goods, and the decree which allowed free trade in their hands. They were selling something to the customers. And then I realized that all the [socialist] education was unable to eliminate this entrepreneurial spirit. (Gaidar 2002)

Right outside the KGB building in central Moscow, Yegor Gaidar saw Russians exhibiting the Smithian propensity to truck, barter and trade one thing for another. His observation of spontaneous street trading greatly encouraged him but he later acknowledged that, "socialism [had] left a long birthmark." By this metaphor, Gaidar meant that the impact of Soviet history would shape Russia's future and that learning new traditions, market-based traditions, would take time.

As Mancur Olson reminds us, there is a difference between commercial activity at the street level and market development (Olson 2000). The former should not be equated with the latter. The fact that markets are ubiquitous irrespective of the political and economic regime is not surprising. In fact it was Olson who observed a year following the freedom of trade decree that "the largest number of markets that I have ever seen in one place was the far-from-prosperous Moscow in early 1992, where there were people buying and selling at almost every metro stop and street corner." (Olson 2000: 173). The question arising from this observation is why do markets in some countries lead to prosperity while in others they result in poverty or inequality? There is no simple answer to this seemingly simple question. Gaidar, however, alluded to part of the explanation when he noted that new traditions would need to be learned. New traditions in government and society would be reflected in the emergence of new institutions and institutional arrangement. Whereas a new policy on freedom of trade

³ The 1991 Coup was staged by Communist hardliners wanting to dispose Mikhail Gorbachev and his government. In doing so, they thought to reverse the economic reforms and stop treaty talks that would dismantle the Soviet Union.

resulted in spontaneous Moscow street trading, such commercial activity would not lead to prosperity without complementary institutions.

The important distinction between policy change and supportive institutions was illustrated by the first-generation policy reforms introduced by Yeltsin and the ensuing need for second-generation institutional reforms. The first round of economic liberalization measures that Gaidar introduced were true to Russian history. They were bold and revolutionary. The first Government of the Russian Federation (GoRF) abandoned Mikhail Gorbachev's *perestroika*, a gradualist economic reform program, by opting for a more radical package that came to be known as shock therapy. Boris Yeltsin told the Russian people following the 1991 putsch that shock therapy was needed to create a free market economy. Such a system could not be built through incremental steps. Yeltsin argued that Russia was bankrupt and politically volatile, and without radical measures the country would slide further into chaos (Gaidar 2002). The liberal agenda advanced by Yeltsin was accepted because he enjoyed significant personal political support, the Russian people desired an end to uncertainty created by *perestroika*,⁴ and the liberal market model was the "only model that was still untried and that it found resonance in the radical mood of the moment." (Mau 2003a: 44).

To reach that free-market end-state, Yeltsin set out to destroy the foundations of the old system and rebuild anew (Gaidar 2003). Privatization, elimination of price controls, and deregulation were ushered in with dizzying speed. These first-generation reforms sought to eliminate the communist power-base and to promote a new entrepreneurial class in politics and in the private sector. The new Yeltsin government was optimistic that the top-down first-generation policies would take root and stimulate private sector development. However, the introduction of a new economic logic to replace central planning would require more than legislation and the transfer of capital from state to private ownership to drive a wedge between the state and market. It would take time for first-generation reforms to be understood by Russians. Moreover, as political and economic liberalization or modernization projects elsewhere have illustrated, the legitimacy of, and participation in the reforms would affect the direction and pace of change.⁵ In the early 1990s, the importance and difficulties of nurturing the second-generation reforms, those that were more institutional and organizational in character, were not fully appreciated by Yeltsin's economic advisers.

⁴ The one policy that was not popular or considered necessary to market reform was the removal of price controls, see Koval (2003).

⁵ Scott (1998) provides a number of examples of how government modernization projects are subverted by society when government projects were not rooted in societal visions for development. In the economic literature, political economy has yielded parallel findings, noting that the implementation of economic reforms depend greatly on societal and interest groups dynamics, see for example Haggard and Kaufman (1992), and Borner, Brunetti, and Weder (1995). For similar finding in common property resource management, see Ostrom (1990).

The first-generation reforms were ushered in through a mix of presidential decrees and legislative change. Within a short duration, the policy framework became crowded with laws that were at best difficult to implement and at worst contradictory. Perhaps even more concerning for the sustainability of reforms was the fact that much market legislation was weakly rooted in society. The new scaffolding being erected was alien to Russians.

Even though Gaidar was undoubtedly relieved to see market trading on Moscow streets, the majority of people, including aspiring entrepreneurs, had very little idea how a capitalist system worked. What would it take to transform a socialist system of production to a capitalist one? What role did aspiring entrepreneurs have in shaping the direction of change? Some analysts did express early concern for the lack of knowledge and respect for some key market supporting institutions such as private property and contracts, to name two important constructs of a liberal economic system. Until a supportive institutional framework was in place, there was little doubt that economic output would continue its decline before it increased. Nevertheless, Gaidar and subsequent economic advisers were optimistic that reforms would take root, encourage investment and boost productivity.

1.2. REFORMS THROUGH THE LENS OF NEO-CLASSICAL ECONOMICS AND THE NEW INSTITUTIONALISM

The view that macro-policy interventions aimed at separating the state from the market would create a capitalist market rests on the neo-classical assumption that by letting prices reach their own value, economic actors would create a competitive market system. Within the economics discipline, this assumption is challenged by the new institutionalists. According to the new institutionalists, there is no basis to presume that freeing market prices would create a supportive institutional framework (i.e., rules and norms) required to create, develop, regulate or stabilize markets.

Proponents of the new institutionalism tend to argue that norms and incentives have an independent affect on shaping market behaviour.⁶ In other words, if a similar economic policy such as removing price controls was simultaneously introduced in two countries, new institutionalists would anticipate different outcomes. This expectation is based on the view that each country would have a different institutional framework, or the rules and norms that create incentives and constraints for actors.

The proposition that institutions matter was borne out by economic behaviour that intensified Russia's economic decline. From an institutionalist perspective, the emergence and prevalence of rent-seeking behaviour, for example, might have been predicted. When Boris Yeltsin lamented in 1999, "We have gotten stuck half-way in our transition from the planned

⁶ As will be shown below, the label new institutionalism has been applied to economists who employ rational choice theory to historians using comparative institutional analysis. The range of approaches and methodologies under the new institutionalist rubric is sweeping. I will discuss different approaches within the new institutionalist school in Chapter 3.

and command economy to a normal market economy,” it was clear that closer attention needed to be paid to the organizations and institutions that facilitate capitalist development (Yeltsin quoted in Åslund 2000: 399). The pro-market macroeconomic policies required a complementary institutional framework and organizational foundations in the state and society to shift economic activity in support of market development.

What is needed to break the impasse are institutions that help create and structure political discourse, markets and social relations. Drawing particular attention to market institutions, Raiser, Di Tomasso, and Weeks (2001: i) remark with ten years of hindsight that,

It is widely recognized that institution building is at the heart of the transition process. Without functioning institutions, markets cannot work effectively and the sustainability of the economic transition can be undermined. The [1998 financial] crisis in Russia provided just one piece of evidence in this regard.

At the same time these authors underscore the importance of institutions, they concede that institutional development is not well understood. As the challenges to reform were becoming more apparent in the mid to late 1990s, the institutional legacies of the ‘socialist birthmark’ came under increasing scrutiny.

If one starts from the proposition that policies, traditions and organizations are the product of social interaction, then due attention must be paid not only to market actors on the one hand, and the state on the other, but also to those institutional arrangements that promote interaction, stimulate and govern economic activity. Institutional analysis favours an integrated investigation of economic questions that draw on political and social considerations.

The presence of private sector engagement in crafting market institutions and political alternatives, for example, had been largely absent in the first decade of Russia’s transition. This is not to say that Russian voices outside government have not been vocal, for they certainly have been, but it is quite clear that aside from a handful of powerful financial-industrial groups (FIGs), Russian civil society and business associations played a very minor role in shaping Russia’s transition (Weigel 2000: 357-359).⁷

Aside from the large FIGs that dominated resource industries and wielded considerable influence over Yeltsin’s government, medium and small enterprises were poorly represented in regional economies. When the Berlin Wall collapsed and the former socialist economies introduced liberal economic reforms, they did so in the presence of a very particular form of industrial organization (Nove 1991, Fortescue 1997). The experience in Central Europe was quite different as it had a tradition of corporatist industrial development and a relatively

⁷ There is considerable debate whether independent business associations should be considered part of civil society. I will not add to this debate but for purposes of this book but I do consider business associations part of civil society.

independent trade union movement. In that environment, opposition and cooperation were evident between organized society and the state. When looking to the Russian context, one is struck by the dearth of associational life and collective leadership among the new entrepreneurs (World Bank 2002a). Instead of a wide array of organizations intervening to support and complement market development, there appeared to be a few dominant associations that influenced economic reforms through insider connections rather than through transactions in the public sphere.

Organizations that support and complement markets such as chambers of commerce, professional associations or business clubs either were absent, weak or lacked the independence to represent private sector interests and initiate a dialogue with the state in an open and transparent manner. The right to association certainly existed but the practice of independent organization and the Soviet 'birthmark' had distorted advocacy.⁸ The decree that sent Muscovite traders to Old Square to market their wares triggered their suppressed propensity to trade, truck and barter. However, the same decree had little immediate impact on private sector development in part because complementary institutional and organizational features of a market economy could not be established by fiat.

A second-generation of reforms were needed but there was little experience in Russia or elsewhere to inform policy. As captured in the title of a World Bank (2002b) publication, Russia's transition was an 'unprecedented challenge.' Aside from policy advice that sought to remove the state from the market, much less was known about complementary measures needed to bring society into the market. During a Canadian Broadcast Corporation (1996) interview, Natalia Bolotin, a business reporter and YDF Fellow, described Yeltsin's reforms as follows:

When it started the government did not have a plan for change. They did not know what they are doing exactly. They gave freedom to the press, they gave freedom for market economy, for business and so on and so forth. But freedom is not anarchy. Freedom is rules and regulations also that will not allow evil people to gain profits from common people. This is the point and this is why I think we have now so many problems. Because when you do not have democracy for a very long period people do not know what democracy is. You are to show them what it is, how it works, how the market economy works. You can't just throw people into the ring like cattle and say do what you want ... and if you survive its ok, if not then it is up to you.⁹

⁸ The Union of Soviet Socialist Republics ratified the International Labour Organization's *Freedom of Association and Protection of the Right to Organise Convention* (1948) in 1956. Russia's State Duma passed the Law on Public Associations in 1995 in an effort to renew its legal commitment and public confidence in the right to the freedom of association.

⁹ Quotes used by Russian interviewees were recorded in English unless otherwise noted. I have not altered the grammar or spelling of quoted material.

Given the geo-political significance of political stability and successful economic liberalization in Russia, Western European and North American governments embraced the opportunity to support Russian reformers. Increasing interest in supporting Russia's transition was reflected in the growth of World Bank lending. In 1992, Russia joined the World Bank and the International Monetary Fund. Prior to this, the World Bank had an office in Moscow but it did not support project or policy-based lending. With the initiation of Yeltsin's first generation reforms, the World Bank supported a modest technical assistance program valued at \$13 million in 1992. In the following year, it committed \$1.3 billion, a sum that rose to a high point of \$1.9 billion in 1999 (World Bank 2002b). G-7 countries provided an equivalent amount in grants over this period.¹⁰ Further project based and technical assistance support was provided through the establishment of the European Bank for Reconstruction and Development (EBRD) in 1991. The EBRD's mandate was to finance private sector development in the former Soviet Union. During its first decade, the EBRD invested over €20 billion in economic development programs. This support from bilateral and multilateral agencies underwrote a wide range of first and second-generation reforms for economic development but given the scale of challenges facing Russia, some contend the West did not do enough.

1.3. PMTP PROGRAM AS A MEANS TOWARD THE END

When the Yeltsin government observed that its economic program had become stuck halfway between a socialist and capitalist economy, it paid closer attention to second-generation reforms.¹¹ New initiatives were directed to strengthening the capacity of the state and the private sector to understand and manage the reforms in political, economic and social life. Concerned with the negative economic growth, the sluggishness of reforms in privatized companies and the meagre growth of small and medium sized enterprises (SMEs) and their contribution to GDP, the government launched the President's Management Training Program (PMTP), a major management development program in 1997.

The PMTP is purported to be the largest government sponsored management development program in the former Soviet Union. The program was designed by a group of young liberal economists to promote private sector development through business management training. The program garnered the support at the highest levels of numerous federal and regional government agencies, and training institutions across Russia. Indicative of the national

¹⁰ Author's calculations based on OECD, International Development Statistics Online, Table 3a, http://www1.oecd.org/scripts/cde/viewbase.asp?dbname=cde_dac.

¹¹ Broadman (2002a) and Nellis (2002) provide detailed accounts on the limits of the first generation policies and the subsequent effort to institute second-generation reforms based on their involvement in World Bank lending to Russia. Whereas the World Bank's second-generation reforms were concerned with creating an enabling business environment through the rule of law, corporate governance, and removing barriers to market entry, other donors invested in training programs to transfer know-how and practices (Chambers & Tommasoli 1998).

importance attached to the program, President Yeltsin approved the PMTP by Presidential Decree #774. Operational in 1998 and extended for another five years in 2002, the PMTP was to train 5000 young business leaders per year. As the nation-wide television promotional and recruitment commercials proclaimed, graduates would be the ‘business leaders of the 21st Century’, or the ‘Golden Treasures’ in the words of some oblast governors.¹²

The Russian government placed high hopes on program graduates and invested considerable care in their selection and training. The entrepreneurs selected for the program were young (i.e., became politically aware during the transition period), held positions of influence in their companies, were well educated, and would have passed an entry exam and several interviews. They differed from the more infamous and slightly older business executive or manager in that they entered the labour market after the privatization process was largely completed, and therefore were not in positions of influence by virtue of the questionable transfer of state assets to private hands. Thus, all the managers entered the training program with superior and comparable credentials, and successfully completed a 600-hour executive-style business management course in addition to their day job(s).

The objective of the PMTP was to introduce young leaders in the business and social sectors to modern management techniques. With newly acquired business skills managers were expected to play a significant role in leading newly established private companies and in restructuring privatized enterprises. The lack of skilled managers in the ‘real economy’ was viewed as a major obstacle to firm-level restructuring. Given the sheer size of the program, it was anticipated that a critical mass of better-managed firms would bolster local and regional economic growth (Federal Commission 2000b).

In addition to implementing a large-scale management training program, organizers also sought to create a constructive dialogue between the government agencies organizing the program, and participating private sector managers and their companies. The architects of the program hoped that patterned interaction would, over time, create a new relationship between the 80 participating oblast governments, the approximately 100 management training institutes and the projected 45,000 new generation business leaders that would participate in the program over nine years.

1.3.1. My Involvement

I was involved in the PMTP from 2000-2003 as the Director of the Yeltsin Democracy Fellowship Program (YDFP). Predating the PMTP, the YDFP was established in 1992 by the Government of Canada to provide short-term multi-sector training for Russian reformers. The program was designed to expand the knowledge and promote the profile of public sector reformers and leaders in the emerging NGO sector. The YDFP had both a technical

¹² An oblast is the second tier of government in the Russian Federation. In addition to oblasts, there are several republics that have a different constitutional status. For simplicity, I will use the term oblasts to describe regional government (Munteanu & Popa 2001).

component (knowledge and skills building) and a political component (promoting reform-minded officials in decision-making positions). In response to President Boris Yeltsin's request to G-7 leaders, the YDFP and counterpart programs sponsored by Japan, the US and numerous Western European countries supported the launch of the PMTP.¹³ These international partners were asked to design and deliver customized international internships for PMTP graduates in industries related to trainees' work.

When I became involved, the YDFP had been designing experiential learning programs in Canada for Russian government decision-makers, NGO leaders and private sector entrepreneurs. I had no claim to expert knowledge on the challenges Fellows faced in these sectors but I did have a long-standing interest and experience elsewhere in institution building in the wake of significant political, economic and social transformations (O'Brien & Catenacci 1996). I was interested in how the government and the private sector interacted in setting an agenda for development. What were their respective priorities, perceived interdependencies and strategies? How had economic liberalization affected the development of private entrepreneurs in their regions, their livelihoods and their future opportunities?

Motivated in part by their gratitude for the learning opportunity the YDFP afforded them and their interest in teaching me the complexities of the reforms they were living through, I benefited greatly from countless formal meetings and informal discussions on these topics with my Russian counterparts in Canada and in Russia. This book is informed by those discussions and motivated by their actions and accomplishments.

My introduction to the PMTP was a December 2000 conference in Moscow to review the program's contribution to the national economy. By that time, the PMTP had trained nearly 8000 managers and co-organized 4000 international internships. I was expecting a detailed report on the contribution of these graduates to enterprise restructuring. The acquisition of new management skills and their application to enhancing company performance would have been a likely focus for a management training program of its kind. I was surprised therefore to receive a conference invitation from the Deputy Minister of Economic Development and Trade, who was also the executive secretary of the PMTP program, indicating that the conference would be devoted to a better understanding of "alumni contributions into development of economic and social programmes, regional budgets, legislative and normative documents, as well as assistance to large companies' restructuring process, regional and small business support programs and other activities." (Sharonov 2000). The attention to alumni participation, and in some instances their collaboration with government agencies in the formation and implementation of local and regional-level social and economic projects was certainly an unexpected agenda topic from my limited understanding of the PMTP and of other management development programs.

As promised, the discussion from the podium and the floor addressed the weakness in the institutional framework and the lack of platforms to address the constraints to economic

¹³ See Appendix 1 for a list of PMTP partner organizations.

development. Interestingly, business networks of graduates, which became formalized in what I will refer to as alumni business associations (ABAs), designed many of the more significant post-training projects highlighted at the conference. I left the conference intrigued by the focus of discussion and impressed by the desire of graduates and PMTP organizers to make a longer-term contribution to improving the business environment.

This broader objective of scaling up the impact of the training program to tackle the obstacles to economic development was a laudable goal. The question remained how a management development program that introduced pedagogical reforms in select management training institutes across Russia and the technical training they provided to individual managers would be capable of making a system-level impact? Post-training interviews and focus group discussions I had with YDFP alumni at that time had created the impression that management training and international internships were professionally rewarding but that the application of new skills in their firms presented significant challenges.

At a workshop convened in 1999, Tatiana Karmanovskaya (2000: 40), a YDF Fellow, made the following observation:

Discussions at the previous workshop devoted to the problem of adaptation of the Canadian experience in Russian conditions revealed the fact that the knowledge and experience obtained by Russian trainees in Canada appeared to be unclaimed at their enterprises. As a matter of fact, they have returned to the same environment and occupied the same posts in the rigid hierarchical management system. It is common knowledge that any new changes are impossible to be introduced in such conditions.

If graduates faced multiple challenges applying their skills in their firms, there appeared to be even fewer openings for graduates to influence the business environment. To do so would require, at a minimum, a political dialogue between the PMTP graduates and government. It had appeared to me that many of the young entrepreneurs participating in the program were driven to enhance their business management skills but disinterested or unaware how they could contribute to the development of market supporting or complementing institutions. The cases profiled at the December 2000 conference worked to dispel my first impressions as graduates in several regions were building platforms to work together and, in some instance, with government officials.

The case examples of graduates advising regional economic development agencies on business regulation, catalyzing public debate on economic development policies, devising social support projects for youth at risk, or forming ABAs raised a set of interesting questions. Were these isolated events? Did they have any direct connection to the design of the program? What role did ABAs play in advancing their individual objectives and firm restructuring?

1.4. BUSINESS ASSOCIATIONS AND INSTITUTION BUILDING

After the 2000 Moscow conference, I paid close attention to regional experiences of PMTP graduates who had formed ABAs. I did not anticipate this post-training development given

the lack of models, the distrust of collective organizing, and the pervasive belief that business will succeed when entrepreneurs work around obstacles rather than attempting to change them. However, the emergence of ABAs in some regions offered the potential for social learning, professional and business development, and political engagement.

The importance of personal connections within the family, among friends or with the *nomenklatura* has been a well-noted characteristic of social and political organization in the Soviet Union.¹⁴ What was so striking about the formation of ABAs within the PMTP context was the fact that managers organized in the public arena and brought together managers from different sectors and levels of responsibility. In some instances, ABAs had made an explicit effort to include non-PMTP graduates to make their associations more inclusive. Being independent of established business associations, ABAs offered the promise of creating a new approach to supporting members and their business interests.

When the program was renewed for its second five-year term, the promotion of business associations among managers was actively encouraged. The formation and development of ABAs varied across regions; yet, their proliferation in the later half of the program suggests that the design of the PMTP played a catalytic role, and that ABAs potentially represented a collective pathway for achieving the wider economic development goal of the program.

With the formation of ABAs, there were two distinct pathways for change envisioned by the PMTP. The first pathway was the acquisition and application of new management techniques to drive firm-level innovation by training individual managers. In other words, the enhancement of human capital through management training and the application of new skills were anticipated to have a beneficial impact on the firms they managed. The aggregation of these impacts, given the scale of the training program and its duration, were expected to have positive spill-over effects within local economies.

The emergence of ABAs created an unanticipated second pathway. These nascent organizations, of varying degrees of formality, created a platform for mutually beneficial collective action and individual support. Anecdotal evidence from the 2000 Moscow conference suggested that these emerging associations were translating human capital through social networks resulting in an array of collective and private goods.¹⁵ For members,

¹⁴ The term *nomenklatura* is used to define both a system for recruiting elites into positions of power and the power-holders themselves. Definitions vary on who is classified as a representative of the *nomenklatura*. For my purposes, I will use the term to denote senior Communist Party officials, directors of Soviet enterprises and regional administrators. As Anders Åslund comments, “The *nomenklatura* – in which a tiny elite controlled all decision-making and resources – was a key feature of the Soviet system.” (2000: 400). On the importance of informal personal networks for political advancement in Soviet Russia, see Easter (2000a). For the impact of personal networks on industry policy making, see Fortescue (1997). In the personal realm, the system of ‘blat’ or personal favours extended through norms of reciprocity and referral is treated by Ledeneva (1998).

¹⁵ The notion of public, club and private goods will be developed in Chapter 3.

exchange of information, an expanded range of business and government contacts, referrals and reputation building and other forms of mutual support appeared to endow members with social resources they could mobilize toward their individual and firm-level goals. In instances where ABAs worked to create consensus on economic development priorities or policy alternatives in economic and social spheres, the societal-level impact would benefit non-members as well.

The PMTP secretariat backed the formation of ABAs hoping that managers, as agents of change, would benefit from continuing interaction with other PMTP graduates. Ongoing contact with fellow graduates of an elite management training program, it was assumed, would provide a structure for social learning and catalyze innovation at the firm-level. Furthermore, given the weak policy-making environment and the numerous constraints to economic development, ABAs were also seen as a potential vehicle to unite actors and organizations in a dialogue to advance economic and political reforms.

1.5. RESEARCH FOCUS AND RELATED DEBATES

The case study of a human capital development program and the role that ABAs played in personal advancement, enterprise and economic development offers a vantage point to explore institutional change. How institutional frameworks and organizational arrangements affect labour markets, firm restructuring and private sector development broadly defined are complicated but important questions. They are complicated by the fact that institutions are embedded in political, cultural, social, historical, and economic life. For these reason, institutional analysis confronts the methodological challenge of teasing out and identifying the catalysts and constraints of change amid a number of contending factors.

Insights from various disciplines have informed institutionalist enquiries into the public policy issues emerging from the exit from socialism throughout Eastern and Central Europe. However, such approaches have been overshadowed by the more widespread application of neo-classical economic analysis.¹⁶ Employed widely in Western economic analysis and forecasting, neo-classical economic theory makes certain assumptions about market operations which critics are quick to point out do not reflect the reality in transitional economies. As Stiglitz (1994: 273) aptly summarizes, neo-classical economics ignores the broader consequences of social organization. It assumes, for example, that entrepreneurs enjoy equal access to information, and that distortions or obstacles to a more efficient economic state can be solved through getting prices right. Furthermore, prices are assumed to reflect given preferences that are insulated from social norms, political influence, and economic structure. These latter influences strike critics of neo-classical economics as elements that should not be ignored. To use Jean-Philippe Platteau's (1994) metaphor, we need to look 'behind the market stage' for a better understanding how societies produce

¹⁶ See reviews by Stiglitz (1994) and Benham and Benham (1997) for support.

markets. To disregard the institutional framework that lies behind the market stage would be to ignore Gaidar's metaphor that Russians are marked by a Socialist birthmark.

Much of the recent institutionalist research program was stimulated by pioneering work in the fields of new institutional economics by Oliver Williamson (1985), Douglass North (1990) and Avner Grief (1992); in economic sociology by Mark Granovetter (1973, 1985) and James Coleman (1988); in political science by James March and Johan Olsen (1989), Elinor Ostrom (1990) and Robert Putnam (1993a); and, in organizational analysis by Paul DiMaggio and Walter Powell (1991a). Keeping in mind that there are different schools of institutionalist thought¹⁷, there is a consensus view within these disparate approaches that understanding the exit from socialism and its trajectory would be aided by close attention to the institutional framework that underpins economic activity. On the one hand, institutional approaches give greater analytical weight than orthodox economic approaches to the interplay between rules and norms and, on the other hand, how rules and norms shape arrangements such as social networks and formal organizations.

Institutionalists share an interest in uncovering the institutional framework of a society. Proponents look to the formal laws, informal rules, and social norms that shape the way actors interpret their environment and seek to shape it. This approach views social change in the context of an evolving political, economic, social infrastructure that is based on past design but malleable to contemporary policies, preferences and events. An institutionalist approach is well suited to studying the limitations of Russia's first generation reforms (e.g., shock-therapy and privatization) and the contribution of the second generation reforms (e.g., the management and organization of political, economic and social resources) as it looks to social organization for an understanding how markets are organized, government functions and society is constructed.

1.6. RESEARCH QUESTIONS

My research objective is to identify the strategies devised by Russia's first generation of young entrepreneurs and their effectiveness to advance professionally, develop their firms and contribute to the reform agenda. My examination of PMTP graduates explores whether their investment in, and mobilization of, social resources through work- and ABA-networks had an impact on (i) their personal advancement, (ii) firm development, and (iii) new institutions and institutional arrangements for economic development.

This focus sheds light on processes of social stratification, of market-building and of the development of market supporting institutions. It looks to the stock of an entrepreneurs' social resources (or social capital as I will define and develop later) as an explanatory variable yielding differential outcomes. The empirical focus seeks to identify an institutional

¹⁷ There are several excellent reviews of this burgeoning literature. I found reviews by DiMaggio and Powell (1991b), Koelble (1995), and Scott (2001) to be particularly useful. I will identify these difference in Chapter 3.

explanation (i) why some graduates were more upwardly mobile than others, (ii) why some graduates contributed more to business development than others, and (iii) why graduates in some regions made a more significant contribution to building new institutions and institutional arrangements for economic development than others.

For example, in those regions where ABAs were developing, regional officials monitoring the program suggested that members were accruing outcomes at the individual and firm-level that exceeded those evidenced by graduates who did not participate in ABAs. As a collective pathway, ABAs appeared to offer managers differential access to social resources that were not available to non-members who pursued more individual pathways. At the societal level, ABAs also appeared to offer a durable platform for graduates to engage government on policy issues, or to collaborate in the design and implementation of mutually beneficial projects. Given the absence of constructive public-private models of cooperation, it also seemed that ABAs were improving business-government relations. While most of the literature and policy advice at that time was devoted to getting prices right and privatizing enterprises, there has been little attention paid to understanding the influence of social resources that inhere in social networks and affect economic development.

1.7. THE ORGANIZATION AND CONTRIBUTION OF THE BOOK

This book is organized into the following chapters. Chapter 2, the contextual chapter, devotes attention to the rise of management development programs in Russia, their objectives and expected outcomes. It introduces the challenges managers confronted and the business development strategies they employed. This background on management education then leads to a detailed description of the PMTP program. After illustrating the design and expected outcomes of the PMTP, the chapter concludes by identifying the potential pathways for graduates to overcome obstacles in the market environment.

Chapter 3, the literature review chapter, draws on the insights and identifies the limits of contending approaches to understanding political, social and economic change. The neo-classical economics literature has had a pervasive influence on Russia's first generational reforms. For this reason, this chapter introduces this literature, its prescriptions for economic growth and its limitations in promoting economic development. The second generation reforms sought to respond to the shortcomings of shock-therapy by giving greater attention to the political and social construction of markets. They focused on the actors and the institutions that shape social change.

These literatures come together in the discussion of the PMTP program. The two distinct pathways open to graduates to affect change – an individual pathway and a collective pathway – reflect the prescriptions of neo-classical and institutional literatures, respectively. Stated crudely, the interest of neo-classical economists in the productive capacity, allocation and utilization of capital, be it physical, financial or human capital has tended to ignore the social context of the market. In their view, price signals govern the actions and interaction of economic agents in the market. Institutionalists, on the other hand, draw attention to the social construction of markets. They see institutional frameworks (rules and norms) and institutional arrangements (forms of organization) shaping the actions of economic agents.

In terms of individual resources, institutional analysis has given increasing attention to the concept of social capital. The debatable proposition, which represents the core idea of social capital, is that social networks have value (Putnam 2000: 18-19). Empirical and theoretical studies on social capital have exploded in recent years and given renewed attention to social organization, such as business associations, as a resource for political, social and economic change. Drawing on these perspectives, Chapter 3 develops a conceptual framework by drawing on institutionalist literature and the social capital literature in particular.

Chapter 4, the methodological chapter, outlines the strategy of investigation. It describes the fieldwork and survey data collected, and the framework for exploring influence of work- and ABA-based social capital at the individual, firm and societal level. If social capital is to be more than a metaphor in institutional analysis, there is a need to explicate how social capital facilitates identifiable outcomes.

Chapter 5, the historical chapter, examines continuity and change in the exit from socialism. The young entrepreneurs who participated in the PMTP inherited an environment that was hostile to economic development. The first generation reforms sought to erase the economic legacies of socialist planning but top-down policies were blunt instruments to craft a new economic order. Moreover, the extreme interpretation of liberalism freed market prices but failed to create a complementary role for government. The second-generation reforms were designed to improve the governance of the state, the economy and the social sector but the institutional framework presented numerous obstacles for PMTP graduates to pursue change through individual or collective pathways.

For this chapter, I will examine the system-level influences of changing rules and norms in the exit from socialism. The noted changes influence the types of actions available to graduates, the costs and benefits of a course of action, and likely outcome. The chapter applies these questions in the three arenas of interest: entrepreneurial strategies to influence public policy; the role of work- and association-based social capital in business development; and, strategies employed by youth to obtain a job and advance professionally.

Chapters 6, 7 and 8 report on the fieldwork and survey data findings. The first of these empirical chapters describes the structure and the activities of ABAs. Chapter 7 is devoted to a discussion of the contribution of ABAs to societal level outcomes. In particular, it discusses the market-supporting and complementing actions of ABAs. Richard Doner and Ben Schneider define market-supporting activities of business associations as those that push or pressure under-performing states to provide the public goods only government can provide.¹⁸ Market-complementing activities, on the other hand, seek to overcome missing markets, which are inevitable but more acute in some economies than in others (Przeworski 1997: 414). Market-complementing activities may include lowering the cost of and access to

¹⁸ See Doner and Schneider (2000: 262-264) for a discussion of market-supporting and – complementing activities of business associations in developing and transitional economies. For a specific reference to the Russian context, see Radaev (2002: 201).

information, building trust and reputation, improving inter-firm horizontal and vertical coordination for production, distribution and investment, or standard setting. Market-complementing activities are more appropriately classified as club goods as the benefits accrue primarily to members. In Chapter 8, descriptive and statistical data is presented to demonstrate the significance of work and ABA-based social capital to expected outcomes at the individual and firm level.

Chapter 9, the conclusion, reflects on the major findings of the case study and the implications for theory and practice. The exit from socialism was greeted with considerable optimism in the early 1990s and few predicted the impact on labour markets, the challenges of enterprise restructuring and business development, or the weak response from society to craft new market-supporting and complementing institutions. Russia's transition highlights both the bluntness of stabilization and structural reforms and the poverty of our tools for analyzing institutional change. Much of the literature in the post-privatization period has questioned why policies aimed at separating the state from the market and the freeing of price signals did not stimulate economic development.¹⁹ The orthodox prescriptions on which the first generation reforms were based have limited utility for understanding transitional economies and the institutions upon which market rely. Joseph Stiglitz has argued this point, stating that Western economic models are more useful for understanding *economic growth* in advanced economies than *economic development* in transitional economies, thereby rendering dominant theories impotent in the context of significant economic change. Stiglitz' (1999) critique of Western policy advice to Russian economic planners points out that Western models assume the existence of economic and social institutions, which simply did not exist in the former Soviet Union.

Within this debate, this book seeks to better understand the institutional influences on economic development. I do so through a close investigation of comparing the use and usefulness of graduates' work- and association-based social capital in creating opportunities at the individual, firm and societal level. While there are limits to the data, the findings demonstrate that individual pathways are less effective than collective pathways for achieving expected PMTP outcomes at the individual, firm and societal level. By implication, these findings underscore the limits of neo-classical thought on the one hand, and the contribution of institutional approaches to understanding socio-economic change, on the other.

The second contribution is more pragmatic and policy driven. Given the growing evidence suggesting the importance of social capital, and the emergence of ABAs as a potential conduit for graduates to access and mobilize social capital, I will comment on the practicality of a social capital approach to management training. While primarily a human capital development program, the PMTP promoted social learning among young entrepreneurs, government officials, domestic and international business leaders, consultants and educators. Given our poor understanding of institutional change and ways to promote it, the apparent

¹⁹ Chapters in Nelson, Tilly, et al. (1997) and Harter & Easter (2000) devote attention to these questions.

translation of human capital through social capital networks presents an intriguing entry point to revisiting our assumptions and explanations of why development processes differ.

If Robert Putnam's (2000) claim is correct that social capital can make us more healthy, wealthy and wise, and that it can be constructed through the design of social and education programs, then it is important to understand how these outcomes can be advanced through public policy.

2. MANAGEMENT DEVELOPMENT & THE PRESIDENT'S PROGRAM

For 75 years - more than three generations, far longer than in any of the other transforming economies - the population of Russia was almost completely cut off from contact with market economies. As a result, there is an immense gap between the knowledge and skills which the average Russian manager possesses and that which is required to efficiently transform factories and plants into modern production facilities. (Gurkov 1997: 7)

2.1. MANAGEMENT DEVELOPMENT

This chapter identifies the structural changes to the planned economy created by Mikhail Gorbachev's *perestroika* and then Boris Yeltsin's shock-therapy policies of the early 1990s. Yeltsin's radical economic reforms, particularly the massive privatization program created a private sector across the Russian Federation. However, Russia's new entrepreneurs were born into a deeply inhospitable business environment. So perverse was this environment that former communist enterprise directors who 'inherited' their enterprises through privatization handsomely rewarded themselves by pillaging firm assets rather than investing in them. Those business leaders that wanted to rebuild Russia's productive sector lacked the knowledge and the resources to do so. In the search for a way out, the demand for management training became a booming business in Russia.²⁰

This chapter devotes attention to the rise of management development programs, their objectives and expected outcomes. Against this backdrop, I will focus on the PMTP and discuss the expected contribution of this national program to economic development. The PMTP was a pedagogical departure for managers, instructors and government officials, in part because of the new curriculum and the uncharacteristic trilateral interaction it promoted among government, business and academia. Following a description of the PMTP, I conclude the chapter by identifying program developments and strategies entrepreneurs employed to attain program objectives and overcome obstacles in the market environment.

In 1987, the Central Committee of the Communist Party adopted the "Fundamentals of Radical Restructuring of Economic Management." Mikhail Gorbachev (1987: 33) referred to this document as the "the most important and most radical program for economic reform our country has had since Lenin introduced his New Economic Policy in 1921." The principal thrust of the program sought to change the logic of economic management. For enterprises,

²⁰ Puffer (1993) documents the first wave of Russian and international collaborative projects to develop business education programs in Russia. She describes the proliferation of business schools as a 'booming business'.

the aim was to shift from “primarily administrative to primarily economic management methods at every level, and calls for extensive democratization of management, and the overall activation of the human factor.” (*ibid*). This 1987 framework opened the way for subsequent reforms such as the 1988 “Law on State Enterprises” and the “Law on Cooperatives.” The former law gave enterprise directors the freedom to invest, produce and sell goods once state production orders were met. While decentralizing decision-making was deemed essential to turn around declining industrial production, it had perverse effects. Foreshadowing events to come, for example, the Law of Cooperatives enabled directors to create profit making centers within state enterprises without the contingent liabilities of privately owned enterprises (Äslund 2000). Rather than reinvest profits in their firms, management tended to transfer profits and capital legally and illegally out of their enterprises, or out of the country for personal gain. When Yeltsin ended *perestroika* in 1991, Gorbachev’s reforms had given management effective control of state enterprises. This turn of events might have had some beneficial effect but by most accounts, enterprise management was ill-prepared or opposed to further liberalization for fear of losing privileged control of their enterprises.²¹

Perestroika did end, however, Soviet-era management that had been adapted to service the planned economy. This economic system nurtured a set of skills that was not transferable to a liberalizing economy. Sergey Filonovich (2000: 4) identifies a constellation of organizations that narrowed a managers’ decision-making domain to the point where there was little scope for managerial decision-making.

*The Communist Party determined the ideological context; the KGB was in charge of control; ministries were involved in resource allocation; local administrations coordinated the functioning of enterprises; unions controlled social aspects; and the Komsomol was the major source of the human resources.*²²

The 1987 framework for economic renewal removed these external constraints, save for the role of local administrations. In the planned economy, managers were primarily concerned with meeting production quotas but in a liberalizing economy, they had to make an entirely new set of decisions. Without knowledge of how to operate in a market economy or prior exposure to analytical tools learned in the higher education or the vocational school system to guide them, the first generation managers chartered new territory.

To set the context of this period as a prelude to the discussion on the rise of management training, I will identify major structural changes affecting managers in the early transition

²¹ Lieberman & Rahuja (1995: 8-9) paint a pessimistic view of the new managers. For a more positive outlook, see Webster (1995).

²² At the time, Filonovich was the Dean of the Graduate Management School at the Higher School of Economics. He was also a member of the PMTP’s executive council. The *Komsomol* is the Communist Party youth league. Its role, influence and transformation are discussed in Chapter 5.

period. When Yeltsin's economic program removed price controls and began to privatize state industries, managers were faced with a radically new market environment. Given the speed at which macro-economic policies were introduced, managers had very little time to position themselves and their firms for wholesale restructuring that the new policies necessitated.

2.2. PRIVATIZATION

Russia lays claim to the two largest transfers of property in the 20th century. The first was the nationalization of property by the Bolsheviks, which enabled them to transform a feudal system into an industrial socialist society. Seven decades later, President Yeltsin orchestrated the largest transfer of public property to private hands through privatization. Privatization, a cornerstone of Western economic policy advice, also served Yeltsin's political objective of making the market reforms irreversible by turning every Russian into a private shareholder.²³ On this basis, the 1992-1994 Mass Privatization Program (MPP) was an unqualified success. Starting in June 1992, the government distributed vouchers to 144 million Russians allowing them to purchase shares in enterprises that were to be privatized. Within a 14-month period, 12-13,000 large and medium-sized enterprises were privatized. With this sale, two-thirds of the total workforce in the industrial sector switched from state to private management. During this period, some 80,000 small-scale retail firms were also privatized. The change in ownership was drastic. From the start in 1992 up to 1997, the state went from over 95% to less than 50% ownership in terms of the book value of enterprises. By 1998, the number of firms in state hands as a percent of total number of enterprises was 6% (IMF 1999: 135).

Following the MPP program, the government opted for a cash-based privatization program and then the infamous loans-for-shares (LFS) program of 1996. A key objective of the LFS arrangement was to reduce the power of the so-called 'Red Directors'. The Red Directors tended to be well-positioned Soviet-era *apparatchiks*. Following the enterprise reforms Gorbachev launched in 1987 period, the Red Directors assumed effective control of state-owned enterprises that they had managed. Red Directors were able to consolidate their gains legally in the wake of the MPP.²⁴ Yeltsin's further liberal reforms threatened the Red

²³ Daniels (1998: 171-177) characterizes Yeltsin's privatization push as a messianic effort typical of Russian leaders. In his view, Yeltsin and his liberal advisers embraced a purist interpretation of classical liberal thought without acknowledging the role of the state in governing economic development.

²⁴ The literature tends to emphasize the detrimental role of the Red Directors but there is little data on how prevalent they were in the early transition period. Leila Webster (1995: 177-178) estimates that between 25-30% of managers in her sample could be classified as Red Directors. Between 50-60% of managers had introduced small changes and only 15-25% were capable managers able to implement effective organizational restructuring. Summarizing the concern in the prevalence of Red Directors, Joseph Blasi, noted that they have "no vision of the firm as an open, public company. . . . General directors want a closely-held firm that they can dominate and control." (quoted in Lieberman & Nellis 1995: 242).

Directors' inheritance so they backed the Communists and mobilized worker support for an end to Yeltsin's reforms. Yeltsin orchestrated the LFS arrangement and enlisted the support of several prominent oligarchs to counter the intransigence of the Red Directors and the resurgence of the Communist party.

Going into the 1996 election, Yeltsin needed financial backing. Rather than draw on government resources, which he could have done, he 'borrowed' money from selected oligarchs. For collateral against these loans, he put up shares in a few very productive large enterprises in the natural resources sector that were slated for privatization. Yeltsin likely had no intent to repay the loans and when his loans defaulted, his backers took controlling interest in major oil and gas industries and other natural resource enterprises. As a result, a small coterie of financiers became instant billionaires. The LFS process was not transparent but was seen in the eyes some observers as the lesser of two evils (Gaidar 2002). The government 'sold' key industries to a group of prominent businessmen in return for their political support to re-elect Yeltsin and keep the Communist party from government. The short-term political objective to re-elect Yeltsin succeeded but the outcome entrenched the economic and political power of the oligarchs and led to a concentration of enterprise ownership.

2.3. MACROECONOMIC SHOCKS AND THE BUSINESS ENVIRONMENT

The privatization program was carried out during a time of extraordinary economics and politics; it was inauspicious timing for the birth of the private sector. Managers of newly privatized companies had to contend with a volatile macroeconomic environment, which they had little control over, and a host of operational constraints within the firms they tried to manage. The instability in both the political and economic spheres shortened the planning horizons as managers concentrated on short-term survival. Crisis management was the norm.

One of the reasons why markets did not function well once freed from state planning was that much of the supporting market infrastructure was not in place. In the parlance of new institutional economics, there were numerous 'missing markets' such as the lack of contract enforcement, undeveloped capital markets, and absence of market information. Consequently, the transaction costs of doing business were extraordinarily high. The untying of the state's grasp on the productive sector unintentionally tied the hand of even the most entrepreneurial Russian businessperson.

At the macroeconomic level, the freeing of price controls, liberalizing internal and external trade, and reducing state subsidies to firms were some of the more important economic policies introduced. The reverberations of these policies affected every Russian. When price controls were lifted on January 1st 1992, inflation rates skyrocketed and decimated personal savings. During 1992, inflation rates for rent, fuel, power, transport and communications increased 2120 percent. Rates increased again through 1993 before a gradual decline to 22 percent in 1997.²⁵ High inflation rates alarmed the International Monetary Fund (IMF), which

²⁵ Goskomstat data quoted in IMF (1999: Table 15).

had stipulated in its Letter of Agreement with the GoRF that inflation was to be kept low. In an effort to conform to this loan condition, the government hiked interest rates. Consequently, access to long-term financing for working capital was difficult to obtain. It was also expensive, reflecting the tightness of the money supply and the risk of lending in an inflationary and volatile market.²⁶

The immediate consequences of shock-therapy were evident in declining productivity and gross domestic product. From 1990 to 1996, productivity (i.e., value added per employee) declined an average of 27% across all sectors (World Bank 2004: Table III.3.4a). From 1991 to 2000, the gross domestic product imploded from \$542 to \$260 billion. This decline in GDP reflects actual production but it also owes partly to the burgeoning grey economy and increasing reliance on barter exchange, which are not captured in official statistics. High interest rates also led to an overvalued exchange rate that had the perverse effect of discriminating against Russian manufactured goods. The flood of foreign consumer goods into the market dealt a further blow to fledgling private enterprises.

At the firm level, the business community frequently cited administration and tax burdens as major constraints to business development. The relative significance of these and other measures varied overtime and by sector. The majority view, however, was that Russian firms faced significant constraints in the external environment.²⁷ The table below draws from the Business Environment and Enterprise Performance Survey (BEEPS), which was sponsored by the World Bank and the EBRD to understand better the constraints to private sector development (World Bank & EBRD 2001, referred hereafter as BEEPS 2001). The question asks Russian managers to rank the severity of potential business obstacles materially affecting the performance of their firms.

²⁶ Fan, Lee, et al. (1996) using 1995 firm survey find that short-term loans were relatively easy to obtain but over 50% reported that long-term loans were very difficult or impossible to obtain. The main reason cited for difficulties obtaining bank loans was high interest rates.

²⁷ There is a significant literature on this topic. Detailed analyses from firm-level surveys can be found in Lieberman & Nellis (1995), Commander, Fan, et al. (1996), Åslund (2000), and Gaidar (2003).

Table 2-1: Severity of Potential Business Obstacles (1999)

| | No Obstacle | | Minor Obstacle | | Moderate Obstacle | | Major Obstacle | | Don't Know | | Total | |
|---|-------------|------|----------------|------|-------------------|------|----------------|------|------------|------|-------|-----|
| | n= | % | n= | % | n= | % | n= | % | n= | % | N= | % |
| Inflation | 19 | 3.4 | 46 | 8.3 | 118 | 21.4 | 367 | 66.5 | 2 | .4 | 552 | 100 |
| Taxes and Regulations | 14 | 2.5 | 38 | 6.9 | 147 | 26.6 | 350 | 63.4 | 3 | .5 | 552 | 100 |
| Policy Instability/ uncertainty | 18 | 3.3 | 65 | 11.8 | 119 | 21.6 | 344 | 62.3 | 6 | 1.1 | 552 | 100 |
| Exchange rate | 66 | 12.0 | 78 | 14.1 | 109 | 19.7 | 274 | 49.6 | 25 | 4.5 | 552 | 100 |
| Financing | 60 | 10.9 | 55 | 10.0 | 156 | 28.3 | 271 | 49.1 | 10 | 1.8 | 552 | 100 |
| Organized crime | 121 | 21.9 | 135 | 24.5 | 94 | 17.0 | 160 | 29.0 | 42 | 7.6 | 552 | 100 |
| Street crime / disorder | 114 | 20.7 | 153 | 27.7 | 113 | 20.5 | 156 | 28.3 | 16 | 2.9 | 552 | 100 |
| Corruption | 110 | 19.9 | 133 | 24.1 | 112 | 20.3 | 135 | 24.5 | 62 | 11.2 | 552 | 100 |
| Anti-competitive practices by gov't or firms | 91 | 16.5 | 133 | 24.1 | 149 | 27.0 | 126 | 22.8 | 53 | 9.6 | 552 | 100 |
| Infrastructure | 216 | 39.1 | 152 | 27.5 | 102 | 18.5 | 76 | 13.8 | 6 | 1.1 | 552 | 100 |
| Functioning of the judiciary | 168 | 30.4 | 183 | 33.2 | 75 | 13.6 | 74 | 13.4 | 52 | 9.4 | 552 | 100 |

Source: BEEPS (2001), author's calculations

The BEEPS survey was implemented in the summer of 1999, seven years after the introduction of Yeltsin's economic program. The number of variables receiving majority and plurality responses in the 'major obstacle' column reflects the enduring dissatisfaction within the business community with the government's handling of the economy.

The economic dislocation in the market reflected the uncertainty of the political realm. Against a backdrop of a power struggle between Yeltsin reformers and the Communist hardliners, secondary reforms to regulate and structure the private sector development were late or ineffective. Policies and capacity building relating to business regulations, taxation, dispute resolution, banking and finance, property laws slated for reform were not implemented because the state either lacked the capacity or the ownership to implement and enforce them. Joseph Stiglitz, then Chief Economist of the World Bank and critical observer of economic policy advice to Russia, referred to these secondary reforms as 'window-dressing' as they lacked any real backing (Stiglitz 2002: 155).

The private sector's lack of confidence in the government's handling of the economic reforms grew as market conditions showed little sign of stabilizing. The following table reflects a firm-level view on the predictability of changes in the policy and the regulatory environment.

The majority response views the policy and regulatory environment as highly or completely unpredictable. It should be noted that the timing of this survey took place one year after the 1998 financial crash that deeply affected the private sector.

Table 2-2: Predictability of Policies and Rules (1999)

| | How predictable are changes in the government's economic and financial policies which materially affect your business? | | How predictable are changes in the rules, laws, or regulations which materially affect your business? | |
|--------------------------|--|------|---|------|
| | n= | % | n= | % |
| Completely Predictable | 12 | 2.2 | 9 | 1.6 |
| Highly Predictable | 8 | 1.4 | 10 | 1.8 |
| Fairly Predictable | 50 | 9.1 | 77 | 13.9 |
| Fairly Unpredictable | 154 | 27.9 | 151 | 27.4 |
| Highly Unpredictable | 107 | 19.4 | 105 | 19.0 |
| Completely Unpredictable | 205 | 37.1 | 181 | 32.8 |
| Don't know | 16 | 2.9 | 19 | 3.4 |
| Totals (N & %) | 552 | 100 | 552 | 100 |

Source: BEEPS (2001), author's calculations

Compared to the average response to these questions from all transitional countries surveyed in the BEEPS questionnaire, Russian business people were far less certain in 1999 about the direction and implementation of reforms. When asked to reflect on the direction of change over the last three years (1996-1999), 64% of Russian respondents felt that there had been no change, and the remainder expressed that the laws and regulations have become somewhat or much less predictable.

Official corruption is another oft-cited factor with political origins that negatively affects economic development. There has been considerable attention paid to state predation on the private sector and perhaps with due cause (Gray, Hellman, et al. 2004). Transparency International's Corruption Perception Index tracks business and expert perceptions of government transparency and accountability.²⁸ Since the Index was first published in 1995, Russia has ranked in the bottom quartile of countries surveyed. With (0) representing highly corrupt and (10) equalling highly transparency, Russia's index scores have ranged from a low of 2.1 to a high of 2.7 over the years from 1996 to 2003. While this measure is cause for concern, Table 2-2 suggests that state predation is not as much of a concern as other factors, which is perhaps an indication of the severity of other obstacles rather than the insignificance of corruption.

²⁸ Transparency International's CPI internet site is:
www.transparency.org/policy_research/surveys_indices/cpi.

Official corruption presents only half the story, as the business sector was complicit or the agent of graft as well. New research has begun to explore the extent to which Russian business is ‘capturing the state’ through corrupt means to benefit their interests. Survey evidence suggests widespread influence of FIGs and even less powerful firms in securing preferential treatment (Hellman, Jones, et al. 2000). This influence of business over elected officials and bureaucrats distorted the liberal aspirations of Yeltsin’s reforms.

2.4. MANAGING THROUGH THE TRANSITION

If management had little influence over the direction of the economic reforms and political conduct, firm management was not entirely reactive. Managers did devise strategies to overcome internal and external constraints. Strategies include altering management structure and organization, choosing investment and product lines, and making human resource, sales, marketing and distribution decisions. These were basic issues.

Leila Webster provided an early insight into the constraints facing Russian managers in her 1993 survey of newly privatized firms in the Moscow and Vladimir regions. She estimated that roughly half of the firms she interviewed were struggling to survive. Webster (1995: 181) concluded that:

Staying afloat will depend critically on a series of factors, such as a firm’s ability to maintain adequate working capital; manager’s skills in making strategically correct choices about products and markets; the degree of freedom managers can exercise in downsizing in areas of labour and social assets; the speed with which external competition strikes; and in the longer term the availability of capital for restructuring.

If one factor could be signalled out, Joseph Blasi opined, “the most basic change that is required is new management.”²⁹ Blasi’s concern was that first generation managers tended to be opportunistic and focused on personal gain or did not possess the skills and competencies to run their firms. However, there was hope that a new generation of managers would replace the Red Directors and institute new business practices that could contend with the challenging external environment in an honest way (Wright, Hoskisson, et al. 1998).

Turnover in managerial ranks was inevitable but the lack of know-how among present and incoming managers was a real constraint. Clinton Longenecker surveyed 174 managers in the early 1990s and discovered that 59% indicated that the number one reason for managerial failure was the lack of experience.

When asked what management skills are critical for success, Longenecker’s interviewees listed the following, in descending order of importance.

²⁹ Joseph Blasi quoted in Lieberman & Nellis (1995: 244).

Table 2-3: Perception of Top Ten Management Skills

| Rank (in declining order) | Management Skill |
|---------------------------|--|
| 1. | Connections and personal contacts |
| 2. | Problem/crisis solving skills |
| 3. | Marketing and sales skills |
| 4. | Leadership and communication skills |
| 5. | Action oriented/willing to take risks |
| 6. | Technical knowledge of operation/product |
| 7. | Planning/organizing skills |
| 8. | Financial/accounting skills |
| 9. | Creativity and innovation |
| 10. | Drive and persistence |

Source: Longenecker (2001: 103)

The importance accorded to connections and personal contacts is not surprising but it holds different meanings for a manager in a planned and a market economy. In the planned economy, the most important connections were vertical linkages from the enterprise to the state. In that system, there was little need for managers to establish horizontal connections with consumers or other firms. In the liberalizing economy, connections with the state were no doubt important but horizontal connections with buyers and sellers assumed new prominence. The economic restructuring led to what Olivier Blanchard and Michael Kremer (1997) refer to as ‘economic disorganization’, when the production chains established by planning agencies were severed when these agencies ceased to exist. The ensuing fragmentation of the economy placed a premium on re-establishing upstream and downstream business contacts. It is interesting to note, as illustrated in future chapters, that managers identified connections as a management ‘skill’ over and above technical competencies.

Leadership, motivation, creativity and decision-making skill identified in Table 2-3 represent a set of characteristics that are not easily taught. In acquiring these skills, learners and mentors confronted the Soviet work culture head on. During the Soviet era, the working culture of firms rewarded loyalty. Subordinates were conditioned to follow rather than to lead. The vertical lines of command and communication in Soviet enterprises corresponded to the centralized production model. With *perestroika* and ensuing economic reforms, this model was discredited as unviable but it did persist.

Leading people and creating the conditions for ‘activating the human factor’ was not an easy task given the Soviet legacy. People’s disempowerment is an often overlooked legacy of the Soviet system. The combined impact of the economic recession and instability, the rising incidence of poverty and inequality, and growing unemployment to name a few causes of disenchantment all took their toll on the Russian psyche. Without confidence in the future, Russians lived for the present and laid few foundations for the future. This post-transition malaise was magnified for many by the pre-transition fatalism that defined many Russians’ view of the world. Given that one of the central tasks of management is to lead people, the entire project of management development is a bankrupt proposition if managers do not believe their actions can result in change. As Denis Dragunski rhetorically quips: “What is the

code built into Russian civilization? It is: ‘Do nothing and God will save you.’”³⁰ This mindset is antithetical to a forward-looking world view.

2.4.1. The Need for Management Training

External shocks and the ensuing change in the structure of production created pressure for a commensurate management response. Senior management, or top managers as they are known in Russia, were looked on to provide a roadmap for companies to restructure. However, top management was widely viewed as lacking the expertise to do so, and unable to rely on capable middle managers to contribute to business strategy and its implementation.

This view was widely shared but it is perhaps useful to recall the consensus. The following quote is from a European Training Foundation report commissioned to inform EU policy on the relevance of their training programs in Russia and the FSU. Based on interviews of government officials, political figures, business leaders, foreign business representatives on the need for management development, the report concludes:

Every respondent agreed that a shortage of well-trained managers had been, and continued to be, a serious hindrance to the reform process. The need was for managers who could move beyond their own specialisms, which had usually been differentiated according to the particular engineering technology in which the individual had been trained (metallurgist, electronic engineer etc.) On the one hand, roles such as marketing manager, finance director, company treasurer, service manager assumed a new importance for a firm operating in market conditions, on the other hand the job of general manager now covered issues of business strategy which in previous times either had not arisen, or had been the responsibility of ministry officials. In each case, new skills and systems were required for which there had been no need under the command economy. (Chambers & Tommasoli 1998: 36)

In an early conversation with an YDF Fellow from the Volga region, I asked why he enrolled in the PMTP and his perception of the PMTP. He worked in a large tractor and agricultural machinery plant and had been appointed recently to head its new marketing department. The company had been in operation for decades and employed over 1000 people. His new position was secured after he had completed the PMTP training program and returned from his international internship in Canada. On returning to his company, his superior commented that he was the only employee aside from senior executives who had been outside of Russia and studied Western business practices. His expertise was finance but because of his studies and practical attachment at Canadian firms, senior management considered him capable of heading up a new marketing department. He knew that the offer was a promotion but also a responsibility he accepted reluctantly:

³⁰ The Western equivalent, according to Dragunski (1995: 157) is: "Work and compete and God will help you."

We were told during perestroika that if we produced a quality product it would sell. We achieved the technical challenge but no orders came. When I returned from Canada, I told my manager that agricultural equipment manufacturers spent a lot of money on showing off their equipment. Trade fairs, brochures, websites, customer relations and the list of things we never did went on and on. After I finished describing the role of marketing as I saw it, and I am not a marketing expert, they asked me to lead a new marketing department. I knew that I was in trouble because if I was the only person they could think of, I knew that I would have very little help I could rely on. The problem with Russian firms is that they have a lot of people working in them but very few people actually do anything. I am a financial person being recruited to become a marketing person because I had spent several weeks studying Canadian firms! At that moment I did not know whether my management studies were paying off or if I should find a new job with top managers who knew what they were doing. We are all learning and some of our new products are doing OK. Our tractors and equipment are getting attention but the quality is still too low.³¹

In another early conversation I had, this time with an engineer in a forestry company in Petrozavodsk, she remarked:

My experience in working with Swedish companies was a rewarding but terrifying experience. I realized that the project I was working on would require cooperation throughout my company, which is very large. I do not think the West has companies as large as Russian ones. I was excited to tell my workers and engineering department what we would need to do but realized that even if I could communicate the plan, many of the workers would not understand what I was saying or why I was saying it. My company and many of the people that I rely on do not understand basic things about management and what it means to work in a competitive economy. I know I am expected to be the teacher now but this would be a great responsibility that I do not have the time for. I am looking for a new job with people who know what it means to manage a business.³²

The need for capable managers in the public sector was equally important. An YDF Fellow who had risen to the rank of Deputy Minister of Economy in an oblast government told his private sector colleagues at a round table meeting that he was looking forward to working

³¹ Personal communication with YDF Fellow, Moscow, December 2000. The Fellow was a male in his mid 30s and worked at major agricultural equipment manufacturing company that was privatized in the early 1990s.

³² Personal communication with a PMTP graduate, Petrozavodsk, November 2001. The graduate was female and in her early 30s. She was an engineer who had worked at the company for several years in the logistics and machine systems operations. The company was recently privatized.

with PMTP graduates. In a frank admission on the lack of capacity and expertise in his ministry, he exclaimed:

*Many President Program [PMTP] businessmen who have been to other countries will know that Russia has work to do. This is not work that my ministry can do or you in your companies can do alone. I am now responsible for economic planning in our region and I have a staff of 100 people. I would say that 15 people in my office are dedicated and about five of those are trained economists who have a vision for our region. We have serious work to do and I cannot do it without people like you who know what needs to happen for our economy to grow.*³³

These reflections on the state of knowledge and skills required in a liberalizing economy were made a decade after the significant reforms had worked their way through the economy. These were also the perceptions of people who worked in Russia's regions where the need for management training was most acute and perhaps most difficult to develop given the lack of opportunities and training infrastructure. The training needs were by numerous accounts very significant and warranted the investment in building capacity for management training.³⁴

2.4.2. Capacity for Management Training

To address the need for management training, different levels of government, firms, educational centers, unions and international donors developed management training programs. Some programs were extremely large scale and widely viewed as complementing other economic reform initiatives (World Bank 2002). This was particularly true of projects involving international support such as the World Bank's \$40 million dollar loan to establish the National Training Foundation and the multi-donor support for the PMTP from 1997 onwards.

According to World Bank estimates, there was a massive gap between the need for training on the one hand, and the demand and capacity to deliver it on the other. In the formulation of the 'Management and Financial Training Program for Russia', World Bank staff estimated that one to two million trained professionals were needed in areas of business management, financial planning and accounting right across the public, private and social sectors (World Bank 1994).³⁵ The capacity to train and re-train managers through in-house company training,

³³ Presentation made at YDF Re-entry Workshop, Saratov, December 2000.

³⁴ More detailed accounts of the need for management training and the skills are given by Puffer (1996), Vikhanski & Naumov (1996), Gurkov (1997), Chambers & Tommasoli (1998), Wright, Hoskisson, et al. (1998) and Filonovich (2000).

³⁵ Puffer (1993) provides a similar estimate.

in the higher education or in the vocational educational system was insufficient to meet this projected need.

Gorbachev's policy of *glasnost* allowed some elite universities to develop twinning relations with European and North American universities. These linkages led to new curricula and research collaborations but real growth in management schools only occurred following Yeltsin's embrace of capitalism. In the early 1990s, business management courses proliferated in the universities of major centres. Despite their emergence, the World Bank and Russian economic planners considered the demand and capacity for management training as grossly insufficient to meet the needs of the new economic system.³⁶ To develop a new framework for management training, planners had to look beyond the extensive system of management training institutes that had serviced state-owned enterprises. With their privatization, a large segment of lower and middle-level management personnel effectively lost opportunities for professional development. Rather than support in-house private sector training capacity through public and international support, this task was left to new firms such as McDonalds, Unilever and other multinationals that were investing in Russia.

The new focus for building management skills focused on the higher education and vocational school system. The Soviet Union had developed an impressive infrastructure for training the *nomenklatura* in party doctrine and central planning. The system comprised of technical colleges (technikum) throughout Russia, several hundred higher education organizations with management faculties as well as sectoral 'upgrading' centres dedicated to specialized training in strategic areas of the economy and professions. The vast majority of these facilities were established to service the planned-economy. There were a few exceptions like the Plenkanov Institute of the National Economy based in Moscow. Re-named after a prominent Marxist theorist and catering to enterprise managers in fields of management, socialist planning, and party doctrine, the Institute was originally created by Russian merchants to promote business education prior to the Bolshevik revolution. The majority of training institutions, however, were established during the Soviet era and had no prior or contemporary links to facilitate the development of new curricula and instructional methodologies to meet the needs of a liberalizing economy.

This Soviet training infrastructure was in decline in the early 1990s as the ministries that supported it and funded the re-training of managers retreated from management education to re-evaluate their role and the needs of the new economy. At the center, state funding allocations to regional budgets and ministries to support management training declined during the period of austerity. As a result, participation decreased rapidly because of funding shortages, the irrelevance of most management curriculum and the fact that managers were no longer obliged to attend. The World Bank estimates that the Soviet management training

³⁶ Filonovich (2000) cites government restrictions on the state education system, lack of precedent, and public view of business as a lottery that does not reward skills and dedication as the main reasons for the slow development of management training.

system was capable of training 1.5 million managers a year prior to the reforms and subsequently declined to 25-50,000 people in the early 1990s (World Bank 1994: 8-8, 12).

2.4.3. Building Capacity and International Assistance

Business schools were the pioneers in developing new management training programs. The 1987 framework for socialist economic renewal provided the impetus for acquiring new management skills and a legal opening for new curricula to emerge. After decades of propagating Marxist theory and socialist planning in Central Europe and other aligned countries, faculties of economics and management looked to the West to develop curricula, pedagogical and research methods. Prior to the 1990s, only a small number of Russian academics were permitted to study and research market economics and commerce but after the dissolution of the Soviet Union, the higher education system actively sought out international partners to develop courses and degree programs.

Without exception, G-7 countries and a wide range of philanthropic agencies such as George Soros' Open Society Institute sponsored management development projects. A 1996 review of international support in this field sponsored by the European Training Foundation asserted, "All of the major donors active in the NIS [Newly Independent States] have identified management training as a factor critical of influencing the speed of economic and social reforms." (Chambers & Tommasoli 1998: 5). Ten years later, the same agency had a database of over 300 externally sponsored management training programs. The rationale for donor investment was based invariably on the contribution skilled managers and entrepreneurs could make to policy development, reversing ailing industries and creating competitive enterprises. This investment in higher education was an interesting reversal of donor funding. In the 1980-90s, international donors had retreated from building capacity in higher education because of the assumed private returns to higher education outstripped the public benefits.³⁷

Donor funded capacity building tended to involve twinning national business schools with Russian partners. Many of the new programs were developed with private institutes as they were easier to work with. The state school system was still grappling with organizational change resulting from public sector reforms and a financial crisis. Consequently, collaboration with state universities was not an attractive option. There were other modalities for management development as well such as developing private management consulting firms, coaching management teams within specific enterprises, or training individual managers in a given sector, position or region.

In Russia at least, the range of modalities narrowed rather than widened. Yeltsin's request to G-7 donors to support the PMTP concentrated international assistance. Donors were asked to provide targeted international training opportunities for young managers graduating from the PMTP. This request had an important impact on the design of management training support.

³⁷ Zabalza (1996) argues that the public policy argument for government support of training is weak because the returns to training are internalized by trainees.

First, international internship programs donors were asked to support were costly. Second, this focus reduced the contact time donors had working in Russia. Reduced contact weakened the working relations with Russian companies, business schools and governments, or what Streeck refers to in the case of West German vocational training as promotional networks.³⁸ The government, however, wanted donor support for an element of management training that it itself was unable to organize – the organization of practical work attachments for Russia's next generation business leaders in Western companies.

Within the GoRF, the Ministry of Labour was tasked to develop and promote a system-level approach for training to advance economic reform. This responsibility was formalized by Decree #62 of February 1992. The Decree outlined the need for an inter-sectoral training strategy for central, regional and local employees involved in designing and overseeing key economic reforms. In a contemporary development, the State Committee on Higher Education began elaborating a program for continuing education (or 'additional-training' as it is known). The resources and poor coordination of these initiatives among government agencies, however, hindered their development and implementation. As an indication of the pace of change, it was not until 1997 that a MBA degree was finally approved by the state.

Against the background of twinning projects and government-sponsored skills development initiatives, the government and international donors explored options to coordinate work and investment in this field. The most significant development from these talks was the establishment of the National Training Foundation (NTF) by the GoRF in the summer of 1994. The following summer, the NTF's operations received major backing from a \$40 million dollar World Bank loan for "Management and Financial Training."³⁹ The system-level objectives of the loan reflected what other donors projects were seeking to achieve once the environment stabilized, albeit in a much larger scale. The NTF was to increase the supply of 'market-oriented' teachers and trainers in areas of management, public finance and accounting. On a competitive basis the NTF supported curriculum development, professional upgrading for instructors, and distance education. The NTF also had the mandate to catalyze new programs that would likely have a high impact on economic reforms.

2.4.4. Management Training Design

Programs tailored to deliver management training shared several common design features. The first characteristic was trainee selection. Sponsored programs tended to target middle managers in decision-making positions or young specialists beginning their careers. This leadership model for the next generation of businesses leaders sought to cultivate the skills

³⁸ The role that 'promotional networks' play in management training will be treated in greater detail in Chapter 3 (Streeck, Hilbert, et al. 1987).

³⁹ World Bank, 1995. "Support for Management and Financial Training in Russia", Press Release No. 95/39ECA. The loan was announced in December 1994 and the first disbursement was released in July 1995.

and promote the status of managers with a long time horizon in their firms (Chambers & Tommasoli 1998: 36). The effectiveness of the leadership model rested on the assumption that these managers could engineer change in their areas of responsibility. This model also assumed that individual managers could facilitate change within their units or firms. Igor Gurkov (1997) contrasts this approach to organizational learning and top management training models.

Curriculum reform was the second characteristic common to sponsored training programs. The career structure in state-owned enterprises was comparably more rigid and structured than typical of firms in a market economy. The Soviet training system was tailored to deepening specialist knowledge. There was a decided preference for specialists with technical skills than there were for generalists with a broader understanding of business operations. The privatization and economic reforms fundamentally altered the management structure and functions required of managers. New skills such as human resource management, marketing, accounting, and strategic planning were new specializations offered in sponsored training programs but they were often framed in the context of a holistic approach to business management.

The third characteristic of management training programs was pedagogical. The impressive achievements of universal literacy and scientific excellence in fields supporting the Soviet Union's military-industrial complex are without question. However, when the education system was evaluated by Western business schools in preparation for management training capacity building projects, the need for new curriculum was only part of the prescription. What was taught needed complementary teaching methods. As Djordjija Petkoski (2002: 2) observes, "One of the most damaging legacies of the old system is a formidable resistance to participatory learning. . . . [I]ndeed, the entire education system - was predicated on the assumption that there was only one correct answer to a problem."

The repercussions of this approach were reflected in the unidirectional transfer of information from instructor to student and the lack of problem-based and collaborative learning. New business curriculum displayed a tendency to supply packaged courses rather than base it on the demands of new stakeholders. I had the opportunity to visit a number of universities across Russia. Senior administrators were quick to highlight their joint degree and collaborative research projects that they had with European or North American universities. Such relationships were prestigious but rarely were relationships with local companies given any profile. Joint degree programs, curriculum and faculty development could be of significant value, particularly in pedagogy, but the content needed to be grounded in the Russian context and here Russian business schools had to take the lead.

2.4.5. The Limits of Management Training Under the Dominant Model

The above portrait of management training underscores the introduction of pedagogical and curriculum reforms to train the next generation business leader. These were important features of the dominant model. The PMTP closely resembled the model. However, creating capacity for management training and utilizing this capacity to transfer new skills and attitudes to individual managers left untouched a wide range of variables that affect firm performance.

Management development programs tended to view the impact of the business environment on firm performance as an exogenous risk. Such a view framed the firm and managers in largely reactive terms. In other words, the concern of management training was the cultivation of new skills so managers could better manage firm operations. A dynamic view of a manager working at two levels — within the firm and interacting in the business environment — was perhaps conceptually recognized but rarely made explicit in the design of management development programs. When this shortcoming was addressed, it was through a scale of effort intervention to create a critical mass of expertise within a region or sector of the economy.

The emphasis on training individuals was also easier to implement. Given the uncertain future of many enterprises, the questionable commitments of senior managers to restructuring, economy-wide demand, and the weak working relations among business schools, firms and government, were among the reasons why training programs found it simpler to concentrate their efforts on individual managers over a more holistic approach. As a YDFP management training consultant reflected, the environment in the early 1990s was not conducive to such an organizational learning program design, rather:

The challenge was to situate individual learning programs in the context of organizational needs when our understanding of Russian organizational structures, systems and culture was so limited. At the same time this was a period of dramatic change and institutional instability in Russia. It was often difficult for the fellows themselves to link their learning objectives to predictable organizational needs.
(Gray 2003)

In such a volatile environment, imparting new skills among managers from different companies is perhaps the most that could have been expected. If so, then the anticipated contribution to the dominant model to economic development should have been tempered. A more realistic and direct outcome would be for managers to alter their practices, lead by example and diffuse new ideas. Impact beyond this would be proportional to the scale of the program. Given the degree of interdependence between firm performance and the business environment, and the volatility in the business environment, a direct link between management training and economic development would require managers to take actions beyond their firms.

2.5. THE PRESIDENT'S MANAGEMENT TRAINING PROGRAM (PMTP)

The PMTP, like most management training programs, laid claim to advancing economic development. The distinction between economic growth and economic development is an important one. New skills leading to firm-level reforms may directly improve local economic growth but management training would not be a sufficient condition for economic development. Economic development includes economic growth but goes beyond this minimalist criterion to include other public policy goals such as equity, sustainability, and participation.

The PMTP shared many attributes of the dominant model but its size, national-level support, organizational attributes and extensive international training dimension were unique

characteristics. This section describes the PMTP's structure and evolution, and concludes with an overview of the emergence of ABAs.

2.5.1. Origins and Objectives

In 1997, the Government of the Russian Federation launched a large-scale management training program. The Presidential Decree # 774 on "Training Managers and Executives for Enterprises of National Economy of the Russian Federation," passed by President Yeltsin on 23 July 1997, declared the creation of a cadre of skilled managers – a "directorship corps for enterprises of the national economy" – a state priority. The importance attached to the PMTP was further acknowledged when President Vladimir Putin extended the program in July 2000 until 2003, and then again in 2002 for a further five years.

To paraphrase Viktor Khristenko (2001), the main objectives of the PMTP were to:

1. Create and establish a state of the art management training system within the higher education system;
2. Improve human resource development;
3. Facilitate labour mobility;
4. Train managers to operate efficiently and effectively in the new market environment;
5. Further enterprise restructuring;
6. Promote business and small and medium enterprise development;
7. Improve dialogue among companies and entrepreneurs, government structures and educational institutions; and
8. Create an environment conducive to establishing and developing partnerships and information exchange between Russian and foreign companies.⁴⁰

Viktor Khristenko's statement firmly situates the program as an economic development strategy. He draws attention to expected outcomes at three-levels: vertical and horizontal mobility at the individual level; enterprise restructuring at the firm level; and, new relations to build a new economic environment.

2.5.2. Organization of the PMTP

PMTP Leadership

The Federal Commission on Organization of Management Training for Enterprises of the National Economy of the Russian Federation (Federal Commission, or FC), was the PMTP's executive body. The FC was represented by heads of powerful ministries, influential civil servants and business associations. During the 2000-2002 period, Viktor Khristenko was the

⁴⁰ Viktor Khristenko was the Deputy Chairman of the GoRF and Chairman of the Federal Commission on Organization of Managers and Executives Training for Enterprises of National Economy of the Russian Federation.

Chairman of the Federal Commission.⁴¹ The Vice-chair was Ivan Materov, the first Deputy Minister of the Ministry of Economic Development and Trade (MEDT). Other key government agencies were represented typically at the deputy minister level. The president of the Russian Union of Industrialists and Businessmen represented the private sector and the rector of the Higher School of Economics (Moscow) was the most senior academic representative. The executive secretary of the FC was Andrei Sharonov, Deputy Minister of MEDT.

The MEDT played a critical role in promoting the PMTP and securing broad support across other ministries and industrial groups. Within the MEDT, Sharonov was a catalyst behind the launch of the PMTP. He had participated in the first YDFP management course in 1993 when he was the Chairman of the Committee on Youth Affairs. On his move to the MEDT, he helped orchestrate the launch of the PMTP and asked the YDFP to pilot a private sector intake in 1997. Up to that point, the YDFP supported in-Canada training for the public sector almost exclusively. As a member of the YDFP's Canada-Russia Fellowship Committee, Sharonov was aware of the positive personal and professional impact that exposure to civil service management in Canada had on YDF Fellows. He felt that young private sector managers would benefit similarly if they had the opportunity to study business management in Western Europe and North America.

At the federal level, the Commission established working relations with eight Federal Ministries.⁴² These organizations held consultative status and provided insights into changing labour market conditions and demands. This heavy public sector representation in the Federal Commission structure was balanced at the regional level where entrepreneurs, companies and academic institutions had greater involvement and played a critical implementation role.

PMTP Implementation: The Federal Commission Secretariat and Regional Commissions

The Federal Commission Secretariat (FCS) was based at the Higher School of Economics (HSE, Moscow). The HSE won the tender to manage the PMTP, which was a significant achievement for a newly established university as it edged out more established universities such as the Moscow State University. Establishing the FCS at the HSE worked to solidify a growing and influential relationship with the Ministry of Economic Development and Trade.

The HSE was established in 1992 by the Russian Government on the initiative of Yegor Gaidar and Yevgeny Yasin to assist economic reforms in Russia through graduate and

⁴¹ The titles and names of Federal Commission representatives reflect its composition around 2001-2003.

⁴² These included: Ministry of Industry and Science of the Russian Federation; Russian Road Agency; Ministry of Atomic Energy of the Russian Federation; Russian Energy Systems; Russian Aviation and Space Agency; Russian Energy Systems; Ministry of Education of the Russian Federation; Railway Ministry of the Russian Federation; and, Ministry of Economic Development and Trade.

professional re-training in economics and other applied social sciences. In developing the university, HSE received financial support from the European Union and the Government of France as part of their education and training reform programs. In addition to applied social science instruction, faculty members were expected to pursue academic research, consultancies and policy advice. In 1995, HSE was granted university status and had grown to become one of the largest and most influential higher educational establishments in Russia. Several years after the HSE's founding, the MEDT granted the HSE affiliated status to undertake policy-research and re-training of economic policy-makers, thereby formalizing a growing relationship. At that time Yevgeny Yasin was the research director of the HSE having left government in 1998. Yasin was an influential economist who contributed to the development of the economic programs of every post-Soviet government except for Yevgeny Primakov's. In addition, he was the Minister of Economy for two-and-a-half years in Prime Minister Viktor Chernomyrdin's government. HSE also attracted numerous other prominent economists and policy-makers to support its independent advisory and training activities.

Reporting to the FC, the Secretariat was responsible for overall program management. The Head of the FCS, Dr. Oleg Lushnikov, was supported by three department heads who were responsible for international cooperation, coordination with regional commissions (RCs), and regional training institutes (RTIs).

The International Cooperation department liaised with international partner organizations in the design and delivery of internships abroad, donor coordination and their programming in Russia. The Regional Commission department worked to establish a network of 80 regional offices based in oblast administrations. Together with the RCs, the FCS coordinated the application, selection process, monitored and evaluated program implementation and outcomes, and coordinated regional events. Information sharing was another important focus of this relationship. Regional governments were critical to the program as implementation relied heavily on them. Owing to the sheer number of regional governments involved, their capacity and their ideological stripes, the FCS' relations with RCs varied.

There was no single organizational model for RCs as they were housed in different agencies (e.g., planning, economic development or human resource agencies) and staffed according to oblast administration means. The combined administrative infrastructure for administering the PMTP by early 2000 was estimated at 1500 people, though the actual number of dedicated staff was likely a quarter of this total (Khristenko 2001).

The Regional Training Institute department oversaw the selection, accreditation and capacity building of the 89 participating RTIs. In addition, the FCS played a role in monitoring RTI course curriculum, helped to set standards, administer language, and entrance tests.

Regional Training Institutions

When the PMTP was being established, there were several excellent centers for economic analysis and business management but most of the top schools were located in Moscow or St. Petersburg. Schools in these major cities benefited from extensive international twinning programs. Outside of these cosmopolitan centres, universities were less able to deliver a

modular management training program. Without exception, regional RTIs required significant upgrading, which the PMTP provided, to maintain the rising standards set annually by the FCS.

The training program, which is described in greater detail below, was a stand-alone program. The FCS approved a common curriculum for application across the 89 participating training institutes. The process of trainee selection and national curriculum setting was top-down. While the participation of the RTIs in these respects was marginal, the program did afford a number of unique opportunities. Some of the benefits included participating in a prestigious federal program, networking opportunities with international business schools, faculty development and curriculum upgrading opportunities, and new linkages with enterprises. In addition to revenue generation, these were attractive benefits to participating RTIs.

International Partners

The participation of international donors was secured at the inception of the program. When President Yeltsin appealed to Western governments in 1997 to support the PMTP, several countries had pre-existing programs to support business education and management training. The presidential request led countries like the US, Japan, Canada, the European Union and member states to adapt their then ongoing programs to dovetail with the PMTP. Other countries, such as Norway, the UK and the Netherlands designed new international management training programs. In all, the PMTP worked with thirteen international partner organizations to offer PMTP graduates exposure to international business practices and supplemental instruction.⁴³

Bringing coherence to partner organization programming was a challenge for the FCS, particularly for those programs that had already established training methodologies. Private sector training programs offered by the EU, US and Canada, for example, were infused with social and political objectives. Exposure to legal frameworks, forums for representing business interests, corporate social responsibility, or meetings with community groups broadened the scope of what could have been more narrowly defined business training. Consequently, the range of programming models and their objectives presented the PMTP graduates with a diverse range of international programming.

Implementing agencies for donor supported programs varied considerably. In a few cases, the program was administered through diplomatic offices in Moscow. The French and Dutch programs were organized by business associations. Others, such as the German and British programs were run by specialized international education organizations with close government relations and, in other countries, universities or private consulting firms managed the international training component. Where universities were not lead organizations, almost all of the donor programs had a university partner in their home countries. Through annual

⁴³ Consult Appendix 1 for a complete list of partner organizations.

partner organization meetings, the FC promoted open communication among international partners to compare training strategies and share results with the view of drawing on best practices and coordinating implementation.

Finance

The program was financed through a cost-sharing arrangement between federal and regional governments. Each level of government contributed approximately 40% toward the PMTP budget and the remainder was supported through company and trainee direct and in-direct contributions. It was therefore a heavily subsidized private sector training program. The main expenditures for the FC were the establishment of the training program at RTIs, the work of the FCS, and the domestic and international travel costs of trainees. Oblast governments, on the other hand, were responsible for staffing and organizing RCs, the selection process, language training, and some costs incurred by trainees during the training program.

2.5.3. Training Program Cycle

Selection

Regional commissions were responsible for coordinating the selection of candidates within the parameters established by the FC. The FC set the following eligibility criteria: applicants would be between 25 and 40 years of age; have a higher education degree; more than one year work experience in a technical, management or senior management position; and, knowledge of one foreign language. These criteria were required for a selection interview, at which managers were asked to outline their training objectives and how they aligned to their enterprise's restructuring plans. RC interviewers also assessed the following characteristics: innovativeness and ability to facilitate change; entrepreneurship; managerial and creative skills; professional development aspirations; communication skills; team work/team building skills; and, cultural openness (Federal Commission 2000c). This narrowing of the eligibility pool sought to make the program more targeted.

RCs were encouraged to weight candidate selection toward strategically important companies or sectors to the regional economy.⁴⁴ With the demise of central planning, regional governments were faced with weakly integrated dominant industries. Without secured demand or supply of inputs, many industrial 'growth' industries were facing bankruptcy. Declining production or plant closures created the new phenomenon of underemployment or unemployment. Given that some enterprises also provided significant social support, there was reluctance to let major industries collapse. The scale of the challenge was enormous. The Federal Inspector for the Volga Federal District informed PMTP alumni in Saratov that of the

⁴⁴ Companies in the financial sector, government, scientific research agencies, medical, training organizations, or foreign firms were not eligible to participate in the program.

3000 enterprises in the city, 520 were facing bankruptcy.⁴⁵ In this context, RCs weighted their options carefully as the number of candidates they could accept into the program was limited.

The FC allocated training placements for each region based on its size. On average, each of the 80 participating oblast governments would select 50-70 applicants per year. Major centers like Nishny-Novgorod, St. Petersburg and Moscow received a greater proportion while smaller centres received less. With annual intakes of this size, it would take several years before the RCs could claim that a critical mass of skilled managers had been reached.

With these parameters in mind, the executive heads of companies could nominate employees to the RC. If their candidate was selected, the firm was expected to contribute to the training costs and support the trainee during and after the training program. For a candidate's application to be approved, they would have to demonstrate impressive credentials and potential, and be sponsored by their home company. To attract the best qualified candidates, the FC ran national televised and local radio advertisements, and encouraged RCs to market the program locally.

Returning to the earlier discussion on different models of management development, the PMTP endorsed a leadership model and trained promising managers who were young enough to have escaped years of exposure to the 'old' system. In the words of an YDF graduate from Penza, his PMTP colleagues had avoided the 'Soviet trap' by virtue of their age and training.

Training

The PMTP training program was organized by approximately ninety FC-accredited academic institutes. Each participating oblast had at least one RTI, which was typically a state university or civil service training academy. The main fields of study were management, finance, marketing, and foreign languages. Each RTI delivered up to 600 hours of instruction, which in addition to the trainee's day job(s), made for a demanding one-year program. Course content, structure and student composition resembled an executive Masters of Business Administration course.

In terms of course content, the RTIs had to adopt a new curriculum and instructional approaches to conform to the pedagogical standards set by the PMTP. The existing theoretical emphasis of tertiary education institutes was ill suited to the practical tools expected by program participants and sponsoring partners. Introducing case-study methods and experiential learning, for example, were pedagogical innovations for many RTIs. The second change for many participating training institutes was the accreditation and monitoring process. To participate in and to retain accreditation status, RTIs underwent periodic student and government evaluation.

⁴⁵ Statement made by Pavel Zhuralev during a presentation to PMTP alumni in Saratov, December 6, 2000.

International Internship

Following successful completion of the training program, graduates were eligible to apply for an internship offered by one of the international partner organizations. Within Europe, the European Union's Management Training Program and the bilateral aid agencies of Germany and the UK offered hundreds of internship opportunities. Japan and the US also provided significant training opportunities. The international training component was highly coveted. It provided young Russian entrepreneurs direct exposure to western business practices, the potential to create international business relations and a wider understanding of the role of the market in established liberal democracies.

Approximately one in four graduates participated in international internships and management short-courses. In the opinion of the German partner agency, the scale of the PMTP's international component made it the largest management development initiative of its kind. The recruitment process for international internships was similar for all donor programs. Following successful completion of the RTI management course, short-listed candidates were typically interviewed in Russia. To simplify logistical challenges, the FCS worked with donors to select priority recruitment regions. For donor agencies, this approach worked to facilitate closer relations with RCs and RTIs in their designated regions, build a better understanding of the local economic conditions of the region, and promote educational, business and political relationships.

During the initial years of the PMTP, internships consisted of orientation and business short-courses followed by company placements. As the RTI training improved, many donors substituted business management courses with introductions to business support organizations and policy frameworks. The major difference among the internships was the length of time and number of placements. Depending on the program, the international training component could be as short as several weeks or extend up to six months. During which time, PMTP graduates could spend their entire placement at one host firm or visit multiple companies.

The PMTP's organizational structure and training cycle created operational linkages among businesses, universities and local government. In addition, international internships provided opportunities for nurturing international business contacts. Experiences differed from region to region but the program did create cross-sectoral linkages and cooperation through implementation. It is interesting to note that research on knowledge economies highlights the importance of linkages among university, business and government sectors (Etzkowitz & Leydesdorff 1997). In the PMTP context, this inter-sectoral cooperation was structured by its design but many regions did mention that joint implementation did lead to longitudinal cooperation in other areas.

Post-Program: Knowledge Sharing, Innovation and Institution Building

The final component of the program cycle, which the FCS referred to as the 'post-program' element, was a tangential feature until the PMTP was renewed by President Putin in 2000. This renewal extended the duration of the program and increased program expectations. By 2000, the FCS had been able to establish a nation-wide management training system and

attended to the coordination burden of implementing a large-scale program. With an operating framework in place, the FCS could pay closer attention to the post-training period. During the PMTP's first phase (1997-2000), it was assumed that the quality and drive of PMTP alumni, the practical focus of the RTI management course and international internships for selected graduates would create the necessary skills and motivation for graduates to be agents of change in their firms.

During this first phase, 'post-program' activities amounted to training evaluations and convening national and regional-level meetings to exchange views on program developments and outcomes. When the program was evaluated and renewed in 2000, the FC initiated a dialogue with graduates, regional administrations and international donors to explore ways to scale up the impact of the program. The results were encouraging with graduates reporting high satisfaction rates, new skill acquisition and behavioural attitudes. Positive individual-level survey results on labour mobility, job promotion and program satisfaction were widely distributed to stakeholders to illustrate training outcomes and garner continued government and enterprise support. For many directly involved in the program, these survey results confirmed their observations.⁴⁶

As the program expanded and the number of graduates grew, the FC paid greater attention to the firm- and system-level impacts that this major training program was expected to demonstrate. Firm-level results were also encouraging, as employer feedback largely corroborated graduates' claim that one in four graduates had successfully applied their skills to introducing a new firm-level innovation. At this level, the architects of the PMTP recognized that this major human capital development initiative would not have a lasting impact unless the acquired skills were integrated into company management practices:

While a statement that investment into human resource development yields significant competitive advantage is commonplace, there are examples where such investments resulted in no measurable impact. In many cases, this failure stems from the inability of the organisation to integrate the new competencies into the mainstream of its activities. (Federal Commission 2000a)

This quote suggests that firm characteristics would play a primary role in the utilization of PMTP training. Later analysis of 2000 survey data by the FCS questioned the completeness of this assumption. Rather than organizational characteristics such as size or ownership structure playing a major role, as many had anticipated, it appeared that the intensity and range of graduate interaction within their companies was a more important influence on enhancing company performance. This finding suggested that PMTP graduates were capable of overcoming obstacles to change within their firms by employing active strategies to share

⁴⁶ When asked what effect the program had on graduates, the Secretary for the RC in the Republic of Karelia remarked simply, "When you look at the eyes of the alumni, you realize that the program is doing something good" (Tamara Glushanok, Personal interview, December 10, 2000).

knowledge with superiors and co-workers.⁴⁷ The analysis was encouraging as it undermined the deterministic view that firm characteristics, most notably large privatized industries, would curtail the impact of the training.

The data also suggested that alumni were poorly connected to organizations outside their firms. For example, very few graduates reported any contact with local authorities and tax authorities. This finding was puzzling because the majority of graduates were in strategic planning positions and operated in an environment that placed severe constraints on business growth. Recognizing that firms faced both internal and external obstacles to their development implied that the “business leaders of the 21st century” were not making a direct contribution to shaping the business environment. Without evidence that alumni were pursuing active strategies in the external environment, the data analysis raised questions whether the program could achieve the system-level impact it sought. Would training a critical number of managers in key industries be sufficient or would a more direct demonstration of graduates interacting in the business environment in support of their firm’s goals be necessary? This generalization would play out in sectors and regions differently but this finding did register concern within the FC as they realized that to scale up the impact of the program, innovations within the firm and in the business environment would need to occur.

Exploring options for a post-training strategy began in earnest after August 2000 when Vladimir Putin renewed government funding for the PMTP. At that time, several international partner organizations had been conducting follow-up workshops for alumni of their internship programs, providing technical assistance to select alumni companies or sponsoring small grant competitions to support innovative alumni projects. The objectives of the workshops were to renew contacts, further professional development, and exchange information on their post-training experience. The focus on individual-level training impact was consistent with donors’ interest in concluding the training cycle and evaluating their programs.

With time, this focus shifted to examining the actual and potential role of graduates as catalysts of regional development. The December 2000 Moscow conference initiated the first dialogue among the alumni, FC/RCs and partner organization on ways to scale up the impact of the program. As noted above, the conference introduced examples of innovation at the firm and local level implemented by individual alumni, collaboratively through informal working groups, or ABAs. As a follow-up to the 2000 conference, the FCS issued its “Strategy for Post Program Work”, which distinguished between short-term and long-term events. The distinction was understood as follows:

⁴⁷ See Fey et. al. (2000: 3) for a list of other internal variables affecting firm performance. Training is one of ten identified variables in their model used to understand the impact of human resource management practices on firm performance.

In the short-term perspective, post-program events will conclude the training cycle. They are aimed at the transfer and introduction of skills, habits and experience of the graduates inside a Russian company.

In the long-term period, the post-program events are aimed at the diffusion of the effects of training results in the region and district. The latter can be achieved through implementation of projects and initiatives that will assist in the development of the potential of the institutions and organizations participating in the Program, through deeper dialogue between governmental organizations and civil society, associations' development, and their interaction. (Federal Commission 2001b)

The long-term strategy signalled the intent to steer RCs' and donors' programs away from building individual capacity toward a more collaborative model of institution building and supporting the development of ABAs. Some regional governments responded or saw the merits of cooperating with graduates. At a 2002 regional workshop in Archangelsk, for example, a graduate from Kaliningrad described how their regional administration and mayor's office had involved PMTP alumni in establishing sectoral working groups on improving the investment climate, international trade, and streamlining business regulation. A graduate from Komi outlined how PMTP graduate involvement in the selection and mentoring of new PMTP candidates had evolved into more substantive collaboration on human resource policy development for the region. These were not isolated examples and they sent a powerful message to graduates who had little interaction with government, were sceptical of it, or held the view that regional administrations were uninterested in working with the private sector. Several respondents at the Archangelsk workshop and other similar workshops I participated in questioned the veracity of such examples, while others were curious why the regional administrations had involved them and to what effect. Such reactions reflected the challenges of bridging the public and private sectors and the general lack of private sector participation in the reform process.

This tension between the public and private sector arose in several regions over RCs' efforts to facilitate alumni networking. The FCS and the RCs had been exploring the feasibility of establishing a nationwide database to monitor alumni professional development and to utilize it to exchange information on regional events or employment opportunities. Around 1999-2000, these discussions became linked with efforts to propagate the formation of ABAs. At the local-level, the emergence and growth of ABAs and informal networks of graduates drew increasing attention, and with it, the promise that such networks would nurture mutually beneficial relations among program graduates, government, the business sector, training institutions and civil society organizations.

A proposal from the FCS to sponsor a communication and alumni network to encourage interaction among alumni of different intakes and regions was met with mixed reaction. There was support for establishing a databank that could be used to identify employment opportunities but there was healthy debate among alumni and with RCs on the purpose and involvement of government in encouraging alumni to establish ABAs. One vocal critic at the 2000 Moscow conference likened government-led organizing to a throw back to earlier times

when the Communist Party mobilized youth through the Komsomol. The analogy was perhaps extreme but it reflected graduates' concern over the principle of government intervention in the social sphere of alumni activities.

The emergence of ABAs would not merit much attention in many parts of the world. In the context of the PMTP, however, there are both economic and political reasons for investigating their emergence. Given the objective of the PMTP to promote economic development, the organization of the private sector and its interaction with the state are important determinants of economic growth and development. This potential contribution featured prominently in Viktor Khristenko presentation in 2002 at the annual conference of ABA leaders and program graduates. He mentioned that graduate participation in ABAs could play a critical role in forging a new relationship among government organizations, civil society, training institutes and the business sector. Among other critical functions, Khristenko identified the following actions that ABAs were or would be capable of advancing:

1. Enhancing vertical and horizontal labour mobility through establishing job banks and consulting opportunities;
2. Promoting innovation in management technologies and firm restructuring through systematizing knowledge exchange among alumni;
3. Working toward reducing administrative and information barriers negatively affecting the business environment through enhanced dialogue among businesses and various levels of government; and,
4. Forging closer ties with agent of social and economic development.

The rise of associations in the context of the program attracted increasing attention because of their potential to provide a platform to facilitate these outcomes. Some of the mentioned program outcomes such as enhanced labour mobility can be achieved without the presence of ABAs. However, an active network of PMTP graduates may increase the likelihood of interaction, information flow and innovation. The benefits of which may accrue to the individual, the firm or work to reshape the business environment.

2.6. CONCLUSION

In the introductory chapter, I drew a parallel between neo-classical economics and Russia's first generation reforms on the one hand, and institutional theories and second generation reforms on the other. I suggested the limits of Yeltsin's purist application of neo-classical economics in his first round of economic reforms necessitated the second generation of reforms that paid greater attention to the actors and the institutional framework governing the private and public sectors. For Yeltsin's envisioned end-state of a liberal market to be realized, macroeconomic policy changes would require a complementary change in conduct. However, in the private sector at least, the short and medium term outcome of shock-therapy did not trigger the desired response. Rather, the restructuring process led to a deeply troubling reaction: the inheritors of Russia's privatized enterprises tended to loot them. The pillage of Russia's industrial base and the concentration of wealth and power in such a short period created widespread disenchantment with Yeltsin's reforms. Where sincere efforts were made

to restructure privatized enterprises or establish *de novo* firms (i.e., new private firms) to build a new economy, constraints external and internal to the firm were formidable.

The legal, regulatory, legislative and administrative environment in transitional economies is woefully inadequate or underdeveloped to support stable, transparent and functioning markets capable of attaining equitable economic development.⁴⁸ The reforms removed skilled workers from the labour market and barred new entrants into the private sector from participating in the framing of agendas for economic development. The resultant socio-economic and political marginalization has been well documented in Russia and elsewhere.⁴⁹

Shock-therapy was not the only policy prescription for economic development. As noted in the overview of the PMTP program, the GoRF and international donors made a significant investment in capacity building of state and societal organizations, and in promoting the private sector. By most accounts, there was a critical lack of capacity for management training and too few qualified people to lead the new private sector in an open economy.

The PMTP sought to build management skills and connections for young entrepreneurs. Program graduates were generally young entrepreneurs with aspirations for their future. Because of their age and their widely shared motivation to succeed without resort to the corrupt practices employed in the business community, they were not ‘insiders.’ If Russia was going to benefit from inter-generational change, PMTP graduates represented, perhaps, the face and hope of a new Russia.

The training objectives were straightforward: to increase the skills and knowledge of business leaders so they could compete effectively in the new market environment. Almost invariably, these human capital development programs were viewed as an economic development tool. The design of management training differed but for the most part, programs privileged individuals in decision-making positions or the next generation leaders. I concluded the review of the PMTP program by highlighting the emergence of ABAs and the high-level attention they attracted for their unexpected emergence and contribution to a range of outcomes at the individual to the societal level. With the emergence of ABAs, there were now

⁴⁸ Inequality in the Soviet Union was relatively constant with Gini coefficient ranges between .23 to .30. After the economic reforms, inequality increased remarkably. In Russia, between 1987-1990 and 1993-1994 income inequality worsened by a factor of two, which is an alarming growth rate (World Bank 2002a: Table 1.7).

⁴⁹ The International Labour Organisation and the United Nations Development Program research program entitled “Patterns and Causes of Social Exclusion and the Design of Policies to Promote Integration” (1994-97) devoted considerable attention to the causes of marginalization in transitional and developing countries. The Russia study documented the marginalization and multiple deprivation of skilled and educated workers and new entrepreneurs from economic and political participation (Tchernina 1996). Also see, Twigg & Schecter (2003).

two pathways for graduates to contribute to the expected outcomes of the PMTP: an individual and a collective pathway.

3. HUMAN AND SOCIAL CAPITAL AS RESOURCES FOR CHANGE

3.1. TOWARD AN UNDERSTANDING OF INSTITUTIONAL CHANGE

This chapter introduces research that sheds light on the role of human and social capital as resources of social change.⁵⁰ In this effort, I am not charting unexplored terrain but, perhaps, one less traveled. For this journey, I am guided by those who have made significant contributions to a field known loosely as the new institutionalism. If Douglass North (1993), one of the pioneers of new institutional economics, modestly exclaims that his work provides “the initial scaffolding of an analytical framework,” it is perhaps wise to temper expectations of the contribution that new institutionalism can make to understanding social change. As modest as North’s contribution may be, the conceptual lens he has helped build is viewed by its supporters as offering perspective on social change that neo-classical economics does not bring into focus.

The emergence of ABAs bringing together the next generation of business leaders is no panacea for Russia’s economic ills. However, the emergence and growth of ABAs does raise a number of interesting policy and research questions. For example, what impact did ABAs have on expected PMTP outcomes; what other strategies did managers use to affect change; were those strategies pursued independently or collectively; and finally, if social networks created differential outcomes for managers, what resources inhere in those social relations that create value?

The entrepreneurs recruited into the PMTP preferred an open, stable and predictable business environment over the volatile situation in which they operated. In this sense they held a similar outlook to their contemporaries (Ledeneva 1998, Roberts, Clarke, Fagan, and Tholen 2000: Chapter 2). This was an important step but there were few mechanisms available to young entrepreneurs to affect the challenges they faced (Titarenko 1999, UNDP 2002). The questions that the empirical investigation seeks to answer are, first, whether entrepreneurs who developed and participated in ABAs are better off than their counterparts who did not in terms of expected operational outcomes at the personal and business level? Second, whether ABAs have contributed to building market supporting and complementing institutions. As Chapter 5 will illustrate, there has been little evidence of young entrepreneurs organizing collectively in the public sphere to change the rules that affect their environment. Evidence suggesting PMTP graduates utilized the social resources of ABAs would indicate institutional change at the societal-level.

This chapter is organized as follows. First, I will introduce several important terms that are used frequently in the institutionalist and social capital literatures reviewed in this chapter.

⁵⁰ In this chapter I will use the term social change as encompassing economic, political and social change as the literature discussed here is not confined to one of these dimensions of social transformation.

Second, I will then outline the core features of the new institutionalism paying attention to how institutions influence social change. Third, I will utilize the concepts of new institutionalism to situate the contribution of human and social capital as pathways to affect expected PMTP outcomes. This literature review will inform the framework for analysis presented in Chapter 4.

3.1.1. Definitions: Institutions, Social Capital, Action Arenas and Public Goods

Before reviewing the human and social capital literature, I will define institutions, social capital, action arenas and public goods, terms that I have used rather loosely thus far. In Chapter 4, these terms will be integrated into the framework for analysis. Looking forward to that chapter, I see these terms connected as follows. Institutions are the rules and norms in use that affect the institutional framework. Features of institutional framework have a bearing on social organization and actors' access to, use and stock of human and social capital. An action arena is a conceptual space where actors develop strategies and mobilize their human and social resources to affect policy or operational questions. The outcomes from such actions may accrue benefits to the collective (i.e., public or club goods) or the individual (i.e., private goods). This chain of events distinguishes among institutions, social organization and an actor's capital resources, but draws attention to their connections.

The term institution has not been employed with much precision or consistency. A survey of the institutionalist literature identifies the following as constituent example: codified laws or constitutions governing complex organizations, conventions, reputation, customs, rules, procedures, trust, and reciprocity. For Douglass North (1993), institutions:

are the humanly devised constraints that structure human interaction. They are made up of formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies.

Two variants of this term, market complementing and supporting institutions, were introduced in the first chapter. In the view of Richard Doner and Ben Schneider, business associations have demonstrated their contribution to fostering market complementing and supporting institutions that address transaction costs, principal-agent relations, and collective action (Doner and Schneider 2000a, b). For new institutional economists, these are three major issues. Institutions and institutional arrangements that reduce transaction costs, overcome uncertainty in principal-agent relations and enable economic actors to collectively address constraints help explain why some societies experience economic development while others stagnate.

Another term to be discussed is social capital. Working in parallel to new institutional economists, social scientists in the fields of sociology, organizational behaviour, politics and anthropology have developed (and debated) the notion of social capital to connote the cognitive and structural bases for social change. A leading contributor to the social capital

literature refers to it as the “features of social organization, such as networks, norms and trust that facilitate coordination and cooperation for mutual benefit.” (Putnam 1993b). This definition highlights the structure and the enabling function of social capital but it does not pin down the resource that makes social capital valuable. Nan Lin’s definition takes one additional step in this direction. Lin (2002: 25) offers the following operational definition of social capital as the “resources embedded in social networks accessed and used by actors for actions. Thus the concept has two important components: (1) it represents resources embedded in social relations rather than individuals, and (2) access and use of such resources reside with actors.” The capital refers to resources that are co-generated through social interaction and channelled through networks. Unlike human capital where the value relates to an individual’s skills and knowledge, or financial and physical capital where value inheres in property, social capital introduces the notion that those who nurture social networks are better able to access and mobilize social resources from those networks for instrumental action in a wide range of settings.⁵¹

The attention to social organization in the social capital literature owes to the concentration of research in understanding the contribution of civil society organizations to social capital formation. New institutional economics, on the other hand, is more focused on how institutions help individual economic agents overcome market failure. Another difference in the literatures is that new institutional economics casts social organization in instrumental terms: purposively built organizations enable actors to achieve their objectives. This functional approach contrasts with much of the constructivist leanings of the social capital literature. In the constructivist view, actors have social roles and make decisions based on norms and rules, value-based expectations of appropriate behaviour, historical-cultural experience and institutional involvement.

Institutions and organizations are distinguishable by their visibility but they are closely connected. As Douglass North (1993) writes, “If institutions are the rules of the game, organizations and their entrepreneurs are the players.” For example, a near universal feature of nation states is a government tax agency. These organizations have rules governing their mandate to collect taxes but citizen compliance to these rules is far from universal. The reach and tax collecting capacities of government agencies certainly determine their ability to enforce compliance but informal institutions also play a role. State legitimacy, reciprocity and trust are invisible institutions created overtime that, among other effects, influences the compliance of individuals and firms with tax regulations.⁵²

⁵¹ Instrumental action is not the only possible outcome. Non-instrumental outcomes, or what Nan Lin refers to expressive outcomes such as identity, social cohesion, and belonging are also potential outcomes. Also see Helliwell (2001) for a review of the non-instrumental benefits of social capital.

⁵² For an empirical assessment correlating the level of social capital with tax evasion in the 50 states in the US, see Putnam (2000).

Organizations need no introduction though it is perhaps useful to define a network. The term is used variously in the social sciences and applied to different social settings. When sociologists employ the term, they typically refer to a person's realm of connections, or their social network. When management and political scientists refer to networks, they tend to concentrate on inter-organizational networks, such as public-private networks that co-produce a service or formulate policy.⁵³ These meanings are brought together in Mryna Mandell's (1999: 7) understanding of network formation when "linkages among the number of organizations and/or individuals become more formalized. This also involves traditional 'networking', but is seen as a more formalized means of maintaining linkages with others with whom there is mutual interest."

The reference to mutual interest aligns with rational choice accounts that presume actors form networks to advance their economic interests. This approach overlooks the possibility that networking/networks may arise from either pro-social/anti-social motivations. Constructivist accounts point to the importance of perceived roles and sense-making as determinants of people's decisions to form networks. I identify this caveat because I will return to this issue when I explore what factors were important to PMTP graduates in their decisions to participate in ABAs. It is tempting to presuppose that young entrepreneurs joined ABAs to advance their economic position. However, the restructuring of social relations and formal organizations during the 1990s meant that young entrepreneurs did not have historical markers to signal what strategies and social ties could be expected to have an economic pay-off.⁵⁴

For Elinor Ostrom, an action arena denotes a social space where institutions, actors and organizations interact.⁵⁵ She makes the distinction between collective-choice and operational-level action arenas to represent different domains in a tiered system. At an operational-level, decisions would affect how PMTP trainees perceive their options and courses of action to advance professionally or contribute to enterprise restructuring. At a higher level, collective-choice level actions affect who establishes, monitors and manages policies that in turn influence operational decisions. For example, a manager of a pulp and paper company in Kerelia will make operational decisions on production in light of the trade, regulatory and tax rules that affect the forestry sector. If this forestry manager is inclined, he/she could work with the regional trade and commerce association to seek changes to these tax or regulatory rules. This would be a collective-choice arena.

⁵³ Dowding (2001) provides a useful analytical distinction among the many forms of networks discussed in the collective-choice/policy literature.

⁵⁴ See North (1990: Chapter 10) for a discussion of how actors in social organizations generate both intended and unintended results. His discussion adds depth to linear models of change characteristic of rational choice models.

⁵⁵ Ostrom (1990: 45-57, 1999). Action arenas are integrated into the analytical framework in Chapter 4.

At the collective-choice level, analysts have associated the rise and robustness of civil society organizations as a force for social change. Some trade unions and NGOs challenged the practices and the policy dominance of the one-party state. The *Solidarnosc* trade union movement in Poland was a landmark and striking example in these regards. As a subset of civil society, business associations have attracted both positive and negative attention for their roles in collective-choice arenas. By raising awareness and providing an organizational base to lobby, to advise or to pressure government, business associations can leverage change in the collective-choice rules that, in turn, govern operational decisions. At the operational level, formal associations or informal business networks have the potential to promote social learning and can generate valuable social resources for members.⁵⁶

I will differentiate the outcomes evidenced by PMTP graduates by employing a public goods taxonomy. In the preceding chapters, I noted that ABAs were reportedly conferring benefits at the individual, firm and societal level. Public goods terminology can help to differentiate and categorize these level effects.⁵⁷ Pure *public goods* have societal benefits because the socially valued outcomes are non-exclusive and non-exhaustive. For example, if a business association were able to persuade government to provide transparent guidelines for business registration and licensing, it would be a public good if this service were open to all businesses (no one was excluded), and if the use of this service did not reduce government's ability to provide the service to others on an ongoing basis (one person's use did not exhaust the supply available to another).

If the same business association secured a concession from local authorities to expedite business licenses for its members only on the condition that the association would monitor the conduct of its members, this outcome would be a *club good*. The difference here is that the bargain struck between the business association and the regulating body effectively excludes non-members from a fast-tracked business licensing process. One could also imagine a business association establishing a referral system among members for business development. In this example, a personal referral (i.e., a social resource) may provide the necessary confidence to enter into a business transaction with a friend of a friend because the new partnership would be embedded in a social context where known reputations would reduce risk. If members agreed to provide this service only to members (exclusive) but on an ongoing basis (non-exhaustive), then it would be a club good. Together public and club goods are also known as *collective goods*. If there are no restrictions on collective organizing, club goods are

⁵⁶ On informal business networks, there is a fairly well established research program on the formation of business groups and the role that family and friendships play in cementing business relations. See, for example, Gulati (1999), Khanna & Rivkin (2001), and Yui, Bruton et al. (2005).

⁵⁷ The public goods literature also makes a distinctions on the geographic spread or impact of the good in question. Distinctions have been made between local, regional and global public goods. This book focuses mostly on goods with a local geographic provision or impact. Kindleberger (1986) made an early and important contribution recognizing that inter-government cooperation needs to respond to the demand for public goods at different levels.

a common. Because the distinctions between club and public goods are matters of degree, I will refer to them both as collective goods.

The final category is a *private good*, which is an outcome where the benefits accrue to an actor and exclude others. In a liberal economic environment, economic actors are viewed as investing in, and utilizing their human capital to generate private goods. Indeed, the argument against government support for worker/management training is that the returns to this investment are vested in the individual. There is little social return to this public investment. However, private goods have secondary effects that may have either a positive or a negative public impact.

‘Free’ markets under-produce public goods, and do not govern the distributional consequences of club and private goods. Public goods such as legal systems, defence, public works, infrastructure, learning, and so on are generally financed and run by the state. Some of these goods could be provided without the state’s intervention but history has demonstrated that the market is incompatible with sustained public goods provision. Economists employ the term ‘free riding’ to describe the effect of individuals utilizing a common resource but not contributing to its development or maintenance. Overtime, ‘free riding’ can have a domino effect and lead to the demise of a collectively provided, socially valued or necessary service. Whether government produces these public goods is often a matter of financial capacity and ideological persuasion. For example, in Canada and some Scandinavian countries, health care and education is a state provided public good, whereas in the US, both of these services are delivered by the state and through the market. The turn toward public/private mixed provision of some public goods has been prompted by a debate on whether the state is, or should be, the sole provider of public goods. Driven by ideology or pragmatism, the debate centres on whether public-private networks can ‘co-produce’ collective goods more effectively or efficiently.⁵⁸ I will return to this point as the expected society level PMTP outcomes presupposed some degree of co-provision between PMTP graduates and the state.⁵⁹

3.2. NEW INSTITUTIONALISM

The popularity of applying institutional analysis to the study of social change is enjoying renewed attention. The early institutionalists in economics date back to the early 1900s with the work of Thorstein Veblen and John Commons. Their scholarship challenged the orthodox economics view that economic behaviour conformed to natural laws. In their view, social institutions evolve and give shape to new economic arrangements. However, the early institutionalists did not have a noticeable impact on the economics discipline until the later

⁵⁸ For a discussion of these public goods debates, see Benjamin (1980) and Evans (1996a).

⁵⁹ See Ostrom (1996) and Mandell (1999). Also see Robinson and White (1997) for an excellent review of the literature on co-production and synergy.

decades of the 20th century. With time, their influence was reflected in the new institutional economics literature.

New institutionalism as it influenced the economic discipline made significant inroads in 1993. That year, Robert Fogel and Douglass North received the Nobel Prize in Economics for their work elucidating the role of institutions in economic development. The main thrust of Douglass North's research was to understand and quantify how institutions affect economic performance through time.⁶⁰ His work was motivated by his observation that however elegant neo-classical theory was for modeling economic growth, its core assumptions were misleading for anyone wishing to understand economic development. In particular, he was troubled by the neo-classical assumption that markets are efficient, that perfect information exists and that there are no costs to doing business (markets as frictionless). His research in economic history suggested that it was exactly these factors that help to explain economic development trajectories.

Douglass North suggested that to understand differential outcomes in economic development, the institutional make-up of societies needed to be understood. His research suggested that societies experiencing economic growth have incrementally broken away from norms and practices that constrain innovation by developing new institutions that reward risk-takers. The source of change lies in individual perceptions that they could do better by altering the way economic transactions are typically conducted. New insights might be driven exogenously when relative prices change or when trade introduces a new good, service or technology. Endogenous change occurs principally through incremental learning or social learning among interdependent stakeholders.

For North, the stock of human capital and the way knowledge is utilized are major sources of institutional innovation. Societies that value education or reward skills and knowledge in the labour market tend to have more demand for education. In his view, these characteristics of innovative and prosperous societies lock-in powerful incentives for continuous learning. By contrast, as social control and monopoly power increase, the returns to learning decline. The incentive to innovate is simply not present in this latter institutional framework.

In his Nobel Prize Lecture, Douglass North (1993) argued, "We cannot account for the rise and decline of the Soviet Union and world communism with the tools of neo-classical analysis, but we should with an institutional/cognitive approach to contemporary problems of development." For North, the neo-classical economics view of the world did not resemble the post-Soviet environment and therefore served as an inappropriate framework to analyze and prescribe policies for economic development. Neo-classical economics, he summarized, is concerned with the operation of markets, not with how markets develop. While economic orthodoxy may lead to stable economic growth in advanced economies, institutionalist arguments suggest there is no reason to expect that similar economic policies would create

⁶⁰ Douglass North has written extensively on institutional change. The major reference point utilized here is North (1990).

liberal markets and economic growth in Russia. The reason for this assertion lies in new institutionalist observation that countries have different institutional frameworks that lead economic actors to respond differently to similar economic policies.

The events in Central and Eastern Europe at the time of Douglass North's Nobel Lecture provided a unique opportunity to examine institutional change. Where institutional analysis promised to be of particular utility was in illuminating how entrepreneurs responded to the new rules and structural reforms introduced by Yegor Gaidar and subsequent Yeltsin economic advisers. From the new institutionalists' vantage point, liberal policy prescription designed to disentangle the state from the market would present new opportunities. However, the policies in themselves would be an insufficient guide toward constructing these architects' envisioned capitalist end state. When the formal rules change, voluntary compliance to the rules should not be expected, particularly if the rule-making process did not involve those affected.⁶¹ Furthermore, if the formal rules are incompatible with prevailing norms, one could anticipate that the direction of change would not follow the path intended by liberal policy directives. New institutionalists would predict that the interaction between formal institutions being implemented by government and the informal institutions in operation at the societal level would likely result in a form of capitalist development quite unlike that of other capitalist economies. Moreover, both the new institutionalists and social capital theorists would anticipate new forms of social organization to emerge in this context and to influence the direction of institutional change.

Thus, the new institutionalists presented an alternative prediction to the prevailing liberal view that the implementation of western-style macroeconomic policies would nurture Western-style markets. The proponents of new institutionalism argued that an analytical focus on price signals or policy directives alone could not adequately explain, in the words of Boris Yeltsin, why Russia's transition along the supposed socialist to capitalist continuum appeared to be stuck in the middle. To understand why inequality worsened, why privatized enterprises did not prosper, or why technically accomplished engineers continued to produce uncompetitive goods, analysts would need consider how norms, historical legacies and formal rules affected the operational decisions of Russian entrepreneurs.

New institutionalism is a broad field. Thomas Koeble (1995) identifies three strands of institutional research: rational choice, sociological and historical institutionalism. Proponents of the three strands agree that institutional analysis enhances analytical enquiry but they disagree over methods, how institutions affect actors in a given action arena, and their impact on social change. The rational choice school is commonly associated with new institutional economics. It argues that institutions are created purposively by goal-oriented individuals to advance their well-being. In this perspective, actors are relatively autonomous to initiate change in the action arena. The rational choice school employs the analytical tools of micro-

⁶¹ Ostrom's (1990) examination of common-pool resources illustrates this point. Through several case-studies she concludes that if parties design the rules collectively, users of the common-pool resources are more inclined to adhere to the rules than if they had no role in establishing them.

economics and the neo-classical assumption that individuals have set preferences. In an important departure, the rational choice approach brings institutions into the analysis as a way to explain the presence and use of social institutions in the market. Neo-classical economics, on the other hand, largely ignores social organization.

The sociological school approach is quite different. While this approach does not deny that human agency is instrumental in creating institutions, it does question the rational choice claim that institutions are the product of conscious choice and that the presence of institutions can be explained in functional terms as a mechanism for actors to maximize their wealth.⁶² The sociological school maintains that macrostructures, such as culture and social practices permeate action arenas and are independent forces that shape actors' preferences and constrain individual action. It cautions against uncritical acceptance of the rational choice view that people are self-interested and that we can assume that preferences are given.

Finally, the historical institutionalists differentiate themselves from the rational choice assumptions of agency and rationality, and the sociological view that macrostructures are monolithic. To the historical institutionalist, conflict and cooperation between organizations (e.g., interest groups, bureaucracies) and ideas (e.g., ideologies, religion, interests) drive social change. Whereas rational choice approaches generally view the individual as unencumbered by social norms and the sociological schools tends to locate individual actions within social groups, historical institutionalists track institutional change over time and focus on the meso- and macro-level social change. They see social change as product of the interaction within a constellation of various groups, interests, ideas, and institutional structures.

I will not delve further into their differences but it is important to note that there is no singular approach to institutional analysis.⁶³ Where unity exists is in the claim that institutional analysis can add important insights to understanding economic, political and social change. I bring forward from this discussion the following: a concern for the organizational and institutional context of the action arena, a need to understand who the actors are, what their objectives and motivations are, and what resources they can access and mobilize. In the next section, I will review the literature on human and social capital as resources for action.

⁶² The presumption that institutions can be explained by the efficiency enhancing performance is a position commonly associated with Oliver Williamson theory of the firm, see Williamson (1985).

⁶³ There are several excellent reviews of the new institutionalist literature. See, for example, the following edited volumes by DiMaggio and Powell (1991a), Harriss, Hunter, and Lewis (1995), and Clague (1997).

3.3. HUMAN AND SOCIAL CAPITAL: RESOURCES FOR ACTION

In this section, I review the human and social capital literature because both are relevant to the PMTP program and its evolution. The program was launched as a supply-side response to the lack of entrepreneurs able to operate effectively in a liberalizing national economy as it integrated into a competitive world economy. The human capital literature provided a strong empirical rationale for this investment as economists had established a causal relationship between investment in education and skills training to economic development.

Human capital theory has impacted public policy globally. Heeding the policy implications of the theory, governments began sponsoring a wide range of education and skills development programs on the expectation that as the stock of human capital increased, so too would national economic development. Many socialist countries made significant and sustained progress toward eliminating illiteracy and developing leading science and technology infrastructures.

As human capital research matured, scholars began to explore what influenced the returns to human capital. It is this research direction and the contribution of institutionalist scholarship that prompts my focus on social capital. The new institutionalism, and the social capital literature in particular, sought to situate individual actors in social contexts and probe the independent effects of norms and social organization on social change. In the case of the PMTP, there was clear qualitative and quantitative evidence indicating that the training enhanced management skills and analytical understanding of business operations. What human capital theory would have difficulty explaining is why a young cohort of business leaders with similar human capital characteristics reported differential training outcomes. Institutionalists would look to the action arena and ask what role individual, firm or social capital variables had in affecting these outcomes.

In a seminal contribution to the social capital literature, James Coleman (1998) demonstrated the differential impact of social structure on the academic performance of children. Coleman concentrated his analysis on how family social structure contributed to human capital acquisition. For my purposes, I will invert James Coleman's formulation and explore how the application of human capital is influenced by social capital. This formulation is based on my interest in whether the social structure of managers' professional environment differentially affected expected PMTP program results.

3.3.1. Human Capital

In the early 1960s, a group of American economists laid the foundations for human capital theory. They argued that orthodox models of economic growth ignored the contribution of the stock of knowledge and skills, and overemphasized the role of financial and physical capital. In what would have significant influence on economic and human resource planning, they measured and modeled human capital. Their central proposition was that the effective and efficient use of physical capital requires a workforce with the necessary knowledge and skills. With this explanatory variable, they sought to explain both differential rates of growth

between nations with similar levels of physical capital investment (Shultz 1962), and differential socio-economic outcomes between individuals (Becker 1962, 1964).

The prediction that people with higher levels of human capital are more productive, attain higher professional status and income than those with less human capital has been tested and validated in innumerable studies (Healy & Côté 2001). More recently, research in the field has turned to understanding factors that affect the acquisition and application of knowledge and skills. On the determinants of human capital acquisition, Douglass North suggests that non-mandatory investment in human capital is determined largely by the institutional framework. In North's view, actors are motivated to acquire knowledge when there are incentives to do so. This incentive to acquire and apply new ideas and skills was vastly different in socialist societies where the state distributed power and privilege, controlled the means of production and regulated personal advancement.

The exit from socialism had a pronounced impact on the demand for education. With the privatization of state enterprises, the formation of private enterprises and the removal of restrictions to labour mobility, the reforms removed state imposed barriers to professional development and altered the incentives for human capital acquisition.

In this liberalizing labour market, human capital theory would predict that individuals possessing skills relevant to the needs of the market economy would find gainful employment. The skill shortage in areas such as accounting, marketing, strategic management, procurement or commercial law would reward those with such skills. When evaluating the impact of management training on personal and firm level outcomes, human capital theory would anticipate that people with skill equivalency would attain similar rates of remuneration or status in their firms. The relationship between human capital and professional attainment is, however, not mono-causal. Studies into discrimination based on race, gender and age have shown that career mobility is not determined on the basis of human capital alone.⁶⁴ Social capital is another one of those factors.

3.3.2. Social Capital

Two decades after human capital entered the mainstream, students of human capital and economic sociology began drawing attention to contextual features that influenced the acquisition and application of human capital. Researchers became interested in such questions as how do families, communities and race influence learning outcomes (Ben-Porath 1980)? Given the long-standing association between investment in human capital and socio-economic attainment, another line of enquiry began to explore the influence of ethnic entrepreneurship, cooperatives, and business networks (Portes 1998). These lines of enquiry did not displace human capital theory but they cumulatively mounted evidence in support of the contentious proposition (from a neo-classical perspective) that social relations have value and can complement or constrain other forms of capital.

⁶⁴ See for example, Bowles and Gintis (1976), and Friedman and Krackhardt (1997).

In contrast to human capital where capabilities are vested in the individual, social capital is viewed as a relational asset wherein resources are embedded in both informal and formal relationships, and available to those who develop and deploy them. Ronald Burt (1997: 339) offers a further distinction by stating that human capital refers to a person's ability whereas social capital refers to opportunity.

Recent efforts to conceptualize social capital draw heavily from sociological theory.⁶⁵ As stated previously, the notion also shares commonalities with the new institutionalism. Proponents of new institutionalism and social capital argue that the confluence of cognitive motivation, social norms and interaction, and organizational structures are germane to understanding social change. In the late 1980s and early 1990s, James Coleman and Robert Putnam attracted considerable attention when they asserted that informal norms and social organization facilitate social change. Building on the impetus created by these authors, there has been a burgeoning literature suggesting that social capital can be a powerful force for well-being, firm performance, innovation and regional development to name some of the outcomes of interest to this study. For example, studies have reported on the impact of social capital on educational attainment (Coleman 1988), inter-organizational employment (Granovetter 1973, Flap & de Graaf 1986, Völker & Flap 1999), intra-organizational mobility (Stark 1986, Völker & Flap 1995), enterprise performance (Nahapiet & Ghoshal 1998, Uphoff & Wijayaratna 2000, Recanatini & Ryterman 2001, Gargiulo & Rus 2002, Lengyel 2002, Batjargal 2003), economic growth (Knack & Keefer 1997, Petro 2001, Raiser & Haerpfer et al. 2001), and democratic political participation (Putnam 1993a, 2000, Healy and Côté 2001, Helliwell 2001). This literature places social capital in a category with physical and human capital as an important driver of economic and political development.

The social capital thesis has also stimulated a healthy debate on a number of substantive issues. Is it old wine in new bottles or is it even worth drinking at all? I will now turn to addressing several debates on the meaning, application and utility of social capital theory. This review is restricted to those questions that have relevance to the analytical framework and empirical investigation.⁶⁶ I begin with the question, what constitutes a social capital resource?

What constitutes a social capital resource?

The social capital literature has had to confront the same question asked of human capital proponents three decades earlier, namely what is the valuable element. To date, there has yet to emerge a clear consensus on what social capital resource has value and how it is measured.

⁶⁵ Portes (1998), Woolcock (1998) and Lin (2002) ably trace the intellectual origins of the term in sociology.

⁶⁶ For a fuller critique of the issues raised here and others, Harriss and Penzio (1997) and Schuller, Barron, and Field (2000) investigate the strengths and weaknesses of the social capital research program.

In Table 3-1, I identify several authors' conceptions of what constitutes the capital in social capital.

Table 3-1: Social Capital Resources

| Author | Resource |
|---|---|
| Sociology Driven Literature | |
| Lin (2001: 20) | Resources: information, influence, social credentials/referrals, reinforcement, reputation |
| Coleman (1998) | Resources: norms within a collectivity (and their sanction), information-flow capability of the social structure, obligations and expectations derived from trust in a social environment |
| Uphoff and Wijayaratna (2000) | Structural: roles, rules, procedures, precedents, social networks Cognitive: norms, values, attitudes, beliefs |
| Flap & de Graaf (1986: 145), Völker & Flap (1995, 1999) | Structural: # people in a network and relational characteristics Cognitive: a person's ability and willingness to lend support Resources: "all the resources he or she is in a position to mobilize through this network" |
| Management/Economic Driven Literature | |
| Batjargal (2003) | Resources: # resourceful contacts that have financial resources, decision-making powers, reputation, etc. |
| Nahapiet & Ghoshal (1998) | Structural: network ties/configuration Relational: shared codes, language, narratives Cognitive: trust, norms, obligations, identification |
| Burt (1997) | Structural: ties that bridge 'structural holes' Resources: information and trust exchange |

As this literature sample suggests, there is some overlap concerning what represents the active element in social capital. Of the sources mentioned, Nan Lin offers the most complete inventory. He identifies such elements as information, referrals, and reputation as social forms of capital that can be accessed and mobilized within a social network. Other authors make the distinction between the cognitive and structural dimensions of social capital.⁶⁷ Finally, others are less concerned about specifying the resource. For example, Flap and de Graaf (1986) refer

⁶⁷ This distinction between cognitive and structural is associated with a number of authors that were part of a World Bank research project entitled the Social Capital Initiative (Grootaert & van Bastelaer 2002).

to the active element as ‘all the resources’ within a social network that people are willing to share. This open-ended approach suggests that there are multiple social resources of potential value to individuals in a social network. If my assessment adequately reflects the literature, the term does not fit the more streamlined definition of other kinds of capital, such as financial or physical capital, nor does it fit the definition of an institution as employed in institutionalist research.

Incidentally, this lack of definitional precision also presented obstacles to the acceptance of human capital theory when it was introduced. Even after several decades of use, human capital also lacks the definitional simplicity of earlier identified forms of capital but this has not prevented the field from developing. I suspect the current debate surrounding social capital will follow a similar course.

If researchers pay little attention to the actual resource being transferred or exchanged, they do devote careful attention to motives and mapping the relational characteristics through which a given social resource travels. For example, Uphoff and Wijayarathna, and Nahapiet and Ghoshal both emphasize dimensions that contribute to the value of social capital (i.e., structural and cognitive dimensions). I will return to these distinctions between cognitive and structural dimensions below.

Is social capital really capital?

The commodification of ‘social’ as ‘capital’ has raised the ire of some who maintain that social capital merely re-labels core social theory concepts in, perhaps, more fashionable jargon (Fine & Green 2000). Economists, too, question the appropriateness of the term because it does not meet the minimal definitional requirements of capital. Having an opportunity cost is one such requirement (Portes 1998: 155, ft. 21). On this basis, Francis Fukuyama’s (1995) notion of social capital as the property of cultures would not satisfy this condition. The process of cultural reproduction does not suggest active investment in building the social relations that sustain social capital. If social capital inheres in cultures, as Fukuyama suggests, the capital would be inherited and would not require a periodic reinvestment, which an opportunity cost implies. However, a situational conceptualization of social capital, as discussed below, does characterize individuals investing time in cultivating intra/inter organizational networks or personal contacts. The metaphor Robert Putnam evokes is that of a social capital bank in which one builds up credits through supporting those in their network. When this investment is evident, there would be an opportunity cost.

Another point of contention relates to the capital input/output function. For example, a company buys physical capital to start a new plant. When installed, the new equipment will generate a future stream of benefits. This linear input/output is not applicable to social capital. Consider the claim by Robert Putnam and James Coleman that social capital is appropriable. When individuals invest in social relations, they may do so to achieve a particular goal or fulfill a social role or need. However, this original ‘investment’ of time in social relations might be appropriated to address other goals or needs than that for which the original relationship or network was established. Picture an individual who participates in the activities of a business association. In doing so, he or she becomes aware of the association’s

collective social resources and potential applications. The range and potential application of the identified social resource might not have been evident at the time of 'investment'. Nevertheless, this does not negate the fact that an opportunity cost was incurred and that a future benefit may accrue.

Another related critique questions how social capital is exchanged. Capital is normally traded in a market exchange during which one good or service is exchanged for a price or another good or service. Capital transactions are closed in the sense that buyers and sellers can identify what has been exchanged. Social capital works quite differently. It is not transacted in a market; rather that it is best thought of as an asynchronous reciprocal action. Like a market transaction, there is a 'buyer' and 'seller', but unlike a market exchange, the 'seller' provides the social resource without a contractual agreement to be repaid. Rather, there is a social obligation that the 'buyer' of the resource will reciprocate sometime in the future. If the buyer reciprocates, the form of 'repayment' need not be equivalent for the social exchange to be acknowledged and repeated. There is a difference then in how social capital is transacted from other forms of capital.

Where does social capital reside and who has access to it?

For Francis Fukuyama (1995), social capital is a property of cultures. His conceptualization rests heavily on the view that some societies possess more generalized trust, and that it is this trust that facilitates cooperation in the public and private sphere. This conceptualization offers scope for cross-national comparative research but it is less useful for analyzing who has access to social capital within a culture, where presumably everyone would enjoy the same level of social capital.

For Nan Lin, social capital is not a property of cultures but rather a property of individuals in a social network. Actors have differential access to social capital based on their involvement in civic life. In Putnam's landmark studies of Italian regional development and social capital in America, he advanced the proposition that trusting people manifest their trust through reciprocal actions and involvement in what he refers to as "networks of civic engagement". It is through these civic networks that people access and mobilize social capital. The observation that people have differential access to social capital distances Putnam's analysis from that of Francis Fukuyama's but they share the view that culture is an important consideration in the social capital debate.

A third conceptualization on the location and access to social capital is forwarded by Pierre Bourdieu (1986), James Coleman (1988) and Alejandro Portes (1998). These authors dismiss the cultural origins of social capital (cf. Fukuyama) and adopt an expansive view of actors developing and mobilizing social capital through various forms of social organization. Their expansive view lends itself to what James Coleman refers to as a situational approach to the location/source of social capital and who accesses it. Some situations are more effective than others to nurturing social capital. In Coleman's view, closed social structures are more conducive to collective action than open, more fluid social structures. The key feature of a closed structure is that it nurtures repeated interaction among people. This interaction creates expectations and imposes obligations on those within the structure. Such expectations can

emerge in a wide range of settings, from within the family, to patron-client relations, to civil society organizations. For those adopting a situational approach, the degree of closure in a social network determines the amount of social capital and who can access it. The social structure is therefore more important than the kind of organization or dominant culture.

What kind of relational or social structure facilitates beneficial social capital?

Further to the discussion on where social capital resides and the importance of social context, empirical research has investigated how relational and structural characteristics of social organization influence outcomes. A challenge for building social capital theory is that there is little consensus on what structural characteristics are beneficial. Two early contributions to the literature sparked the debate. On the one hand, there were the advocates for open structure, and on the other, advocates for closed structure.

The open structure advocates were led by Mark Granovetter (1973) who illustrated the usefulness of ‘weak ties’ to successful job searches. What mattered in finding a job was not how many close friends helped you in the search but, rather, how many friends of friends were aware of the job search. These weak ties widened the information network available to the job seeker and increased opportunities of finding a job. Refining the open structure argument, Ronald Burt (1997: 341-342) has argued that it is not the number of weak ties per se, but whether those weak ties enable access to non-redundant information. In other words, a manager who can tap into new information pools will be able to bridge ‘structural holes’ that obscure opportunities and potentially useful information. Managers with few peers would benefit proportionately more from additional relations that bridged structural holes than someone with many peer relations possessing the same information. James Coleman advances an opposite argument in favour of closed structure. He argued, “closure of the social structure is important not only for the existence of effective norms but also for . . . the proliferation of obligations and expectations.”⁶⁸

In ensuing empirical studies, authors migrated to the open or closed structure camps and pitted themselves against the other. One of the problematic consequences of this dualism to validating open/closed structure arguments was to neglect James Coleman’s observation that one form of social organization might be useful in one context (or function) but not in another. In other words, social capital is situational and fungible. With few exceptions, the literature has not explored whether the opportunities created by an actor’s social capital in one context is effective in another.

⁶⁸ In a seminal article, Coleman (1988: S107) only briefly discusses the importance of information as a form of social capital. His exclusion of information is interesting as it is exactly this social resource that advocates of open structure dwell on. One could conjecture whether Coleman would have been so firm on the importance of closed social structure if he had examined the role and exchange of information. I am also reminded that norms can be very destructive and the proliferation of obligations and expectations can imply oppressive patronage systems (Niels Röling, personal communication).

In a notable exception in the Russian context, Judith Sedaitis examined how the structure and networks of private/privatized firms and state-owned enterprises influence firm performance (Sedaitis 1997). In examining firm performance in commodity exchange markets, Sedaitis found that extensive inter-firm relations, characteristic of private enterprises, enabled management to overcome a poor information environment and identify new opportunities. Cohesive intra-firm relations, characteristic of state owned enterprises, possessed a different set of valuable characteristics: "Although the close ties of high-density model constrain the discovery of newer, more profitable trading relationships, they help maintain greater compliance and institutional support and lower transaction costs." (Sedaitis 1997: 154). Sedaitis introduces a situational approach and finds that cohesive intra-firm connections (closed structure) and extensive inter-firm relations (open structure) may both hold value depending on firm characteristics.

There is also poor understanding how actors access and mobilize social capital in different arenas and what effect their social networks make. To date, the literature has concentrated on studies that contrast different social network structures in single outcome arenas. Thus, weak ties may be more effective than strong ties in finding a job but the opposite may be true if the job seeker requires a referral to secure a good or service. The context matters and social capital theory building should seek to deepen our understanding of the diversity of a person's social networks, their relational characteristics and the influence of social resources in different settings. As will be demonstrated in the research design, I identify a cohort of PMTP graduates' different social networks available to them and explore whether these account for differential outcomes observed, all things being equal.

Is social capital an instrument or an outcome?

In the definition of social capital offered by Robert Putnam I quoted above, norms, networks and trust are held to be the defining features of social capital. Usages of the term, including Robert Putnam's, have been criticized for treating social capital as an explanatory variable, an outcome or part of a virtual or vicious circle (Edwards and Foley 2001: 11). The circularity is reflected in the following quote: "the greater the level of trust within a community, the greater the likelihood of cooperation. And cooperation itself breeds trust." (Putnam (1993a: 171). In this quote, trust, as a feature of social capital, is required for cooperation, and cooperation creates more trust. Richard Rose and others make a plea for greater analytical distinction between social capital as an explanatory variable and as an outcome. According to Rose, the definition used by Putnam makes it "impossible to use the term to construct a cause and effect model of the relation between network, norms and trust." (Rose 1998: 5).⁶⁹

⁶⁹ Elsewhere, Putnam does establish a cause and effect relationship, such as when he explains the basis of Northern Italy's relatively stronger economic performance and political stability over that of Southern Italy: "The communities [in Northern Italy] did not become civic simply because they were rich. The historical record strongly suggests precisely the opposite: They became rich because they were civic. The social capital embodied in norms and networks of civic engagement seems to be a precondition for economic development, as well as for effective government." Putnam (1993b).

To avoid conflating the ends and the means, Alejandro Portes recommends that analysts adhere to a couple logical cautions. The first is to separate the cause from the effect. If an individual mobilizes his/her social capital, the analyst needs to ensure that the social resources deployed are differentiated from the outcome achieved. Second, alternative explanations to social capital need to be considered as many of the outcomes social capital seeks to explain have been explained previously. Finally, Portes underscores the importance of historical enquiry into the origins of social capital in each action situation. Among the range of questions appropriate for this enquiry, Schuller, Baron and Field (2000) suggest attention should focus on “what people actually do as members of an association, and how far this relates to public as well as private goods.” In Chapters 6 and 7, I pursue this suggestion to illustrate the actions and composition of ABAs.

Does social capital make us wiser, happier and healthier?

Economics is often referred to as the ‘dismal science’ for the tendency of its practitioners to assume or reveal the calculating ways of people. It is not surprising then that the dismal science took note when researchers began to document the benefits of social capital. Was there something inherently good about social capital?

Consider, for example, the role of information and referrals in the following two networks. In the first, a group of Muscovites were invited to Canada under the YDF program to examine social policy. They were doctors, bureaucrats, politicians, and social workers, and were unknown to each other before arrival. When they returned to Moscow, they remained in contact. The doctor provided free consultations to the group when asked, and to their family and friends. When the politician asked for campaign support, the others volunteered their time and enticed their friends to help. When the social workers needed advice on changes to social legislation, they call the bureaucrat. In addition, when they needed moral support and friendship, they met socially. The bond established by virtue of their Canadian experience, united strangers and contributed to their health, their professional and social lives. The information, the referrals, the moral support, time saving routes to obtaining answers to public policy question would be viewed in positive terms by most observers.

Now consider the following quote: “a mix of opportunistic . . . individuals, with a small number of networks . . . [that] engage in joint, reciprocal, preferential, and mutually supportive actions.” (Finckenauer and Waring 1998: 6). This quote could aptly describe a number of different social networks formed to advance the economic interests of members. It could, for example, describe business groups. This particular quote, however, comes from a book outlining the methods and resources utilized by the criminal element within the Russian émigré community in America.

Another negative illustration of networks is reflected in Mancur Olson’s (1982) book *The Rise and Decline of Nations*. He argues that narrow-interest groups such as trade lobbies or cartels can have a negative effect on public policy and economic growth. While members belonging to such groups (or ‘distributional coalitions’ as Olson labels them) reap benefits from membership, he was more concerned with their negative public welfare effect. Countries that have numerous distributional coalitions, he claimed, were less economically dynamic

than Scandinavian countries where interest groups had broad-based agendas for economic development (Olson 1982: 41-47). The negative consequences arising from the concentrated economic power of Russia's FIGs and their ability to extract concessions from the government fits Mancur Olson's definition of distributional coalitions and his analysis very well. Members of the FIGs benefited directly but they also monopolized the political agenda and marginalized more broad-based coalitions.⁷⁰

The tendency to see the good but not the bad in the social capital literature, if in fact this is the case, has the potential to reduce the concept to normative moralizing and may obscure its conceptual value and public policy relevance. If social capital can be an agent of both positive and negative outcomes, then what determines whether the outcome is developmentally valuable or not? There are at least three considerations required to answer this question.

The first consideration is aided by a distinction made by Norman Uphoff and his colleagues between the cognitive and structural dimensions of social capital (Uphoff & Wijayarathna 2000, Krishna & Uphoff 2002). I will outline his model in a future section but for current purposes, the cognitive dimension is a good indicator of whether social capital is used for good or for ill. On the one hand, it is important to understand the motives driving people to form social networks. Are the outcomes they seek to achieve pro-social, a-social or anti-social? The structural dimension, on the other hand, enables people in "networks ...[to] engage in joint, reciprocal, preferential, and mutually supportive actions" (as do the YDF Fellows in Moscow and the Russian criminals in America). The structural dimension provides the scaffolding and the cognitive dimension shapes the positive or negative intent.

The second consideration introduces an ethical or normative element. The distinction above between criminal gangs and self-help groups makes for stark comparison but such contrasts are not always present. Take the case of Russia's informal economy. In the view of the Russian government, the growth in Russia's informal economy is generally viewed as a negative development. It is unregulated and untaxed. Underpinning the informal economy are barter exchanges or favours and loans backed by trust on the expectation of future reciprocity. Social capital plays a major role in lubricating this underground economy. From the point of view of Russian livelihoods, barter was an essential livelihood strategy. From the perspective of building market institutions for a liberal capitalist economy, the informal economy is a sign of weak economic development.

The third consideration relates to the checks and balances as institutional devices. The formal rules and the working rules do shape the distributional effects of social capital. Actors respond

⁷⁰ The following definition by Mancur Olson of distributional coalitions could easily have applied to Russia's oligarchs: "...distributional coalitions must use their lobbying power to influence governmental policy or their collusive power to influence the market. [P]ayoffs from lobbying and cartel activity, as compared with the payoffs from production, means more resources are devoted to politics and cartel activity and fewer resources are devoted to production. This in turn influences the attitudes and culture that evolve in a society." (Olson 1982: 69).

to the incentives and opportunities that institutions create. The opportunities may encourage economic development or rent-seeking. Many presume that stable democratic orders channel social capital in a public goods direction but even in democratic America, criminal social capital persists. Institutional devices are important but they create system-level constraints and opportunities. I will revisit the discussion of the institutional framework in the next two chapters.

How do proponents of social capital understand micro-macro linkages?

The debates identified above concern definitions, sources and consequences of social capital in families, firms, and civil society. I now turn to the question how does social capital, which is typically cultivated and mobilized in horizontal relationships, scale up to influence vertical relationships and outcomes? Much of the literature inspired by Robert Putnam devotes particular attention to the impact of associational life on macro-level phenomena.

For Robert Putnam, the causal mechanism works as follows. Societies where associational life thrives, people demand and supply better government, business environment and healthy communities. On the demand side, communities that are rich in social capital have social resources and structures that enable them to work collectively to achieve shared goals and hold government to account. Conversely, in un-civic regions, people are more accepting of poor public policy because they likely lack the interest and the social organization to do anything about it. Civic communities reduce opportunistic behaviour because the costs of defecting from cooperative behaviour is higher; the norm of reciprocity is generalized because civic communities provide opportunities for people to support and develop expectations of one another; trustworthiness is cultivated because civic communities increase information flows on who is reliable; and, the social infrastructure developed in societies rich in social capital signals the success of previous collective action and confidence in future organizing for collective goals.

In civic regions, citizens are more willing and able to work with government to achieve public policy goals. For their part, government can rely to some extent on the social infrastructure present in a civic society to assist in the formulation and implementation of public policy (Putnam 1993a: 182). Thus, networks of civic engagement create a demand for good government and help to supply it. Getting to this virtuous state of affairs can be a multigenerational work in progress.

Russia, unfortunately, is not endowed with the rich fabric of associational life that proved so beneficial to enhancing government performance and social welfare Robert Putnam noted in his study of Northern Italy. What then is the prospect for countries, like Russia, without a substantial stock of social capital in civil society? Peter Evans (1996a) and Michael Woolcock (1998) raise the question whether the beneficial effects of social capital in horizontal relationships can be compensated for, or constructed through institution building to improve state-society relations. These authors introduce the notion of synergy as an innovation in state-society relations that enable mutually beneficial outcomes. In Peter Evans' review of several development projects, he notes that "creative action by government organizations can foster social capital; linking mobilized citizens to public agencies can enhance the efficacy of

government.” (Evans 1996a: 1130). The constructability thesis requires that actors in government and society transform their worldviews and experiment with new forms of collaboration. Both a supply and demand response is required for synergy to work.

Again, the creative action that Peter Evans refers to between government and society is not a hallmark of contemporary Russia. For decades, the Russian state has been the agent of change and not the facilitator of change. The central tendency of its bureaucracy has been to direct rather than to enable change. The prospects for synergy would appear to be low given the nature of state-society relations and the stock of social capital in horizontal networks. Even under such conditions, observers of social change have identified the power of interactive learning. Niels Röling proposes that structuring interaction through facilitation or problem-based learning can lead actors to become aware of how their actions are intertwined. This, in turn, may lead to a cognitive convergence and alternative actions (Jiggins, Röling, et al. in press).

Learning to do things differently together can be constructed, as evidenced in a wide range of development programs worldwide.⁷¹ Platforms that promote interactive thinking can open opportunities for new worldviews to emerge. This is not a linear process and there is no certainty of mutual gain but the social capital literature does suggest that vertical linkages between the state and society can nurture mutually beneficial cooperation.

3.4. CONCLUSION

This review of the human and social capital literatures introduced the main features of each form of capital. It identified how each capital is acquired, mobilized and to what effect. When human capital was introduced in the 1960s and social capital over the last decade, both concepts elicited considerable academic debate. I suggested that the critiques of human capital spawned a wide-ranging empirical research program, which eventually led some researchers to conclude that social networks and institutions had an independent affect on the acquisition and application of human capital.

As I have shown, the notion of social capital gained considerable attention in the economic sociology of education when James Coleman advanced the proposition that social capital contributes to human capital. Like human capital before it, social capital was then subject to critical analysis. As social capital is a more contentious notion than human capital, I have devoted particular attention to exploring the main critiques of social capital. I have also mentioned some of the mounting empirical evidence indicating that social capital is a real phenomenon with both constructive and destructive potential. Before turning to the next

⁷¹ The collection of case studies in Evans (1996a) and Grootaert & van Bastelaer (2002) provide numerous accounts of development interventions facilitating social capital. And, of course, interventions seeking to facilitate new social networks so that stakeholders can access and mobilize social resources can go terribly wrong (Scott 1998).

chapter, where I integrate human and social capital into a framework for analysis, I will summarize the main points outlined in this review of the human and social capital literatures.

Table 3-2 summarizes several distinguishing features of human and social capital elaborated in this chapter. It was shown that human and social capital differs with respect to the location of assets and how the capital is mobilized. For human capital, skills and knowledge belong to the individual and have value in a market context. In contrast, social resources such as information, influence or referrals are developed and mobilized in an informal or formal relationship where the payoff is asynchronous.

Table 3-2: Review of Human and Social Capital Elements

| | Human Capital | Social Capital |
|---|--|--|
| Where does the capital reside? | Individual actors | Actors in relationships: informal/formal linkages |
| Capital Resources/Active Element | Skills & knowledge | Social capital resources (see Table 3-1: Social Capital Resources) |
| Measurement | Duration of formal education and job training; qualifications | Number and frequency of horizontal & vertical connections |
| Thinking behind 'investment' | Self-expression; instrumental and economic thinking | Instrumental and interactive thinking |
| Channels through which capital is mobilized | Individual pathway: Individual in the market | Collective pathway: Individuals in embedded social networks |
| Model | Linear | Iterative/interactive |
| Contribution to Public Good? | Private: instrumental and non-instrumental (direct) Club: (not applicable) Public: association with healthy, productive and civic societies (indirect) | Private: instrumental and non-instrumental (direct) Club: collective action cooperation/coordination of actions (direct) Public: co-provision of public goods and services (direct and indirect) |
| Intervention mechanisms | Direct: schooling, training | Direct: socialization, facilitation, social learning Indirect: removing obstacles to associational life |

Source: Niels Röling (personal communication), Baron, Field, et al. (2002: 250)

In terms of measurement, human capital researchers look to formal academic and work-based training as indicators. An orthodox human capital approach to evaluating training programs would likely omit the role of social networks from the analysis. A social capital approach, however, would pay close attention to the social networks trainees utilize, or have established,

in the acquisition and application of human capital. These differences flow logically from the individual-centric focus and linearity of human capital models. Social capital models, on the other hand, underscore the importance of a relational and iterative approach to training and evaluation of human resource development.

These literatures share some similarities in what each form of capital is capable of producing. On the one hand, human capital interventions are viewed as contributing directly to private goods but only indirectly to public goods. On the other hand, social capital interventions are viewed as directly generating private, club and public goods. These differences coupled with the PMTP's design, expected outcomes and emergence of graduate associations have a direct bearing on why in the next chapter I build a framework for analysis that includes human and social capital resources.

4. THE ANALYTICAL FRAMEWORK

4.1. INTRODUCTION

This chapter introduces the framework for analysis and the data I will apply to the historical and field research chapters. The framework draws heavily from Elinor Ostrom's (1999) contributions to refining institutional analysis for fieldwork settings. I have already introduced some of the conceptual building blocks in the previous chapters. By way of introducing this and future chapters, Table 4-1 outlines the organization of the empirical chapters.

Table 4-1: Organization and Focus of Empirical Chapters

| | INSTITUTIONAL FRAMEWORK → | ACTION ARENAS → | OUTCOMES |
|------|---|---|--|
| Ch 5 | Historical account of changing networks and institutions and their influence on incentives and opportunities to influence policy, business development and personal advancement | | |
| Ch 6 | | Descriptive overview of ABAs as a resource for actors | |
| Ch 7 | | Description of actors, resources and context of PMTP collective-choice arenas | Analysis and illustration of market-supporting & complementing actions |
| Ch 8 | | Description of actors, resources and context of PMTP operational-arenas | Multivariate analysis of business & personal development outcomes |

The top row distinguishes between the institutional framework and the action arena. The institutional framework is constituted by the rules and the norms. These variables are socially constructed, routinely reproduced, and operate as relative fixtures that constrain actors in their action arenas (Ostrom 1990, Jepperson 1991). The action arena, on the other hand, is the immediate context that actors reference in their day-to-day routines and in formulating decisions. Ostrom's use of the arena metaphor includes actors, their resources, and the organizational context.

In terms of their relationship, the institutional framework is generally understood to influence the action arena, rather than the other way around. Ostrom also distinguishes between collective-choice and operational-level arenas. Actors in collective-choice arenas make decisions or take actions that shape policy, which in turn have cascading effects for actors and organizations at a lower level. For example, the debate over privatization occurred within a collective choice action arena. The policy decision to privatize state-owned industries through

the MPP had a significant impact on the actors, resources and context of managers in newly privatized industries. The change in what Ostrom refers to a collective-choice arena created different decision-making parameters for firm managers. Ostrom makes this tiered governance distinction to recognize that actors can affect change at multiple levels of analysis.⁷²

The need to introduce multiple levels of analysis would not be required if the expected PMTP outcomes occurred at one level and the rules influencing the action arenas were known and unchanging. As I have mentioned before, the PMTP program was expected to make a multi-level impact at a time when the institutional framework was changing profoundly. The expectation that the program would improve business-government relations is what Ostrom would call a collective-choice outcome because the interaction centres on changing policy and improving government services. The expectation that the program would create career opportunities for graduates and contribute to business develop is an operational-level outcome.

Following Ostrom's framework for institutional analysis, the following chapters undertake a multi-tiered analysis of how the institutional framework, the PMTP program and managers' resources influenced their strategies and expected outcomes at the individual, firm and societal level.

In this chapter, I will elaborate the research questions, the methods and data for Chapters 5 through 8. Chapter 5 is a historical examination of how the institutional framework changed in the exit from socialism. This discussion identifies major changes in the institutional framework as it affects the three expected outcomes. The institutional framework governing participation in economic development policy making (collective-choice arena) identifies how the rules and norms changed for entrepreneurs before and after Yeltsin assumed power. The examination of operational rules concentrates on how privatization and labour market reforms altered the composition and use of social networks for firm and professional development.

Chapter 6 focuses on the emergence and organization of ABAs. This chapter describes who belongs to these organizations, for what purpose, their organizational structure and range of activities. Following this, Chapters 7 and 8 explore whether ABAs, as one collective pathway created by, and available to, graduates had a noticeable influence on expected PMTP outcomes at the individual, firm and societal level.

⁷² Elinor Ostrom introduces a third level, constitutional rules and their arenas. This third set of rules affect collective choice rules. I have excluded this dimension from my analysis for simplicity. Much of the discussion on the macro-level changes in Chapters 1 and 2 concerned changing rules in this domain.

4.2. CONCEPTUAL FRAMEWORK

The purpose of a framework is to identify elements deemed critical to the understanding of observed phenomena. The framework will guide this examination of how the institutional framework shaped the action arenas, who the actors were and what resources they mobilized to affect outcomes. The framework outlined below further develops these major components for institutional analysis and their relationships.

The major components of the framework are:

1. The Institutional Framework: The institutional framework refers to the rules and norms that influence an actor's environment and their actions. The old institutionalists tended to concentrate solely on 'formal' rules without due attention to the 'working' rules and norms that are not codified in a statute but nonetheless influence how actors perceive and structure their affairs. For example, in my earlier discussion between the first and second-generation reforms, I noted that privatization – changing the formal rules of ownership – was expected to lead to more efficient management practices. In many instances, this was not the outcome, and a surprising result to many orthodox economists. Some then argued for better commercial law and other formal rules to address this shortcoming. However, looking at this question through a new institutionalist lens, analysts began to ask what working rules and norms influenced the actions of managers. Why were some actors actively pillaging their companies while others were building theirs? New institutionalists would look to the incentives, constraints, and cultural variation in different settings in formulating a response.
2. The Action Arena: The action arena encloses the actors in a geographical location, organizational setting or problem-based dilemma. Within this conceptual arena, Elinor Ostrom distinguishes between collective-choice and operational arenas. Policy issues and processes are debated and established in collective-choice arenas. A collective bargaining session between a union and management is an example of a collective-choice arena because the collective agreement establishes policy and a framework for worker rights and benefit eligibility. In the PMTP context, graduates who sought to change the rules, procedures or services that influence the business environment did so in a collective-choice arena. Operational arenas, on the other hand, are social spaces where actors develop strategies within the existing parameters set by policy. Actions and outcomes in operational arenas have an instrumental quality (e.g., a new job or commercial contract).
- 2 (i) The Actors and Their Resources: Actors animate the action arena. They do so with the resources they access and mobilize. The framework draws attention to human and social capital as two resources of principal concern. These resources create opportunities for actors in both operational and collective-choice situations. Finally, actors have distinct interests and organizational affiliations.
3. The Outcomes: PMTP graduates evidenced individual, firm and societal level outcomes. At the individual level, some graduates reported increases in responsibility and salary following their training program. In applying their acquired knowledge, graduates contributed to restructuring firm operations and developing new and potential resources for

their firms. At the societal level, graduates engaged in concrete actions and promoted dialogue with local government and enterprises to create market supporting and complementing outcomes.

Each of these outcomes has an impact range which is captured in private, club and public goods terminology. The range of expected PMTP outcomes is classified in the figure below.

| Level of Analysis | Private Goods | Collective Goods (Club and Public Goods) |
|--------------------------------|--|---|
| Micro Individuals & firms | Improve management skills Facilitate labour mobility Train managers to operate efficiently and effectively in the new market environment Further enterprise restructuring | |
| Meso/Macro Local & regional | | Promote business and small and medium enterprise development Create and establish a state of the art management training system within the higher education system Improve dialogue among companies and entrepreneurs, government structures and educational institutions Create an environment conducive to establishing and developing partnerships and information exchange between Russian and foreign companies |

Source: adapted from Khristenko (2001)

Figure 4-1: Classifying Stated PMTP Goals as Private and Collective Goods

The outcomes under the private goods column are primarily individual-level effects. Through a scaling up of the training program and spill-over effects, there could be meso-level impact. These private goods result from operational-level decisions as they relate to an actor's decision to provide, produce, distribute, appropriate or consume something of value for themselves or their firms.

The collective goods column locates expected PMTP outcomes at the meso/macro level. These outcomes are the result of collective-choice situations where managers' actions influence the rules that affect operational decisions. These actions would include the development of market complementing and supporting actions. The benefits of market complementing actions accrue to those who engage collectively in their production. Market-

supporting actions are public goods because when produced, the benefits are accessible to the wider public.

Drawing together the discussion above and the human and social capital literature, Figure 4-2 visualizes the process of actors acquiring and mobilizing different resources with differential effect.

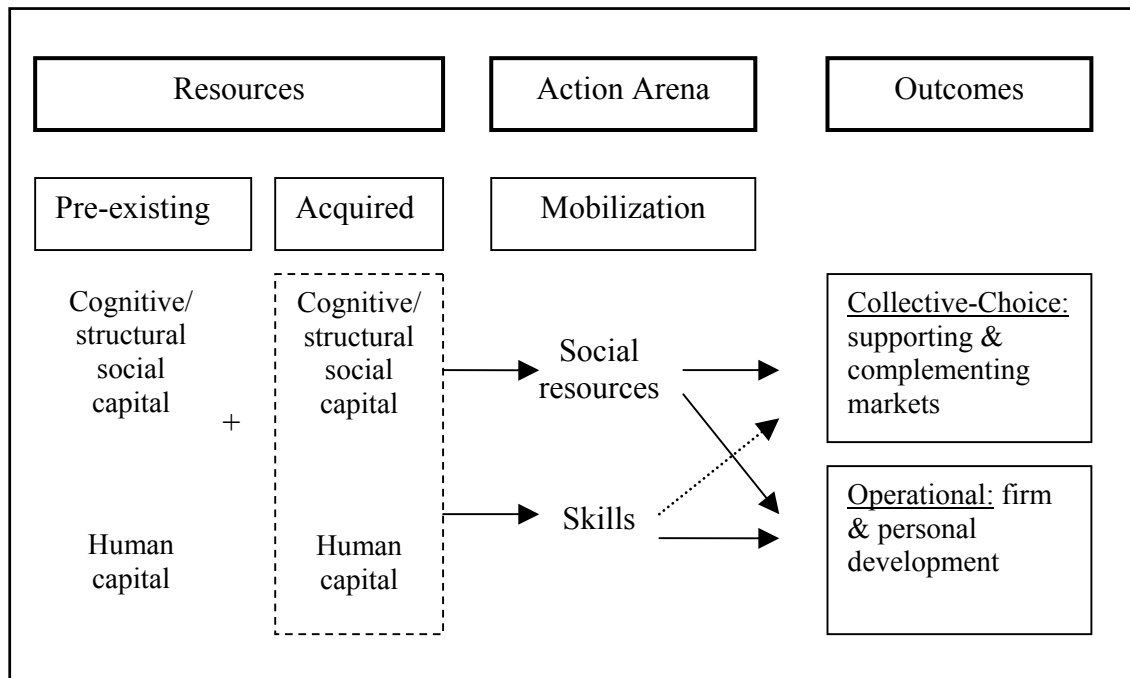


Figure 4-2: Conceptual Model of Social and Human Capital

Applying this model to the PMTP program, the left side of Figure 4-2 recognizes that managers had pre-existing social and human capital resources. Through the program, new skills were learned and relations formed. The distinction between cognitive and structural social capital dimensions draws on Norman Uphoff and CM Wijayaratna's (2000) analytical distinction. These authors view the cognitive dimension as subjective and conducive to the generation of social capital. The structural dimension is more objective and facilitative in function. This distinction emphasizes that social capital is more than social structure. Features of the institutional framework, such as the strength of generalized trust or reciprocity, shape the cognitive dimension but so do individual experiences and relationships.

In a given action arena, social resources are accessed and mobilized differently. In the final column on the right, two potential outcome categories are listed. The link between human capital and collective-choice outcomes is portrayed with a dotted line to suggest a tenuous relationship between human capital and change at this level. As suggested later, individual actors find it difficult to change collective-choice rules. In terms of the mobilization of social and human capital, the model views both resources as complementary. In deciding whether to pursue outcomes in these arenas, decisions makers would reference the influence of economic, political and social constraints at play in each situation.

This approach rejects the hard sociological view that institutions and organizations determine action; and, it rejects the minimalist view of economic man with a defined set preferences acting to suffice material goals in an institutional vacuum.⁷³

4.3. ORIGINS OF THE RESEARCH PROJECT

In the FCS' annual report (2001a) to program stakeholders, it suggested that the acquisition of skills was high but in mobilizing their resources, graduates were weakly embedded in their action arenas. In advancing their careers, developing their companies and affecting change in the business environment, the FCS suggested there was a relationship between achieving these expected outcomes and the size and composition of one's social network. The FCS report concluded by suggesting that ABAs might prove to be an effective conduit for graduates to expand their networks and benefit from the support and information that such relationships may confer.

At that time, the FCS had in place an extensive monitoring and evaluation program. These tools included an FCS administered questionnaire to graduates assessing the organization and performance of the Regional Commissions and Regional Training Institutions; questionnaires to CEOs of participating firms registering their satisfaction with the program; and, to graduates evaluating their international internships organized by donor agencies. These and other data collected contributed to a wealth of quantitative data on the organization and results of the PMTP program cycle. The principal method for reporting on training results was the annual Graduate Survey (GS).⁷⁴

In the summer of 2001, I initiated a conversation with the FCS to undertake a study examining the potential and actual contribution of ABAs as a resource for PMTP managers. The proposed study would complement PMTP evaluation tools that had focused almost exclusively on graduate skill acquisition and its impact on expected PMTP outcomes. When the proposed study was being discussed, the YDFP and the FCS were approaching the end of their mandates. For the study to inform programming for the last academic year, or potentially build a case that the PMTP was delivering on program goals, it would have to conform to the PMTP's monitoring and evaluation cycle. These constraints ruled out longitudinal data

⁷³ For a discussion of the 'over socialized' and 'under socialized' view of human agency, see Granovetter (1985). Between these poles, Norman Long (1992: 21) argues for an actor-oriented approach. The advantage, Long argues, "is that one begins with an interest in explaining differential responses to similar structural circumstances, even if the conditions appear relatively homogeneous. Thus one assumes that the differential patterns that arise are in part the creation of the actors themselves."

⁷⁴ The FCS also administered questionnaires to (1) regional commission staff for their views on the impact of the program on local economies, and (2) chief executive officers of participating firms on the contribution of management training to enhancing the skills of their employees.

collection. Instead, the team⁷⁵ revised the GS instrument and devised two new surveys for leaders and members of ABAs.

For their part, the FCS sought to understand whether ABAs or other networks graduates utilized had a quantifiable impact on advancing PMTP goals at the individual, firm or societal level. The interest in quantifying the instrumental value of ABAs sprung from their need to marshal tangible evidence that the PMTP was reaching its goals through individual or, perhaps, collective pathways. The FCS had begun to devote program resources for workshops and conferences wherein the role of ABAs were discussed. Some donors were also diverting training resources to encourage the formation and capacity of ABAs through seed funding and organizational support. Without hard data suggesting that ABAs were contributing to program goals, further diversion of training resources would have been unwarranted.⁷⁶

4.4. RESEARCH DESIGN

I will use a quasi-experimental design for non-equivalent groups to determine if social capital can explain why some graduates realized expected PMTP outcomes and others did not. I will clarify the features of this research design shortly but first it is helpful to review the sequential implementation of the PMTP. The PMTP's program cycle from start to final evaluation is outlined in Table 4-2.

⁷⁵ The research team included: Professors Li Zong and Harley Dickinson, Department of Sociology, University of Saskatchewan; Galina Gradolselskaya, statistician and sociologist with the FCS; Marina Larionova, Deputy Head of the FCS; and, David O'Brien, Director, YDFP.

⁷⁶ Julio Berdegue (2001: 56) presents a similar argument for employing quantitative methods in his study of smallholder producers in Chile. In his effort to inform public policy for supporting producer associations, he felt policy recommendations would not be credible without quantitative evidence.

Table 4-2: Program Cycle

| Differences at Application (t0) | Common Characteristics at Selection (t1) | Training (t2) | Graduation (t3) | Pathway (t4) | Evaluation (t5) |
|---|---|-------------------------------------|-----------------------------|---|--|
| Sex Position in firm Firm size Corporate structure Sector of the 'real' economy Geographic location Financial/economic position of firm | Nominated by company Interviewed by RC for aptitude and motivation Managerial work experience (1-5 years) Age (25-40 years) University degree | 600 hour common training curriculum | 6-9 month to completion | [i] Collective Pathway: (cp-asc) –use of ABAs contacts; (cp-hwsc) high use of work-based social capital [ii] Individual Pathway: (ip-nasc) –no use of ABA contacts; (ip-lwsc) low use of work-based social capital | Graduate Survey – 6 months post-graduation Assessment of (i) individual, (ii) firm-level, and (iii) societal-level outcomes |
| Heterogeneous application pool | Selection of trainees - greater cohort comparability | Convergence in human capital | Further group comparability | Non-equivalent translation of human capital | Divergent outcomes |

Source: fieldwork

The first column (t0) lists the main individual and contextual variables not taken into consideration in the selection process. Column two (t1), lists individual characteristics common to each cohort accepted into the PMTP. As described previously, applicants were selected on a competitive basis, had to have a university degree, were between 25 to 40 years of age and have one to five years of managerial-level work experience. Further screening and final selection were based on an interview by the RC that probed the applicant's competencies and the applicant's letter of recommendation.⁷⁷ Only managers who owned their companies or

⁷⁷ The criteria used by the RCs to assess applicants' competencies include: "innovativeness and ability to facilitate change; entrepreneurship, managerial and creative skills; professional development aspirations, communicative skills, teamwork / team building skills; cultural openness; pro-activity; level of professional competency" (Federal Commission 2000b).

whose application was endorsed by their superiors were eligible for admittance. These criteria and selection process worked to create a cohort of talented young managers.

Following acceptance into the program (t2), each cohort of young managers participated in a part-time management development program. In most regions, trainees would have enrolled in the same RTI and even in the same class depending on a region's annual allocation of trainee placements. In the larger cities, graduates would have been broken up into sessions at different RTIs. Thus, the class composition and training facility varied by region but each site taught core modules based on a common curriculum. Coursework combined with experiential-based learning placed significant demands on graduates. Even with the 600 hours of instruction, the FCS reported very few dropouts. At graduation (t3), all graduates would have completed an intensive course in the theory and practice of management. At this point in the cycle, the cohort would have relatively comparable skills and knowledge of management systems.

The fifth column (t4) identifies two archetypal pathways through which graduates applied their acquired skills. In labelling the pathways individual and collective, I identify the range of potential contacts. In the literature review, I highlighted several studies that identified the importance of formal organizations and informal connections as conduits of social capital. I differentiate these pathways using the following conventions. For collective pathway, I distinguish between those who have access to association-based social capital (i.e., collective pathway – association-based social capital, or cp-asc), and those who have high levels of work-based social capital (i.e., collective pathway – high work-based social capital, or cp-hwsc). Conversely, the majority of graduates did not participate in ABAs (i.e., individual pathway – no association-based social capital, or ip-nasc). Some graduates also reported few work-based contacts (i.e., individual pathway – low work-based social capital, or ip-lwsc).

Six months after graduation (t5), the FCS administered its annual GS to all recent graduates to take stock of graduates' training outcomes. At the individual level, the main outcomes assessed through the GS were new skill development, new employment opportunities outside their firm and promotion within their firm (new responsibilities or pay increase). At the firm-level, the GS solicited responses to a number of potential outcomes which management training could feasibly influence, such as implementing new business plans, developing new business or commercial contacts, or new commercial contracts.

Administering the survey six months after graduation provides sufficient time for individual-level outcomes to be observed and attributed to the training program. It also affords sufficient time for firm-level outcomes, in the form of new business and commercial contacts to be established. Graduates were also asked to attribute whether their participation in the training program led to new business contracts. This outcome is likely under-reported in the GS as larger, more complicated contracts would likely take longer than six months to materialize.

The final row in Table 4-2 illustrates how the program cycle influenced human capital convergence. This is an important consideration because non-equivalent group designs are subject to several weaknesses including selection bias. As the study population is a cohort, some of the selection bias concerns are alleviated. Further convergence of skills increases

comparability. Moving from (t0) to (t1) the selection process resulted in a relatively homogenous population in terms of human capital. At application, there were three to five applicants per place depending on the year, which allowed the RC to select the best candidates from a larger pool of qualified candidates. Those admitted to the program represented the elite of Russia's new entrepreneurs and they would be more homogenous in terms of human capital than the applicant pool. During the training program (t2), 600 hours of common instruction in a new subject area would create comparable managerial knowledge and skills (t3). Following graduation (t4), managers applied their new skills through different pathways. These non-human capital variables would introduce non-equivalency back into the program cycle and likely influence how effective graduates were in attaining expected training results.

This program design, the timing of evaluation surveys and the framing of two pathways through which graduates could translate their human capital and evidence expected multi-level outcomes, conforms to a quasi-experimental design for a non-equivalent group evaluation. It is quasi-experimental because graduates self-selected how they would translate their human capital. In the language of evaluation methodology, managers were not randomly assigned to either the collective or individual pathway. In an experimental design, researchers manipulate who receives 'treatment' and who does not. This random assignment of treatment greatly reduces the risk of selection bias and increases the likelihood that if differential outcomes between two groups are evidenced, the cause and effect can be attributed to the treatment. However, true experimental designs can often be impractical, unwise or unethical in field settings.⁷⁸

The fact that graduates self-selected different pathways through which they translated their human capital means that for purposes of analysis, there were non-equivalent groups. The simplest model of non-equivalent group design for cohorts is as follows: some members of the cohort self-select a 'treatment' (X) while the others do not, or not to the same degree. The cohort is now divided into non-equivalent groups through self-selection. A pre- and post-treatment observation (O) enables the researcher to assess whether the treatment had a differential influence on group outcomes. In the case of the PMTP, some graduates actively invested time in ABAs activities (cp-asc), and had extensive contacts inside and outside their firms (cp-hwsc). Both (cp-asc) and (cp-hwsc) represent an investment in creating opportunities for social capital to be accessed and mobilized (the treatment). The comparison group, on the other hand, did not select the 'treatment' by investing their time in ABA activities (ip-nasc), or utilizing a wide a range of contacts inside and outside their firms (ip-lwsc). Graduates that selected (cp-asc) and (cp-hwsc) pathways are empirically distinguishable from those graduates with (ip-nasc) and (ip-lwsc) characteristics.

In the notation of evaluation studies, the actual design of this study is visualized in Figure 4-3.

⁷⁸ See Cook & Campbell (1979: 9, 344) for a discussion of these points.

| | Differences at Application (t0) | Treatment (t4) | Evaluation (t5) |
|--|---------------------------------|-------------------------|--|
| Group 1: PMTP graduates (collective pathway) | O | X cp-asc and/or cp-hwsc | O individual, firm, societal level results |
| Group 2: PMTP graduates (individual pathway) | O | | O individual, firm, societal level results |

Notes: O= observation; X=treatment

Figure 4-3: Actual Design for Non-equivalent Groups

A common proposition of social capital theory is that the more numerous or intense social networks are, the greater likelihood that individuals can access social resources for instrumental action. All other things being equal, PMTP graduates endowed with social capital should report expected individual, firm and societal-level outcomes with greater frequency than PMTP graduates should with less access to social capital.

Thus graduates who participate in ABAs, and in the conduct of their work interact with a range of individuals inside and outside their workplace, likely have more opportunities to access social capital than graduates who do not participate in ABAs, or only have a modest range of connections within and outside their company. These different conditions create non-equivalent groups in terms of graduates access to and potential to mobilize social capital. These distinctions are portrayed in Figure 4-4.

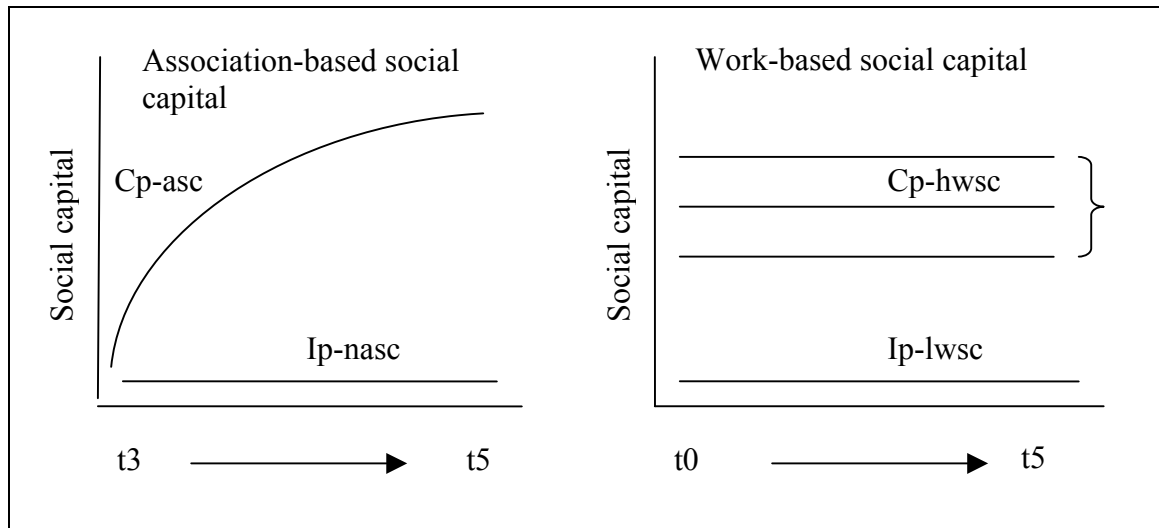


Figure 4-4: Social Capital and the Non-equivalent Pathways of Translating Human Capital

In the left side of the figure, association-based social capital increases if graduates establish new relations through ABA participation following graduation (t3). These contacts create opportunities for accessing a range of social resources. I anticipate that the ability to access and mobilize social capital increases and then plateaus over time. In the right hand side of the figure, graduates all had pre-training work-based networks (t0). The number of contacts

within and external to a graduate's firm are assumed static over the training period. There was no program intervention that would have increased or reduced the range of a manager's work-based contacts. However, the range of contacts did vary and this is expected to affect social capital levels and, in turn, expected PMTP outcomes. The horizontal lines in the right hand box represent differential access to social resources through a manager's range of work-based contacts.

4.5. DATA

To explore the effect of individual and collective pathways on expected PMTP outcomes, new explanatory variables were introduced to the 2000/1 GS instrument. With the collaboration of the FCS, questions relating to graduate involvement and role of ABAs in the regions were added. The new questions provided a fuller picture of the social networks graduates utilized. In addition, two surveys were designed specifically for ABA members. These surveys were directed at two different ABA participants. One of the surveys was administered to leaders of known ABAs. The other survey was mailed to regular ABA members. The former is referred as the Leadership Survey, or LS, and the other survey is the Membership Survey, or MS.⁷⁹ The key difference between the GS on the one hand, and the LS and MS on the other, is that the GS captured data from both ABA participants and non-participants. The GS was the critical survey for the quasi-experimental analysis, whereas the LS and MS were used to understand the interest of members, the structure of ABAs, members' activities and the perceptions of members on the contribution of ABAs to the range of expected PMTP outcomes.

The LS and MS were implemented in stages. The LS was distributed first to ABA executive members invited to the December 2001 annual PMTP conference in Moscow. Forty LS were distributed during the conference, which represented all known ABAs.⁸⁰ Of these, twenty-six LS were returned to the FCS within two months, which represented a response rate of 65%. The LS assessed the organizational structure of ABAs, their activities, and networking strategy. These sets of questions sought to reveal the internal workings and external linkages that offered the potential for members to access social resources that they might not otherwise have had access to.

As a follow-up to the LS, the MS was developed and administered to understand the perceived benefits of ABA participation and members' assessment of ABAs. The MS was sent by the FCS to all RCs with the request that they deliver the survey instruments to an

⁷⁹ Appendix 2 outlines the structure of these two survey instruments. Appendix 3 and 4 provide sample characteristics of the LS and MS instruments, respectively.

⁸⁰ The FCS extended an invitation to the executive leaders of all ABAs identified by RCs. Forty different organizations responded to the invitation and attended the 2001 conference. It is possible, however, that other ABAs existed and were unknown to either the FCS or the RCs.

executive member of the regional ABA. The executive member was then requested to deliver the survey instrument to their members. This method of administering the MS was necessary because membership lists or member contact information was not available for direct mailing.

The aim for the MS was a representative sample from each of the 26 ABAs participating in the LS. Two hundred and ninety nine MS were returned. The response rate was high for several ABAs but overall, the response rate for most individual ABAs was low. Given this data limitation, I was not able to analyze individual ABAs. I had hoped to compare ABAs as I suspected some ABAs were more organized and active than others. Such insights would have deepened my analysis even further. Without representative samples for various ABAs, I present findings from the MS without disaggregating the findings by ABA affiliation. I will discuss this data limitation further in the analysis of the MS in chapters 6 and 8.

These survey instruments were augmented by three regional workshops in 2002. Each workshop convened PMTP graduates, mainly from the YDF program, representatives from the RTIs and government to exchange views on training outcomes and to explore the roles of regional ABAs.

Table 4-3 presents summary characteristics of the different survey instruments.

Table 4-3: Summary of Survey Characteristics

| | Graduate Survey (GS) | Leadership Survey (LS) | Membership Survey (MS) |
|----------------------------------|--|-------------------------------|---|
| Target population | Graduating class of 2000/1 academic year | Executive members of all ABAs | A representative sample of members in each ABA |
| Population | ~ 5000 graduates | ~40 ABAs | not known |
| Surveys administered : Responses | ~3000 : 2267 | ~40 : 26 | n/a :299 |
| Response rate | 76% | 65% | n/a |
| Date | Dec 2001 | Dec 2001 | April 2002 |
| Geographic representation | All Russia | 26 of 80 regions | 20 regions (high response rate from Tomsk, Penza, Kirov, Vologda) |
| Delivery method | Mail | By hand | Mail |
| Delivered by | FCS to RC | FCS | FCS to RC |

4.6. APPLICATION OF DATA TO RESEARCH QUESTIONS

Having outlined the model, the research design and the data, I will identify the specific questions, method of analysis and data utilized in the following four chapters.

CHAPTER 5: THE INSTITUTIONAL FRAMEWORK GOVERNING THE MARKET

Research Question: The major task of this chapter is to answer how the exit from socialism affected the rules and norms that constitute the institutional framework. There are two parts to this analysis. At the collective-choice level, the young entrepreneurs participating in the PMTP inherited an environment that was hostile to private sector development. At the same time, the political reforms did open a space for the next generation business leaders to shape the business environment through a range of market supporting and complementing actions. Mostly, this opportunity was not acted upon as political insiders and the economically powerful influenced the direction of privatization, competition and investment policies. The young entrepreneurs who had ideas how an alternative political and economic system could work were marginalized from policy processes because they lacked the power to exert influence. *Perestroika* and *glasnost* did begin a process of greater economic and political liberalization but the evolution of the working rules and norms affecting state-society relations did not create a public space for debate or collaboration.

At the operational level, the economic reforms had wide-ranging consequences on labour markets and enterprise restructuring strategies. In this section, I investigate how the demise of the planned economy changed education to work transitions, and the decision-making logic of enterprise managers. The exit from socialism did not result in an orderly change of rules in these arenas. In the state of disorganization, entrepreneurs experimented with new ways of interacting with government officials and business contacts. For example, social resources such as trust and referrals facilitated transactions and barter exchange in the absence of predictable commercial laws and regulations. Extended business contacts became invaluable for obtaining information on new markets and opportunities. Just as family and friendship networks were critical during the Soviet era to acquire desired goods and services, inter and intra-firm contacts provided valuable resources for managers to contend with the consequences of economic restructuring and dislocation.

Method: This chapter identifies the institutional framework at work in each action arena the PMTP expected outcomes to occur. Through this examination, the incentive structure and pathways for outcome attainment are revealed. Understanding the institutional framework helps to identify the range of actions actors may take, and the cost and benefits of available actions. The first focus on societal participation in collective-choice arenas, utilizes Mary Douglas' grid/group typology. This typology helps identify the relational logics of the state and society, and resulting interaction over time. The second focus on operational arenas for profession and business development follows a similar path. I identify the salient rules at play during the Gorbachev period and note how they changed during Yeltsin's tenure.

Data: The empirical basis of this analysis is derived from historical and ethnographic research on decision-making and social networks in the three arenas. I also make use of primary data collected by national and international agencies on the prevalence and use of business networks.

CHAPTER 6: THE ORGANIZATIONAL STRUCTURE OF ALUMNI BUSINESS ASSOCIATIONS

Research question: This chapter answers who organizes ABAs and why; what are their aims and activities; what connections and benefits do ABAs facilitate for members; what accounts for the emergence of ABAs; and, what are the perceived benefits of ABA participation? Answers to these questions are sought for two reasons. The first reason is to provide a description of the organization and operations of ABAs. The second reason is to aid the analysis in Chapter 8 on the significance of ABAs as a resource of social capital for personal and firm-level outcomes.

Method: These questions will be answered by an organizational analysis of ABAs. This analysis pays attention to the goals, the structure, membership support, leadership roles, and organizational resources. By highlighting these features, I am able to assess whether ABAs create actual and potential opportunities for those who participate in them.

Data: This chapter draws on primary data from the LS and MS, interviews with ABAs members and executive leaders, and reports and newsletters published by ABAs and organizations contributing to the PMTP.

CHAPTER 7: THE FACILITATIVE ROLE OF ABAs IN COLLECTIVE CHOICE ARENAS

Research question: This chapter assesses the contribution of ABAs to building market supporting and complementing institutions. As these outcomes rely on external coordination and cooperation, the chapter documents whether ABAs are engaging government on the content of economic policy; collaborating with government to ameliorate the social and economic costs of enterprise restructuring; and, supporting ABA members through peer mentoring, referrals and other social resources to overcome missing markets. This chapter also enquires into the networks that ABAs developed. I will establish how proactive ABAs have been in creating external contacts and the reciprocity of those linkages. I will determine whether graduates consider ABAs an effective pathway to establish important external linkages over other available means.

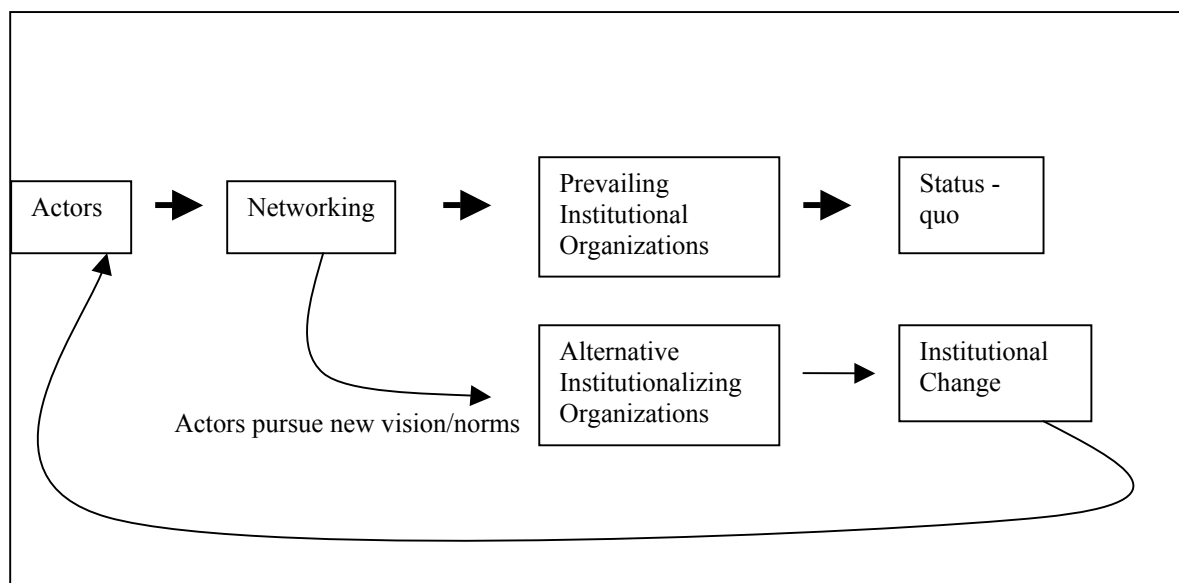
Method: This chapter proceeds in three steps. First, I document a selection of market supporting and complementing actions evident in different regions. Second, I investigate members' perspectives on the relative importance ABAs in building important linkages with government, business and social organizations. Third, I present evidence from survey data on the perceived contribution of ABAs to building market supporting and complementing institutions.

It is important to ask what the counterfactual situation is and whether the market supporting and complementing actions are significant. On the first issue, I did not randomly sample the comparison group (i.e., non-ABA members), to assess whether they had worked individually or collectively through other means to achieve comparable outcomes. I make the reasonable assumption that in the absence of ABA participation, PMTP graduates would lack the organizational base and social resources needed to work constructively in collective choice arenas. I base this statement on conversations with numerous regional government officials and RTI lecturers who were in a position to observe the actions of graduates. In addition, the

six structured interviews I organized with RC staff, and based on annual PMTP conferences I attended, there was only episodic evidence that graduates outside ABAs were making a difference in the collective-choice arena. The exceptions I noted from these sources pursued change through entering party politics.

Opinions varied among non-ABA members whether the actions of ABAs in collective-choice arenas were significant enough to merit the attention they attracted by government. The examples presented in Chapter 8 represent a range of novel innovations to perhaps less noteworthy outcomes. As mundane as some of the results may be, they are notable because the outcomes have club good or public good characteristics. These examples stand in contrast to the common portrayal of association building being driven by self-interested crooks. They are also notable because ABAs operated in the public sphere. There is a pervasive perception that business associations tend to cater to the rich and that concessions are extracted from the state through behind the scenes lobbying.

The significance of ABA can be assessed in terms of whether they represent alternative institutionalization organizations (Lin 2002). In Figure 4-5, Nan Lin makes the distinction between alternative and prevailing institutionalizing organizations. The latter perpetuate existing norms and rules that reinforce the status quo.



Source: Adapted from Lin (2001: 196)

Figure 4-5: Alternative and Prevailing Institutionalization

In this model, alternative institutionalizing organizations are catalysts of institutional change. Actors may purposively adopt new rules or change their approach gradually through interactive learning. Whatever the departure point for alternative institutionalizing organizations, they confront the status quo and serve as models for alternative futures. The transformational potential of ABAs lies in whether they become alternative institutionalizing organizations and continue to build market-supporting and complementing institutions.

Data: The empirical data presented is based on interviews with ABA members and direct observation through my participation in workshops and conferences hosted by international, federal and regional agencies implementing the PMTP. In addition to these qualitative sources, quantitative data from the LS and the MS assist in mapping the external reach and influence of ABAs.

CHAPTER 8: THE EFFECT OF SOCIAL CAPITAL IN OPERATIONAL ARENAS: INDIVIDUAL AND FIRM-LEVEL OUTCOMES

Research question: The principal question is whether a graduate with association or work-based social capital (cp-asc and/or cp-hwsc) is more likely than a graduate without these social capital assets (ip-nasc and/or ip-lwsc) to attain expected multi-tiered PMTP outcomes, all other things being equal?

Method: The proposition that ABAs had a positive impact on personal and firm-level outcomes is examined using multivariate analysis. Given the research design, statistical techniques are able to identify significant variables, as well as the relative importance of significant variables.

The statistical models and a description of the variables are elaborated in Chapter 8. Below, I present a brief description as a prelude to that chapter.

The dependent variables for individual-level outcomes are promotion and new job opportunities. These outcomes are measured as dichotomous variables. The dependent variables for firm-level outcomes are 'New Business Contacts Established,' 'New Commercial Contacts Established,' and 'New Contracts Signed.' The GS instrument asked graduates if any of these potential outcomes resulted from their participation in the PMTP (i.e., from t3 to t5).

In keeping with the interest in examining what forms of social capital are significant in different action arenas, the model utilizes a common set of independent variables. The independent variables fall into three categories:

1. INDIVIDUAL CHARACTERISTICS: 'Sex,' 'Number of Years with Company,' 'Current Position in the Company,' and two variables suggesting individual and firm-based motives for participating in the PMTP.
2. FIRM CHARACTERISTICS: 'Size of Company,' 'Corporate Status,' and 'Economic Status'.
3. SOCIAL CAPITAL INDICATORS: 'Participation in ABAs,' 'Number of Intra-firm Connections,' and 'Number of Inter-firm Connections'.

Data: This chapter builds on descriptive data generated from two reports stemming from the FCS collaborative research project (O'Brien, Zong, et al. 2002a, 2002b). The GS is the source of the cases used for the multivariate regression analysis.

4.7. LIMITS OF SURVEY DATA AND QUANTITATIVE ANALYSIS - THREATS TO INTERNAL VALIDITY IN QUASI-EXPERIMENTAL EVALUATION

Prior research has identified numerous logical cautions, or more formally, ‘threats to internal validity’, that need to be considered when analyzing quasi-experimental designs.⁸¹ Four classes of threats to internal validity are considered below.

(i) Cause and effect relationship

Research exploring the potential effects of social capital needs to control for event sequence so that the presumed cause (e.g., mobilization of social capital through association or work-based contacts) occurs before the expected outcome. Normally, this logical caution is handled by frequent measurement to identify when social capital is accessed and mobilized, and when outcomes are observed. On the social capital effect of ABAs, the GS asked respondents to indicate if they were members or participated in these associations. Based on the GS alone, it is impossible to determine at what point the graduate decided to join the ABA and whether this preceded or proceeded outcomes they reported.

By the time the 2000-2001 GS was administered, known ABAs existed in 40 of the 80 program regions. In regions where ABAs existed and even in regions where ABAs did not exist there was widespread understanding that graduates were forming or had formed ABAs by the time a cohort had graduated. Interviews with executive members from a number of ABAs mentioned that membership was open to all graduates and they were invited to join after they had completed their coursework. For purposes of analyzing the GS data, I assume that those who reported participating in ABAs had joined at the time of their graduation. In addition, the variables measuring the use of pre-existing work-based social capital predated the occurrence of outcomes. Thus, I am confident that when graduates responded to the GS questions asking them to indicating whether they had evidenced an outcome, the structural dimensions for mobilizing social resources had been established.

(ii) Threats due to participants not being representative of the population

The study population consisted of cohorts but they were not randomly assigned to a particular treatment, or pathway as I have referred to it. As a result of their self-selected pathway, I cannot rule out the potential that those who self-selected one pathway over another did so

⁸¹ This discussion provides only a cursory review of the literature on factors influencing the validity of causal inference. For an extensive discussion of threats to validity, consult Cook & Campbell (1979: Chapter 2). These authors define internal validity as “the validity with which statements can be made about whether there is a causal relationship from one variable to another in the form in which the variables were manipulated or measured.” Internal validity is juxtaposed to external validity, which refers to the “approximate validity with which conclusions are drawn about the generalizability of a causal relationship to and across populations, settings, and times.” (1979: 38-39).

because of an underlying quality. It is possible that this underlying quality, and not the pathway, affected the outcome. In other words, even though graduates are ‘quasi-comparable’ because of the cohort design, pre-training differences not controlled for in the model may be the underlying variables that influence a reported outcome.

In the discussion above on the program cycle, I asserted that the selection process and the learning program worked to narrow pre-training differences in human capital. During the training program, graduates were taught from a standard curriculum so that a manager from Siberia would have been exposed to the same material as a manager from St. Petersburg. These features established comparable pre-training human capital credentials and the training program introduced a common skill set.

Early hypotheses on what could account for differential outcomes at the firm-level, for example, were thought to be caused by such factors as (i) a manager’s decision-making power within their unit/company, or (ii) whether managers worked in a state, private or privatized company. Such variables were viewed by the FC and graduates to influence their ability to evidence outcomes at the individual and firm-levels.

However, with the advent of ABAs, there was a theoretical possibility that membership in these associations opened a collective pathway for graduates to mobilize additional social resources in support of personal, firm and societal objectives. As will be demonstrated, these independent variables are included in the statistical model. While I cannot rule out the possibility that graduates in comparison groups possessed different underlying qualities, the model does incorporate pre-existing and program-influenced explanatory variables.

Mortality, or when graduates who self-selected themselves to one treatment group drop out and are not represented in the GS can also aggravate sampling bias. If there is an unequal mortality in one of the non-equivalent groups, this could affect the sample and causal inferences. In practice, this threat is difficult to assess with any certainty, and I have no reason to conclude that one group was affected more by mortality than another.

(iii) Threats due to changes in the environment or in participants:

History and maturation threats are the two concerns within this class of threats. History threats occur if changes in the environment exert an unequal influence on the behaviour of participants and processes. In particular, causal inference would be weakened if a contemporary event differentially affected those selecting collective and/or individual pathways. Given the short duration from the time of graduation (t3) to the time of evaluation (t5), I make the reasonable assumption that current events did not differentially influence graduates who self selected one pathway over another.

Maturation threats refer to normal biological or psychological development processes. They are problematic for training program evaluations because many of the expected effects of training programs tend occur with or without training. Consequently, it is difficult to account for whether learning outcomes were affected by the intervention or natural processes. Given the present research design, maturation would be a problem if those pursuing individual or

collective pathways were differentially influenced by maturation. The only caveat here is that ‘normal processes’ might have been accelerated through social learning processes that continued within the framework of ABA activities. However, as ABA participation is in the model, maturation is not considered a threat to internal validity.

(iv) Threats generated by evaluators and respondents:

If the observers or the measuring instrument changed from one point to the next, instrumentation can be a threat to internal validity. Typically, non-equivalent group evaluations administer identical pre- and post-program tests to determine whether the intervention had an effect on the target and comparison groups. As indicated in the program cycle table, there was only one evaluation and this occurred six months following graduation. Consequently, an instrument threat can be ruled out.

Another concern for non-equivalent group design evaluation is whether the self-selected groups ‘contaminated’ the results by not reporting truthful answers. Given the fact that the GS was administered and collected by a national government agency, it is possible that some outcome measures relating to sensitive company data such as earnings would not be accurately reported. For this reason, potentially sensitive outcome measures were not used. Neither the explanatory variables nor the outcome variables contained information that the average manager would deem sensitive information and hide from government. There is the possibility that respondents would inflate their accomplishments but this is only a concern if graduates in one comparison group did so disproportionately.

4.8. CONCLUSION

This chapter presented a framework for analysis I will use to determine whether social capital had a discernable influence on the range of expected PMTP outcomes. On the surface, this appeared to be a straightforward question that program evaluation methodologies could readily answer. The design of the PMTP and graduate self-selection of the treatment conformed to a non-equivalent group design. In this respect, the methodological steps and requirements are well developed in the literature. Complicating the framework, however, was the need to accommodate multi-level institutional analysis.

I had mentioned in Chapter 3 that some authors had stressed the utility of social capital exactly because it was conceptually able to link levels of analysis. Robert Putnam’s claim that horizontal networks of civic engagement exert a vertical influence at the macro-level is a well-known example. Such claims bolstered my confidence that social networks managers invested in could confer benefits at different levels. Whereas the PMTP was originally framed as a human capital development program seeking to create labour market opportunities, business development and societal-level change, it was plausible that social capital could also play a role.

Building on the research design for non-equivalent groups, I incorporated Elinor Ostrom’s framework for institutional analysis. The attraction of her framework is that it explicitly situates actors in a multi-tiered governance structure, allowing actors and rules to permeate

what Ostrom calls operational and collective-choice arenas. What this means in practice is that a manager's day-to-day decisions are influenced by the structure of their immediate environment. Moreover, the rules and norms create understood sanctions and incentives for actors. Agency is also built into Ostrom's model as actors are able to change the rules that govern day to day decision-making by engaging in collective-choice arenas. This makes Ostrom's conceptualization dynamic because it makes linkages between actors and rules in operational and collective-choice arenas. I would have ignored the complexity of Ostrom's model altogether had I felt confident that the institutional framework was relatively stable. This condition, however, was far from true.

When the institutions and the structure of the action arenas are changing, Ostrom argues that grounded institutional research needs to pay close attention to: (i) changes in the institutional framework and the cascading effects in different action arenas; (ii) changes in the structure of the arenas that actors reference in developing strategies; and, (iii) the resources actors mobilize to implement their strategies.

I concluded this chapter by outlining how the next four chapters would take these elements into consideration and the questions each chapter sought to answer.

5. THE INSTITUTIONAL FRAMEWORK GOVERNING THE MARKET

Earlier in this book, I paraphrased Viktor Khristenko's list of the multi-level training objectives. The then Deputy Chairman of the Government and the Chair of the PMTP expected management training to: i) increase labour mobility and career advancement; ii) enable managers to efficiently and effectively restructure their firms; and, iii) improve the environment for economic development through public debate and participation.

In addition, I have previously traced the intellectual developments of orthodox economics and its eventual embrace of human capital theory. Empirical studies in this tradition confirmed the importance of human capital as a resource for individual advancement, firm performance and economic growth. This extension to orthodox economic thinking created a compelling argument for governments to invest in programs like the PMTP. I have also outlined the emergence and strands of the new institutionalism and its attention to the limits of human capital. While human capital is not discarded by the institutionalists, its proponents have drawn attention to the mitigating influences of social networks, norms and rules to both the acquisition and application of human capital. Institutionalists have also studied career advancement, business development and economic development drawing, if not explicitly, on the cognitive and structural dimensions of social capital. In doing so, researchers have pointed to quite different explanations for why some people advance professionally, why some companies perform better than others, and why some societies find it easier to cooperate to tackle issues of mutual concern.

The final concept I would like to bring forward to this chapter is the notion of individual and collective pathways. From previous discussion, it should be clear that economic thinking gives primacy to the individual.⁸² All things being equal, a manager's human capital will shape his/her future opportunities. By contrast, institutionalists tend to view individual managers embedded in social relationships that constrain or promote their capabilities. Some of those relations can be purposefully nurtured through social learning while others might be inherited through family or religious practices. In the context of the PMTP, I have identified both work and association-based social capital as distinct collective pathways through which managers may translate their human capital.

The program's expected outcomes and the pathways pursued by a manager occur in a conceptual environment that Elinor Ostrom calls an action arena. In an arena, actors devise strategies given their assessment of the action situation. The action situation is the immediate

⁸² For a discussion of neo-classical assumptions, of which methodological individualism is a key assumption, see Granovetter (1985), North (1990) and Röling (2002). Kenneth Arrow (1951) presents an early formulation of methodological individualism.

structure that an actor cognitively references or physically interacts with when formulating a strategy and mobilizing either individual or collective resources. In terms of the resources a manager could bring to an action situation, I am principally interested in the application of human and social capital. In the three chapters that follow this one, I will concentrate my analysis on the action arenas that correspond to the expected multi-level PMTP outcomes.

Prior to delving into the strategies graduates pursued and their effect, I want to step back and look at the system-level influences on the action arena. Following Elinor Ostrom's framework for institutional analysis, I will trace the transformation of two system-level influences that have a bearing on the "types of actions that individuals can take, the benefits and costs of these actions and resulting outcomes, and the likely outcomes achieved." (1999: 50). Ostrom refers to these system-level variables as the rules and the attributes of community.⁸³

- Rules consist of formal rules (e.g., legislation or regulations) or working rules – the actual practice of formal rules or the unwritten rules that are created by communities to order their affairs.
- Attributes of community "include the norms of behaviour generally accepted in the community, the level of common understanding that potential participants share . . . , the extent of homogeneity in the preferences of those living in a community, and the distribution of resources among those affected. The term *culture* is frequently applied to this bundle of variables." (1999: 57)

My effort to identify salient rules and attributes of community is aided by two related considerations. The first consideration is that I will refer to community(ies) rather than one community. PMTP graduates share a culture that is distinct from senior management and civil servants they interact with. For business development, graduates interacted with senior management, their peers in other companies and business support organizations. In the policy realm, they worked with government. In both situations, one generalization can be made - interaction occurred across generational lines. Almost without exception, graduates were of the Yeltsin generation (entering the working world after Yeltsin came to power) whereas their superiors and government officials were typically of the Gorbachev era or earlier.⁸⁴

The second consideration also relates to time. I am interested in identifying major changes in these variables before and after the revolutionary changes from the mid-1980s to the mid-1990s. This period encompasses the onset of *perestroika* and the introduction of shock-therapy. The encompassing nature of Gorbachev's and then Yeltsin's policy agenda had a direct impact on working rules and norms, particularly for the Yeltsin generation. The

⁸³ Ostrom also identifies physical and material conditions as system-level variables. I will not discuss these variables because I believe they were not as significant as the other two variables.

⁸⁴ Social scientists have frequently analyzed social change through the lens of generational differences and shifts in power from one generation to another. For applications in the Russian context, see Hough (1980), United Nations Development Programme (2002) and Yurchak (2002).

thinking of the pre-Yeltsin generation was also impacted by the change in formal rules, but their identities and their communities were slower to adapt to the new ways – as Douglass North (1990), Jean-Philippe Platteau (1994a,b) and others argue, working rules and norms evolved incrementally.

For each of the action situations listed below, I will discuss significant changes in the working rules and attributes of the community. Particular attention will be given to how these system-level variables changed over time and, in doing so, how they altered the use and composition of work- and association-based social capital. The three situations PMTP graduates were expected to develop strategies for are:

- (i) Strategies for supporting and complementing markets (collective-choice actions)
- (ii) Strategies for business development (operational actions)
- (iii) Strategies for professional development/career advancement (operational actions)

The remainder of this chapter treats each of these strategies in turn. I hope to illuminate the effects of the reforms on the strategies entrepreneurs might employ in each of the three areas where Viktor Khristenko expected the PMTP to demonstrate results.

5.1. COLLECTIVE CHOICE ARENA: SUPPORTING AND COMPLEMENTING MARKET DEVELOPMENT

During a workshop held in 2001 for YDF Fellows, a deputy minister for economic development of a Volga region oblast commented on the state of the economy and the challenges facing PMTP graduates. The deputy minister observed that Russia had moved from a context where the state and the market were one, to a situation where the state and market were separate but interdependent entities. He mentioned that Russia's transformation was unlike that of countries in Western Europe and North America where a third entity, civil society, took shape during the period of economic transformation. That entity created the demand for capitalism and made a distinctive contribution to its development. He concluded his presentation indicating that both civil society and the policy environment are developing rapidly, and the role of the state is being redefined. He suggested to YDF Fellows that their long-run business goals would best be served by creating a new relationship with the state.

The deputy minister concluded his presentation without describing his vision for how such a relationship might be constructed or what benefits it might have. His silence on this seemingly important piece of the puzzle was matched by the quizzical looks from the assembled PMTP graduates. Characteristically, none of the younger businesspeople questioned the minister's assertion but following the minister's departure, an informal discussion ensued as to their ability to transform the business environment they inherited. The deputy minister's implicit suggestion that civil society could cure the market's ills was overly simplistic but he did draw attention to the missing public space where entrepreneurs could support market development through policy debate. Enlarging a public space would also enable economic actors to devise and organize market-complementing actions.

As this section will illustrate, the Yeltsin generation were not inheritors of such practices. In fact, the exit from socialism created a powerful incentive to personalize relations with the state for private gain.

5.1.1. Attributes of Communities and Working Rules

I will begin this discussion by introducing Christopher Hood's (1998) application of grid/group typology to frame distinctive institutional arrangements.⁸⁵ Both grid and group are conceptualized as intersecting axes with grid representing the influence of rules and group representing collective commitment or attributes. When these axes are combined to form a two by two matrix, each quadrant yields an *ideal* coordinating mechanism. Hood labels these as fatalist, hierarchist, individualistic and egalitarian ways to order human affairs. Each quadrant has its own set of predictions how actors are constrained by rules (grid control) and the degree to which their choices are shaped by group choice (group commitment). Generally, actors located in different quadrants tend to erect barriers rather than communicate across quadrants.

Figure 5-1 outlines the nature of grid-level controls and group-level commitments that influence the structure of an actor's environment. The grid axis measures the extent to which rules constrain actors. Where grid control is high (on the vertical axis), actors are constrained by rules, reducing the space in public life that is open to negotiation. In a low grid environment, there is more autonomy for actors to establish their own codes of conduct and public policy.

The group measure (horizontal axis) indicates the extent to which an actor is constrained by the choices or norms of a community, association, work place or political party they are a part of, or identify with. As the group scale increases from low to high, one's commitment or socialization in a group intensifies. Externally, group boundaries become more defined and group commitment increases. In a low group environment, the individual is seen as unconstrained by group dynamics and boundaries are porous enabling actors to interact with other groups. As Yochanan Altman and Yehuda Baruch (1998) note, in a low group environment – “‘doing it my way’ also implies that interaction (networking) becomes operational, rather than normative.”

⁸⁵ See, Douglas (1982: Ch.4) for her original explication of grid/group dynamics.

| | | Group | |
|------|------|--|---|
| Grid | | Low | High |
| | | <u>The Fatalist Way</u> | <u>The Hierarchist Way</u> |
| | High | <p>Grid: actors constrained by rules and red-tape, little autonomy</p> <p>Group: organizational boundaries are weakly defined; actors removed from decision making circles</p> <p>Method of control: contrived randomness; arbitrariness</p> <p>Coordinating mechanism: control</p> <p>State-society relations: “cooperation is rejected, distrust widespread and apathy reigns”; state over society</p> | <p>Grid: rule-bound milieu</p> <p>Group: socially cohesive organizational units; gov’t, civil society and private sector are institutionally differentiated</p> <p>Method of control: oversight</p> <p>Coordinating mechanism: hierarchy</p> <p>State society relations: state is viewed as paternalistic and insulated from society</p> |
| | Low | <p><u>The Individualist Way</u></p> <p>Grid: competitive and performance based; autonomous actors in weak hierarchical structure</p> <p>Group: affiliations are contractual, negotiated</p> <p>Method of control: competition</p> <p>Coordinating mechanism: market</p> <p>State-society relations: presumption in favour of minimum government; state in society and relations are negotiated</p> | <p><u>The Egalitarian Way</u></p> <p>Grid: highly consultative and participatory environment</p> <p>Group: teamwork approaches to problem solving; process based</p> <p>Method of control: mutuality and self-management</p> <p>Coordinating mechanism: networks</p> <p>State-society relations: cooperation is encouraged and promoted but strong group identity may impede inter-organizational interaction</p> |

Source: Hood (1998: 9) and Rölöng, personal communication

Figure 5-1: Four Ideal Frames of Coordinating Human Affairs

The Soviet state promoted and enforced group commitment to socialist ideology. In terms of grid control, the state once envisioned decentralize rule making to local Soviets (or councils) but the centralizing tendencies of the Communist Party erected pervasive control over industry and society. Consequently, Russians grew accustomed to looking to the state and Party leaders for direction. Nicolai Petro argues that people looked to the state to make sense of their world and to provide direction (Petro 2001, 229-44). Some have argued that this

tendency usurped the energy from civil society. When state capacity declined in the 1990s and uncertainty reigned as to Russia's future direction, Nicolai Petro has argued that people withdrew from society rather than try to transform it.⁸⁶

According to Hood's diagram, this would place the Soviet state in the hierarchist quadrant (high grid and group). Much of state apparatus did operate in this fashion but the *nomenklatura* exercised their power in ways that introduced a *fatalist* logic. In monopolizing decision-making and resources, the *nomenklatura* had the power to punish and profit with varying degrees of impunity (Åslund 2000). For the majority who were subject to the consequences of fatalist rule, it created uncertainty and had a silencing effect on public engagement and limiting effect on extended networks that went beyond friends and family.

At a YDF-sponsored conference Mikhail Dmitriev, the First Deputy Minister of Economic Development and Trade, identified the legacy of the Soviet state in the following terms:

*We now realize that the existing shortcomings [of public sector management] reflect the imperfections of state management that we inherited from Soviet times. The old system was primarily oriented towards command administrative functions where the executive branch superseded the legislature. It was not oriented towards enforcing law, but rather, on making managerial decisions related to both the country's political life and economy; the main functions of economic regulation were to give direct managerial instructions in various spheres of economic life. This pattern of management is incompatible with a democratic state ... which reflect the market character of economic institutions and democratic character of political institutions.*⁸⁷

Moreover, Communist Party members, senior bureaucrats and enterprise managers were unreceptive to, and isolated from, the Soviet people. They enforced their own set of rules creating ambiguity in what rules applied and who was accountable (Kaminski 1992).

Faced with unaccountable and unresponsive leadership and public organizations, Russians developed a repertoire of tactics to influence decisions and secure goods and services. Employing informal networks and personalized connections was neither a transparent nor predictable approach but when formal channels were not available, they were widely practised (Rose 1998). Informal personal networks were a means of 'getting things done' in Soviet Russia. As George Kolankiewicz suggests, such networks were indicative of the "prevalence of amoral familism and clientelism. These were largely defensive or coping networks, not proactive and goal oriented forms of reciprocity. They did not provide the basis for a whole

⁸⁶ Also see Dragunski (1995) for his description of what he calls 'atomization'.

⁸⁷ Conference speech at "Reforming the Public Service in the RF and Evaluation of the Russian Public Servants' Training in Canada", Moscow, October 1-2, 2002.

social order, but merely for a parallel community providing for where the state could not or would not.” (Kolankiewicz 1996: 438).

When Gorbachev introduced *glasnost* and *perestroika*, he envisioned a mixed economy in a socialist society. Actors in industry and public life were to be stakeholders in development and have greater voice in policy arenas. Measures designed to relax economic planning increased entrepreneurial activity but it had a distorting effect on public dialogue between the private and public sectors. In allowing nascent forms of private sector activity, a new entrepreneurial class was created. Many of the early private sector entrepreneurs thrived by exploiting the contradictions of nascent private enterprise in a socialist economy. In finding solutions, successful entrepreneurs created what Alexei Yurchak refers to as a coexisting hybrid state wherein entrepreneurs selectively interacted with an ‘officialized public sphere’ and a ‘personalized public sphere’. I will quote his distinction between these two spheres, as it is important to understanding the evolution of entrepreneurs’ interaction with the state.

These two public spheres corresponded to two distinct ways of understanding and shaping public practices and relations in everyday life. The practices of the former [officialized public sphere] were regulated by the written laws and rules of the state that were represented in the official Party and state texts and documents, and could be compared to ‘statute law.’ Unwritten cultural understanding and nonofficial agreements that could be compared to ‘customary law’ regulated the practices in the latter sphere [personalized public sphere]. (Yurchak 2002: 287)

The dual faces of the state played an instrumental role in the emergence of entrepreneurial activity in the mid-1980s. In the early 1980s, some Party officials had debated the idea of introducing market-based incentives to create a ‘valve’ that would help equilibrate many instances where the supply and demand for goods were so out of step with each other that the public increasingly criticized the government for ineptitude.⁸⁸ Under pressure, Gorbachev’s government piloted two capitalist experiments during the 1986-1988 period. One allowed the Communist Youth League, or Komsomol, to diversify their activities, and the other allowed private enterprises to be registered under the Law of Cooperatives legislation.

The Komsomol served as the ideological seed-bed for the Party and its work brigades made a significant contribution to building public infrastructure. Starting in the late 1950s, Komsomol chapters sent nearly half a million young Russians (14-23 years)⁸⁹ to participate in

⁸⁸ Hoffman (2003: Chapter 2) writes a fascinating biographical sketch on Yuri Luzhkov, who later became the mayor of Moscow. Mr. Luzhkov was a proponent of introducing economic incentives into the socialist system. When a pilot program was launched in Moscow, Luzhkov was given the mandate to register the first private enterprises under the Law on Cooperatives.

⁸⁹ The age limit for Komsomol membership varied considerably in practice and at different stages during its 70 year history. Solnick (1998: Chapter 3) provides an accessible English language history of the Komsomol and its social and political significance.

public work projects. With time, local Komsomols branched out into service industries such as tourism and youth employment bureaus. All money earned from these services was communal.

With the Komsomol participation rates plummeting in the early 1980s, the Communist Party sanctioned the Komsomols to diversify their activities further and allowed them to allocate their earnings on an individual basis. Allowing new business ventures with the ability to earn income based on one's individual contribution opened the door for competition in certain industries and profit making.

Hoffman (2003) identifies several ways the budding entrepreneurs created rents by manipulating credit accounting of the command economy (virtual money) and converting this virtual money into convertible currency. Since the virtual economy was so large, fortunes were made by those who were able transform virtual money into convertible currency. For one case study, Hoffman traces the rise of Mikhail Khodorkovsky, one of Russia's wealthiest and now jailed oligarch, to his ability to use Komsomol business making privileges to convert state subsidies to industries (virtual money) into cash.

The second experiment, the Law on Cooperatives, was expected to create small enterprises specializing in services that the state had failed to provide, and where demand was high. Baked goods, construction, and car repair were some of the sectors for which the authorities hoped the 'co-operators' would establish a niche. Interestingly, the Law allowed all activity that was not specifically prohibited under the law. Under the command economy, people had grown accustomed to everything being prohibited under law unless specifically allowed. The Law's unrestrictive character even allowed cooperatives to establish banks, which became the source of tremendous private wealth and political influence for many who founded them. Cooperatives also found a niche working with state enterprises to provide goods and services that state enterprises found difficult to supply under the planned economy. From small islands of free enterprise within a socialist state, they grew into an entire parallel economy that supplied the official economy and consumers a range of goods and services that the command economy rationed.

What relevance did these developments have in terms of entrepreneurial influence on policy-level issues? Part of the answer lies in understanding how entrepreneurs interacted with the officialized and personalized state. Both the Komsomol and cooperatives were sanctioned by the officialized public sphere that enforced a high grid environment. To succeed, however, the new entrepreneurs had to negotiate and bargain with authorities, regulatory agencies and party officials to resolve the contradictions of capitalist enterprises operating in a socialist economy. This private-public conversation was difficult in the official public sphere. In some instances, it created suspicion and opposition. Recall that the status and privilege Party officials enjoyed were related to their ability to control the economy, which these new business ventures threatened. Consequently, the new entrepreneurs kept their distance from the officialized public sphere. This dynamic, which is entirely consistent with Hood's predictions, prevented a space for public dialogue on how the economy might be governed during a period of economic liberalization.

The alternative route the new entrepreneurs pursued was to establish personal relations with government officials to overcome inevitable obstacles.⁹⁰ This private-public dialogue nurtured a business relationship with a personalized state. Entrepreneurial and state practices that aided the growth of commercial transactions had a corrupting effect over time. Many of the infamous oligarchs accumulated their initial wealth through their involvement in Komsomol and Cooperative business ventures. Later in the Yeltsin period, they began manipulating their ties with the personalized public sphere to exert influence over the political and economic agenda.⁹¹ This trend undermined public trust in government and the hope that democratic traditions could yet be cultivated in Yeltsin's growing illiberal democracy.

SMEs were not exempt from this activity but there was a difference. This segment of the economy used the personalized public sphere to keep their fledgling enterprises afloat whereas the larger firms used their connections to influence the direction of economic policy and secure lucrative concessions or favours from government.

With time the personalized state itself became 'entrepreneurial' through the arbitrary practice of charging for public services. The personalized state had migrated to the *individualist* way. Vladimir Putin did not mince words when he referred to this practice as the "market for legalized corruption":

*We, the federal, regional and municipal governments, are to blame for Russia's middle class never developing. Administrative organizations that feed off of small business at every stage of its development, including licensing and registration bodies, the fire department and health department, have created a whole market of legalized corruption.*⁹²

When the PMTP was launched in 1997, such practices were endemic to the system and widely understood. Ledeneva captures this working rule with her observation that, "The

⁹⁰ To some, the word corruption might seem appropriate but Leitzel (1997), Solnick (1998) and Yurchak (2002) are quick to argue that this was not corruption. At this stage of capitalist development, they argue that lower level bureaucrats recognized the higher order legality of Komsomol and cooperators work and they saw themselves as simply circumventing lower level procedures that stood in the way of new legislation. However, with time, the personalized public sphere did become the source of what Vladimir Putin called the 'market for legalized corruption'.

⁹¹ Hoffman (2003) tracks the rise of several prominent oligarchs from their beginnings as fledgling co-operators.

⁹² Vladimir Putin quoted in "Putin: Graft Killing Small Businesses", *The Moscow Times*, December 5, 2001. This was not a fleeting concern for Putin. A year later in his Presidential Address he indicated that removing the administrative barriers remained a priority: "The higher the barrier, the larger the bribe and the number of bureaucrats who take them. [It's] extremely difficult to conduct civilized business in Russia", *Russian Regional Report*, 7/15, April 24, 2002.

informal ways of dealing with the [government] system were perceived as most natural, simple and efficient. There was no trust in the formal channels of information.” (Ledeneva 1998: 85). Vertical relations, therefore, tended to be personalized and tied to various business schemes. The legacy of business promoting the personalized public sphere and avoiding the officialized public sphere chipped away at the public space that civil society has historically relied on to engage government on public policy. Contrary to liberal expectations, this independent space did not emerge during Russia’s exit from socialism. It is this legacy that the architects of the PMTP understood, and sought to correct for, when they identified new working relations between government and business actors as a program objective.

5.1.2. Pathways to Building Market Institutions

How did the changing attributes of communities and working rules manifest themselves in terms of structural pathways to affect economic development? As I have shown above, the use of informal connections in the personalized public sphere originated with the birth of Russia’s capitalist experiment in the late 1980s. By 1995, the GoRF created a legal basis for civil society organizations to exist (Weigel 2000: 359). Individual firms then had the ability to organize and represent their interest in the officialized public sphere.

Despite the legal right to organize, Richard Rose suggests there remains a “missing middle” in Russia.⁹³ What he refers to are the absence of platforms of independent society that theorists from Alexis de Tocqueville through to Robert Putnam maintain are critical for prosperity and democracy in private and public life.

In Western Europe and North America, business associations have shaped economic development through lobbying, standard setting, cooperation, and other market supporting and complementing actions (Hollingsworth & Boyer 1997: 1-47). In some instances, business association influence has distorted markets and undermined the democratic process, but there are numerous examples where business and professional associations have contributed to supporting and complementing markets.⁹⁴

In most countries in transition by contrast, there is only a weak tradition of private sector associations engaging in the public domain (Weigel 2000: 356). Even when government invites consultation, the collective voices of the private sector through their organizations are rather muted. In an address to the Association of Privatized and Private Enterprises, for example, the then Labour and Social Development Minister, Alexander Pochinok, “called on

⁹³ Rose’s (1998) statement is likely a relative one. As others have documented, the growth of civil society organizations in Russia has grown significantly, see for example, Weigel (2000).

⁹⁴ As noted in Chapter 3, Olson’s (1982) provocative study identifies business associations as a negative force in the US economy though he did devote some space to their positive contribution in Scandinavian countries. Nadvi (1999) and Doner & Schneider (2000) provide some positive examples in developing countries.

entrepreneurs to interfere with greater vigor in the process of state economic policy making.”⁹⁵ One would not expect to hear a similar comment from his counterparts in Western Europe.

Obstacles to the growth of civil society come from above and below. From above, government and bureaucratic practices have sought to control the public sphere. Individual liberties have certainly expanded following *glasnost* and then again during the Yeltsin era. However, collective organization still attracts suspicion from government and is controlled by the authorities. Alexander Nikitin (2001) pointed to the authoritarian climate in a presentation analyzing the first Civic Forum in 2001, a government orchestrated, nation-wide consultation with Russian NGOs that sought to forge a new relationship with the NGO sector.

There've been jokes going around ... because President Putin is surrounded by many people who are former generals, former military, and when asked how they would build civil society, they call everybody to attention, tell them to get into rows, and they say 'Comrade General, we have a civil society'.

Nikitin's reflection on the culture of the state and its predilections to control rather than to support civil society is a common theme running through the volumes written on Russia's nascent civil society and the challenges before it in organizing society to influence the reform agenda.⁹⁶

From below, observers have identified a long list of factors impeding a more vibrant civil society. Among reasons mentioned include: mistrust of voluntary organizations inherited from prior experience with communist organizations; the persistence of friendship networks and ensuing negative impact on voluntary organization participation; the constraints on people's time; the lack of models; and, disenchantment with the economic and political situation and the resultant withdrawal from participation in public life.⁹⁷

The remainder of this section presents empirical findings on how these legacies are reflected in the growth and use of business associations. According to BEEPS (2001) data, business association participation in the Central and Eastern European region has grown but participation rates are geographically uneven.

⁹⁵ Quoted in “Business People Urged to Lobby for Their Interests”, StranaRu, April 12, 2001. Also see, Weigel (2000: 214).

⁹⁶ Stuart (2002) provides comparative country data across a number of dimension on the health of civil society organizations in the NIS. In comparative terms, data for Russia indicates a very challenging environment.

⁹⁷ These and other factors are mentioned in studies by USAID (1995, 1997), Howard (2000) and Weigel (2000). Also, personal communication with Vladimir Mikheev (YDF Fellow), Moscow, December 21, 2002.

Table 5-1 presents participation rates in business associations in four different regime types so suggests that political conditions matter for civil society participation.⁹⁸ Competitive political regimes, as a general rule, have laws and follow practices that promote freedom of association. In these countries, there is grid control but it is transparent and predictable. In terms of group commitment, pluralism is accepted. The competitive political system allows for representation. Concentrated regimes may have similar political, economic and social rights but public debate and freedom of association is restricted through actions of government. Here, the party system provides a weak avenue for citizens to participate in the political process.⁹⁹ In non-competitive regimes, actors are restricted from operating freely in either the individualist or egalitarian quadrant.

The expected pattern between regime type and participation in business associations is borne out in the table below. Private sector entrepreneurs in competitive regimes demonstrate a significantly higher participation rate in business associations (49%) than their counterparts in concentrated (19%) or non-competitive regimes (17%). According to the classification method employed, Russia is considered a concentrated regime.

Table 5-1: CEO Participation in Trade and Business Associations by Regime Type (1999)

| Regime type | Members | Non-members | |
|-------------------------|---------|-------------|---------|
| | % | % | N = |
| Competitive regimes | 49 | 51 | 1115 |
| Concentrated regimes | 19 | 81 | 1590 |
| ... of which Russia | ... 16 | ... 84 | ... 552 |
| Non-competitive regimes | 17 | 83 | 405 |
| War-torn regimes | 16 | 84 | 792 |

Source: BEEPS (2001), author's calculations

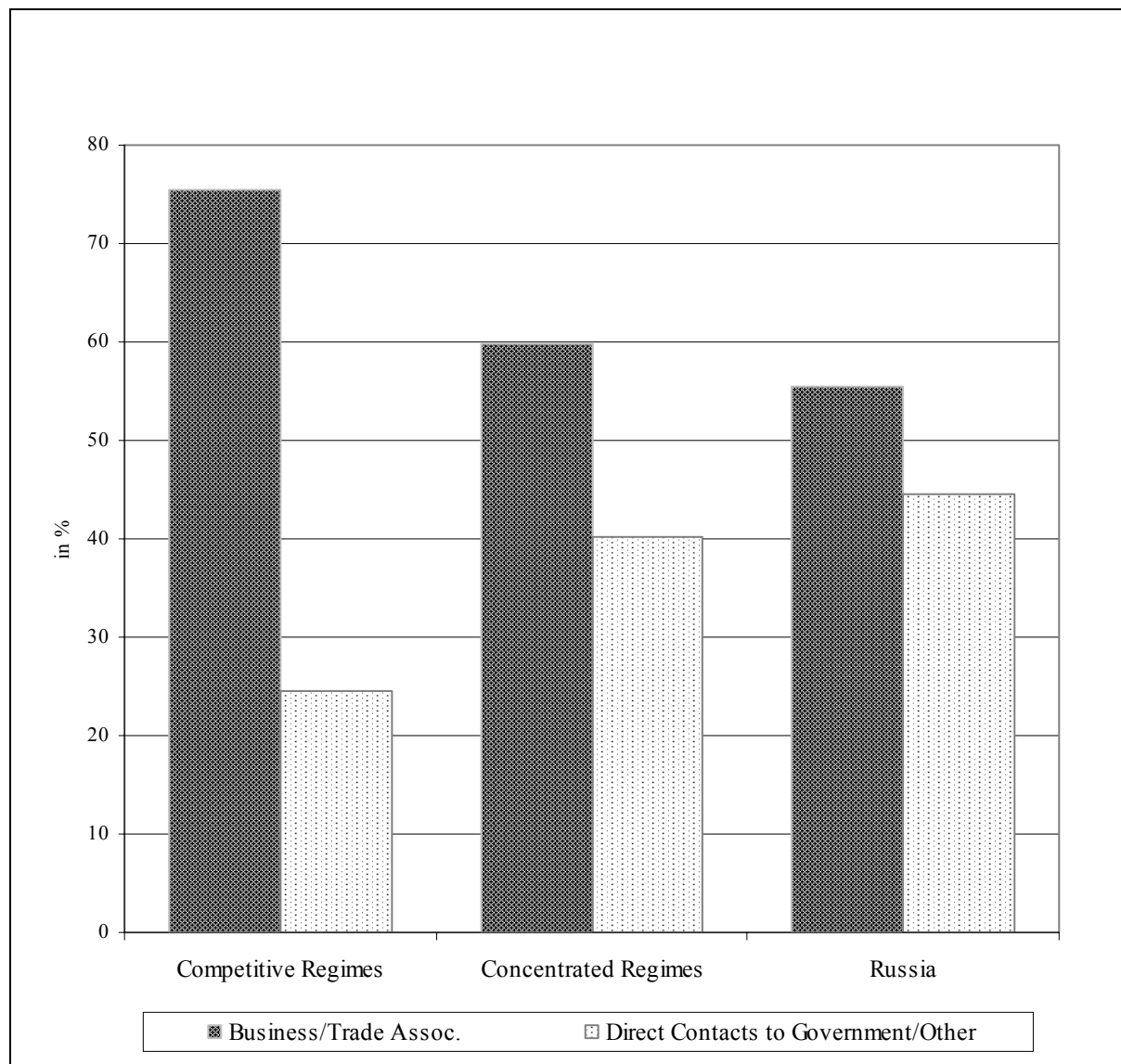
For those entrepreneurs who are members of business associations, state-society relations have a bearing on what issues are debated in the public sphere and actors' perceptions on what issues are more effectively handled through the personal connections. In Figure 5-2, the

⁹⁸ Regime classification is based on an index of political rights and civil liberties for years 1990-1999 (World Bank 2002: 97-101). Competitive regimes: Czech Rep., Slovenia, Hungary, Poland, Lithuania, Estonia, Latvia. Concentrated regimes: Slovak Rep., Bulgaria, Romania, Ukraine, Russia, Croatia, Moldova, Kyrgyz Republic. Non-Competitive regimes: Belarus, Kazakhstan, Uzbekistan, Turkmenistan. War-torn regimes: Macedonia, Armenia, Albania, Georgia, Azerbaijan, Tajikistan.

⁹⁹ One business reporter offered this observation on municipal politics in St. Petersburg: "since there is no stable political parties or deputy factions in the city legislature, businesses have difficulty organizing effective representation of their interests here. Each deputy has his own connections to the business community working as an individual. Most likely, the deputies receive some money from business for specific services that they provide." "Business and Politics in St. Petersburg", *Russian Regional Report*, 7/24, August 5, 2002.

BEEPS survey asked entrepreneurs to identify what channel they would take if a new law were proposed that would affect their firm. The options were to act in concert with business association members or individually through their personal connections.

Consistent with the foregoing discussion on the prevalence of individual business interests in perpetuating the personalized public sphere, Figure 5-2 demonstrates that even Russian business people belonging to a business association exhibit a strong tendency to use their direct personal contacts. In comparative perspective, they are more apt to pursue this route than business association members in either competitive or other concentrated regimes.



Source: BEEPS (2001), author's calculations

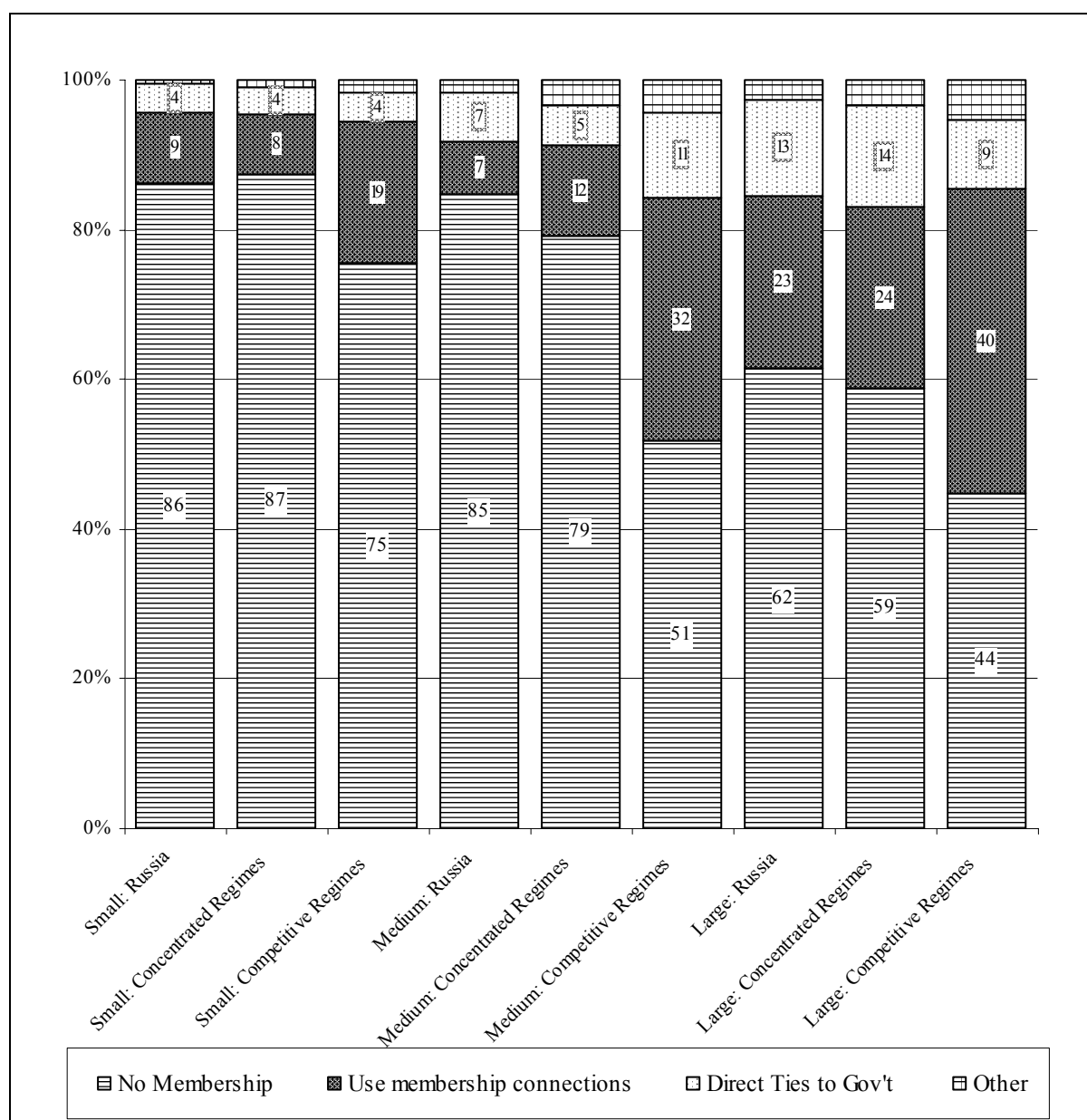
Figure 5-2: Business Association Member's Use of Influence Channels (1999)

The results suggest that in the more competitive political regimes of Central Europe and the Baltic Republics, business associations members are more inclined to engage the state publicly than privately. Moving Eastward to concentrated political regimes, the tendency to operate in the personalized public sphere is more prevalent. The data for Russia illustrates this tendency as entrepreneurs are almost as likely to use their direct government contacts to affect change in the legislative realm, as they are to work through their business association.

In addition to the differences noted above, private enterprises are not equally represented in business associations. A recent overview on the political and economic trends across Central and Eastern Europe finds that the political voice of SMEs in Central Europe has been strengthened through greater participation in business associations, but not in Russia (World Bank, 2002a: 113).¹⁰⁰ Differential rates of representation and preferred channel to affect legislative change are illustrated in Figure 5-3.

The columns are grouped into three main classes of firm size: small, medium and large. Within each class, Figure 5-3 further distinguishes firm size by regime type. The question is the same as the figure above, namely, how would entrepreneurs respond to a law that could have a detrimental effect on their firm.

¹⁰⁰ See Dolgopyatova (2000: 163-89) for a discussion on the special challenges this lack of representation presents to SMEs. For a case-study on the growth of SME associations in St. Petersburg, see Belova & Khabarina (1998).



Source: BEEPS 2001, author's calculations

Figure 5-3: Company Size, Representation and Use of Business Associations (1999)

Across firm size, Russian entrepreneurs behave in similar fashion to their peers in other concentrated regimes. Both business association participation rates and choice of channel to affect change are comparable when actors seek to influence legislative change. More noticeable discrepancies emerge when Russian data are compared to competitive regime data. On average, an entrepreneur working for a small firm in a competitive regime is more inclined than their Russian peer to participate in, and act through, a business association. In medium sized firms, the same pattern emerges but the differences are even more pronounced. The data also indicates that larger enterprises are better represented in business associations than smaller ones, irrespective of regime character.

Age disaggregated data were not identified in the research for this book. However, qualitative case studies do suggest that the Yeltsin generation were not as active as older generations in forming and participating in business associations in the 1990s.¹⁰¹ Given the tendencies of Russian business associations to uphold the personalized public sphere, this could be interpreted as a positive finding from the viewpoint of changing business–government interaction. However, the private sector entrepreneurs of the Yeltsin era could not be expected to contribute to building market supporting and complementing institutions in absence of platforms to organize collectively.

5.2. OPERATIONAL ARENA: STRATEGIES FOR BUSINESS DEVELOPMENT

In this section, I will shift from the system-level effects on policy-level agenda setting to the influence of rules and norms on shaping operational strategies for business development. In this action arena, the reforms radically altered the structure of the economy and the organization of the firm. Whereas the planned economy was famously coined a ‘shortage economy’,¹⁰² because centrally determined price controls and resource allocation created chronic shortages for consumption and consumer goods, the new privatized Russian economy has been described as a ‘disorganized economy’ (Blanchard & Kremer 1997). Both these terms describe a system with a different logic based on formal rules, informal practices and community attributes.

5.2.1. Attributes of Community and Working Rules in the Exit from the Planned Economy

The planned economy was an elaborate vertically designed edifice that claimed control of the means of production and redistribution. In the late Soviet period, this vertical planning and redistributive framework was under stress.¹⁰³ When Mikhail Gorbachev came to power, he attempted to reform the socialist economy with a series of reforms known as *perestroika*.

In 1987, the Communist Party adopted the “Fundamentals of Radical Restructuring of Economic Management.” This document was an important pillar of the new economic reform agenda. In Gorbachev’s view, the program:

¹⁰¹ See for example studies by Titarenko (1999), Dolgopyatova (2000), Recanatini & Ryterman (2001), and United Nations Development Programme (2002).

¹⁰² The term is accredited to János Kornai (1987), a Hungarian economist, who authored a seminal book explaining why the planned economy creates shortages.

¹⁰³ The literature on this topic is considerable and I will not attempt to explain the design or performance of the planned economy. I will refer the reader to the following sources for an overview, Nove (1991), Stiglitz (1994), and Mau (2003b).

...envisages that the emphasis will be shifted from primarily administrative to primarily economic management methods at every level, and calls for extensive democratization of management, and the over all activation of the human factor. The reform is based on dramatically increased independence of enterprises and associations. (Gorbachev 1987: 33)

The emphasis on empowering economic agents merely reflected what was practised in 'successful' enterprises. As David Stark explains:

In the myth of planning ... the director of an enterprise is given a plan target, told from which firms supplies will arrive, and to which firms products will be sent; prices and wages are fixed, there is no credit market, and ... labour is ... administratively allocated. Under conditions of central planning it might seem that all sources of uncertainty have been eliminated. (Stark 1986: 494)

In reality, the command economy required considerable negotiation, bargaining and coordination at the inter-enterprise level to overcome systematic breakdowns in the allocation of goods and services.¹⁰⁴ Gorbachev's reforms sought to recognize these entrepreneurial practices that compensated for the shortcomings of the shortage economy. He hoped that by empowering decision-makers and introducing incentives, the so-called 'shortage economy' would be replaced by a more dynamic one. The reforms were too few and too late.¹⁰⁵

When the Soviet Union fell and Boris Yeltsin assumed power, he abandoned the socialist reform agenda and pushed forward a market-based economic framework. This had profound consequences for enterprises as the economic planning apparatus was dismantled. The state as *the* business intermediary for supply and distribution chains and financing disappeared. This elevated the importance of direct contacts with suppliers, purchasers, consumers, financiers, etc., but as Estrin and Bevin note:

These relationships, which form the glue for a market economy, ... took a considerable time for them to be formed, exacerbating a major contraction on the supply side through 'disorganization.' This was not well understood in the early years of transition; explanations for the output decline instead concentrated initially on the demand side and on liquidity constraints. (Estrin & Bevan 2002: 2)

¹⁰⁴ Fortescue (1997) refers to this as the bargained economy, which recognizes that managers traded favours with other enterprises and employees to meet expected production targets. Such bargaining intensified as the distribution system grew increasingly out of step with political expectations for production performance.

¹⁰⁵ The debate on Gorbachev's reforms and reasons for failure are succinctly reviewed by Mau (2003b).

In both the shortage and disorganized economy, managers were faced with uncertainty. The Soviet enterprise manager, used informal connections to compensate for shortcomings of the economic system. In the disorganized economy, the radical overhaul of state enterprises and the elimination of the planning bureaucracy disrupted official and inter-firm contacts. However, economic changes affected the Yeltsin and the Gorbachev/Brezhnev generations differently. For the latter, Party officials and enterprise directors were able to convert their former political status to economic advantage quite easily. In the new environment, and particularly when the privatization process got underway, it was common for party officials to move from government into the business sector and draw heavily on their connections as a resource base to develop so-called *nomenklatura* business. A scientist interviewed by Elena Ledeneva provides an insight into their use of informal connections in developing business.

The 'old guard', the nomenklatura – directors of the enterprises and of the regional, city, local administration – kept their power and positions in the post-Soviet period. This power and position is now used for private deals. The nomenklatura used to be well connected and still are. They know each other and always in touch. Younger businessmen often have to find their own way while the 'old guard' decides things collectively. They are well informed and know the conditions of the market. It is no wonder that many firms established by the nomenklatura are flourishing. An individual businessman running a firm has to make a fuss to obtain information, regional economic statistics, data on demand and supply and information on foreign investment projects, not to mention moral and material support. (Ledeneva 1998: 187)

This quote captures two different trajectories of the role of networks to business development in the exit from socialism. One trajectory reflects how the *nomenklatura* converted their political contacts into business resources. The younger Komsomol leaders and co-operators who initially promoted the privatized public sphere were also able to exploit their privileged positions to either extract resources from the state or gain early insight into capitalism. The other trajectory includes businesspeople of the Yeltsin generation. Because of their age, their business networks were typically not characteristic Soviet-era relations. The Yeltsin generation also had a different rationale for seeking out business contacts. Whereas 'entrepreneurs' in the shortage economy cultivated networks to access goods and privileges rationed by the state, in the disorganized economy trusted business contacts were a means of making sense of the new environment, compensating for the weak legal environment, or increasing the flow of reliable business information.

The importance of these relational attributes for the Yeltsin generation is acknowledged in Yevgeny Kuznetsov's depiction of the Russian firm. As he argues, there is a "fundamental difficulty of defining the boundaries of the [Russian] firm. Because of the broad array of disequilibrium processes inherent in transition, including privatization and firm-level decentralization, *the firm is currently best described as a fluid constellation of personal networks with constantly changing boundaries.*" (Kuznetsov 1997: 158, emphasis added). This characterization suggests that firm stability and performance rests on the ability of personal networks, internal and external to the firm's shifting boundaries, to identify strategies for restructuring and bringing resources to bear on this challenge. For management,

the challenge in this context is to organizationally re-orient and redeploy employees' skills and knowledge, and to utilize connections rather than exclusively focus on human capital.

5.2.2. Pathways to Business Development

The case of Andrey Lushev, a PMTP graduate and an YDFP Fellow highlights the new uncertainties of conducting business and new forms of organization that respond to a changing economic system.

In Mr. Lushev's application for an YDFP training internship, his learning objective was to develop a marketing strategy that would increase his company's share in the personal computer industry. Four months after studying marketing strategies employed by Canadian companies, the August 1998 financial crisis hit. Consumer demand quickly dried up and his company's restructuring plans failed to turn a profit. During this period, Mr. Lushev was asked by his superior to apply his marketing knowledge to attract investment but his quest was futile as well. His company went bankrupt just as many others did in the post-1998 business environment.

This experience drew his attention to the importance of investment capital and the lack of it for operating and capital investment. Commercial banks would lend on short-term basis only, and at very high interest rates. Recognizing this constraint, Mr. Lushev felt that he could make a more significant contribution to enterprise restructuring by addressing the shortage of financing available to firms. To do so, he joined the Russian Marketing Association, a financial brokering company that worked closely with foreign investors, companies and the government. In this position, he was responsible for attracting investment for clients. The following quote reflects what Mr. Lushev sees as the critical strategy for success:

*...the most important thing is establishing constant interaction between foreign and Russian businesspersons and government to lobby for improvements in the business environment. The Russian Marketing Association works in this way. It cooperates with consulting firms to attract resources of Western-creditors, business clubs and the national chambers of commerce to find and realize the possibilities of Russian companies.*¹⁰⁶

This manager's post-training experience illustrates the potential value of business networks. In historical perspective, the Russian Marketing Association represents a new coordinating mechanism to respond to the lack of investment facing Russian industry. What he could not accomplish in his computer company, he tried to address by joining an organization that brokered foreign investment by working with a broad set of actors. His knowledge was certainly important but so too were the work-based contacts that he mobilized in the performance of his job. While the Association's services were market based, its network of

¹⁰⁶ Andrey Lushev, 2002. "About Investment projects in Russia", *Russian-Canadian Club of President's Fellows Newsletter*, No. 7-8, pp: 3-4.

business contacts enabled clients to attract investment capital not readily available from commercial banks. Private transactions were lubricated by trusted information that the Association brokered between its borrowing client and financial investor.

Of interest to this chapter is what Elena Ledeneva calls the ‘marketization’ of business contacts and the move away from Soviet-era contacts whose value resided in privileged access to state resources. *Nomenklatura* business did not face these constraints to the same extent because their connections were able to mobilize financial concessions and regulatory exemptions through the personalized public sphere. For Mr. Lushev and many of his generation, privileged access to state resources was unlikely. As described below, business connections did not decline in value for the Yeltsin generation. What did change were their composition and the kinds of social resources that were developed.

In the remainder of this section, I will highlight several studies that identify the importance of association- and work-based social capital in creating opportunities for developing Russian business. The attention given to this topic has been prompted by researchers interested in entrepreneurial strategies to overcome weak property rights, organizational dislocation caused by firm restructuring and privatization, and asymmetrical information.¹⁰⁷

Faced with these constraints, do contacts matter for Russian entrepreneurs? In terms of association-based social capital, Recanatini and Ryterman examined the growth of Russian business associations and their effects on firm performance. Their study was based on a 1994 survey of privatized firms, which was a period of considerable economic transformation. Their analysis finds that business association members were better able to adapt and prosper in uncertain market environments than non-members (Recanatini & Ryterman 2001). The value created by business association participation was attributed to embedding entrepreneurs in a richer information environment needed to identify commercial opportunities. Their work is a rare look at association-based social capital in Russia and its contribution to business development. The overwhelming focus of the literature on business networks concentrates on a small number of exceedingly influential financial investment groups that are represented by big business lobbies such as the Russian Union of Industrialists and Entrepreneurs.

There has been greater attention paid to assessing the influence of work-based social capital on business development. For instance, studies by Judith Sedaitis, and Martin Gargiulo and Andrej Rus identify the instrumental value of work-based business contacts. In examining private sector formation, Sedaitis (1997: 142) finds extensive firm relations, or “low density networks”, enabled entrepreneurs to counterbalance a poor business environment and create new opportunities. Sedaitis argues that new and newly privatized firms were more aggressive in mobilizing business contacts to acquire information and provide mutual assistance. State-run enterprises, still operating under the protective blanket of the government, did not face

¹⁰⁷ See for example, Kuznetsov (1997), Wright, Hoskisson, et al. (1998: 76), and Uhlenbruck, Meyer, et al. (2003).

similar threats and, consequently, were not under pressure to establish a new external support network.

The importance of extensive inter-firm peer contacts in accessing information and other forms of business support is highlighted in Gargiulo and Rus (2002) investigation of top management responses to market uncertainty and restructuring.¹⁰⁸ The social resources mobilized through inter-firm ties explain, in their analysis, why some Slovenian companies performed better than others did during a period of economic uncertainty. Senior executives with extensive business ties were more responsive to the changing environment because of the information they had access to. Similar conclusions are reached in Bat Batjargal's (2003) longitudinal survey of firm performance in Russia.

Compared to the extensive literature on the influence of business networks, coordinating mechanisms and the social organization of the firm in capitalist economies, there are few studies giving explicit attention to association or work-based social capital for business development in the exit from socialism. Part of the reason likely owes to economists' neglect of the social resources of entrepreneurs and their firms, on the one hand, and the enduring fascination in how entrepreneurs of both the Gorbachev/Brezhnev and Yeltsin generation manipulated the personalized public sphere for private gain. However, the firm-level studies I have cited above suggest that the exit from socialism disrupted previous networking strategies and prompted business leaders to forge new connections to make sense of their changing environment. In comparing the composition and utility of business relations between the two generations, I have illustrated that changes in the evolving rules and norms influencing the Yeltsin generation's business networks placed a greater onus on market-based connections designed to channel information rather than state privileges. There are exceptions to this generalization but the old ways of *nomenklatura* business and extracting goods and special privileges from the state was not a feasible 'business' strategy for PMTP graduates because they did not wield sufficient influence over government officials and appeared reluctant to learn the craft.

5.3. OPERATIONAL ARENA: STRATEGIES FOR PERSONAL ADVANCEMENT

In this section, I will focus on labour market rules governing promotion and effective job searches. Recall that PMTP officials expected newly trained managers to add value to their firms and for their personal investment in new skills to be compensated through promotion. Officials also expected graduates to market their new skills actively in the job market, leading to greater labour mobility.

¹⁰⁸ Gargiulo & Rus (2002) findings are based on a preliminary analysis of survey data of Slovenian firms in the early 1990s.

These are reasonable expectations as the reforms depoliticized labour markets. With greater competition for fewer jobs as the economy contracted, human capital would likely be an important determinate of successful job searches and promotion.

In addition to human capital, ethnographic research points to the emergence of new networking patterns to attain individual goals. Alena Ledeneva (1998) argues that Soviet society relied heavily on informal personal networks to obtain goods and services. For the majority of Russians, many goods were prohibited but possible to obtain, and personal connections were used to arrange jobs. In post-Soviet Russia, Ledeneva's informants comment that the younger generation moved away from closed personal networks and utilized more open, formal or market-based relationships.

This characterization of the changing social networks contrasts with an earlier finding by Beate Völker and Henk Flap that the size and density of social networks of East Germans decreased after the collapse of socialism. Moreover, they noted that actors did not compensate for their "the loss of social capital by intensifying relationships they still had left." (Völker & Flap 1995: 105). The two seemingly contradictory conclusions might have something to do with differences between East Germany and Russia. Another likely explanation relates to age and education. Ledeneva's conclusions were based on Russian youth whereas the Völker and Flap observations were based on a cross-section of the population. Findings by Yakubovich and Kozina (2000) and Lokshin and Yemstov (2001) note that the better educated job seekers expanded their social networks. Again, Völker and Flap summary findings were not disaggregated by education levels. Thus, while social networks were slow to adapt in general, survey and ethnographic research points to different responses depending on age and education levels.

5.3.1. Attributes of Communities and Working Rules

Personal advancement in the Soviet labour market offered two potential routes for educated youth. One route was political and steered by the Party system. The other route was through tertiary or specialist education and then placement in an enterprise. The two routes were not mutually exclusive but the latter typically did not require the same degree of insider connections for career advancement.

I will concentrate my analysis on career mobility through education, as this route most closely resembles the PMTP context. PMTP graduates were not part of the *nomenklatura* though they might have been had they been a generation older. To refresh, the *nomenklatura* system of social stratification served the dual purpose of replenishing the ranks of the elite and inculcating Marxist-Leninist ideology. A child's chances of rising to *nomenklatura* status would be increased if they began their 'political career' as a Young Octobrists, joined the Young Pioneers, and continued through to the Komsomol. Standing in each organization would facilitate career advancement in the Party system. From the Komsomol, a political placement would be made based on a person's skills and political credentials. Progression through the ranks was an incremental process spanning one's lifetime (UNDP 2002: Ch. 8). Only times of leadership turnovers were younger generations brought into leadership

positions (Hough 1980). This system was on the decline during Gorbachev's tenure and collapsed with his departure from government.

Education-to-work transition

The Soviet Union developed a sophisticated, universal and publicly funded education system. Access to higher education was competitive. The applicant's challenge was to be admitted to elite programs where career paths following graduation were more or less known. On graduating from less prestigious programs, state arranged job placements were less predictable and potentially less rewarding.

The reason for pursuing tertiary education during the Soviet era was largely for status or cultural reasons rather than monetary. As Roberts and his colleagues report:

The occupations to which higher education led were not always highly paid. Higher education could be a route to high-rising careers in the Communist Party, politics and management, but these were not the usual outcomes. The normal rewards for academic attainment and professional status were cultural rather than financial. (Roberts, Clarke, et al. 2000: 69)

Students leaving tertiary education were assigned jobs through the job allocation regime.¹⁰⁹ To repay the social debt for the privilege of higher education, authorities arranged mandatory three-year job placements in enterprises. Efforts were made to align student's education qualifications with enterprise labour needs but there was no guarantee that this would happen nor did students have a say where they worked. What was certain about this system is that it secured a person's rank in society. As efforts were taken by the state to eliminate class distinctions and economic inequality, a person's rank in an enterprise was how social stratification manifested itself in Soviet society. As Mikk Titma and colleagues (2003: 283) suggest, this system created state sponsored mobility rather than contested mobility. It was a meritocracy within state designed parameters.

In 1987, Gorbachev issued his agenda for transforming the job placement system. The new agenda was premised on very similar logic to that which led to the PMTP, namely to: i) make education more relevant to the economy; ii) make better use of trained specialists; and, iii) limit specialist education to areas of projected labour shortages.

The job allocation system survived right up to the end of Gorbachev's rule. It was rendered officially obsolete by the 1991 Labour Laws that enshrined the principle of freedom of choice in choosing one's career path. Changes in the education and job placement systems held several important changes for students of the Yeltsin generation. First, the tertiary education

¹⁰⁹ This placement system, referred to as *raspredelenie* in Russian, is further detailed in Solnick (1998) and Roberts, Clarke, et al. (2000).

system introduced tuition. Second, graduates were no longer guaranteed a job, though some enterprise-university relationships were maintained and graduates from those programs continued to benefit from secure placements. With time, such formal arrangements decreased as they were disrupted by the economic turmoil of the 1990s. Third, with declining central government support, the university sector was cash strapped, and slow to design and staff new programs that would offer students relevant skills in growth fields such as accounting, law and business studies.

The demise of the job allocation regime and the slow rise of the private sector meant that tertiary education was not an assured route to cultural or financial remuneration (Roberts, Clarke, et al. 2000). Roberts and colleagues interviewed university students from several NIS countries who entered the job market during the Yeltsin era. On the question of financial remuneration, their research finds it “hard to square post-communist experience with the confidence that prevails in some Western quarters that investment in education will lead more or less automatically to more productive workforces, which will attract investment, which will create good, commensurate jobs.” (Roberts, Clarke, et al. 2000: 84). If human capital provides only part of the answer, does social capital play a role?

Job Searches & Horizontal Mobility

The Soviet system created a number of laws and practices that limited labour market mobility. For highly skilled positions, the job placement system effectively limited inter-firm mobility. The system was efficient at staffing positions requiring technical skills but it was notoriously poor at arranging less skilled positions. At that level, there was an active horizontal labour market.

Following university graduation, the state arranged for three year job placements. After this period, a university-trained job seeker could enter the job market but this was not the custom. A PMTP graduate explained the system this way: “According to the law, you couldn’t change your job without permission of government authorities (read: you can’t change jobs).”¹¹⁰ Another limiting factor to labour mobility was the organization of Russian industry – the phenomena of one company towns. Industrial planning ignored the basic lessons of economic geography. Soviet planners did not encourage industrial clusters with complementary skills and services, or pay much attention to locating enterprises near natural resources and supplier. Also, the planning agencies preferred to oversee fewer larger scale industries which led to industrial concentration in regional economies. The planning system was then tasked with supplying and transporting resources to an enterprise. For university-trained specialists finding alternative work that fit their expertise typically meant moving to another region or city, which again was not easy given mobility restrictions.

¹¹⁰ Vasiliy Ilyasov, YDF Fellow, personal communication, December 3, 2002.

State enterprises were also deeply paternalistic (Commander & Lee 1996). The provision of social services, cultural activities, housing, continuing education, and training were all arranged through the firm. Consequently, the impact of leaving an enterprise extended beyond normal employment considerations.

With the reforms, job searches by university-trained and experienced workers underwent wholesale change. The state did run a federal career employment service for job seekers and the unemployed but otherwise entrepreneurs of the Yeltsin generation were left to their own devices. In this context, Russians tended to resort back to their support networks (Rose 1998), which were likely less effective than they once were in identifying opportunities and arranging employment.

With economic liberalization, Lokshin and Yemstov (2001) observe Russians diversifying their job seeking strategies. They identify both active and passive strategies in seeking employment and social support. Active strategies are defined as those which accumulate new social resources and skills. Passive strategies, on the other hand, see Russians retreating into Soviet-era social networks. In terms of the outcomes of different strategies, Lokshin and Yemstov observe that active strategies are a more effective livelihood strategy. Of interest to this study, they also found that higher educated youth were more likely to pursue active strategies than less educated and older generations.

Promotion

In the system of sponsored mobility, opportunities for promotion occurred within the band of an allocated rank. For instance, a management position requiring technical expertise would not be within reach of a shop floor steward. There were ceilings then but within bands, actors mobilized their skills and contacts to get ahead.

David Stark (1986) refers to ‘transactive bargaining’ as an important mechanism for promotion in internal labour markets. Given that Soviet enterprises operated under bureaucratically imposed uncertainty, the value that managers added was derived from their skills, the scarcity of their skill in the firm, and their political connections. In addition, David Stark notes, that “workers differ in their social capital – the contacts and connections that make up the informal groups, the affiliative ties . . . that are so necessary for translating opportunities into advantageous bargaining.” In the absence of allowable financial incentives and the threat of dismissal, actors in vertical relationships bargained for rank and rewards when cooperation was required to meet production quotas.

The following quote aptly summarizes the difference in labour mobility in a capitalist firm and a Soviet enterprise:

Internal labour markets in the socialist firm . . . operate according to a transactive logic based on affiliative ties. Not collective bargaining but selective bargaining, not the union contract but a partnership subcontract, not human capital but social capital, not the credential but credit, not seniority on the employee’s workbook but

the connections that can be acquired over the years – these are the keys to mobility within the socialist internal labour market. (Stark 1986: 503)

Gorbachev's, then Yeltsin's reforms ended many Soviet human resource practices. Privatization introduced monetary incentives as a mechanism for recognizing outstanding work and credentials but this did not do away with the role of personal ties altogether. The changing context did, however, alter the composition of social network and their value. In capitalist economies, relevant skills and credentials are typically rewarded through financial compensation or increased responsibility. On these criteria, high incidences of promotion would have been expected of PMTP graduates but promotion was not a uniformly shared outcome. A speculative explanation consistent with performance-based rewards casts promotion as a function of a graduate's ability to demonstrate training impact. A manager is expected to be more effective when embedded within his/her firm. Those managers with more extensive networks are presumed to have greater access to information for analyzing situations and making informed decisions. Connections are no longer needed to bargain for rewards but they are needed to channel and solicit information so that collective efforts are more effective.

5.4. CONCLUSION

This chapter explored the system-level influences on three action arenas where architects of the PMTP program expected management training to have an impact. Rules and norms play an important role in structuring the set of allowable actions, establishing the costs and benefits of choices, and shaping likely outcomes. Institutional theories look to the institutional framework to explain for continuity and change in patterned human behaviour. Institutions can be slow to change, even in the presence of sweeping reforms experience between the mid-1980s to the mid-1990s. I have suggested that Russia's triple transition did disrupt the transfer of Soviet working rules and cultures to the Yeltsin generation.

I have attempted to illustrate through an historical lens the system-level influences acting on the Brezhnev/Gorbachev generation compared to the Yeltsin generation. Noted differences are important for subsequent analysis as they contextualize the choice of strategies PMTP graduates were likely to make in a given action arena.

I will conclude this chapter by highlighting probable strategies in the three action arenas in light of the system-level influences discussed in this chapter:

(i) Strategies for supporting and complementing market development (collective-choice actions)

In this section, I used grid/group typology to frame different institutional arrangements. I noted that the centralized state of the Soviet era was bureaucratic with fatalistic tendencies. In this arrangement, there was little space for independent society – state over society was the dominant logic. When Gorbachev introduced *perestroika*, a new entrepreneurial class took shape and created a hybrid state. These entrepreneurs were granted freedom to conduct their affairs in the *individualist* way and they cultivated a dual relationship with the state. The

personalized public sphere, which facilitated managers' business activities at first, developed into a business relationship with the state. At the same time, the official public sphere continued to operate in a high grid environment and was reluctant to recognize the legitimate role of organized society. Consequently, the Yeltsin generation inherited an inhospitable environment. The system-level variables limited opportunities for this generation to engage the state on policy issues. The costs of doing so were high and unpredictable, and there were few precedents suggesting that public dialogue could affect the business environment.

(ii) Strategies for business development (operational actions)

The planned economy was a shortage economy where personal contacts and negotiation were widely practised by enterprise managers to overcome information gaps and missing supply chains. Without such personalized contacts in both the political and productive sectors, enterprise directors were unlikely to meet production targets. The economic reforms changed the logic of the economy. In a very short period of time, the majority of enterprises were transferred into private hands and the ties that supported Soviet industry were disrupted by wholesale change (or fragmentation as the case may be). The disorganized economy replaced the shortage economy. The fragmentation of information, weak commercial and competition laws, the rapidly changing structure of firms all placed a premium on more extensive business networks. However, business contacts serviced different functions for managers of the Gorbachev and Yeltsin generations. In earlier times, business contacts served the role of granting privileges or special access to state resources. For the Yeltsin generation, PMTP graduates generally lacked access to state resource. Rather, the benefits of extensive business contacts were derived from the ability of managers to access information and nurture working relations among potential business and commercial partners. Extensive networks were, however, no guarantee of success but they helped to overcome a wide range of uncertainties, as well as create new opportunities.

(iii) Strategies for professional development/career advancement (operational actions)

The role of education in transitions to work for both generations was a strong determinant of one's career path, though there were differences between the two generations. For the Brezhnev/Gorbachev generation, sponsored mobility was the rule. For a student who did not exercise zeal for the Party and hoped to advance through academic merit instead, the state provided training and a job that aligned with their credentials. It was a system of state sponsored mobility. By contrast, the Yeltsin generation experienced contested mobility wherein university students were 'free' to find a job in a shrinking economy. In seeking employment, graduates could access federal employment services (an employment database), or mobilize family and extended contacts. Government and family connections would have been the most natural response but likely the least effective for graduates with marketable skills. In the more competitive labour market, job searches are likely more effective when a job searcher can tap into a wide referral network. For promotion, continuing education and job performance became the new benchmarks. As a manager's performance came to rely on his or her ability to coordinate the actions of others and base decisions with scarce market information, having more rather than less interaction with colleagues and acquaintances would likely result in informed decision-making.

In the next three chapters, I will draw on fieldwork and survey data to outline the rise of ABAs; their influence on building market supporting and complementary actions; and, a statistical examination of the influence of association and work-based social capital.

6. THE ORGANIZATIONAL STRUCTURE OF ABAs

In the previous discussion on the pathways available to graduates, I identified ABAs as a potentially important resource for graduates. In this chapter, I single out this pathway from the other options mentioned. This focus on ABAs stems from the fact the ABAs emerged within the context of the PMTP and members reported that ABAs created new opportunities for them. Moreover, the emergence of ABAs in the public sphere point to an unexpected and beneficial outcome from the wider perspective of civil society development. If the PMTP played an instrumental role in facilitating the emergence of ABAs, it would support the 'constructability thesis' that public policy has a direct role in forming social capital.

For ABAs to be an effective pathway for graduates to access and mobilize social capital, their organizational structure needs to be capable of nurturing and sustaining interaction among members. If this condition is met, ABAs could increase the stock of social capital among members. Following the model outlined in Figure 4-2, this chapter investigates the structural and cognitive dimensions of social capital to the extent that it has developed in ABAs. In Chapter 7 that follows, I will analyse the impact of ABAs at the societal-level.

The structural dimension facilitates access to, and mobilization of, social capital through the roles, routines and networks ABAs establish. The cognitive dimension probes the rules and norms shared by graduates that predispose them to work collectively. In investigating these dimensions, I will draw on fieldwork and data from the Leadership Survey (LS, N=26) and the Membership Survey (MS, N=299).¹¹¹ Interviews and informal discussions conducted between 2000 and 2003 augment the survey data. Armed with these different data sets, I am confident that the empirical base is sufficiently rich to determine whether there is a Potemkin Village effect to my portrayal of ABAs thus far.

Grigori Potemkin is a household name in Russia. He was an accomplished statesman, a lover and a confidant to Catherine the Great, but his name is evoked frequently when Russian's question the truth of a statement: is it real or is it a Potemkin Village? The inventor of the term was a Saxon diplomat and a detractor of Prince Potemkin. He popularized the libellous claim that Potemkin erected façades of model villages along the Dnieper River, a region that the prince had conquered for Catherine the Great during the 18th century. According to the Saxon diplomat, Potemkin choreographed a parade of well-dressed peasants along the riverbank before Catherine's entourage of European nobility, whom she had invited to view the reputedly prosperous new land that Prince Potemkin had captured. The Saxon published his false accusations in the German press shortly after Potemkin's highly successful publicity tour. He claimed that Potemkin had duped the accompanying European nobility into believing these imagined communities of prosperous peasants were authentic. Recent and not so recent scholarship has revealed the malicious intent of the Saxon's false allegations but the term stuck and the Prince's reputation suffered (Soloveyitchik 1949; Montefiore 2000: 379-385). In

¹¹¹ See Appendix 3 and 4 for sample characteristics of these surveys.

contemporary parlance, Russians use the term when the official record is suspect and the truth lies behind an erected façade. If ABAs were nothing more than an imagined community, they would be incapable of facilitating the social interaction and the norms that generate social capital. This chapter seeks to reveal whether there is breadth and depth to ABAs, or whether they are a façade.

6.1. ALUMNI ASSOCIATIONS IN THE CONTEXT OF THE PMTP

In the early years of the PMTP, the Federal and Regional Commissions (FC and RCs) organized numerous national and regional-level meetings to monitor program results and exchange views on regional developments. From 1998-2000, there was mounting evidence that trainees were integrating their acquired competencies into management practices at the firm level (FC 2000c). Government sponsors were encouraged by the firm-level impacts that employers and graduates reported.

By 2000, the architects of the PMTP had recognized the need to enhance coordination and cooperation among PMTP participating organizations to scale-up the impact of the program beyond the individual and firm level. Toward this, the FC and the RCs supported linkages among enterprises, regional training institutes (RTIs), government agencies and civil society organizations. With the emergence and growth of ABAs at that time, the FCS hoped that these associations would become a platform for innovation as they were developing linkages across the private, government and the university sectors (FC 2001b). ABAs connected graduates whereas individually, they were weakly connected to the external business, social and government structures.

Developed in early 2001, the FCS' Strategy for Post-Program Work formally recognized the potential role of ABAs (FC 2001b,c). The Strategy underscored the unrealized potential of graduates and posited that ABAs could be agents for social change. By the time the Strategy was disseminated, the FCS had evidence of ABA capacity to nurture mutually beneficial relations among graduates and regional actors in government, the business sector, training institutions and civil society organizations. Numerous presentations by ABA members at national conferences substantiated these claims (FC 2001d).

In contrast to the Soviet era where the state actively organized society, the FC recognized the independence of these fledgling ABAs to chart their own course. In practice, however, the Strategy's implementation was occasionally reminiscent of earlier approaches. For instance, when the FCS emphasized the need for regional and municipal government to work with ABA leadership to identify opportunities for collaboration, this suggestion elicited different grid/group dynamics in the regions. In some oblasts, graduates welcomed government interest in ABA activities but in others, graduates rejected government overtures. I will discuss this dynamic on ABA development later in this chapter.

Prior to the publication of the Strategy, the presence of ABAs caught my attention at a meeting in late 2000. Convened by federal and regional representatives and recently graduated alumni, the meeting assessed the results of the early phase of the program from a trainee perspective. In a memorable exchange, a graduate from Kaluga reacted sharply to a

panel discussion on labour mobility and the barriers graduates faced in finding appropriate work to apply their skills. Her question to the panel was simple: she wanted to know what steps the FCS had taken to identify appropriate opportunities for her and her classmates. Her view was that PMTP alumni had devoted considerable time to learning new management skills but owing to risk averse leadership, many graduates discovered their companies were not interested in applying their newly acquired management skills. She wanted to know whether she was entitled to a better job and what had happened to the proposed work placement mechanism that had been discussed when the PMTP was launched?

Before the panel could respond, a graduate from the Penza region rose to his feet and asked the panel whether the government felt that it had a responsibility to find this graduate a job? In other words, was the PMTP endorsing sponsored mobility? Foreshadowing discussions to come, the Penza graduate recounted his experience in the germination of a job and business referral network. He explained how graduates in his region had formed their own association to help one another to advance collectively. What became a formal ABA began as a series of conversations among graduates in business and with some graduates who had entered politics. Their mutual interests coalesced around the need for peer support and information sharing.

What led to the formation of the Penza ABA? The Penza representative rhetorically asked whether graduates in other regions felt they shared a common bond with fellow graduates and whether they too were being recognized in their communities for their participation in the prestigious management training program. For the Penza representative, the PMTP created new roles and expectations for its graduates, and the ABA created an opportunity for them to understand their roles and the new environment in which they worked.

From this foundation, the Penza graduate explained how new connections led to ABA member involvement in crisis management teams. In a noteworthy and conversation stirring example, the Penza delegate mentioned that ABA members were invited by the regional administration to critique and propose amendments to draft legislation on investment. This level of participation in a collective choice arena was novel. At that time, most ABAs were dedicating their energies to internal activities such as building information databases, seminars and other professional development activities. He conceded that the future direction of their ABA was uncertain but he closed by suggesting to his Kaluga colleague that she would have better luck finding a job by talking to her classmates than she would waiting for government. His message to fellow graduates was to take matters into their own hands, and in a collaborative manner.

This was an illuminating conversation for me and I was curious to find out how common the Penza experience was. In every region, major industries were going bankrupt, which became the de facto responsibility of regional governments and city administrations. The challenge in the Penza region, as in others, was that government economists tended to have very little understanding how to restructure enterprises. As one RTI management professor told me, the presence of a PTMP graduate in a single-industry town could have a positive impact if Soviet-era officials had the courage to listen to what the PMTP graduate had to say.

When PMTP alumni from Samara, Kaliningrad, and Nizhny-Novgorod presented their case studies of ABA formation, it was apparent that graduates in a number of regions were self-organizing. From a program perspective, ABAs were having the direct impact at the societal level that government sponsors of the PMTP had hoped. In Samara, ABA members initiated a policy research project in collaboration with professors at the RTI. There was common interest in exploring options for strengthening industrial development and management education. In Kaliningrad, ABA members launched several new collaborative business ventures; created an e-network for contacts and information sharing; and, in collaboration with the mayor's office, had alumni appointed to various municipal sub-committees. In closing the session, the Nizhny-Novgorod presenter spoke of oblast government economic advisers consulting with the ABA to assess options for restructuring large enterprises that were reliant on soft-budget support. Moreover, ABA members had developed a list of high impact business and social projects that were being jointly evaluated and potentially jointly launched.

The questions in response to these ABA presentations injected palpable enthusiasm into the staid Russian Academy of Science conference hall. How did they establish their association? Who was involved? What were they planning in the future? How could they find out more? The questions from the floor came in rapid succession without a cue from the panel chair. With this breach of conference protocol, I realized that I was not the only one interested in the composition and the actions of ABAs.

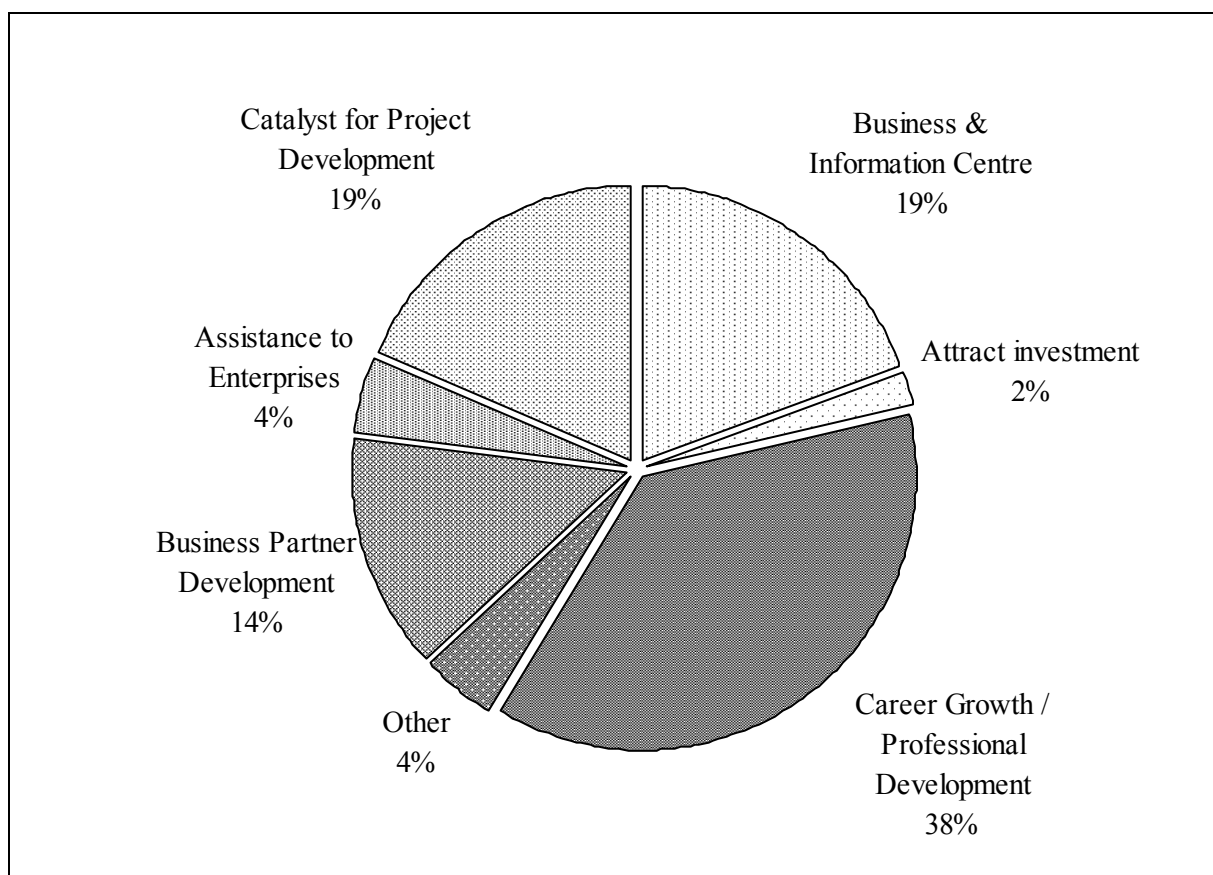
In the two sections that follow, I will detail the structural and the cognitive dimensions of ABAs. My aim is to present a composite profile on how ABAs are organized, who their members are, and their motives.

6.1.1. The Structural Dimension of ABAs

This section presents an aggregate view of ABA characteristics. The analysis is based on LS and MS data, and complemented by interviews and ABA promotional material. It starts by documenting the roles of ABAs, which then leads to a more detailed outline of selected ABA mission statements. The section concludes with an overview of several governance dimensions. Answers to these questions shed light on the objectives, organizational resources, and decision-making processes of ABAs. Such indicators provide an insight into the organizational foundations and complexity of ABAs.

Roles of ABAs

Figure 6-1 presents the main fields of ABA activity as identified by members. The MS survey asked respondents to specify their ABA's most significant role in their region. In response, the plurality of members viewed furthering members' professional development and their career advancement as the primary contribution. Toward these objectives, members organized seminars, training sessions, and referral mechanisms for consulting and career opportunities. The second and third largest contribution mentioned was through information collection and sharing for business development. These top three contributions are all private goods.



Source: MS 12¹¹²

Figure 6-1: Members' Perspective on the Contribution of ABAs

Activities that would contribute to collective goods are not prominent in this pie chart. Attracting investment and supporting local enterprises, two activities that see ABA members working to improve the business environment are the least mentioned contribution from their vantage point.

Table 6-1 presents a content analysis of the full mission statements provided by executive members participating in the LS. The frequency of responses is matched against objectives listed in ABA full mission statements.¹¹³

¹¹² This notation stands for Membership Survey, question 12.

¹¹³ Appendix 5 provides an abridged description of individual ABA mission statements.

Table 6-1: Content Analysis of ABA Mission Statements (N=24)

| Collective Goods | |
|------------------|--|
| n= | ABA Objective |
| 11 | Assist economic prosperity of the region, restructuring of local enterprises and exchange of best practice |
| 7 | Upgrade professional level/competencies of local executives (including PMTP trainees) |
| 5 | Provide general support to the PMTP program |
| 4 | Attract external investment to the local economy |
| Private Goods | |
| n= | ABA Objective |
| 11 | Support members career and professional development |
| 6 | Provide social/mutual support to members |
| 5 | Enhance business communication among PMTP graduates |
| 2 | Promote collaborative ABA projects involving members and partners |

Source: LS

Two sections divide this table. The top section identifies objectives that have a collective goods character to them whereas the lower section lists objectives that are of a private goods nature. This presentation of ABA objectives reveals a greater balance between the private and collective goals than was revealed in Figure 6-1.

The results of Figure 6-1 and Table 6-1 suggests a gap exists between members' assessments of the contribution of ABAs (i.e., where private goods are more prominent than collective goods), and the stated objectives of the ABAs (i.e., where there is greater balance between the two).

A probable explanation for this discrepancy owes to the process of association building and the youth of these associations. The Khabarovsk region is a good illustration of this point. Khabarovsk, located in Russia's Far East, is far removed from Moscow. As expected, graduates from the region were not well informed how the program was evolving in different regions. During the first YDF-sponsored workshop in the Far East, graduates indicated they had recently established an ABA. They were inspired to do so after hearing what their fellow graduates were developing in neighbouring oblasts.

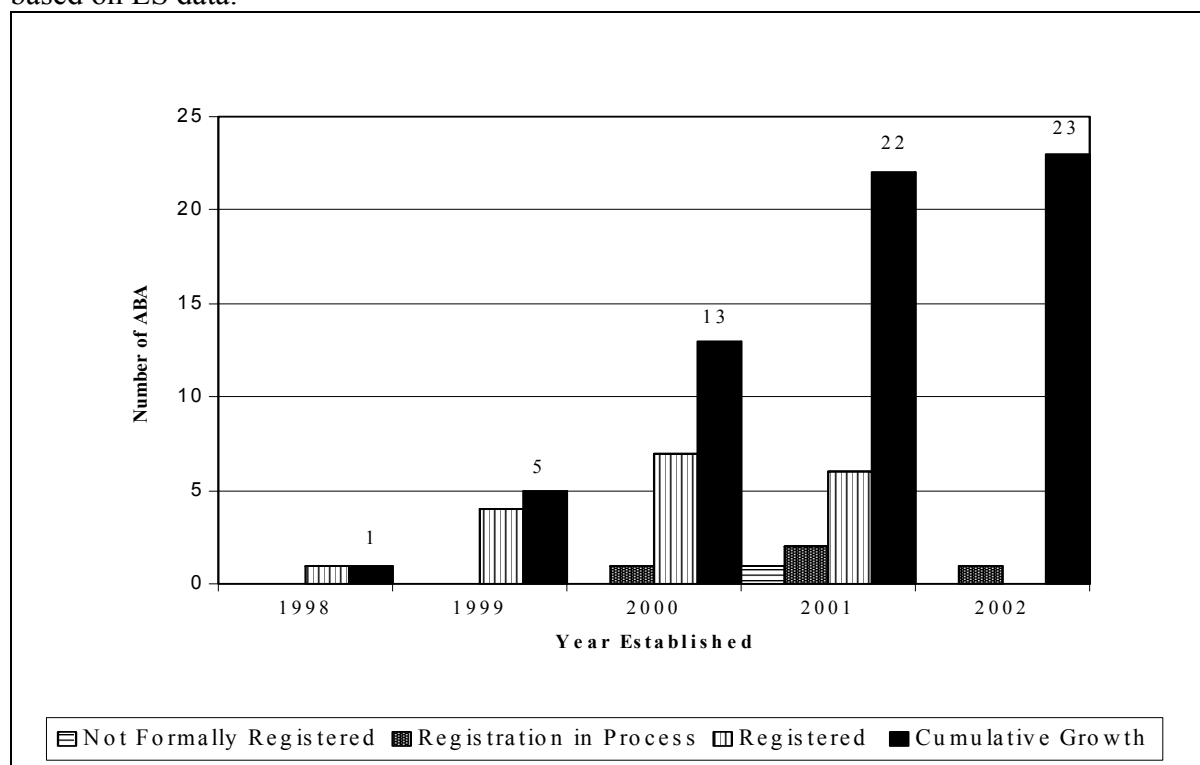
The idea was alluring to PMTP graduates in Khabarovsk but according to one of the early organizers from the region, formulating a mission statement and agreeing to common goals was a protracted process. Eventually they reached a consensus on the mission statement, which resembled what their PMTP colleagues had agreed to in a neighbouring region. When members began to prioritize activities, they agreed to concentrate on projects that would benefit member's immediate interests. For example, a business referral and reciprocal mentoring network that would identify commercial partners and review business plans spoke to members' immediate interests. Members understood and supported these objectives. However, the stated goal to improve relations between state and society was less well understood. It was only after members had gained confidence and after membership had

increased that they began to interact with their RC and the agencies responsible for business development in the region. This gradual expansion of activities with an outward focus reflected patterns of activities I noted in other regions. Thus the disconnect identified above probably owes to the fact that ABAs tended to work incrementally to fulfil their mandates, focusing at first on activities that satisfied members' immediate personal interests and then turning attention to policy-level activities that sought to improve the business environment.

Legal Status and Charters

The majority of respondents to the LS survey indicated that their executive councils had filed and attained non-profit status for their ABA. Without this status, ABAs would have had difficulty operating in the public sphere. In Russia's regulated environment, permits are required for a range of activities such as public events, external communication or financial transaction. Only organizations that have a legal personality can obtain permits. While there are clear advantages to having non-profit status, the registration process is an onerous procedure. To attain legal status, executive members would have invested considerable time and garnered the cooperation of local government. To follow procedures uniformly, all ABAs would have filed documents outlining the association's aims, responsibilities of the executive council and bylaws.

Figure 6-2 indicates the registration status and the year of establishment of 23 associations based on LS data.



Source: LS 5 & 8

Figure 6-2: Current Legal Status by Year of Establishment

Another indicator of formal structure is the presence of a charter or constitution. On this criterion, even those organizations currently in the process of registering have a charter. Only one of 26 ABAs reported not having a formal document outlining its mission, structure, and operational procedures.

Committee Structure

All registered ABAs have a hierarchical structure comprising of executive councils and general assemblies. At the executive level, ABAs have named such bodies executive councils, administrative councils or boards of directors. Two thirds of the organizations reported that executive committee members meet at least once per month. Many executive members reported the use of standing or ad hoc subcommittees. This differentiated organizational structure is a common characteristic of complex organizations.

Financial and in-kind support

In addition to membership support, the majority of ABAs have sought organizational and financial resources from government and the private sector. A minority reported internal revenue-generating mechanisms, which was an area of interest to many executive members who wanted to be more independent and self-sustaining. Table 6-2 illustrates the percentage of ABAs receiving support along with its source.

Table 6-2: Sources of Political, Financial or Organization Support

| Source of support | % Receiving Support |
|---|---------------------|
| Government Support (Local & Federal) (N=22) | 90 |
| Private Sector Support (N=24) | 50 |
| ABA Internal Revenue (N=22) | 36 |
| International Support (N=24) | 2 |

Source: LS 9

In the first row, 22 executive members responded to this question and of those responding, 90% indicated that they received some form of government support. This level of government support reveals RCs interest in ABA development. Interestingly, the support provided is considerably higher than that offered by the private sector. Executive members indicated that RCs supported ABAs through such actions as providing meeting room space, making government connections, or identifying contract work for ABA members. One RC officer, for example, arranged for ABA members to obtain government visitor passes so that they were able to by-pass the layers of gatekeepers that distance government officers from the public. The symbolism of this act was more meaningful to members than the time they saved contacting government officials. ABA members welcomed these tangible contributions but there were exceptions.

Interviews with leaders reflected a spectrum of opinions ranging from regional commissioners not paying enough attention to those paying too much attention. In the latter case, an ABA leader from the Volga region recounted how RC support backfired. She commented that in

her region, the RC staff had expressed their interest in establishing a graduate association. At a reception hosted by the governor's economic adviser for a PMTP graduating class, the RC announced that in other regions graduates had formed associations. The RC's presentation attracted sufficient interest that there was an agreement to pursue discussions on the composition and mandate of such an organization. When other graduates from the region discovered the RC had convened a meeting to elect a president and constitute an ABA, those not party to the discussion declared the initiative illegitimate. Interestingly, when an influential group of graduates challenged the legitimacy of the process, the government officials respected their intervention and the president-elect resigned. In the wake of this conflict, graduates reorganized and built an ABA from the ground up.

Voting

Leadership selection and decision-making processes reflect the voluntary character of ABAs. All of the ABAs surveyed in the LS indicated they have procedures for electing executive members. The larger ABAs tend to elect members to executive positions based on their platforms, whereas smaller ABAs rotate executive positions to share the burden of work and encourage participation.

All associations except for one take decisions by consensus. In the LS survey, executive members in half of the surveyed ABAs reported that major decisions are put to membership vote. Thirty percent utilize both executive and membership voting procedures depending on the issue, and the remaining twenty percent leave major decisions to executive bodies. The smaller associations rely on executive level decision-making more than do the larger ones.

Identity

Leaders were asked whether their ABAs had symbols to identify with such as a logo, letterhead, pins or business cards. A positive response would suggest that members were interested in cultivating a public image. On this question, three quarters of the ABAs had developed one or more identity symbols.

Based on these indicators, it is evident that ABAs are young but forward-looking organizations. The presence of committee structures, voting procedures, legal status and identity symbols are characteristic of formal organizations. In the next section, I look beyond this structure to illuminate the cognitive dimension.

6.1.2. Cognitive Dimension: Members and Motives

This section begins by revealing members' motives, which then leads to a description of their participation rates and commitment to association building. Answers to these questions clarify why graduates are involved and how frequently they interact in developing their ABAs. Survey data identify participation rates in other voluntary associations to indicate their propensity to join voluntary organizations and their exposure to non-hierarchical forms of organization. Members' participation in other organizations indicates the diversity of

information and perspectives that ABA members may access. This section also reveals the correspondence between what members seek from participation and what their ABAs have been able to deliver. Finally, this section concludes with a discussion on trust.

Membership motives

Table 6-3 displays the results of a multiple response question on motives for graduate participation. The first column lists seven potential motives. Given these choices, members ranked their top three. The three top ranking motives for ABA participation include the desire to identify with others sharing a common outlook or experience, to affect change in the business environment, and to expand business connections. Of these, only the latter outcome would increase one's economic position. The other two motives reflect members' desire to identify with those sharing a similar experience and to work collectively to affect change.

Table 6-3: Rank of Top Three Motivations for ABA Participation

| | Most Important (%) (N=232) | Second Most Important (%) (N=232) | Third Most Important (%) (N=229) |
|--|----------------------------|-----------------------------------|----------------------------------|
| To work with graduates of the program to affect change in the business environment | 30 | 22 | 14 |
| To belong to an organization whose members share a common identity or values | 29 | 17 | 15 |
| To expand my business connections | 25 | 37 | 21 |
| To expand my government connections | 0 | 4 | 7 |
| To find a better job | 6 | 6 | 13 |
| To better understand external issues facing the business environment | 6 | 8 | 21 |
| To better understand internal issues facing my company | 3 | 6 | 10 |
| Other | 0 | 0 | 1 |
| Total % | 100 | 100 | 100 |

Source: MS 6

The only other important consideration for joining was to understand the external business environment better but this was a third choice response. Very few members considered expanding contacts with government, finding a better job, or enhancing knowledge of the issues affecting company performance as important initial considerations.

These responses by members show a greater emphasis on collective outcomes whereas the mission statements tended to portray ABAs as working to satisfy private goods.

Participation

As illustrated in the literature review, membership organizations are a focus of social capital research because of the bonds they create among members and the bridges they tend to establish with non-members. In turn, these bonds and bridges create possibilities for members

to develop histories of personal interactions that are essential for reciprocity building and accessing social resources. According to this logic, the social capital potential of an ABA is proportional to the number of bonds and bridges established and the frequency of those contacts. Table 6-4 presents data on membership size as indicated by executive members. Using the bonding/bridging distinction, this table reveals the number of new bonds established. Chapter 7 presents data on bridges, or the external organizational linkages facilitated for members through ABAs.

Table 6-4: Number of Current Members by ABA

| How many members belong to your ABA? | n= | % |
|--------------------------------------|----|-----|
| Less than 30 members | 6 | 27 |
| 30-39 | 5 | 23 |
| 40-99 | 6 | 27 |
| Over 100 | 5 | 23 |
| Totals (N & %) | 22 | 100 |

Source: LS 12

The year of ABA formation, success of recruiting new members and size of the recruitment pool in each region help to explain the number of ABA members. Regions had different graduate population because each RC had an annual admission quota proportional to the population of the region. Consequently, one would expect to find larger organizations in more populous regions simply because there are more graduates to count as potential members. This is not a limiting factor for half of the ABAs surveyed in the LS as they invited non-PMTP managers to join as well. Representatives from the business community and friends increased ABA membership beyond what it might have been.

In terms of membership growth, all executive members reported increased membership since their founding. Based on the LS survey, half the respondents felt the goal of increasing membership participation had been achieved and the remaining half identified increasing participation as a future goal. There was a clear consensus among leaders and members on the importance of active member participation in the work of their ABA.

The next two tables document members' participation in, and perception of, general meetings. These tables serve to illustrate members' interest in building their organizations and the value they ascribe to their participation. These tables focus on general meetings that are devoted to association building, and thus distinct from the business/professional or social events organized by many ABAs.

Turning to participation rates first, general meeting participation is considered a valid indicator of a member's commitment to building the organization. Table 6-5 shows that 70% of members "often or always" participate in general meetings.

Table 6-5: Participation in General Meetings

| How frequently do you participate in general meetings? | n= | % |
|--|-----|-----|
| Often or always | 209 | 70 |
| Sometimes | 24 | 8 |
| Rarely | 33 | 11 |
| The activity does not take place | 6 | 2 |
| No answer | 27 | 9 |
| Totals (N & %) | 299 | 100 |

Source: MS 5

Participation is also consistent across time. Members from the 1998-2000 cohorts reported the same level of participation as members from the 2001-2002 cohorts, suggesting that there was no decrease in participation over time. In terms of the frequency of general meetings, eighteen of twenty-three ABAs held general meetings at least once a month.

Turning to the perceived value of participation, Table 6-6 indicates that over 80 percent of members indicated “some or great” value to their participation in general meeting.

Table 6-6: Perceived Value of Participation in General Meetings

| What is the value of general meetings for you? (N=299) | n= | % |
|--|-----|-----|
| Great value | 99 | 33 |
| Some value | 147 | 49 |
| No value or very little value | 9 | 3 |
| No answer | 45 | 15 |
| Total (N & %) | 299 | 100 |

Source: MS 5

The two tables above present a picture that contradicts the usual media portrayal of young business people as self-interested opportunists with short-term planning horizons. These tables present an alternative picture – that of the first generation business elite building voluntary associations for future professional growth.

Commitment

The long-term commitment of members to ABAs is difficult to assess given their recent origins. The MS asked members whether they intended to participate in future ABA activities. Table 6-7 groups the results according to one of three self-reporting membership categories. Of the three categories, executive council members are expected to report the greatest commitment. The size of the gap between executive member responses from those classifying themselves as active members or regular members would reflect on the collective commitment to building ABAs.

Table 6-7: Future Involvement in ABAs

| | Executive position | | Active member | | Member | |
|---|--------------------|-------|---------------|-------|--------|-------|
| | N= | % Yes | N= | % Yes | N= | % Yes |
| (i) Are you planning to continue being a member in the future? | 33 | 100 | 62 | 100 | 189 | 99 |
| (ii) Do you plan to involve your friends and peers in the activities of the ABAs? | 33 | 100 | 57 | 93 | 160 | 85 |

Source: MQ18, 19

Irrespective of membership category, all respondents intend to remain members. This is a strong indication of the value they accord to ABA participation. When asked if members plan to include friends and peers in ABA activities, a gap emerges but it is a slight decline from 100% (executive) to 93% (active) and then to 85% (members).

Diversity

Historically, social networks in the Soviet era tended to be organized by family, profession, or by communist party affiliation (Ledeneva 1998; Rose 1998; Easter 2000). Social networks that cut across sectors and occupational/political hierarchies were not common. Consequently, Soviet-era social networks lacked what Ronald Burt calls non-redundant ties – or those connections that bridge information holes that enable those who become connected to access new ideas, information or opportunities.

In probing ABA membership composition, there is considerable heterogeneity. The even distribution of members across twenty specified economic sectors is a good indicator of membership diversity. Diversity is also reflected in firm size. Half the membership worked in small firms with less than 100 employees and the remainder in medium and large companies. In terms of job standing, approximately 40% of members held senior management positions, another 40% held middle management positions and the remainder occupied specialist positions. Finally, most graduates worked in privatized or *de novo* firms but some worked in state-owned industries. These responses indicate a degree of heterogeneity among members.

Leadership

Leadership is widely viewed as an important determinant of sustainability. By virtue of managers' nomination, selection into and participation in the program, they are presumed to have relatively strong organizing and planning skills. However, the leadership skills cultivated in the business sector may not be transferable to the non-profit sector. Membership organizations generally derive their strength from horizontal participation, not the top-down leadership style characteristic of Russian business culture.

Executive members identified their previous experience in other membership organizations to determine their exposure to voluntary sector governance. The LS data indicate that leaders

bring considerable experience from other membership organizations. Fully two thirds participate in business and professional associations, and one-quarter belong to labour unions, youth organizations and sports organizations.

Overall, the high participation rates in Table 6-8 are surprising given the very low participation rates in membership organizations identified in other surveys. In the 1997 World Values Survey, for example, it found only two percent of a random sample of Russians over 18 years of age belonged to a professional association (Inglehart et al. 2000).

Table 6-8: Membership in Other Voluntary Organizations by Category of ABA Participation

| | N= | Members belonging (%) | N= | Executive and Active Members belonging (%) |
|--------------------------------------|-----|-----------------------------|----|--|
| Religious or church organizations | 123 | 3% | 81 | 2% |
| Local community group | 124 | 4% | 78 | 1% |
| Labour unions | 124 | 42% | 79 | 29% |
| Human rights | 122 | 1% | 78 | 0% |
| Conservation/ environment group | 124 | 5% | 79 | 1% |
| Women's organization | 124 | 2% | 75 | 0% |
| Voluntary organizations | 124 | 7% | 80 | 11% |
| Political parties or groups | 124 | 8% | 79 | 10% |
| Business/ professional associations | 124 | 44% | 82 | 65% |
| Youth work (youth clubs. etc.) | 123 | 10% | 76 | 14% |
| Sports or recreation | 124 | 13% | 79 | 20% |
| Other non-governmental organizations | 124 | 4% | 75 | 28% |

Source: LS 37 and MS 29

The comparison between leaders and members indicates that in half the categories, members are more active than executive members. Had the results illustrated a high participation rate among leaders and a low rate among members across these categories, one could speculate whether the presence of ABAs was driven by a small cohort of 'joiners' who were experienced organizers. It appears that this is not the case and that there is wide exposure to a range of voluntary organizations.¹¹⁴ This is a positive finding in terms of members drawing from their collective experiences in organizing voluntary organizations.

Correspondence

In the previous section, I presented data on what members perceived as the most important contribution of ABAs in their regions. In Table 6-9, I assess the extent to which there is correspondence between ABA activities and members' interests at an aggregate level. Sixty-seven percent of members felt their association mainly or fully corresponds to their personal

¹¹⁴ My general reference to 'voluntary organizations' does not apply to trade unions, which were and still are mandatory in many industries.

objectives. Thirty-one percent indicate they partially correspond, and two percent did not know.

Table 6-9: Correspondence between ABA Aims and Individual Members' Interests

| To what extent do your personal objectives correspond with ABA objectives? | n= | % |
|--|-----|-----|
| Fully correspond | 57 | 22 |
| Mainly correspond | 116 | 45 |
| Partially correspond | 80 | 31 |
| Do not correspond at all | 0 | 0 |
| Don't know | 5 | 2 |
| Totals (N & %) | 257 | 100 |

Source: MS 16

These are encouraging results because in the absence of correspondence, members' participation would likely decline over time.

Trust

The notion of trust has been closely associated with the social capital literature. It has been framed as both a prerequisite for, and an outcome of, participation in voluntary organizations. As a prerequisite, scholars have posited that for voluntary organizations to emerge, generalized trust in society and interpersonal trust among members are necessary but not sufficient for voluntary association formation. As an outcome, Robert Putnam has argued that voluntary organizations generate trust. This argument is based on the assumption that an organization's institutional rules create bonds and expected behaviour through which trust is built.¹¹⁵

In designing the MS and LS instruments, the research team sought to assess members' level of interpersonal trust. If ABA members were trusting, this could help explain why they joined. The challenge then was to measure trust in a meaningful way. At the time, the research team was formulating the MS instrument, two rounds of the World Values Survey (WVS) had been implemented and a third round was being undertaken that included Russia as one of the countries (Inglehart et al. 2000). The first two rounds had asked the question "do you generally trust people?" We replicated this question in the MS instrument, as the WVS would provide a Russian comparison group. If graduates were more trusting than the WVS comparison group, I could infer that their higher level of trust had predisposed them to join ABAs.

¹¹⁵ See, Offe (1999: 65-76) who questions the argument that there can be an institutional solution to overcome the scarcity of trust. Similarly, Platteau (1994a,b) argues that socially embedded transactions can be an institutional solution governing economic transactions but he convincingly argues that in more complex economies, self-governing institutional solutions breakdown. Also see Scott (1999) for a third treatment of this topic from an anthropological perspective.

When the results of the WVS were known, the Russia survey posed a slightly different question and used a different scale than expected. Consequently, the WVS Russia data was incomparable with the MS question on generalized trust. Left without a meaningful referent point whether ABA members are more trusting than their fellow Russians, I interpret their high motivation to work with other graduates, as documented in Table 6-3, as indicative of the trust that exists among members but this does not reveal whether ABA members differ from non-members on this variable.

6.2. EXPLORING REASONS FOR ABA PARTICIPATION

In this chapter, I have so far focused exclusively on the views of ABA leaders and members. My analysis has focused on such questions as why members were motivated to join, and the perceived value of participation. In the two chapters that follow, I will examine in detail the contribution of ABAs to regional development, to firms and to members' personally. With these as my next steps, I will now revisit the previous claim that there is no selection bias. In other words, are there personal attributes, firm characteristics or contextual factors that push or pull graduates with certain characteristics to join ABAs? If so, could these characteristics, rather than the pathway choices I have outlined, explain observed outcomes? If the analysis of the GS instrument identifies important differences between ABA participants and non-participants, such a finding would require revisiting the earlier claim that the design of the program controlled for many potential difference that could account for differential outcomes.

To answer this question, I will turn to the larger GS data set and employ multivariate analysis. The composition of the GS is ideal for examining whether those who participate in ABAs share common characteristics. The ability to compare individual characteristics of those self-selecting graduates who participated in ABAs from those who decided not to participate is a definite strength of the GS data. In building the conceptual model that could shed light on why some graduates participated in ABAs and others did not, I am guided by feedback from three workshops and prior empirical research (Howard 2000; Berdegue 2001).

In the multivariate model, the dependent variable is the decision to participate in ABA activities. The independent variables are grouped into three classes, with three variables in each. These are:

1. **INDIVIDUAL VARIABLES:** Does a graduate's hierarchical position in a firm affect the decision to participate? Does one's function in a firm influence the decision to participate? In addition, does prior membership in a similar organization increase the likelihood of ABA participation?
2. **FIRM VARIABLES:** Does a firm's size, corporate status or economic prospects affect participation?
3. **REGIONAL PROGRAM VARIABLES:** Does a graduate's view of his/her classmates affect participation? Given the role of regional government in implementing the program, does a graduate's view of government influence their decision to participate in ABAs? Finally, does the existence of a dynamic ABA attract more members?

The logic behind the selection of these independent variables is derived from functional, economic, and interactive thinking. Looking first to the individual variables, the choice of job position and function reflect both economic and functional thinking. In an environment characterized by market failure (e.g., poor information and high transaction costs), the further a manager climbs up the corporate ladder and the greater responsibility a manager has for strategic management, the greater is the likelihood that he or she would seek out information through new networks. In this context, business networks are potentially attractive propositions as they provide a web of opportunities for business development and information gathering. Conversely, a manager who is lower down a firm's hierarchy and does not have strategic management responsibilities would be less inclined to join. In these circumstances, there would be little payoff from investing time in an ABA because of the predicted lack of incentive or expectation to introduce new ideas into management practices. The remaining variable, 'member of a business association' reflects interactive thinking. The logic for selecting this variable is those who belong to similar organizations are more likely to participate in ABAs than those who have never participated in a membership organization. In the GS survey, for example, approximately 75% of the respondents indicated that business associations do not create tangible benefits for members. However, ABA participants provided a more optimistic assessment of the benefits accruing from business association participation. Stemming from these observations is the prediction that if graduates report being a member of a local, regional or national private sector association, they would be more inclined to participate in an ABA.

The predictions for the firm variables are based on economic thinking. A common policy prescription emanating from the private sector development literature is to privatize state owned enterprises, break-up large-scale industries, and introduce a robust competition policy (Nellis 2002). This advice seeks to transfer company ownership from the state to the private sector and subject companies to price signals. A firm's exposure to price signal, which would equate to market volatility in the Russian context, would depend on the company's size and corporate status. Where exposure to market forces is low, there would be less expectation that managers would participate in ABAs. For example, a manager in a large, state-owned firm who perceives his/her enterprise's economic status to be satisfactory and receives subsidized support from the regional government would not be expected to invest in, or search for, new business contacts. The expectation is reversed for a manager in a smaller, privatized firm with uncertain economic prospects. In this latter predicament, the manager's firm would be more vulnerable to external shocks and could not rely on state subsidies. Moreover, the firm's poor economic status would be a strong incentive for managers to tap into different networks to identify new business opportunities.

Finally, the regional program variables are based on interactive thinking. The primary consideration is whether managers are interested in contributing their time to deepening relations with government officials and graduates. It was apparent from the workshops and interviews with several RC heads that RCs took an interest in ABA formation and activities. In some regions, ABAs emerged and in others, attempts failed. It is also clear from the GS data that graduates held different perceptions of RCs' contributions to the organization of training and post-training work. Consequently, where a graduate held a positive view of the RC, there is a higher likelihood that he/she would participate in ABAs. Similarly, a graduate's

perception of their fellow graduates is expected to have a bearing on his/her decision to participate. Where a graduate had a positive opinion of his/her graduating class, it is expected that he/she would be more likely to participate in ABAs. Finally, in regions where ABAs had high participation rates, new graduates would be more inclined to participate in ABA activities than in those regions where ABAs were less successful in attracting new members. This expectation verges on circular reasoning (i.e., new graduates are expected to join because a large percentage of their fellow graduates have). However, numerous graduates likened this relationship to the physical law of gravity: organizations that have greater mass have stronger gravitational pull. In keeping with this explanation, I refer to this as the ‘density effect’: where ABAs have high participation rates, new graduates are expected to join and where the density effect is low, they are less likely to participate.

This latter variable reduces the size of the sample for multivariate analysis. I include cases from regions where ABAs existed, where the GS response rates within selected regions were high, and for regions where LS data indicated whether executive members were satisfied with current membership participation rates. These steps include 837 cases from 21 regions.

The table below illustrates the descriptive data and coding used in the binomial logistic regression that follows.

Table 6-10: Descriptive Data and Coding of Explanatory Variables

| | | n = | Valid Percent |
|---------------------------------|-----------------------------|------|---------------|
| Current Position in Firm | | | |
| | Guild level (1) | 123 | 11 |
| | Line Management (2) | 103 | 9 |
| | Functional Management (3) | 462 | 40 |
| | Senior Management (4) | 475 | 41 |
| | Total | 1163 | 100 |
| | Missing | 100 | |
| | Total | 1263 | |
| Function: Strategic management | | | |
| | Other (0) | 696 | 57 |
| | Strategic Management (1) | 521 | 43 |
| | Total | 1217 | 100 |
| | Missing | 46 | |
| | Total | 1263 | |
| Member of Business Associations | | | |
| | No other membership (0) | 634 | 56 |
| | One or more memberships (1) | 500 | 44 |
| | Total | 1134 | 100 |
| | Missing | 129 | |
| | Total | 1263 | |
| Company Size | | | |
| | ≤ 50 (1) | 419 | 34 |
| | 50-99 (2) | 121 | 10 |
| | 100-499 (3) | 198 | 16 |
| | 500-999 (4) | 102 | 8 |

| | | | |
|--|---------------------------|------|-----|
| | ≥ 1000 (5) | 375 | 31 |
| | Total | 1215 | 100 |
| | Missing | 48 | |
| | Total | 1263 | |
| Corporate Status | | | |
| | State owned (0) | 148 | 12 |
| | Privatized or private (1) | 1061 | 88 |
| | Total | 1211 | 100 |
| | System | 52 | |
| | Total | 1263 | |
| Economic Status of Firm | | | |
| | Almost bankrupt (1) | 32 | 3 |
| | Poor (2) | 102 | 8 |
| | Satisfactory (3) | 622 | 51 |
| | Good (4) | 437 | 36 |
| | Excellent (5) | 28 | 2 |
| | Total | 1221 | 100 |
| | Missing | 42 | |
| | Total | 1263 | |
| View of RC in organizing training and post-training work | | | |
| | Not satisfied (1) | 10 | 1 |
| | Somewhat satisfied (2) | 40 | 3 |
| | Satisfied (3) | 181 | 15 |
| | Very satisfied (4) | 457 | 37 |
| | Extremely satisfied (5) | 554 | 45 |
| | Total | 1242 | 100 |
| | Missing | 21 | |
| | Total | 1263 | |
| View of Fellow Graduates | | | |
| | Not satisfied (1) | 152 | 12 |
| | Somewhat satisfied (2) | 173 | 14 |
| | Satisfied (3) | 271 | 22 |
| | Very satisfied (4) | 357 | 29 |
| | Extremely satisfied (5) | 274 | 22 |
| | Total | 1227 | 100 |
| | Missing | 36 | |
| | Total | 1263 | |
| ABA Density Effect ¹¹⁶ | | | |

¹¹⁶ This variable is coded as follows: each of the 21 regions included in the analysis was labelled as a high, medium or low density region. A high density effect is a region where over 25% of the respondents to the 2001 GS participated in their regional ABA and where the executive member indicated in the LS that participation rates were satisfactory. Where participation rates ranged between 12-24% of the total cohort graduating in the region and leaders indicated increasing participation as a future goal, the 'density effect' for the region was coded medium. Finally, participation rates between 1-11% were listed as having a low 'density effect'. Thus, each case from selected regions had the same code based on a composite indicator from two surveys.

| | | | |
|--|------------|------|-----|
| | Low (1) | 434 | 34 |
| | Medium (2) | 413 | 33 |
| | High (3) | 416 | 33 |
| | Total | 1263 | 100 |

Using these variables to explain ABA participation, the following table displays the results of the binary logistical regression model, a method suited for dichotomous dependent variables.¹¹⁷

Table 6-11: Determinants of ABA Participation

| | B | S.E. | Sig. | Exp(B) |
|-----------------------------------|-------------|------|------|--------|
| Individual Characteristics | | | | |
| Current Position in Firm | -0.02 | 0.10 | 0.84 | 0.98 |
| Function: Strategic management | 0.31 | 0.18 | 0.08 | 1.37 |
| Member of Bus. Assoc. | 0.10 | 0.18 | 0.58 | 1.10 |
| Firm Characteristics | | | | |
| Company Size | 0.05 | 0.06 | 0.42 | 1.05 |
| Corporate Status | -0.13 | 0.28 | 0.63 | 0.87 |
| Economic Status | -0.18 | 0.12 | 0.14 | 0.83 |
| Regional Program Variables | | | | |
| View of Classmates | 0.13 | 0.11 | 0.25 | 1.14 |
| View of RC | 0.19 | 0.07 | 0.01 | 1.21 |
| Density Effect | 0.98 | 0.12 | 0.00 | 2.65 |
| Constant | -4.05 | 0.81 | 0.00 | 0.02 |
| Model Fit Statistics | | | | |
| N= | 837 | | | |
| Nagelkerke R Square | 0.18 | | | |
| Hosmer and Lemeshow Test: | | | | |
| Chi-square | 3.75 | | | |
| Df | 8 | | | |
| Sig. | 0.88 | | | |

Of the nine explanatory variables only two are statistically significant (in bold) and they both are associated with regional program variables. The parameter estimate of ‘view of RC’ and ‘density effect’ are positive and significant meaning that graduates who hold positive

¹¹⁷ This regression method estimates the odds of an independent variable influencing a dependent variable in a multivariate model. Specifically, logistic regression expresses the natural logarithm of the ratio of the probability of (Y) to the probability of (1-Y) as a linear combination of a set of independent variables, where β_0 is the intercept, and β_i is the change in log odds, or logits, of Y for every unit change in the dependent variable X_i , after differences in other variables have been taken into account.

assessments of regional officials involved in the program and where the regional ABA has a high participation track record, graduates are more likely to participate themselves.

In terms of the relative effect of these two significant variables, as measured by the $\text{Exp}(B)$ value, the density effect ($\text{Exp}(B)=2.65$) has a stronger influence on the odds of ABA participation than does one's view of RC ($\text{Exp}(B)=1.21$). Another way to describe the table is to say that as the density variable increases one unit, the odds that a PMTP graduate participates in an ABA increases by a factor of 2.65. Moreover, a graduate with a positive view of RC is 1.2 times more likely to participate in ABAs than a graduate who does not have a positive view. The importance of a graduate's assessment of RC staff is an exciting finding in light of the program's goal to promote interaction with government, and for that interaction to stimulate wider program goals. Other research investigating the reasons for low participation in Russian business associations has concluded that business people tend to react negatively to the active involvement of government officials in business associations (Dolgopyatova 2000).

Also of interest is the finding that none of the expected individual and firm characteristics were significant. This probe into the determinants of ABA participation underscores the importance of relational dynamics in regional contexts and the unimportance of functional and economic thinking as drivers of participation. This is an unexpected finding in light of the prevalence of economic-based predications in the literature of why entrepreneurs participate in informal business networks or formal associations. This finding suggest that the regional government organizers of the PMTP played an important role in promoting ABA participation.

What does all of this have to say about attributing expected PMTP outcomes to ABA participation? As I continue into the next two chapters, I will illustrate a number of multi-level outcomes that I attribute to ABA participation. ABA participation, I argue, enabled managers to gain access to social resources that in turn facilitated instrumental action at various levels. A sceptical observer might wonder whether ABA participation really matters all that much. Might it be the case that some graduates possess a quality making them more likely to be promoted and develop new business opportunities, and it just so happens that they are also members of ABAs? This potential explanation stresses the importance of individual characteristics while undermining the relevance of ABA participation. However, this potential explanation is cast in doubt by the findings in Table 6-11. The multivariate regression results indicate that the selected individual and firm characteristics were not correlated with ABA participation. Rather the design features of the program and its evolution were important determinants to ABA participation. The significance of this finding moving forward is that it undermines the hypothesis that those graduates who self-selected the collective pathway (association-based social capital) were influenced to do so by some underlying personal quality – and that it was that personal quality that was instrumental in attaining expected outcomes. As personal characteristics were not a factor of ABA participation, I can now be

more certain that where ABA participation is correlated with expected PMTP outcomes, it due to the collective resources generated by members.¹¹⁸

6.3. CONCLUSION

I began this chapter asking if ABAs were imaginary communities, a modern day Potemkin Village. If they were, ABAs would be temporary façades, devoid of the social relationships that enable social capital to develop. Since I have defined social capital as a relational asset, the focus on ABAs as one potential pathway for graduates to access and mobilize social capital is merited. In fact, there is substantial scholarly attention given to voluntary organizations as incubators of social capital. However, I did not want to assume that ABAs possessed this capacity without first analyzing the structural and cognitive dimensions of ABAs. There are two strong reasons for this analysis: the first concerns the youth of these associations and the second owes to the widespread observation that Russian civil society is weak, even compared to neighbouring Central and Eastern European countries.

To gauge if ABAs were Potemkin Villages, this chapter analysed two surveys that were separately administered to executive members (LS) and regular members (MS). The analysis of select structural and cognitive dimensions supports the conclusion that ABAs are forward-looking organizations with a committed membership. The LS survey of 26 organizations indicates a high level of formal organization (legal status, existence of charters, use of identity symbols, strategies for generating organizational support, etc.) over a relatively short duration of time. The MS survey illustrates that ABAs are heterogeneous associations drawing together a cross-section of the business community. Further, members value their participation and signal their future intent to participate. Generally speaking, ABAs have the appearance of formal organizations and both leaders and members are forward looking.

In Chapter 7, I begin the first of two chapters to illustrate the effects of social capital. Chapter 7 identifies a range of collective-choice outcomes as well as the growth and pattern of external networking that ABAs facilitated. In Chapter 8, I will investigate the operational-level outcomes at the individual and firm-levels. For this analysis, I employ statistical analysis to compare the relative significance of individual and collective pathways in attaining expected outcomes. The evidence from both chapters suggests that ABAs are important resources but their relative influence to other pathways varies depending on the outcome in question.

¹¹⁸ This concern was discussed on the section on threats to internal validity in Chapter 4.

7. THE FACILITATIVE ROLE OF ABAS IN COLLECTIVE CHOICE ARENAS

There is little question that Russia has made significant progress in dismantling the central planning system, which, during the Soviet era, had directly governed Russia's industrial structure, conduct and performance. But, to date, the development of ... basic market institutions to take the place of central planning remains nascent-especially in regional markets, where day-to-day business transactions are conducted. (Broadman 2002b: 1)

In this chapter, I provide a glimpse into the question how basic institutions for markets are created. In the exit from state socialism, there were numerous influential 'institution builders' in society and government that shaped the informal norms and the formal rules of the emerging economic development framework. During the Yeltsin period, perhaps the most significant institution builders outside of government were the oligarchs and their FIGs. They wielded tremendous influence over the state and their ability to secure government concessions, manipulate legislative processes and regulatory compliance undermined the promise that the transition process would lead to rule-bound liberal markets.¹¹⁹ The legitimacy of market liberalization was further undermined by the precipitous decline in real income for the majority of Russians and their widely held view that the market served the economic interest of the political and new business elite.

If the oligarchs set the tone at the national level, who were the institution builders at the regional level? Regional and municipal governments had a central role, despite their relative declining influence and resources. Dominant regional enterprises also commanded influence in setting the economic agenda. A legacy of Soviet planning was the presence of large industrial plants in each region. With the transition, enterprise directors of strategic industries or even those that faced bankruptcy and could leverage the threat of mass lay-offs were able to secure preferential support from local government.

Between the state and dominant industries, who were the institution builders dedicated to fostering market-supporting and complementing institutions? This question posed to any oblast-level economic planning department head would likely elicit a quizzical look. If the question was rephrased to ask who engages in market-supporting activities such as those who push or pressure government to enforce commercial legislation; regulate financial markets; provide an option for judicial recourse when desired; or basic infrastructure for commerce, a

¹¹⁹ Hoffman (2003) provides an illuminating account of how four powerful oligarchs, Alexander Smolensky, Mikhail Khodorkovsky, Boris Berezovsky and Vladimir Guinsky amassed fortunes from exploiting weak rules.

typical answer would likely include dominant industries lobbying for their own behalf or the regional chamber of commerce and industry.

If asked who undertakes market-complementing activities aimed at overcoming missing-markets such as lowering the costs of, and increasing access to, information; setting industry standards; monitoring professional conduct; coordinating vertical and horizontal markets; or promoting skills and learning, a typical economic planner might identify trade unions or the regional chamber of commerce and industry. The responses to either question would vary from region to region but the absence of candidates would be striking.¹²⁰

In this chapter, I explore the contribution of ABAs as institution builders through their early market-supporting and complementing actions. This analysis highlights their initial contribution to engaging government on the content of economic policy; collaborating with government to ameliorate the social and economic costs of enterprise restructuring; and, supporting ABA members through peer mentoring, referrals and other social resources. In addition to identifying these actions, this chapter documents the expansion of ABA external networks. This focus points to the development of new opportunities and potential capabilities of ABAs. Towards this assessment of new opportunities created by ABAs, I will determine whether graduates consider ABAs an effective pathway to establish important external linkages over other available means. Finally, I will establish whether ABAs are proactive in creating external contacts and whether those linkages established are reciprocal. Addressing these questions will help illuminate the process of social capital formation and members' potential to access social capital resources within and through their ABAs.

7.1. MARKET-SUPPORTING AND -COMPLEMENTING ACTIONS

The architects of the PMTP established a number of program goals with collective good characteristics. These included: promoting business and small and medium enterprise development; improving dialogue among companies and entrepreneurs, government structures and educational institutions; and, developing partnerships and information exchange between Russian and with foreign companies. With the growth of ABAs, these goals appeared to be more realistic and directly attainable as ABAs were interacting with the program's network of government agencies, training institutions and private sector companies on the design and implementation of the PMTP, and importantly, on other issues as well.

Based on early observations of ABA activity, Viktor Khristenko (2001) outlined the following functions that they could fulfill:

¹²⁰ For an in-depth analysis of the composition of regional elite in the late Yeltsin and early Putin period, consult Chirikova & Lapina (2001). Their investigation into who holds influence in the regions is remarkable for the lack of actors not associated with political parties, the state or major industries.

1. Enhancing vertical and horizontal labour mobility through establishing job banks and consulting opportunities;
2. Promoting innovation in management technologies and firm restructuring through systematizing knowledge exchange among alumni;
3. Working toward reducing administrative and information barriers negatively affecting the business environment through enhanced dialogue among businesses and various levels of government; and,
4. Forging closer ties with agents of social and economic development.

These contributions would go beyond the individual learning and firm-level reforms intended by the PMTP and contribute to the goal of transforming the wider business environment. Some of the mentioned program outcomes such as enhanced labour mobility can be achieved without ABAs. However, an active network of PMTP graduates may increase the likelihood of interaction, information flow and innovation. The benefits of which may accrue to the individual, enterprises or reshape the business environment. These expectations are grounded in an extensive body of research highlighting the importance of social structure to economic organization and performance.

The organizational capacity of ABAs is germane to these outcomes because collective pathways help aggregate, structure and channel individual action toward transformational processes. The alternative, “actor generated transformations,” as Nan Lin (2002: 194) suggests, “are infrequent and rarely succeed.”

In examining the role of business associations, Richard Doner and Ben Ross Schneider identify two main functions that contribute to economic development. These are market-supporting and market-complementing activities. Market-supporting actions target collective-choice arenas as they seek to alter who participates in policy-making and its substance. Market-complementing actions also influence the collective-choice arena but do so indirectly. For example, ABA activities such as further training, business seminars or information pooling raise awareness of their options, opportunities and capacity to act collectively. Market-complementing actions have a more direct affect in operational arenas where they impart the skills, information, and contacts for business development.

Table 7-1 categorizes each function and provides specific examples.

Table 7-1: Examples of Market-Supporting and Market-Complementing Actions

| Function | Examples |
|--|---|
| Market-supporting actions (public good) | Creating norms for political participation in public policy Contributing, advising or critiquing existing or proposed legislation/regulation Defending or upholding property rights Enhancing social or business infrastructure Supporting more effective administration/state capacity |
| Market-complementing actions (club good) | Standard-setting across industry Horizontal coordination for production Vertical coordination for production Lowering information costs Skill-upgrading/training Business or market innovation |

Source: adapted from Doner & Schneider (2000a)

Business associations pursue market-supporting actions through pressuring or supporting government to improve the institutional framework for economic development. Business associations may collaborate with government to co-produce a service or policy, or exert pressure on government to improve their services and policies. The list of market-supporting activities is indicative of some of the more important collective-choice arenas where business associations in transitional or developing countries have or could play a role.¹²¹

Market-complementing actions seek to improve coordination to overcome missing or imperfect markets. The examples listed can be undertaken by business associations or in concert with others but, unlike market-supporting actions, government involvement is not an essential feature. In developing or transitional economies, there are a number of situations where business associations have demonstrated their ability to improve the business environment through market-complementing actions. These include, improving access and accuracy of information, creating incentives or opportunities for training, standard setting, or improving best practice in business operations through information sharing and support. Sector-wide associations that specialize in a particular industry tend to concentrate their efforts in vertical or horizontal coordination to manage production, integration and product promotion. In Russia, all of these market-complementing activities had been the formal responsibility of the state. Where these activities now occur, private sector coordination is typically responsible.

¹²¹ See Doner & Schneider (2000a) for case examples in numerous developing countries.

The remainder of this section draws examples of each. Table 7-2 identifies a range of market-supporting activities performed by ABAs. The organization of the data corresponds with categories introduced in Table 7-1. The second column identifies the region where the ABA is located followed by a brief description of the action. The selection of examples is indicative of ABAs activities during the 2000 to 2002 period. In compiling data for these tables, I use information collected through interviews, presentations given by ABA members, and newsletters. No effort was made to screen the examples for their significance among other achievements. The intent here is to document the range of activities across numerous ABAs to illustrate their breadth of work. Many of the listed ABAs contributed to the MS and LS instruments and have been introduced previously.¹²²

Table 7-2: Selected Examples of Market-Supporting Actions (2000-2002)

| Potential Actions | Location of ABA and Corresponding Activity |
|--|---|
| Participation in public policy | <p>Chuvash: Signed framework agreement with Ministry of Economic Development and Trade establishing a platform for consultations on the social and economic development of the region</p> <p>Sverdlovsk: Held working-level meetings with Ministry of Trade regarding international trade opportunities and constraints</p> <p>Kirov: Members participated in, and consulted by, the Governor's Economic Council on wide range of topics concerning enterprise restructuring and business development</p> <p>Saratov: Collaborated with RTI and Governor's office to review bankruptcy legislation and impact on regional businesses</p> <p>Voronezh: Cooperation agreement signed between of the City of Voronezh, Territorial Management of the Ministry of Property and Central Black Earth branch of the Savings Bank of Russia to coordinate investment and identify priority social and economic investment in the city</p> |
| Contributing, advising or critiquing existing or proposed legislation/regulation | <p>Mary-El: Series of consultations held with Governor and administrative bodies to revamp human resource development policy</p> <p>Komi: Participated as external advisors to the development of Komi Republic's skills development and learning policy framework</p> <p>Vologda: Prepared submission to Department of Human Resources on options to strengthen the region's human resource development strategy</p> <p>Penza: Advised on the drafting of the "Law of Investment"</p> |

¹²² See Appendix 5 for ABA mission statement.

| | |
|--|--|
| Defending or upholding property rights | Krasnodar: ABA wins Governor's competition for most socially significant project (2004) for organizing a workshop series for young entrepreneurs and business executives on civil law protection, administrative law and business rights, and investment and tax law |
| Enhancing social or business infrastructure | <p>Chuvash: Signed agreement with State Committee on Youth Affairs to run a regional competition to sponsor and mentor young entrepreneurs and their innovative business plans; consulted with authorities on access and adequacy of social service provision for youth</p> <p>Voronezh: Created a regional charitable lottery "Family and Children" to raise funds for community projects</p> <p>Saratov: Established pilot project with local businesses and correctional services to provide skill development training for incarcerated young offenders</p> <p>Kursk: Established partnership with Rotary Club to raise public awareness and fundraise for disabled children</p> <p>Tomsk: Created partnership with Department of International Relations to host European trade fair in Tomsk bringing together wide spectrum of industries in the region</p> |
| Supporting effective administration/state capacity | <p>* majority of ABAs are involved with RCs in the organization, selection and mentoring of PMTP trainees and graduates</p> <p>Ivanovsk: Created database on PMTP alumni management expertise; database access provided to officials involved in restructuring municipal and state-owned enterprises and government management systems</p> <p>Ryazan/Krasnodar/Sverlovsk/Kemerovo: Launched standing offer agreement with regional governments to provide expertise to state and large enterprises facing bankruptcy</p> <p>Saratov: Revamped Trade and Industry's web-site on foreign investment opportunities to make the information accessible and relevant to foreign investors</p> <p>Voronezh/Penza: Established language centre to support the PMTP foreign language training component and upgrading of ABA members language skills</p> |

Source: fieldwork

This list of market-supporting actions represents political interventions in shaping the regional economic and social environment. Many PMTP graduates were not accustomed to the level of interaction with government and external organizations that sponsored-ABA activities facilitated.

It is important to note that the actions listed are time bound and individually would have a modest influence on regional economic development. Should ABAs sustain such activities

over time, the cumulative effect would be greater in terms of both market-supporting outcomes and increasing the confidence and capacity of ABAs. Within this table, the most common action was support given to the RC to implement the PMTP more effectively. ABA members supported the RC by nominating high potential managers to the PMTP, interviewing potential candidates, providing feedback on program implementation and improving the flow of information among the RTIs, businesses, and government. All these activities are noteworthy for the reciprocal interaction that would have taken place across the private-public divide.

In Table 7-3, attention turns to activities where the benefits accrue mainly to ABA members but with secondary benefits spilling over in the regional economy. Again, the list of activities is a cross-section from a range of ABAs across Russia during the 2000-2002 period.

Table 7-3: Selected Examples of Market-Complementing Actions

| Potential Actions | Location of ABA and Corresponding Actions |
|--|--|
| Standard-setting across industry | None identified |
| Horizontal coordination for production | None identified |
| Vertical coordination for production | None identified |
| Lowering information costs | <p>* majority of ABAs have developed databases on members and their firms for information, career and business development purposes</p> <p>Several prominent ABAs spearhead the establishment of the ‘Inter-regional Council for Information and Coordination’ to “improve the infrastructure and management procedures within the Russian economy through stimulation of business contacts between the [ABAs] in various regions” (mission statement). Forty-eight ABAs sign on to the Council’s Charter.</p> <p>Kaliningrad/St.Petersburg: Analysed and published newsletters on business climate and trends in respective regions</p> <p>Nizhny-Novgorod: Compiled case-studies on effective restructuring projects and established a databank on investment projects in the region</p> |

| | |
|-------------------------------|---|
| Skill-upgrading/training | <p>* majority of ABAs organize professional development workshops, seminars and training for members</p> <p>Japan Association: Coordinate regular professional development seminars by local and international speakers in several regions</p> <p>Sverdlovsk: Established partnership with local businesses to host an annual international workshop for managers and executives on issues of total quality management and other business topics</p> <p>Voronezh: Ran annual business seminar series</p> <p>Tomsk: Regular seminars on management, marketing, and financial analysis</p> <p>Perm/Penza: Organized program for foreign language training for members and non-members</p> <p>Kostroma: Workshops and program development for executives of regional enterprises interested in presenting investment opportunities to national and international clients</p> |
| Business or market innovation | <p>Swedish Association: Developed bilateral exchange program for managers and executives between Russian/Swedish companies to facilitate understanding and trade opportunities</p> <p>Vologda: Market research project on foreign investment opportunities in the oblast</p> <p>Krasnodar/Stavropol/Astrakhan: Hosted and organized an international trade show with German and European companies</p> <p>Tver/Kaluga/Moscow: Established business advisory centres for members. Actions include peer-review of business plans, identification of potential investors and clients</p> <p>Kostroma: Developed and operated the Inter-regional marketing center 'Kostroma-Moscow' to facilitate trade and business development between regional oblasts.</p> |

Source: fieldwork

Using the classificatory scheme proposed by Doner and Schneider, the core market-complementing actions of ABAs were information sharing and dissemination, and skills development. These were common functions that all ABAs had in place in one form or another. Somewhat less common were examples of business or market innovation. Programming in this area typically involved organizing international business development events. By the 2000-2002 period, a number of ABA members had participated in the PMTP's international experiential learning component supported by the YDFP and other donor governments. Many of the donors had joined the program on the expectation that by training young Russian managers in their countries, it would cultivate bilateral trade and investment

opportunities.¹²³ In this area of activity, the ABAs acted as the broker between the regional government and the business community to host trade fairs, executive management exchange visits, and political dialogue between regional administrations and donor government representatives.

Finally, there was a complete absence of ABA activity in the area of standard setting, and vertical and horizontal coordination for production. This gap is not surprising as these market-complementing actions tend to be pursued by homogenous trade or industry associations that have an ability to regulate standards or coordinate production in a given sector. In contrast, the multi-sector composition of ABAs steered members toward activities that had an information dissemination or skills improvement dimension.

7.2. SOCIAL CAPITAL FORMATION

In the section above, I illustrated a sample of activities implemented by PMTP graduates through their ABAs. Those examples begin to identify outcomes facilitated through the collective pathway of ABAs. I now turn to exploring the structural basis from which such actions depend. This section focuses on three related questions: i) whether graduates consider ABAs an effective pathway to establish important external linkages over other available means; ii) whether ABAs are proactive in creating external contacts; and, iii) whether the contacts established through ABAs with external organizations are reciprocal? Insights into these questions will illuminate the role of ABAs in expanding members' social networks and the opportunities that inhere within the relationships created.

When the research project with the FCS was launched, all of the ABAs were young organizations. While concrete examples such as those discussed in Table 7-2 and Table 7-3 were of interest, the research team did not expect to document a wide array of collective-choice outcomes. However, the research team did anticipate that mapping ABAs' social networks would reveal ABAs' capabilities for action.

Identifying this potential for action is no less important than documenting social capital outcomes. Recall the previous distinction between access and mobilization of social capital. Social capital outcomes are the result of this two-step process. In the first step, a manager must invest in a social network to be able to access a social resource later. In the second step, the decision to mobilize a social resource would depend on the opportunity. Through iterations of this process, managers build reputations, acquire information, and identify opportunities for cooperation and coordination. Only when this social infrastructure has been developed, can social resources be mobilized. This ability to access and mobilize social resources, or what some authors refer to as latent social capital, would be demonstrated by the extent that: i) members developed external connections through ABAs that previously did not

¹²³ The business case for donor support of the PMTP was very clear in the design and evaluation of donor programs. The German, Swedish and UK programs, for example, each had bilateral trade expectations.

exist; and, ii) those connections were deemed by members more useful than attained previously through other means.

In the remainder of this section, I will explore the development of ABAs external networks.

7.2.1. Network Development and the Relative Importance of ABAs

The following four tables highlight the importance of ABAs relative to other mechanisms available for establishing ‘important contacts’ with PMTP graduates, RTIs, different levels of government, civil society organizations, and firms.

A two-step question informs the next four tables. The first step asked ABA members to identify whether they had established an ‘important contact’ recently in each of the twelve indicated areas (column headings). If respondents could identify an important contact, in the second step they identified the means through which the contact was made (first column). The definition of importance was left to members own determination. If respondents felt that contacts were unimportant or were not established, they had the option of selecting ‘no contact established’.

Table 7-4 shows ABAs are the most important vehicle for establishing contacts with members of other ABAs, RTI and other PMTP graduates.

Table 7-4: Relative Importance of ABAs in Attaining Important Contacts with Graduates and RTI

| Attaining Important Contacts with → | Members of other ABAs (N=280) | RTIs (N=277) | Other graduates in the region (N=279) |
|--|-------------------------------|--------------|---------------------------------------|
| Means of Making Contact (select one) ↓ | % | % | % |
| Through family member or friend | 1 | 5 | 2 |
| Through colleague at work & business associate | 6 | 14 | 6 |
| Through ABA member | 44 | 30 | 67 |
| Through member of another organizations | 6 | 3 | 4 |
| Through other means | 6 | 16 | 7 |
| Through yourself (no one assisted in making contact) | 5 | 22 | 12 |
| No contact established | 32 | 10 | 2 |
| Total % | 100 | 100 | 100 |

Source: MS 7

Table 7-5 illustrates the importance of ABAs as a pathway to establish government contacts. It shows that ABAs are the single most important vehicle for facilitating contacts with government officials.

Table 7-5: The Relative Importance of ABAs in Attaining Important Government Contacts

| Attaining Important Contacts with → | Local Gov't (N=276) | Regional Gov't (N=277) |
|--|------------------------|---------------------------|
| Means of Making Contact (select one) ↓ | % | % |
| Through family member or friend | 2 | 5 |
| Through colleague at work & business associate | 16 | 16 |
| Through ABA member | 34 | 28 |
| Through member of another organizations | 3 | 3 |
| Through other means | 14 | 16 |
| Through yourself (no one assisted in making contact) | 16 | 16 |
| No contact established | 15 | 17 |
| Total % | 100 | 100 |

Source: MQ 7

Table 7-6 illustrates that where contacts are established with organizations in the economic and cultural sector, ABAs are the most important pathway. The only exception in this table relates to financial institutions where firm and individual means were more important.

Table 7-6: The Relative Importance of ABAs in Attaining Important Contacts

| Attaining Important Contacts with → | Professional or Business Associations (N=273) | Mass Media (N= 280) | Financial Institutions (N=275) | Cultural Institutions (N= 278) |
|--|---|---------------------------|--------------------------------------|--------------------------------------|
| Means of Making Contact (select one) ↓ | % | % | % | % |
| Through family member or friend | 2 | 4 | 6 | 5 |
| Through colleague at work & business associate | 19 | 16 | 23 | 14 |
| Through ABA member | 25 | 21 | 13 | 17 |
| Through member of another organizations | 6 | 1 | 3 | 1 |
| Through other means | 12 | 21 | 17 | 15 |
| Through yourself (no one assisted in making contact) | 14 | 17 | 17 | 14 |
| No contact established | 22 | 20 | 21 | 34 |
| Total % | 100 | 100 | 100 | 100 |

Source: MQ 7

In Table 7-7, members reported that colleagues and business associates were the most important referral mechanisms to establish valued contacts with Russian companies within and outside their region. ABAs did contribute to the growth of company-level contacts as well but they were not the primary pathway.

Table 7-7: The Relative Importance of ABA in Attaining Important Company Contacts

| Attaining Important Contacts with → | Companies in your region (N=278) | Companies in other regions (N=273) | Foreign Companies (N=269) |
|--|----------------------------------|------------------------------------|---------------------------|
| Means of Making Contact (select one) ↓ | % | % | % |
| Through family member or friend | 4 | 1 | 3 |
| Through colleague at work & business associate | 30 | 21 | 11 |
| Through ABA member | 21 | 14 | 19 |
| Through member of another organizations | 2 | 9 | 1 |
| Through other means | 16 | 18 | 20 |
| Through yourself (no one assisted in making contact) | 17 | 17 | 15 |
| No contact established | 10 | 20 | 31 |
| Total % | 100 | 100 | 100 |

Source: MQ 7

In sum, members considered ABAs the most important vehicle in identifying new contacts in eight of the twelve contact groups listed. ABAs were clearly an important mechanism in developing government connections but were less important relative to other means in creating relations with companies and financial institutions. These latter relations were cultivated through pre-existing personal and business relations.

It is interesting to note the frequency with which members turn to their associations rather than through their pre-existing contacts. This finding is even more surprising given that Russian society has tended to privilege informal, family-based networks over other means to obtain goods, services and favours. The fact that members were turning to their associations for referrals suggests that ABAs were making an important contribution to extending their members' external social networks.

7.2.2. Kind of Assistance Provided by ABAs

The MS instrument asked ABA members to indicate what kind of assistance other ABA members provided in making important connections they identified in the tables above. The three alternatives were providing advice, contact information or direct facilitation. These three possibilities sought to determine how active members were in creating contacts for other members.

In the two tables that follow, I display the results for a subset of external contacts. Table 7-8 presents the findings for the kind of support rendered by other members in establishing contacts with government and business associations. The table that follows, Table 7-9, outlines the kind of support provided in making contacts with individual companies in different geographical locations.

Table 7-8: Means of Assistance in Developing External Contacts – Gov’t and Business Associations

| | Local Gov't (N=91) | Regional Gov't (N=71) | Prof. & Business Assoc. (N=61) |
|--------------------------------------|-----------------------|--------------------------|-----------------------------------|
| Type of Assistance from ABA Member ↓ | % | % | % |
| Advised you to make the contact | 42 | 37 | 38 |
| Provided contact information | 23 | 18 | 21 |
| Arranged the contact for you | 35 | 45 | 41 |
| Total % | 100 | 100 | 100 |

Source: MQ 8

Table 7-9: Means of Assistance in Developing External Contacts - Companies

| | Companies in Region (N=51) | Companies out of Region (N=29) | Foreign Companies (N=40) |
|--------------------------------------|----------------------------------|--------------------------------------|--------------------------------|
| Type of Assistance from ABA Member ↓ | % | % | % |
| Advised you to make the contact | 47 | 45 | 32 |
| Provided contact information | 18 | 48 | 23 |
| Arranged the contact for you | 35 | 7 | 45 |
| Total % | 100 | 100 | 100 |

Source: MQ 8

The three types of assistance range from fairly passive (i.e., an advising role) to active (i.e., an arranging role). Mindful that the sample size for these responses is small, the pattern that emerges sees ABA members expending different levels of assistance contingent on the reach of the connection being sought. For example, in Table 7-9, ABAs members take a more active facilitation role the further away the contact. For company referrals close at hand, ABA members provide advice. When company contacts are located in other regions or internationally, ABA members tend toward active facilitation. The support provided therefore appears to be contingent and proportional to assistance required.

7.2.3. Network Development and Reciprocity: Building Ties with Government and the Business Sector

This section examines who initiates interaction in collective-choice arenas. Of interest is whether ABAs actively involve government and the business sector on issues affecting the business environment. Given that ABAs are new organizations, one would expect to see ABAs being proactive in engaging government and the business sector. If these associations have a presence in their region, one would also expect to see external organizations engaging ABAs, though to a lesser extent. The former expectation indicates whether these associations are setting their agenda. The latter expectation indicates whether external organizations recognize ABAs, and the degree of reciprocity with external organizations.

The tables are based on leaders’ responses to the LS instrument. As such they provide a one sided view on the direction and reciprocity from the perspective of ABA leaders.

Government and ABAs Interaction

The following four tables indicate the direction and reciprocity between government and ABAs. The question asked ABA leaders whether they involve local authorities or whether local authorities involve them in discussions on issues across eight policy areas. In Table 7-10, for example, the columns under the heading of private sector development policy show that approximately half (52%) of the ABA leaders felt that local authorities never or rarely involved them in discussions whereas half (50%) of the ABAs often or always involved local authorities in events they initiated on the issue.

Table 7-10: Government and ABAs Interaction (1)

| | Private Sector Development Policy | | Economic Policy Development | |
|------------------------|-----------------------------------|---------------------------|-----------------------------|---------------------------|
| | Gov't involves ABAs (N=23) | ABA involves Gov't (N=24) | Gov't involves ABAs (N=23) | ABA involves Gov't (N=24) |
| Level of Involvement ↓ | % | % | % | % |
| Never or Rarely | 52 | 25 | 52 | 29 |
| Sometimes | 18 | 25 | 18 | 21 |
| Often or Always | 30 | 50 | 30 | 50 |
| Total (%) | 100 | 100 | 100 | 100 |

Source: LQ 23, 25

In Table 7-10, for example, ABA leaders in half the regions sampled indicate that local government never or rarely involve them in discussion relating to economic policy. In contrast, ABA leaders reported that the majority of associations often or always involve government when these topics are addressed.

The superimposed arrows in the table above illustrates the pattern of ABAs promoting interaction with government to a greater extent than government engaging ABAs. This pattern is consistent across all the remaining policy areas.

Table 7-11: Government and ABAs Interaction (2)

| | Access to Information | | Social Policy | |
|------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | Gov't involves ABAs (N= 22) | ABA involves Gov't (N= 23) | Gov't involves ABAs (N= 23) | ABA involves Gov't (N= 23) |
| Level of Involvement ↓ | % | % | % | % |
| Never or Rarely | 50 | 35 | 52 | 26 |
| Sometimes | 36 | 30 | 30 | 44 |
| Often or Always | 14 | 35 | 18 | 30 |
| Total | 100 | 100 | 100 | 100 |

Source: LQ 23, 25

Table 7-12: Government and ABAs Interaction (3)

| | Education/Training Policy | | Trade Development | |
|------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | Gov't involves ABAs (N= 20) | ABA involves Gov't (N= 21) | Gov't involves ABAs (N= 22) | ABA involves Gov't (N= 22) |
| Level of Involvement ↓ | % | % | % | % |
| Never or Rarely | 45 | 33 | 64 | 59 |
| Sometimes | 45 | 33 | 23 | 18 |
| Often or Always | 10 | 33 | 13 | 23 |
| Total | 100 | 100 | 100 | 100 |

Source: LQ 23, 25

Table 7-13: Government and ABAs Interaction (4)

| | Infrastructure | | Environmental issues | |
|------------------------|------------------------------|----------------------------|-----------------------------|----------------------------|
| | Gov't involves ABAs (N= 23) | ABA involves Gov't (N= 23) | Gov't involves ABAs (N= 21) | ABA involves Gov't (N=22) |
| Level of Involvement ↓ | % | % | % | % |
| Never or Rarely | 52 | 44 | 62 | 59 |
| Sometimes | 30 | 30 | 24 | 18 |
| Often or Always | 18 | 26 | 14 | 23 |
| Total | 100 | 100 | 100 | 100 |

Source: LQ 23, 25

Table 7-10 through to Table 7-13 also indicates what issue areas are of primary concern to the ABAs that merit deliberation with local authorities. Priority areas are private sector and economic policy, access to information, social policy and training/education policy. The ABAs are less interested in the environment, infrastructure, and trade policy.

Business and ABA Interaction

The same question set was asked in relation to ABA interaction with the business community on the same policy issues. In this following set of tables, a similar pattern appears. In every issue area, ABA leaders reported that they more actively engage the business community than vice versa.

Furthermore, the tables provide additional insight into the selective targeting of who ABAs engage and on what issue. For example, comparing responses in Table 7-11 (above) and Table 7-15 (below) on social policy, it is evident that ABAs have focused their attention more closely on local authorities than on the business community. This is an intuitive finding but it demonstrates the selective targeting of external contacts by issue area.

Table 7-14: Business and ABAs Interaction (1)

| | Private Sector Development Policy | | Economic Policy Development | |
|------------------------|-----------------------------------|-------------------------------|---------------------------------|-------------------------------|
| | Business Involves ABAs (N= 23) | ABAs Involve Business (N= 23) | Business Involves ABAs (N= 23) | ABAs Involve Business (N= 23) |
| Level of Involvement ↓ | % | % | % | % |
| Never or Rarely | 39 | 35 | 43 | 35 |
| Sometimes | 35 | 22 | 35 | 26 |
| Often or Always | 26 | 43 | 22 | 39 |
| Total % | 100 | 100 | 100 | 100 |

Source: LQ 27 & 28

Table 7-15: Business and ABAs Interaction (2)

| | Access to Information | | Social Policy | |
|------------------------|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Business Involves ABAs (N= 23) | ABAs Involve Business (N= 23) | Business Involves ABAs (N= 23) | ABAs Involve Business (N= 22) |
| Level of Involvement ↓ | % | % | % | % |
| Never or Rarely | 52 | 39 | 61 | 50 |
| Sometimes | 26 | 26 | 26 | 32 |
| Often or Always | 22 | 35 | 13 | 18 |
| Total % | 100 | 100 | 100 | 100 |

Source: LQ 27 & 28

Table 7-16: Business and ABAs Interaction (3)

| | Education/Training Policy | | Trade Development | |
|------------------------|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Business Involves ABAs (N= 22) | ABAs Involve Business (N= 22) | Business Involves ABAs (N= 22) | ABAs Involve Business (N= 22) |
| Level of Involvement ↓ | % | % | % | % |
| Never or Rarely | 45 | 41 | 45 | 45 |
| Sometimes | 41 | 32 | 41 | 32 |
| Often or Always | 14 | 27 | 14 | 23 |
| Total % | 100 | 100 | 100 | 100 |

Source: LQ 27 & 28

Table 7-17: Business and ABAs Interaction (4)

| | Infrastructure | | Environmental issues | |
|------------------------|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Business Involves ABAs (N= 23) | ABAs Involve Business (N= 23) | Business Involves ABAs (N= 21) | ABAs Involve Business (N= 21) |
| Level of Involvement ↓ | % | % | % | % |
| Never or Rarely | 48 | 48 | 76 | 77 |
| Sometimes | 30 | 35 | 19 | 14 |
| Often or Always | 22 | 17 | 5 | 9 |
| Total % | 100 | 100 | 100 | 100 |

Source: LQ 27 & 28

Comparing the two sets of tables (Table 7-10 to Table 7-13 with Table 7-14 to Table 7-17), the following summary conclusions can be made:

- Government tends to involve ABAs more frequently than does the business community in the selected policy domains.
- Similarly, ABAs engage government more frequently than they involve the business community. This finding is somewhat surprising as one might expect ABAs to have a more active and reciprocal relationships with the business community. This, however, is not the case and suggests that ABAs play a greater role in developing vertical relations with government than more horizontal connections with the business community.
- Policy areas that stimulate the greatest interest are private sector development policy, economic policy, and access to information. By comparison, ABAs demonstrate very little interest in the environment or infrastructure.
- In all instances, ABA leaders perceive themselves to be more proactive in engaging government and business actors than vice versa.

7.3. PERCEIVED CONTRIBUTION OF ABAS

As illustrated above, ABAs are improving access to information and engaging government in a number of collective-choice arenas that impact the business environment. In this section, the perceived effectiveness of ABAs in creating opportunities for members relative to other means is explored using the MS and LS instruments.

Table 7-18 reveals members' expectations. First, members were asked whether they expected their participation in ABAs to result in any of the outcomes listed by column. Second, they were asked to assess whether ABAs made a high to low contribution to the fulfillment of their expected outcomes.

Table 7-18: Contribution of the ABAs: Regional/Policy Development Objectives

| | Increase Access to Gov't Decision-Makers (N= 292) | Working through ABAs to Affect Change in Gov't Policy (N=286) | Working through ABAs to Improve Business Environment (N= 292) |
|---------------------|---|---|---|
| | % | % | % |
| High contribution | 55 | 34 | 55 |
| Modest contribution | 23 | 27 | 24 |
| Low contribution | 13 | 27 | 14 |
| No expectation | 9 | 13 | 6 |
| Total (%) | 100 | 100 | 100 |

Source: MQ 11

As illustrated in the second to last row of Table 7-18, only a small percentage of members did not expect their ABA to be active in each policy arena (“no expectation”). Where expectations existed, the majority of members considered their ABA to have made a significant impact. Members felt ABAs played a major role in increasing access to decision-makers in government and in promoting cooperation among members to improve the business environment.

When leaders were asked the same question (Table 7-18), there was unanimous consensus that ABAs had a major positive effect on their access to government, working with members to affect change in government policy and improving the business environment.

The evidence of ABAs interacting with government on a range of issues does not necessarily mean that the potential outcome of such interaction generate private or collective goods. As Chapters 2 and 5 have illustrated, the business community has differential access to government, and when business has exerted influence, it has tended to be self-serving. In my interviews with ABA members, the commonly held view was that members do personally benefit from their participation in ABAs but that the benefits derived are not at the expense of non-members. Thus, for example, the professional development seminars most ABAs coordinate benefit members but do not have a negative impact on non-members. When ABAs were involved in private sector policy development, such as when the Penza ABA was asked to comment on a draft Investment Law, the sectoral representation of members favoured cross-cutting advice. I suspect there were exceptions but extracting sectoral concessions from government at the expense of others was not a trend I observed from my involvement in the PMTP or the interviews and observational techniques employed.

Having examined the contribution of ABAs in facilitating external contacts, the level of reciprocity with key external stakeholders, and the perceived contribution of ABAs in several arenas, I conclude this chapter by examining the relative importance of ABAs over other membership organizations.

In the previous chapter, members and executive members of ABAs reported surprisingly high participation rates in other civil society organizations. Evidently, ABAs were not the only

membership organization they belonged to so it is important for subsequent analysis to discern the relative importance of ABAs over other membership organizations.¹²⁴

For Table 7-19 members were asked whether they would likely get involved in any one of nine collective-choice arenas to influence a positive outcome should changes in a given policy be proposed. For those who responded affirmatively, the MS then asked whether ABAs would be the preferred route over alternative mechanisms. The MS presented three potential alternatives. These were to work: (i) through firm connections, (ii) through other membership organizations (i.e., trade/business associations), or (iii) through their ABAs. In this question, ABAs would be seen as contributing to the political and economic fabric of their regions if members selected them as the preferred pathway.

The first column of Table 7-19 identifies the nine policy areas that give shape to the business environment. The second column records the likelihood of ABA member involvement. The third column identifies which of the three potential options graduates would likely select to influence a policy outcome. This column lists only the highest ranking response.

Table 7-19: Likelihood of Policy Engagement and Preferred Pathway

| Policy Areas | Likelihood of Engagement (%) | Preferred Pathway to Effect Change |
|--|------------------------------|------------------------------------|
| Trade development (local and abroad) (N= 270) | 89 | ABA |
| Taxation policy (N= 280) | 86 | Firm Connections |
| Access to government information (N= 279) | 84 | ABA |
| Investment (N= 280) | 84 | ABA |
| Business/ private sector policy (N= 281) | 77 | ABA |
| Social policy (N= 282) | 76 | ABA |
| Education / training policy development (N= 278) | 74 | ABA |
| Public infrastructure development (N= 279) | 63 | ABA |
| Environment (N= 283) | 59 | ABA |

Source: MQ 10

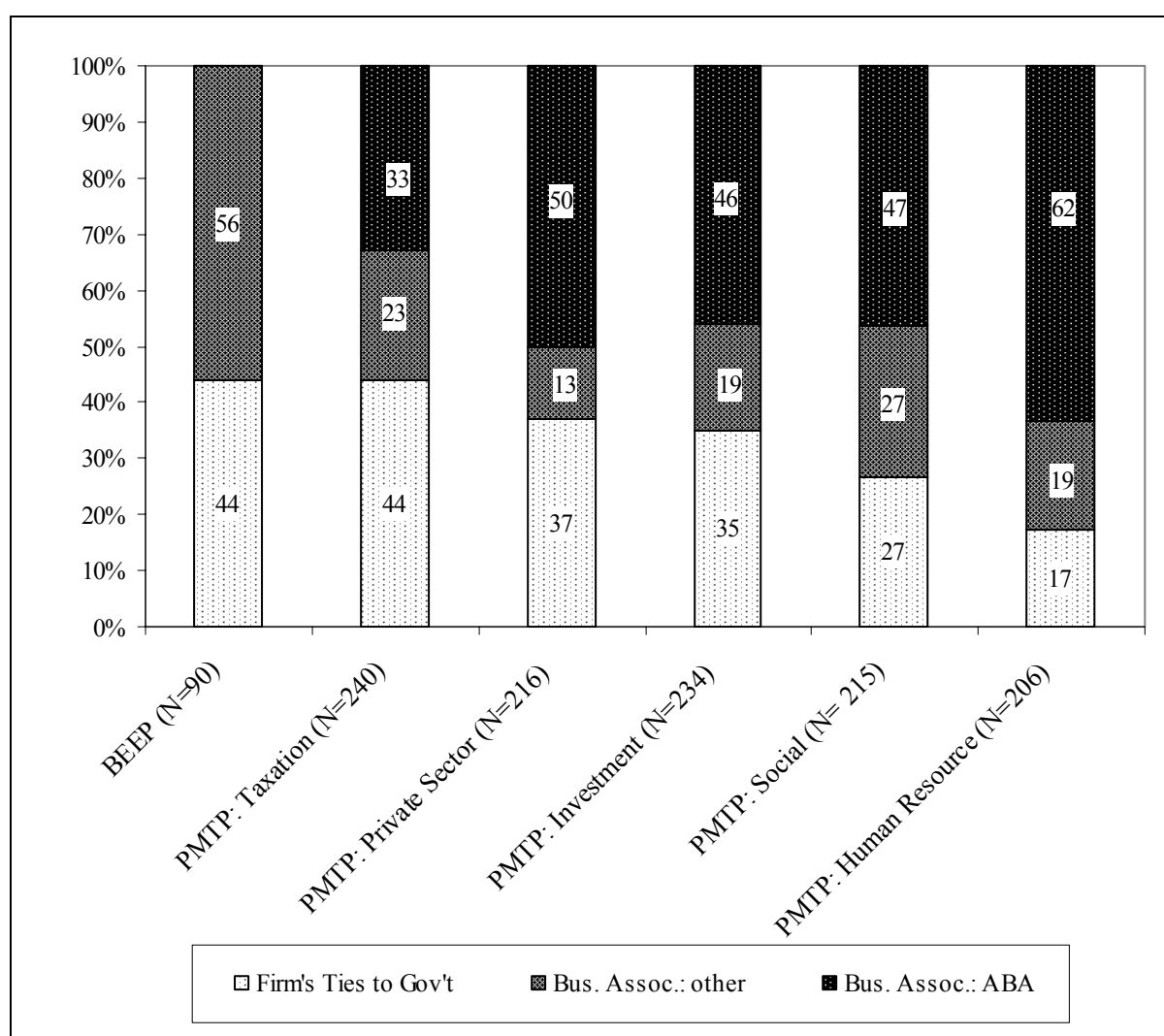
Overall, members reported a high degree of activism. Trade development, tax policy, access to information and investment policy elicited the greatest response with over 80 percent of members indicating they would likely get involved. The lowest area of potential engagement was again over infrastructure and environmental policies.

The third column of Table 7-19 illustrates that members would likely turn to their ABAs in preference over firm and other membership organizations to affect change in 8 out of 9 policy

¹²⁴ As the next chapter will explain, participation in ABAs is selected as one of the two collective pathway variables predicted to have an affect on individual and firm-level outcomes. I do not include other business associations or civil society organizations in that analysis because they were not considered to be an important social resource by PMTP graduates.

areas. The only exception was tax policy where firm connections were deemed potentially more effective.

This question borrows from the BEEPS survey implemented by the World Bank and the European Bank for Reconstruction and Development in 1999. The question “when a new law, rule, regulation, or decree is proposed that would have a substantial impact on your firm, which channel would you typically rely on to affect the outcome?” was asked of Russian CEOs (N=552). For the 16% of respondents who belonged to a business association in the BEEPS sample, slightly more than half responded to the question indicating that they would channel their efforts through their business association, whereas slightly less than half would utilize their firm’s influence. By comparing BEEPS and the MS responses to this question, the uses of firm-based and association-based pathways are compared.



Source: BEEPS (2001: Q33); MS 10, author's calculations

Figure 7-1: Pathway Choice to Affect Change in Policy Arenas

The first column represents the BEEPS comparison group of Russian CEOs. Of the 552 responses to the BEEPS Russia survey, 90 CEOs belonged to a business or lobby association. Of those that were members, 44% reported they would likely use firm-based connections and 56% stated they would use association-based channels to affect change. Whereas the BEEPS question spoke of laws, rules and regulations in general terms, the MS survey identified specific policy domains. The five columns to the right of the BEEPS column represent ABA member responses to specific policy issues. The five policy domains listed sought to determine if ABA members were selective in their choice of pathway options.

To the immediate right of the BEEPS column, members report what channel they would use to affect change in the area of taxation. The divide between firm-based and association-based responses is identical to the BEEPS data. It indicates that on taxation matters, 44% of PMTP graduates would lobby government through their firms. For the remaining 56% of responses, members would likely rely on an association-based means to affect change in this policy domain. The breakdown of this 56% provides an insight into the relative importance of ABAs over other like organizations. As illustrated, the majority of ABA members would use their ABAs (33%) over other associations they belong to (23%) to affect an outcome in tax policy. This pattern of ABAs perceived as a more important channel than other business associations is an important finding as it suggests the value that members accord to their ABA participation relative to other available means. Another interesting pattern is that as the policy area becomes less sensitive (tax policy being a very sensitive issue owing to the arbitrary application of rates and enforcement) the greater is the likelihood for these young entrepreneurs to use association-based channels to affect a policy outcome.

7.4. CONCLUSION

This chapter presented data from surveys, interviews and ABA literature documenting the contribution of ABAs to building market institutions in regional economies. The distinction was made between two forms of institutions: those that supported markets and those that complemented markets. Market-supporting actions see business associations contributing to policy development, programs and infrastructure necessary for economic development. Market-complementing actions, on the other hand, are those actions that private sector actors can undertake collectively to address missing markets to get ahead collectively.

Doner and Schneider suggest that the most significant contribution business associations can make to economic development are market-supporting actions. This does not diminish the importance of market-complementing actions but they argue that government and private sector interaction on policy issues is a higher order contribution. In their formulation, market-supporting actions can have a public goods character if associations create open dialogue and public information on the way governments formulate and implement economic development policy. I would also add that in Russia, young entrepreneurs engaging the state has symbolic importance as well.

Consider the contrast between the instrumental and symbolic impact of two very different institution builders. On the one hand, were the actions of the oligarchs' and their financial investment groups, and on the other, ABAs. The damage wrought by the oligarchs to Russia's

economic development prospects is only partly quantified by the billions they amassed without a commensurate contribution to job creation and industrial capacity that one would expect to see from the oligarchs' astronomical profit-taking. Even more insidious, perhaps, was the role the oligarchs had in popularizing the norm that manipulating weak rules and regulatory processes was the way to prosper in Russian capitalism. They were major forces in entrenching the personalized public sphere. On the other hand, this chapter has documented a different experience in collective action among the next generation of Russia's business elite trained through the PMTP. In the opening two tables of this chapter, I provided a sample of market-supporting and complementing actions that documented the instrumental contribution of ABAs to building market institutions. The impact of these actions was not transformational in instrumental terms but they were transformational in a symbolic sense. They were symbolically important because ABAs created a collective pathway that enabled the next generation of entrepreneurs to engage the state on matters of social and economic policy in the officialized public sphere.

The chapter also devoted considerable space to understanding the growth of ABA external networks and their perceived utility. This attention was based on the fact that ABAs were young organizations and there was little expectation that any of them would have made significant contributions to building new market institutions or overcoming missing markets. The second reason for this concentrated analysis owes to the latent value of social capital. To say social capital only exists when social resources are mobilized ignores the fact that latent social capital exists when new social relations are established. The final reason owed to the FC's concern from analysis it undertook in 2001 demonstrating that alumni were weakly connected to business, social, government, and financial organizations (FC 2001a). If alumni remained relatively isolated, the report concluded, this would decrease the likelihood that the program could enhance cooperation and information sharing among alumni and other social and economic development agents.

In probing the contribution of ABAs to forging new connections with government, business and other social organization, the data pointed to numerous encouraging patterns. The first pattern was the importance of ABAs in establishing important new contacts compared to pre-existing pathways. In fact, ABAs ranked the most important source of referral making in 8 of 12 potential areas, making them the most effective resource available to managers for establishing important economic, political and business contacts. In creating these contacts, the data also illustrated that ABA members provided referrals that were commensurate with the expected difficulty of facilitating new relations in the government and business world.

In measuring reciprocity of interaction, further patterns became evident. First, ABAs were the initiators of interaction with government and the business sector on a range of policy issues affecting the business climate. Second, ABAs tended to concentrate their attention on government rather than on the business sector, and finally, ABAs were selective in what policy issues they focused on.

The section exploring the contribution of ABAs provided an insight into members' assessment of their value. Three measures were used. The first was a straight ranking of the contribution of their ABA to increasing access to decision-makers, their use of ABAs to affect

policy change, and working collectively to improve the business environment. On all counts, ABAs were viewed as making a significant contribution. The second measure sought to assess the relationship between members' willingness to engage in policy development and their preferred pathway to voice their policy option. Measured in nine policy arenas, ABAs were the preferred pathway in all but one policy arena. The third measure sought to assess the value of ABAs against firm-based and other association-based pathways to affect change. In this final test, ABAs were the preferred option to affect change in four of five potential policy areas.

These findings point to the actual and potential contribution of ABAs in collective-choice arenas. Membership feedback adds further evidence to reject the contention that ABAs are Potemkin Villages. In the chapter that follows, I will turn the focus from the role of ABAs in supporting and complementing markets at the local level, to their role in creating opportunities for personal and business development. This analysis will benefit from conceptual and analytical improvements. At the conceptual level, human capital theory and empirical testing has established a robust relationship between human capital affecting individual and firm-level outcomes, whereas the causal mechanism between training and collective-choice outcomes is only beginning to be explored in a social capital conceptual framework (Portes 1998). At the analytical level, the analysis benefits from utilizing a large data set with a clearly delineated comparison group. This will enable firmer conclusions on the contribution of social capital to expected training outcomes.

8. THE EFFECT OF SOCIAL CAPITAL IN OPERATIONAL ARENAS: INDIVIDUAL AND FIRM-LEVEL OUTCOMES

The previous two chapters documented the emergence of ABAs, their organizational characteristics; how members supported one another to establish new contacts and with whom; and outlined a range of market-supporting and complementing actions evidenced early in their formation. The collective goods characteristics of their actions illustrated how social capital, when developed and mobilized in a horizontal setting may lead to collective-choice outcomes.

In this chapter, I focus on the role of social capital in operational settings at the individual and firm levels. Evidence of managers being promoted, attracting job offers, and creating new commercial opportunities and contracts are some of the anticipated results of the PMTP program. In particular, I assess who experienced these outcomes and whether social capital played a role. For purposes of this chapter, I assume that these outcomes are the result of purposive action. In other words, in making choices about their careers and in adding value to their companies, managers took decisions that affected their professional development and firm performance. Certainly, individual, firm and external constraints would shape the ability of graduates to realize their objectives.

This chapter has two main sections. The first section presents descriptive data that probe the relations between individual- and firm-level outcomes on the one hand, and social capital variables on the other. These findings inform the statistical analysis undertaken in the second section. This latter analysis reports on the significance and magnitude of social capital variables on PMTP outcomes at the individual and firm levels.

8.1. THE INFLUENCE OF SOCIAL CAPITAL IN OPERATIONAL ARENAS

In a Volga city town, a manager who had graduated from the PMTP and then participated in the YDF program returned from Canada with a business idea. He had researched the management consulting industry in Europe and North America with the view to establishing a similar business in his hometown. In Canada, his learning objective was to understand what analytical services consultants offered and how they marketed their services. When he returned to Russia, he pursued a conversation with his Canadian host company to establish a representative office in Russia under his leadership. The Canadian owner would have realized the risk of establishing a presence in Russia. The barriers to entry and protecting intellectual property were two common challenges facing service industries in general. Nevertheless, the working relationship provided a level confidence between the proponents and opened the way for the YDF Fellow to become the Russian representative of a Canadian consulting firm. When the YDF Fellow came to develop a roster of consultants, he selected classmates he trained with and came to know. He knew their capabilities and trusted their judgment.

This example illustrates the importance of social capital in overcoming missing markets, its role in hiring decisions and creating job opportunities.

In the Northwest, members of an ABA worked on a business plan to develop export markets in Scandinavia and to attract investment from that region. Most of the entrepreneurs behind the plan had nurtured business contacts through their practical attachments in Sweden and Finland. They pooled their business contacts and finances to implement their plan. The contacts established and the support provided enabled one member of the group to start a leasing operation whereby Russian companies could lease Scandinavian construction and forestry equipment.

This second example illustrates how actors can mobilize social resources with social networks to create new opportunities.

These two examples point to new opportunities at the individual and firm levels, and they are not isolated stories. During YDF workshops and interviews, graduates exchanged their post-training experiences on how they applied their skills or utilized their new contacts. Emerging from these conversations were examples of how managers accessed and mobilized their social capital to generate a range of new opportunities.

What about those PMTP graduates who did not participate in ABAs or did not have extensive contacts within their firms? Did those graduates lack the social resources required to affect their personal or firm-level goals? This question drives to the heart of one of the central debates identified in the literature review: we know when we see social capital at work but the literature is less conclusive on whether those who do not evidence a particular outcome have less social capital, however defined.

In Chapter 4, I discussed both the research design for non-equivalent group evaluation and the GS survey. I argued that the research design and the data were uniquely tailored to identifying whether social capital was a source of divergent outcomes reported by graduates. Also in that chapter, I identified two structural dimensions of social capital: association-based and work-based. Association-based social capital referred to those who participated in ABAs. Work-based social capital referred to those graduates who had extensive contacts within and outside their firms. In the rest of this section, I explore the correlation between expected PMTP outcomes and trainee access to association-based and work-based social capital.

In the section that follows, I introduce additional variables thought capable of influencing PMTP outcomes. By incorporating individual and firm characteristics into the analysis and employing multivariate regression, I am able to identify the significance of social capital variables and the magnitude of their effects compared to individual and firm variables.

8.1.1. Association-based Social Capital

The ABAs profiled in Chapter 6 identified a core set of objectives that were characteristic of businesses associations in that they sought to promote informal connections, improve information flow and create opportunities for members. I begin this analysis by reporting on the perceived contribution of ABAs to a range of individual and firm-level outcomes. I then compare whether ABA participants are more likely than non-participants to experience these outcomes.

Perceived Contribution of ABAs

The two tables below identify eight areas where members expected ABAs to play a role, and whether their ABA made a low to high contribution in fulfilling their expectation. Table 8-1 and Table 8-2 report on individual- and firm-level benefits, respectively.

Table 8-1: Contribution of ABAs: Professional Development

| | Job opportunities (N= 294) | New business ventures outside company (N=284) | Further-learning (N=293) | Improve relations with superior (N=289) | Social Support (N=273) | Mentoring (N= 275) |
|----------------------------|-------------------------------|--|-----------------------------|--|---------------------------|-----------------------|
| | % | % | % | % | % | % |
| High contribution | 57 | 62 | 73 | 48 | 19 | 23 |
| Modest contribution | 18 | 21 | 15 | 25 | 25 | 26 |
| Low contribution | 12 | 10 | 9 | 15 | 27 | 24 |
| Nothing to do with the ABA | 13 | 7 | 3 | 13 | 29 | 28 |
| Total (%) | 100 | 100 | 100 | 100 | 100 | 100 |

Source: MQ 11

The plurality of respondents maintained that their participation in ABAs had a positive influence in creating new job opportunities, new business development opportunities, further learning and rapport with senior managers in their firms. ABA participants were less united on the contribution of ABAs to social support and mentoring functions.

The two expected benefits of ABAs to business development are reflected in Table 8-2.

Table 8-2: Contribution of ABAs: Business Development Objectives

| | Business opportunities for your company (N= 295) | Improved relations with business partners (N=286) |
|----------------------------|--|---|
| | % | % |
| High contribution | 42 | 47 |
| Modest contribution | 25 | 27 |
| Low contribution | 17 | 16 |
| Nothing to do with the ABA | 16 | 10 |
| Total (%) | 100 | 100 |

Source: MQ 11

The results indicate that the plurality of members felt that their ABA made a significant contribution to enhancing business relations and identifying new opportunities.

Comparing Individual and Firm Level Outcomes by ABA Participation

This section uses GS data to disaggregate individual- and firm-level outcomes by ABA participation.

The figure below illustrates the percent of PMTP graduates who reported a Job Offer or Upward Mobility. The columns are divided by participation in ABAs. In the Job Offer columns, the first indicates that those who do not participate in ABAs, only 30% reported they were offered a job from the time of graduation to the time of the survey (6 months). The second column indicates the Job Offer response rate for those who did participate in ABAs. Among those graduates who were ABA members, over 50% reported they had received a Job Offer. The same pattern between ABA participants and non-participants held for job offers from government and international firms, and offers to join board of directors in the public and private sectors.

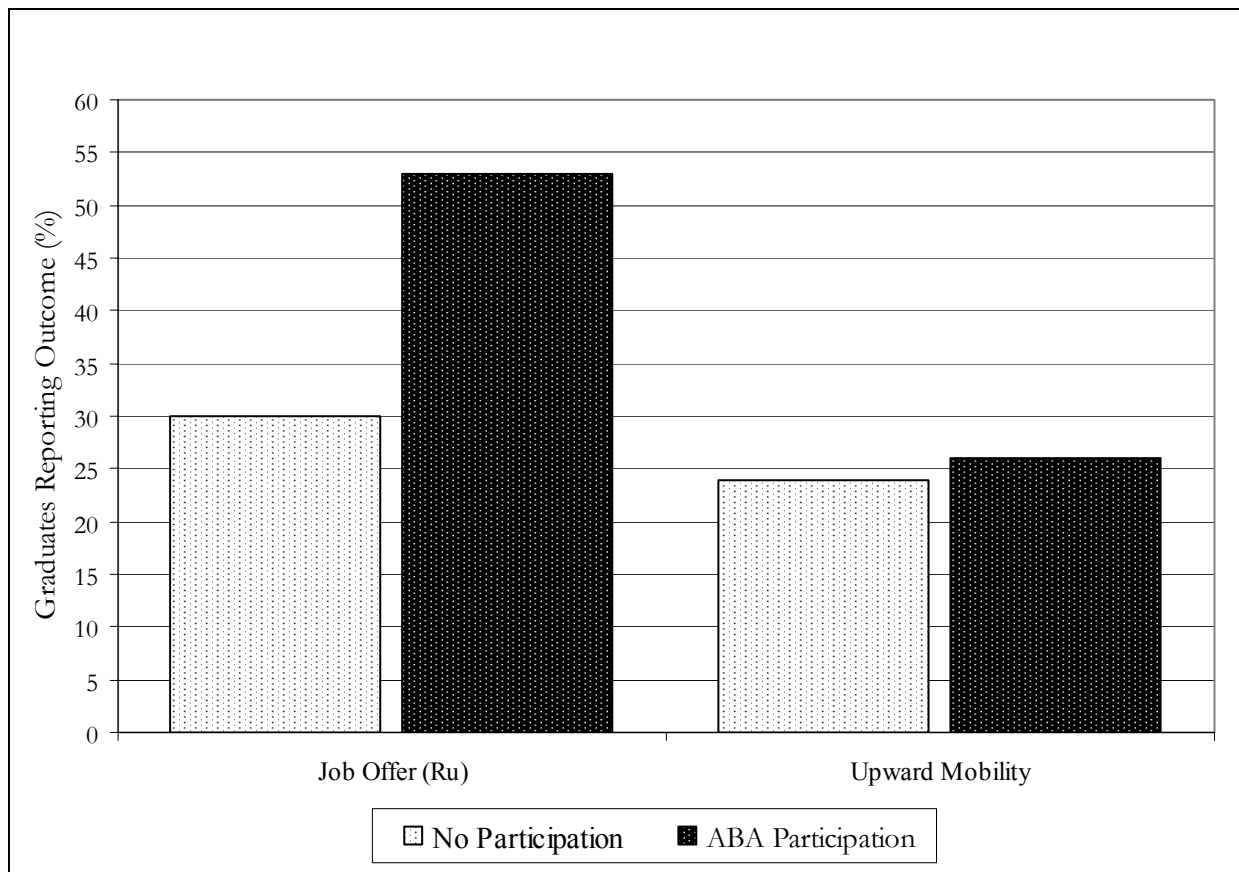


Figure 8-1: Individual Outcomes and ABA Participation

However, ABA participation does not seem to exert much difference on Upward Mobility as there is only a slim difference between the two columns on the far right.

At the firm level, business development outcomes are measured by new commercial and business contacts, and new contracts. To illustrate the influence of ABA participation, these results are divided by those who participate in ABAs and those who do not. The outcomes at this level correspond to questions asking graduates whether in their opinion they can attribute *new* business contacts, *new* commercial contacts or *new* contracts to their involvement in the PMTP. These outcome indicators were described by one graduate as a business continuum.

In my line of work, it is important that I understand who is interested in my company's business. I also need to know what my competitors are doing and my customers are thinking. These business contacts might lead to commercial contacts. Commercial contacts are more focused on buying and selling goods. My company is also interested in developing longer- term relations which might happen because we sign a contract together.¹²⁵

These three outcomes are presumed to have varying impact on business development with business contacts signifying potential opportunities whereas contracts are actual transactions.

At an aggregate level, the figure below suggest the relative ease of developing new business contacts compared to signing new contracts. When these outcomes are disaggregated, the data indicates that graduates who participate in ABAs have consistently higher incidence rates across these three business development outcomes than non-participants.

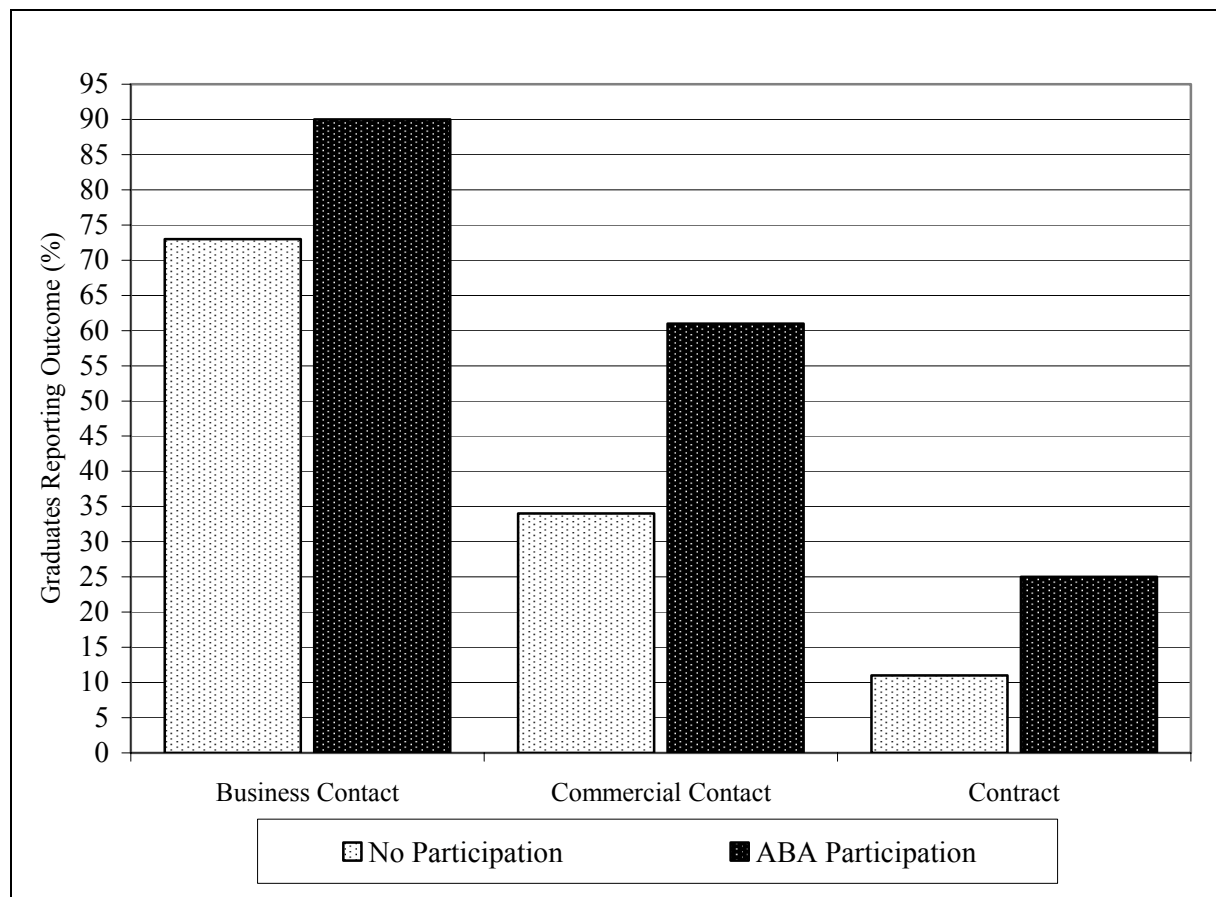


Figure 8-2: Firm Outcomes and ABA Participation

¹²⁵ Response provided by a PMTP graduate from Archangelsk when asked to explain the difference among new business and commercial contacts and new contracts. (Personal communication, Feb. 2002, emphasis added).

The differential influence of ABA participation is suggested further in Table 8-3.

Table 8-3: Positive Business Contacts by Network Participation

| | ABA Participation | No Participation |
|---|-------------------|------------------|
| Percent indicating positive impact on business contact growth in fields where graduates work | 68% | 50% |
| Percent indicating a positive impact on business contact growth in fields where no graduates work | 36% | 21% |

Source: GS 43

The first row of data indicates 68% of those who participate in ABAs claim that the program had a positive impact in establishing contacts with businesses where other graduates work. This result compares favourably to the 50% response rate provided by graduates who are not active in ABAs. The last row also demonstrates that ABA participants were more likely than non-participants to develop business contacts outside of the PMTP network of graduates and companies. The table suggests that ABAs extend the reach of graduates' networks.

As previously mentioned ABAs are not the only channel available to graduates. Many are members of other professional, business and social organizations that they could work with to advance firm objectives. Given that ABAs are not the only option, it is instructive to document the perceived effectiveness of alternative contacts and organizations in reaching firm objectives. Table 8-4 ranks the relative importance of ABAs for participants and non-participants.

Table 8-4: The Relative Importance of ABAs to Reaching Firm-level Objectives

| Ranking of Importance (in descending order) | ABA Members | Non-members |
|--|-------------------------------------|-------------------------------------|
| 1 | Directors of Other Companies | Directors of Other Companies |
| 2 | <i>Alumni Business Associations</i> | Shareholders |
| 3 | Shareholders | Competitors |
| 4 | External Experts | External Experts |
| 5 | Competitors | Trade Unions |
| 6 | Russian Investors | Russian Investors |
| 7 | Business Associations | Business Associations |
| 8 | Trade Unions | Foreign Investors |
| 9 | Foreign Investors | <i>Alumni Business Associations</i> |

Source: GS 22

The greatest difference of opinion concerns ABAs. Those who are members maintain that they are an important resource. Those who do not participate in ABAs, not surprisingly, view ABAs as the least effective channel to realize firm-level objectives.

8.1.2. Work-based Social Capital

In contrast to association-based social capital, which was a by-product of the PMTP, work-based social capital refers to those connections managers established prior to the PMTP training program. Work-based social capital has two dimensions, intra- and extra-firm contacts that managers use in the performance of their job. Like the previous section, this one seeks to identify whether work-based social capital has any patterned influence on individual- or firm-level outcomes.

Comparing Individual and Firm-Level Outcomes

To aid the comparison of association- and work-based social capital, the same outcome measures described previously are used. Figure 8-3: Individual Outcomes and Extent of Intra-and Extra-Firm Connections

illustrates the association between the range of intra- and extra-firm contacts on individual-level outcomes. For these contacts, the GS listed 20 potential job categories within a firm that graduates could interact with in the performance of their work. A further 20 contacts external to the firm were also listed. This latter range of contacts included bank officials, suppliers, clients, shareholders, investors, competitors, business associations, external experts, managers of firms, tax authorities, trade unions, government officials at various levels, legislative bodies and media. This position generator approach enables a size comparison of managers' work-based networks.¹²⁶

In Figure 8-3, the first two columns indicate a modest increase in the prevalence of Job Offers for those with more extensive intra-firm connections (i.e., from 0-5 to 16-20). However, moving right to the next set of columns, it is evident that extra-firm connections have a more noticeable influence on new Job Offers. Managers extensively linked in their external environment (i.e., extra 16-20) are nearly twice as likely to receive a Job Offer following graduation than weakly linked managers (i.e., extra-firm 0-5). It appears that external connections have a more powerful influence than internal connections on Job Offers, but this is not the case for Upward Mobility.

¹²⁶ The method is known as a position generator approach to mapping social networks. For an application see Yakubovich & Kozina (2000). An alternative approach is a name generator approach. For an application, see Völker & Flap (1999), and for a general discussion, see Lin (2002).

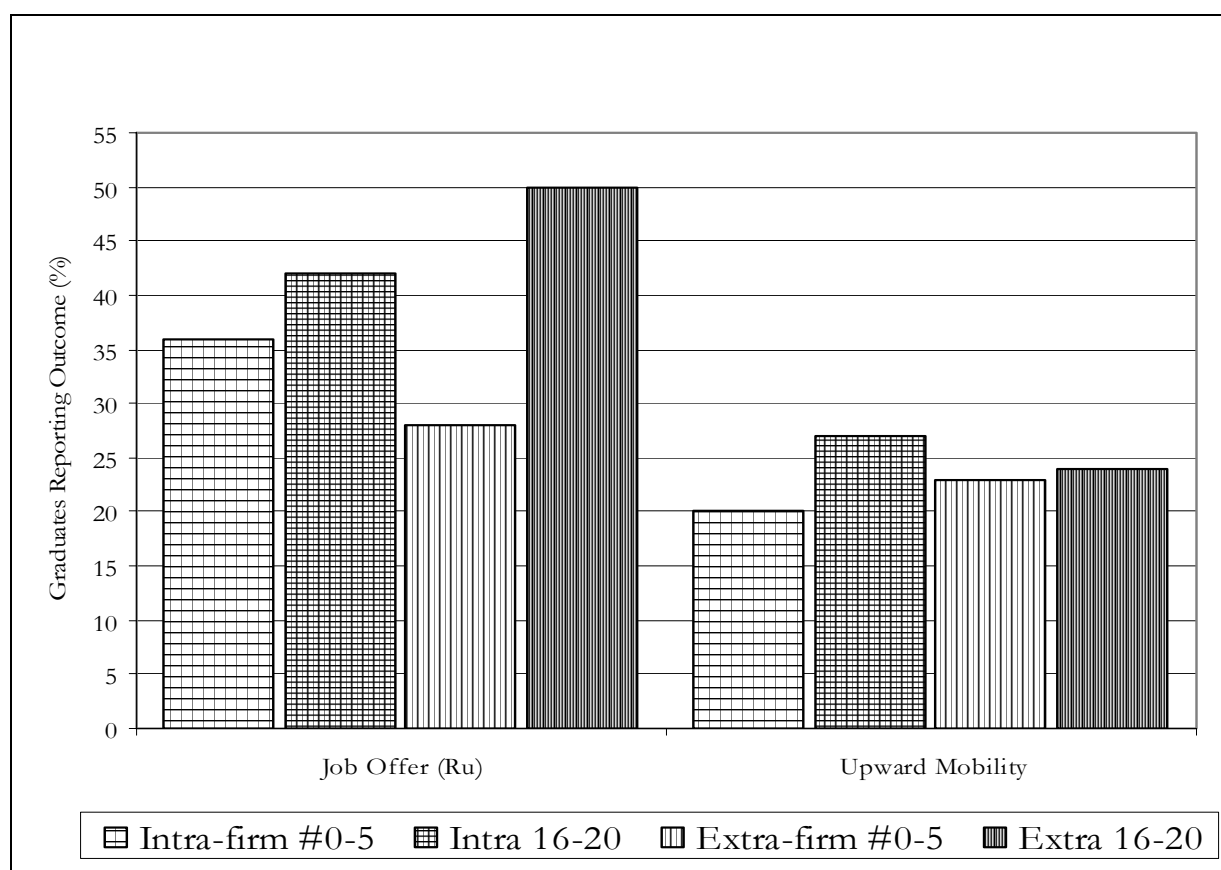


Figure 8-3: Individual Outcomes and Extent of Intra-and Extra-Firm Connections

In the two sets of columns on the far right, the overall incidence rate of Upward Mobility is less than that reported for Job Offers from Russian companies. However, looking at the data reveals the differential influence of intra- and extra-firm connections. Incidences of Upward Mobility appear to be more sensitive to the size of intra-firm contacts than the size of extra-firm contacts.

The negligible differential impact of extra-firm contacts on Upward Mobility mirrors the prior finding of association-based social capital having no apparent relationship with Upward Mobility. It suggests that social resources developed outside their firm, whether through work or through ABAs, are not associated with Upward Mobility. The emerging pattern is that different collective pathway options affect individual outcomes differently.

Turning now to firm-level outcomes, Figure 8-4 illustrates the influence of intra- and extra-firm connections.

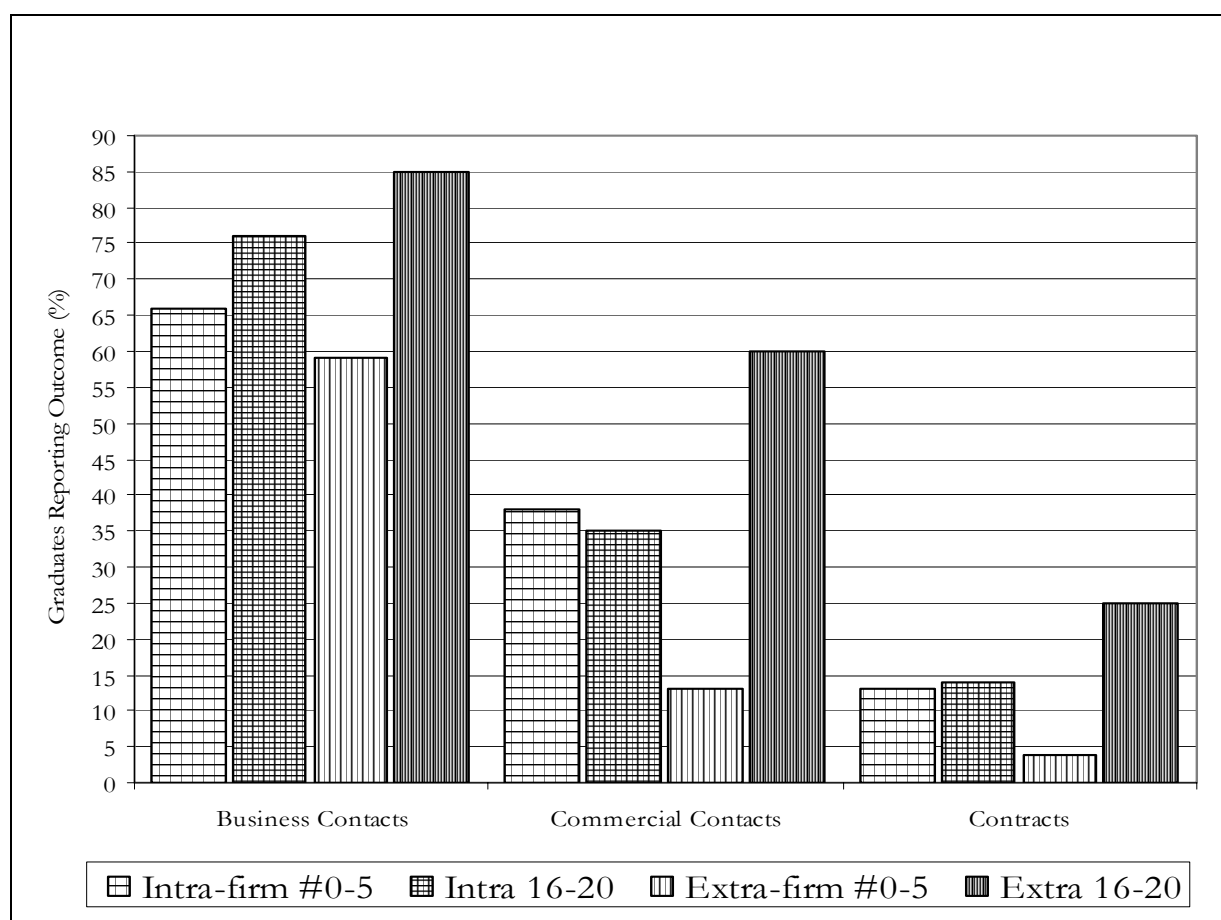


Figure 8-4: Firm Outcomes and Extent of Intra-and Extra-Firm Connections

Across these three outcome variables, the size of intra-firm contacts does not appear to have an influence. By contrast, the size of a manager's extra-firm contacts does appear to have a strong impact on the incidence of firm-level outcomes. The variation indicates the differential sensitivity of firm-level results to changes in the size of extra-firm contacts.¹²⁷ As illustrated in the third outcome variable, new Contracts, the number of intra-firm contacts does not have a discernable influence. A manager with few intra-firm contacts was no more likely to report a new Contract than a manager with extensive intra-firm contacts. However, the number of extra-firm contacts does appear to have a significant impact on new Contracts. Managers with few external contacts (i.e., 0-5) report very low incidences of new Contracts signed, whereas graduates with extensive extra-firm contacts were five time more likely to sign a new Contract. Figure 8-4 illustrates that a manager with an extensive network of extra-firm contacts is more likely to report new Business/Commercial Contact growth and new Contracts signed than a contemporary with fewer extra-firm contacts.

¹²⁷ As illustrated in Table 8-8, on average managers have more extensive intra-firm than extra-firm contacts. While some managers possessed both extensive internal and external contacts, on average this was the exception rather than the rule.

The data presented in this section point to association- and work-based social capital as potential influences on expected PMTP outcomes at the individual and firm levels. By comparing different kinds and levels of social capital, the data reveals patterns suggesting that social capital has an important role in translating human capital. These findings point to an alternative source of change than those commonly identified in economic analysis, such as human capital or corporate governance to explain for personal and business development outcomes attained. In the next section, I integrate social capital, firm and individual variables into a statistical model to probe the relative significance of these variables and the magnitude of their influence on individual and firm-level outcomes.

8.2. MULTIVARIATE ANALYSIS OF SOCIAL CAPITAL IN OPERATIONAL ARENAS

In this section, I maintain the focus on the individual- and firm-level outcomes identified in the figures above and explore the statistical influence of a wider range of explanatory variables.¹²⁸ Among the explanatory variables, I will utilize the work- and association-based social capital that I have already introduced. The data in the previous section suggested that these collective pathways are positively associated with expected program outcomes. On the one hand, bivariate analysis showed that ABA participation and extensive extra-firm connections were consistently associated with new Job Offers, Business/Commercial Contact growth and new Contracts. On the other hand, these explanatory variables seemed to have little influence on Upward Mobility, which was more closely associated with the size of one's intra-firm contact network.

In addition to these social capital variables, I will include individual and firm variables in the multivariate analysis. The rationale for including individual and firm characteristics was first made in Table 4-2. Below, I re-introduce an abridged version of that table to outline those variables the PMTP did and did not control for (i.e., t0). The advantage of multivariate analysis is its ability to incorporate different individual and firm characteristics (t0) and pathway resources (t4), and then assess the significance and relative magnitude of the independent variables on observed outcomes.

As the table suggests, the selection process and training worked to converge the skills and knowledge of managers. Thus, the model presumes a level of comparability in human capital and looks to individual, firm and social capital variables to explain observed outcomes.

¹²⁸ This section draws on analyses undertaken jointly with Professors Li Zong and Harley Dickinson for a journal article (under review). I would also like to acknowledge Prof. Bernard Schissel who provided advice and helpful comments on statistical methodology.

Table 8-5: PMTP Program Evolution

| Differences at Application (t0) | Common Characteristics at Selection (t1) | | | Pathway (t4) | Evaluation (t5) | Observed Outcomes |
|-------------------------------------|--|---------------|-----------------|---|---|---|
| Sex | Nominated by company | Training (t2) | Graduation (t3) | [i] Collective Pathway: (a) – use of ABAs contacts; (b) high use of pre-existing contacts | Graduate Survey – 6 months post-graduation | <u>Individual</u> |
| Position in firm | Interviewed by RC for aptitude and motivation | | | [ii] Individual Pathway: (c) – no use of ABA contacts; (d) low use of pre-existing contacts | Assessment of (i) individual and (ii) firm-level outcomes | (i) Job offer |
| Firm size | | | | | | (ii) Upward mobility |
| Corporate structure | | | | | | <u>Firm</u> |
| Sector of the ‘real’ economy | Managerial work experience (1-5 years) | | | | | (i) Business Contacts |
| Geographic location | Age (25-40 years) | | | | | (ii) Commercial Contacts |
| Financial/economic position of firm | University degree | | | | | (iii) Contracts |
| Heterogeneous application pool | Selection of trainees - greater cohort comparability | | | | | Non-equivalent translation of human capital |

Source: field research

8.2.1. Dependent Variables

Frequency data for the observed outcomes (far right column) are illustrated in the following two tables. The first table represents individual-level benefits and the second represents firm-level business development indicators. All of these dependent variables are dichotomous.

The variables Job Offer and Upward Mobility indicate post-training individual attainment outcomes. Job Offer was recorded in response to a question asking whether they had a job offer from a Russian company since graduation. “Upward Mobility” is an objective measure of pre-and post-graduation positions held by PMTP graduates. If a PMTP graduate’s post-training position remained unchanged or lower than the one held before training, ‘no’ mobility is indicated.

Table 8-6: Individual-level Outcomes

| Job Offer from Russian Company | | | |
|--------------------------------|---------|------|----|
| | | n= | % |
| | No (0) | 1160 | 58 |
| | Yes (1) | 828 | 42 |
| | N = | 1988 | |
| | Missing | 280 | |
| Upward Mobility | | | |
| | No (0) | 1588 | 76 |
| | Yes (1) | 504 | 24 |
| | N = | 2092 | |
| | Missing | 176 | |

At the firm-level, the three dependent variables that indicate business development are: New Business Contacts, New Commercial Contacts, and New Contracts. The respondents were asked if any of these potential outcomes resulted following their graduation from the PMTP.

Table 8-7: Firm-level Outcomes

| New business contacts | | | |
|-------------------------|---------|------|----|
| | | n= | % |
| | No (0) | 473 | 23 |
| | Yes (1) | 1576 | 77 |
| | N = | 2049 | |
| | Missing | 219 | |
| New commercial contacts | | | |
| | No (0) | 1105 | 59 |
| | Yes (1) | 753 | 41 |
| | N = | 1858 | |
| | Missing | 410 | |
| New contracts | | | |
| | No (0) | 1499 | 86 |
| | Yes (1) | 246 | 14 |
| | N = | 1745 | |
| | Missing | 523 | |

The outcome variables, Business/Commercial Contacts, speak to the embeddedness of firms in the market, and Contracts suggest new business activity.

These dependent variables differ from standard firm performance indicators, such as operating profit margins, sales growth, or return on assets. There are three reasons why these non-standard indicators have been selected, and why they are likely superior to conventional indicators given the Russian context. The first reason owes to the earlier distinction between economic development and economic growth. Institutional approaches tend to be interested in

questions of development whereas economic approaches emphasize growth. As illustrated in Chapter 2, in an environment characterized by high transaction costs and missing markets, outcomes that point to new incentives or physical/social infrastructure are likely more valuable from a societal perspective than financial growth of individual firms. Also, recall Kuznetsov's depiction of the Russian firm as a "fluid constellation of personal networks" trying to overcome a "broad array of disequilibrium processes inherent in transition." (Kuznetsov 1997: 158). In such an environment, social resources stemming from new Business and Commercial Contacts can provide both tangible and intangible support. The prevalence and use of barter is a good example. Barter would not be captured in 'sales growth' but a firm with extended business/commercial contacts would be in a more advantageous position to identify and assess barter exchange relationship than a firm with few connections.

The second reason relates to the uniqueness of restructuring Russian enterprises. Simon Djankov identifies the following caution in understanding the restructuring process:

Viability can be achieved through a variety of measures. This is because the majority of enterprises were so inefficient under central planning, even small changes can bring about significant productivity gains. Restructuring can lead to two different outcomes. Viable firms would increase their productivity and market share, attract more resources, and upgrade their production process. Unviable firms would shrink to a viable core or close down altogether. ... Thus the decline in business activity of an enterprise need not be associated with the lack of restructuring. It may be part of the general movement of resources to more productive uses. (Djankov 1998: 130)

Given that expansion and reduction of a firm's financial indicators could be interpreted as a positive or negative development in terms of the PMTP's firm restructuring objectives, it would be misleading to identify increased business activity as a desired training outcome. As Djankov suggests, a positive training outcome may lead to organizational reforms that actually reduce business activity.

The third reason is the repeated cautionary warning by statisticians and survey designers of the suspect reliability of financial data at the firm level. For example, Kuznetsov (1997: 158, fn. 1) concludes from his research that the more entrepreneurial the manager, the less reliable the financial data he or she would provide to survey questions on firm performance. As profit and business taxes are considered exorbitantly high, Kuznetsov's 'experienced' entrepreneur would likely underreport financial data to avoid tax detection. If the PMTP manager responded to the GS survey in a manner anticipated by Kuznetsov, and if there were questions on financial growth, the paradoxical result would be a positive relationship between management training and a decline in a firm's financial performance. Given the uncertainty of 'objective' financial indicators, the suggestive business development outcome variables employed here are not expected to elicit underreporting.

8.2.2. Independent Variables

Table 8-8 identifies the independent variables, which are divided into three categories. The first category, individual characteristics, takes into account important differences that the PMTP design did not control for but that are expected to have an influence on individual and firm-level outcomes. The first of these is Sex. The second is seniority in a firm indicated by Years in Company. The third is hierarchical standing based on one's Position in Firm. The GS instrument specified four levels of managerial responsibility, with strategic management being the most senior and line manager/guild level position being the most junior. The variables before and current position are used as alternates in different regression models. Finally, there are two motivation variables, which again will be used as alternates. The choice of either of the two alternates is explained when the models are discussed.

The second category, firm characteristics, introduces structural conditions that have a bearing on a manager's likelihood of attaining business development outcomes. For the first variable, Company Size, managers in small firms are predicted to have more opportunities than their counterparts in large, hierarchically organized firms to identify contacts and contract opportunities. The variable, Corporate Status, identifies whether a manager works in a state-owned or private sector company. The corporate status of a firm is viewed as creating incentives and pressures for market intelligence and strategic partnerships. This imperative would be greater for managers in private sector firms than it would be for their counterparts in state-owned enterprises. This expectation stems from exposure to competitive forces, which is likely greater in private than public firms. Finally, Economic Status is a manager's view of his or her company's financial position. A manager in a poorly performing company is expected to give greater priority to establishing new strategic partnerships than managers who perceive their firms' economic position more favourably. Each of these variables is flagged in the business development literature as shaping the actions of actors (Lieberman & Nellis 1995; Commander, Fan, et al. 1996; Broadman 2002).

Finally, the third category, social capital indicators, includes both association- and work-based indicators, which I have already discussed. It bears reminding that if the PMTP did not exist, contacts facilitated through ABAs would not have developed. This feature distinguishes this variable from firm-based social capital that graduates possessed prior to entering the training program. These social capital indicators measure two dimensions. Work-based social capital measures the size of a manager's vertical network within and external to his/her company. In relative terms, association-based social capital measures access to horizontal peer relations across economic sectors.¹²⁹

¹²⁹ I am reluctant to label either one of these measures as indicative of weak or strong ties as is common in social network studies. The indicator ABA participation, for example, may represent both strong friendship bonds and some rather weak ties. Further, the referrals and new connections ABA members made for other members were likely weak ties. See Grootaert (1998: 14) for a listing of these and a wide range of other indicators used in quantitative studies.

Table 8-8 lists the independent variables, their coding and frequency.

Table 8-8: Independent Variables

| A. Individual Characteristics | | | |
|------------------------------------|---------------------------|------|----|
| | Variable (coding) | n= | % |
| Sex | Female (0) | 830 | 37 |
| | Male (1) | 1417 | 63 |
| | N = | 2247 | |
| | Missing | 21 | |
| Years in Company | Less than 3 years (1) | 602 | 29 |
| | 3-5 years (2) | 734 | 35 |
| | Over 5 years (3) | 741 | 36 |
| | N= | 2077 | |
| Current Position in Firm‡ | Missing | 191 | |
| | Guild level (1) | 197 | 9 |
| | Line management (2) | 149 | 7 |
| | Functional management (3) | 834 | 40 |
| | Senior management (4) | 911 | 44 |
| | N= | 2091 | |
| | Missing | 177 | |
| | | | |
| Position in Firm Before Training ‡ | Guild level (1) | 269 | 12 |
| | Line management (2) | 192 | 9 |
| | Functional management (3) | 922 | 42 |
| | Senior management (4) | 794 | 36 |
| | N= | 2177 | |
| | Missing | 91 | |
| | | | |
| | | | |
| Motive: Promotion † | Other objective (0) | 1307 | 58 |
| | Be promoted (1) | 961 | 42 |
| | N= | 2268 | |
| Motive: Contacts † | Other objective (0) | 1170 | 52 |
| | New connections (1) | 1098 | 48 |
| | N= | 2268 | |
| B. Firm Characteristics | | | |
| Company Size | ≤ 50 (1) | 797 | 37 |
| | 50-99 (2) | 243 | 11 |
| | 100-499 (3) | 376 | 17 |
| | 500-999 (4) | 175 | 8 |
| | ≥ 1000 (5) | 589 | 27 |
| | N= | 2180 | |
| Corporate Status | Missing | 88 | |
| | State owned (0) | 273 | 13 |
| | Privatized or private (1) | 1899 | 87 |
| | N= | 2172 | |
| Economic Status | Missing | 96 | |
| | Almost bankrupt (1) | 60 | 3 |
| | Poor (2) | 159 | 7 |
| | Satisfactory (3) | 1109 | 50 |

| | | | |
|------------------------------------|---------------|------|----|
| | Good (4) | 815 | 37 |
| | Excellent (5) | 56 | 3 |
| | N= | 2199 | |
| | Missing | 69 | |
| C. Social Capital Variables | | | |
| Number of Intra-Firm Contacts | 0 - 5 (1) | 73 | 3 |
| | 6 - 10 (2) | 255 | 11 |
| | 11 - 15 (3) | 520 | 23 |
| | 16 - 20 (4) | 687 | 30 |
| | 21 (5) | 733 | 32 |
| | N= | 2268 | |
| Number of Extra-Firm Contacts | 0 - 5 (1) | 360 | 16 |
| | 6-10 (2) | 740 | 33 |
| | 11-15 (3) | 581 | 26 |
| | 16-20 (4) | 587 | 26 |
| | N= | 2268 | |
| Participate in ABA | No (0) | 1537 | 76 |
| | Yes (1) | 476 | 24 |
| | N= | 2013 | |
| | Missing | 255 | |

Note: Variables marked ‡ and † are used as alternatives and will be discussed below.

The influence of these independent variables on individual-level outcomes (Job Offers and Upward Mobility) and firm-level outcomes (new Business and Commercial Contacts established, and new Contracts signed) is estimated using a logistic regression method.

8.3. LOGIT REGRESSION ESTIMATES FOR INDIVIDUAL-LEVEL OUTCOMES

The individual-level regressions assess the direction, statistical significance and relative magnitude of individual, firm and social capital variables on Upward Mobility and Job Offers. Even though both these outcome variables accrue individual benefits, work and association-based social capital are not expected to have uniformly similar influence. Each collective pathway option would create access to separate social resource pools, and these resources would be more or less useful depending on the desired change sought by the PMTP graduate.

In the case of Upward Mobility, it is predicted that intra-firm connections will be a more important determinant than extra-firm connections or association-based social capital. This proposition stems from findings in Figures 8-1 and 8-3, and from the logic that extensive intra-firm contacts are better able than extra-firm contacts to transmit knowledge of the manager's capabilities to more senior management in a position to promote. By contrast, a manager with a sparse intra-firm network would be predicted to have less opportunity to cultivate the reputational effect and disseminate new knowledge that would be important in senior management decisions to promote PMTP graduates.

The logic would work quite differently for Job Offers from Russian firms. In this second model, the extent of intra-firm contacts would have very little predicted effect whereas extra-

firm contacts and association-based social capital would. Job Offers are expected to be channelled through more extensive external networks through which reputations are built and new opportunities are identified.

The results of these two logistic regression models are reported in Table 8-9.

Table 8-9: Logit Regression Estimates of Personal Level Outcomes

| | Upward Mobility | | | | Job Offer (Russia) | | | |
|------------------------------------|-----------------|------|------|--------|--------------------|------|------|--------|
| | B | S.E. | Sig. | Exp(B) | B | S.E. | Sig. | Exp(B) |
| <u>A. Individual Variables</u> | | | | | | | | |
| Sex | 0.24 | 0.14 | 0.08 | 1.27 | -0.04 | 0.12 | 0.77 | 0.97 |
| Years in Company | -0.57 | 0.08 | 0.00 | 0.57 | -0.49 | 0.07 | 0.00 | 0.61 |
| Position in Firm* | -0.60 | 0.07 | 0.00 | 0.55 | 0.11 | 0.07 | 0.13 | 1.12 |
| Motive: Promotion | 0.42 | 0.13 | 0.00 | 1.52 | 0.16 | 0.12 | 0.17 | 1.17 |
| <u>B. Firm Variables</u> | | | | | | | | |
| Company Size | -0.01 | 0.05 | 0.91 | 0.99 | -0.02 | 0.04 | 0.62 | 0.98 |
| Corporate Status | -0.02 | 0.18 | 0.91 | 0.98 | 0.22 | 0.17 | 0.20 | 1.24 |
| Economic Status | 0.07 | 0.08 | 0.41 | 1.07 | 0.04 | 0.07 | 0.61 | 1.04 |
| <u>C. Social Capital Variables</u> | | | | | | | | |
| Number of Internal Contacts | 0.15 | 0.07 | 0.04 | 1.16 | 0.00 | 0.06 | 1.00 | 1.00 |
| Number of External Contacts | 0.11 | 0.08 | 0.16 | 1.11 | 0.27 | 0.07 | 0.00 | 1.31 |
| Participate in ABAs | 0.15 | 0.15 | 0.32 | 1.16 | 0.41 | 0.14 | 0.00 | 1.51 |
| Constant | 0.24 | 0.49 | 0.62 | 1.28 | -0.90 | 0.45 | 0.05 | 0.41 |
| | | | | | | | | |
| N= | 1621 | | | | 1473 | | | |
| Nagelkerke R Square | 0.14 | | | | 0.10 | | | |
| Hosmer and Lemeshow Test: | | | | | | | | |
| Chi-square | 8.66 | | | | 3.91 | | | |
| Df | 8 | | | | 8 | | | |
| Sig. | 0.37 | | | | 0.86 | | | |

* Upward Mobility model uses position before training and Job Offer model uses position after training.

The significant variables for Upward Mobility, as indicated in bold, are: i) Years with the Company; ii) Position in Firm; iii) Motive; and, iv) Intra-firm Contacts. For the Job Offers regression, the significant variables are: i) Years in Company, ii) Extra-firm Contacts, and iii) ABA Participation.

Among the individual variables, Years in Company is significant for both models. The negative parameter estimates (B) indicate that the odds of an individual with shorter tenure of service receiving an external Job Offer and be Upwardly Mobile are greater than a manager with longer tenure. This suggests that the combination of new skills through training and fresh thinking on management, as opposed to more routinized management practices of longer-term employees, is an attractive combination for recruiters and promoters. The other significant variables, Position in Firm and Motive pertain to the Upward Mobility model only. The negative parameter estimates for Position in Firm indicates that junior staff have greater odds of being promoted than senior staff. This is might be explained by the fact that there are more

opportunities to be promoted the lower down a manager is in a firm's hierarchy. The Motive (to be promoted) parameter estimate is positive indicating that where trainees enter the program to gain skills to change position, the odds are increased that this became self-fulfilling than if the motive was not present. Why these two parameter estimates are not significant for the Job Offer model may be explained by the motivation of external companies to hire a managers who participated in the PMTP irrespective of the position they held and knowledge of their motives.

The firm variables are not significant in either model. This is surprising as the corporate and economic status of firms is used repeatedly in the business literature to explain decision-making by economic agents. In these models, such structural characteristics are insignificant.

Of the significant social capital variables, the predicted pattern holds. Extensive intra-firm contacts are statistically significant for Upward Mobility, whereas extensive extra-firm contacts and ABA participation are statistically significant for Job Offers. The odds ratio is a telling statistic for logistic regressions. The odds ratio, $\text{Exp}(B)$, measures the magnitude of the observed effects. An $\text{Exp}(B)$ value less than 1 means that a unit decrease in the independent variable equates to decreasing the odds of observing the expected outcome. Conversely, an $\text{Exp}(B)$ value greater than 1 means that a unit increase in the independent variable corresponds to increasing the odds of observing the expected outcome.¹³⁰ For example, the odds of an ABA participant receiving a Job Offer are 1.5 times greater than a graduate who does not participate in ABAs. The value of $\text{Exp}(B)$ also indicates the relative importance of independent variables. Among the statistically significant social capital variables in the Job Offer regression, it is noteworthy that ABA participation exerts greater influence than extra-firm contact.

8.4. LOGIT REGRESSION ESTIMATES FOR FIRM LEVEL OUTCOMES

This section illustrates the direction and relative magnitude of the same independent variables on firm-level business development outcomes. The three dependent variables are Business Contacts, Commercial Contact, and Contracts. For these outcome variables, it is expected that extensive extra-firm linkages and ABA participation will have a significant and positive influence. The logic is straightforward: extra-firm contacts and ABA participation facilitate managers' access to social resources, which in turn can be mobilized to access information, assess reputations and create expectations. These resources are deemed to have instrumental value to business development in Russia's volatile market.

The results of the Business and Commercial Contact logistic regression estimates are presented in Table 8-10.

¹³⁰ When the $\text{Exp}(B)$ nears 1, a unit change of the independent variable does not affect the dependent variable.

Table 8-10: Logit Regression Estimates of New Business and Commercial Contacts

| | Business Contacts | | | | Commercial Contacts | | | |
|------------------------------------|-------------------|------|------|--------|---------------------|------|------|--------|
| | B | S.E. | Sig. | Exp(B) | B | S.E. | Sig. | Exp(B) |
| <u>A. Individual Variables</u> | | | | | | | | |
| Sex | 0.06 | 0.14 | 0.67 | 1.06 | 0.23 | 0.14 | 0.09 | 1.26 |
| Years in Company | 0.01 | 0.09 | 0.89 | 1.01 | -0.17 | 0.08 | 0.03 | 0.84 |
| Current Position in Firm | 0.03 | 0.08 | 0.74 | 1.03 | 0.25 | 0.08 | 0.00 | 1.28 |
| Motive: Contacts | 0.86 | 0.13 | 0.00 | 2.35 | 0.73 | 0.13 | 0.00 | 2.07 |
| <u>B. Firm Variables</u> | | | | | | | | |
| Company Size | -0.03 | 0.05 | 0.50 | 0.97 | -0.23 | 0.05 | 0.00 | 0.79 |
| Corporate Status | 0.34 | 0.18 | 0.06 | 1.40 | 0.34 | 0.20 | 0.09 | 1.40 |
| Economic Status | -0.01 | 0.09 | 0.93 | 0.99 | -0.14 | 0.09 | 0.11 | 0.87 |
| <u>C. Social Capital Variables</u> | | | | | | | | |
| Number of Internal Contacts | 0.14 | 0.07 | 0.05 | 1.15 | 0.10 | 0.07 | 0.12 | 1.11 |
| Number of External Contacts | 0.41 | 0.08 | 0.00 | 1.50 | 0.49 | 0.08 | 0.00 | 1.63 |
| Participate in ABAs | 0.96 | 0.20 | 0.00 | 2.61 | 0.90 | 0.15 | 0.00 | 2.47 |
| Constant | -1.18 | 0.51 | 0.02 | 0.31 | -2.58 | 0.52 | 0.00 | 0.08 |
| | | | | | | | | |
| N= | 1499 | | | | 1369 | | | |
| Nagelkerke R Square | 0.16 | | | | 0.28 | | | |
| <u>Hosmer and Lemeshow Test</u> | | | | | | | | |
| Chi-square | 11.58 | | | | 9.23 | | | |
| Df | 8 | | | | 8 | | | |
| Sig. | 0.17 | | | | 0.32 | | | |

For the social capital variables, the predicted pattern holds for extra-firm contacts and ABA participation. They are positive and significant in both models. The intra-firm variable is unexpectedly significant in the Business Contact model, but at the threshold $p \leq .05$ significance level. Among the social capital variables, ABA participation exerts the strongest influence in both models. The odds of an ABA participant reporting new Business and Commercial Contacts are 2.61 and 2.47 times that of a non-participant, respectively. The only other variable that is significant for both models is the Motive to establish contacts. This parameter estimate is positive, meaning that intent is important, and the variable exerts a strong effect.

For Commercial Contacts significant explanatory variables include graduates with short tenure in more senior management positions and those working in smaller companies. It is not surprising to see more senior management positions correlated with Commercial Contacts because business development is typically their responsibility. The negative parameter estimate for Company Size indicates that the odds of smaller companies forging new commercial contacts are greater than for larger ones firms. This might be explained by the diversification strategies employed by smaller firms to spread risks. It is fairly common for Russian firms to develop numerous business lines to spread risk and the viability of each new venture would depend on the existence of commercial contacts. This interpretation is

consistent with previous findings that view managers in smaller companies as more dynamic and reliant on extensive networks to compensate for market vulnerability (Sedaitis 1997). It is through their investment in establishing an extended support network that smaller companies are more likely to identify business opportunities.

Table 8-11 shows the results of the final Contract regression model.

Table 8-11: Logit Regression Estimates of New Contracts

| | B | S.E. | Sig. | Exp(B) |
|------------------------------------|--------------|------|------|--------|
| <u>A. Individual Variables</u> | | | | |
| Sex | 0.16 | 0.18 | 0.39 | 1.17 |
| Years in Company | -0.07 | 0.11 | 0.55 | 0.94 |
| Current Position in Firm | 0.29 | 0.13 | 0.03 | 1.34 |
| Motive: Contacts | 0.31 | 0.18 | 0.08 | 1.36 |
| <u>B. Firm Variables</u> | | | | |
| Company Size | -0.21 | 0.07 | 0.00 | 0.81 |
| Corporate Status | 0.20 | 0.30 | 0.50 | 1.22 |
| Economic Status | -0.05 | 0.12 | 0.64 | 0.95 |
| <u>C. Social Capital Variables</u> | | | | |
| Number of Intra-firm Contacts | 0.06 | 0.09 | 0.51 | 1.06 |
| Number of Extra-firm Contacts | 0.50 | 0.11 | 0.00 | 1.65 |
| Participate in ABAs | 0.68 | 0.19 | 0.00 | 1.98 |
| Constant | -4.22 | 0.76 | 0.00 | 0.01 |
| | | | | |
| N= | 1306 | | | |
| Nagelkerke R Square | 0.17 | | | |
| <u>Hosmer and Lemeshow Test</u> | | | | |
| Chi-square | 12.32 | | | |
| Df | 8 | | | |
| Sig. | 0.14 | | | |

The importance of external sources of social capital continues in this model as ABA Participation and Extra-firm Contacts variables are positive and significant.

The regression results show that ABA participation, Extra-firm Contacts, Company Size and Position in Firm have significant affects on firm-level business development. Managers who are active in ABAs, and mobilize extensive extra-firm connections in the performance of their work, are more likely to sign new Contracts than are those who do not participate and who have fewer Extra-firm Contacts. In this model, the odds of an ABA participant reporting a New Contract are 1.98 times greater than a graduate who is not an ABA participant. The magnitude effect of ABA participation on the odds of signing a new contract is greater than Extra-firm Contacts and Firm Position.

The findings also indicate that Company Size is significant. This is the only significant firm characteristic. Of the individual variables, Current Position is positive and significant indicating that more senior placed employees are more likely to secure new contracts.

8.5. SUMMARY

This chapter applied multivariate statistical analysis to examine the influence of social capital. Two categories were identified: work-based social capital that graduates had access to before the training program and new association-based social capital created through participation in ABAs. Work-based social capital was further distinguished between intra-and extra-firm contacts. The survey data indicated that PMTP managers possessed different gradients of work-based social capital and approximately a quarter of the graduates had access to association-based social capital.

The purpose of this chapter was to determine whether social capital influenced PMTP outcomes and, if so, did these different collective pathways differentially affect outcomes at the individual and firm levels. Identifying different pathways and outcomes at two analytical levels complicated the analysis but the intent was to clarify and not to obfuscate. In particular, the analysis sought to unpack the notion of social capital as an undifferentiated social resource with widespread impact. By identifying different pathways to access and mobilize social capital and selecting a range of outcomes at two levels, my intent was to clarify if ABAs and pre-existing social relations impacted PMTP outcomes differently.

As Table 8-12 illustrates, there are patterns to the data findings that suggests that pathway choice does matter depending on the desired outcome.

Table 8-12: Summary of Significant Social Capital Variables

| | | Individual-level outcomes | Firm-level outcomes |
|----------------------------------|-------------------|---------------------------|--|
| Work-based Social Capital | Intra-firm | <i>Upward Mobility</i> | |
| | Extra-firm | <i>Job Offers</i> | <i>Business Contacts</i> <i>Commercial Contacts</i> <i>Contracts</i> |
| Association-based Social Capital | ABA participation | <i>Job Offers</i> | <i>Business Contacts</i> <i>Commercial Contacts</i> <i>Contracts</i> |

Three points merit highlighting. First, extensive intra-firm contacts were only significant for Upward Mobility, where the source of the opportunity existed in the firm itself. Second, both extensive extra-firm contacts and ABA participation variables were significant for individual and firm-level outcomes but only where the source of the opportunity resided outside the firm

(i.e., job offers, new business and commercial contacts and new contracts). Third, for the four models where extra-firm contacts and ABA participation were significant, association-based social capital exerted the greatest influence in every model.

Combined with the findings from the previous two chapters, the analysis has presented a consistent and compelling case that social capital matters. In reaching this conclusion I differentiated between sources of social capital and compared their influence at different levels. This made the presentation more complicated but it also provides a more realistic portrait of an actor's social resources and the potential of those resources in attaining different instrumental outcomes. The above table also indicates that the social capital resource created within the context of the program (i.e., those resources derived from ABA participation) were also the most important. An important finding from this approach is that social capital should be conceived as a heterogeneous form of capital. There is not a single pathway but multiple pathways through which managers cultivate and mobilize social resources to their advantage and, occasionally, to the advantage of others.

9. CONCLUSION

In honour of President Yeltsin's first state visit to Canada in 1992, Prime Minister Brian Mulroney established the Yeltsin Democracy Fellowship Program (YDFP). The YDFP was Canada's first large-scale technical assistance program to Russia. A press release issued by the Prime Minister's Office stated that the YDFP would assist reform-minded leaders in the social and public sector "prepare for the extraordinary complexities of democratic government and market economies."¹³¹ Five years later, Yeltsin appealed to Canada and other G-7 countries to increase their commitment to leadership training in Russia. This time, Yeltsin sought support to train thousands of young Russians in business management through the PMTP. The G-7 countries responded to Yeltsin's ambitious initiative by establishing complementary international training opportunities for selected PMTP graduates.

To commemorate the end of the YDFP's ten-year mandate, Brian Mulroney was asked to reflect on the YDFP. He began with these words:

In those heady days in June of 1992 when President Boris Yeltsin visited Ottawa, the Berlin Wall, or pieces of it, had already become collectors' items and freedom was ringing out from church steeples the length and breadth of Europe. The Warsaw Pact had collapsed, the Soviet Union was fracturing, and in Russia itself, communism was being consigned to the dustbin of history. It was an exhilarating time.

It was, also, a challenging time, more challenging than most realized, inside Russia and out, as the subsequent years have revealed. The transition to democracy and free markets was to prove more difficult than even the pessimists imagined.
(Mulroney 2003)

Few observers were more influential and optimistic of Russia's post-socialist prospects than those who argued for sudden and sweeping economic policy change. Yeltsin's economic team concurred that a managed transition was not possible because the state was imploding, and there was no credible government capacity to manage the economic and political crises facing Yeltsin's incoming government (Gaidar 2002). The only option untried and the one that did not require direct economic management was economic liberalization. Yeltsin pursued this option with speed and zeal.

Members of Yeltsin's government had hoped to emulate the Polish experience. There, shock-therapy resulted in short-term economic contraction with growth in the medium term. The Russian government braced itself for this expected path. The pessimists, however, were not so certain that Russia would rebound from shock-therapy as quickly as Poland did. Despite some encouraging signs such as Yegor Gaidar's account of street traders setting up business shortly

¹³¹ Government of Canada, Office of the Prime Minister. 1992 "Press Release", June 2, 1992.

after he lifted restrictions to trade, which I recounted in Chapter 1, the pessimists cautioned that Russians had seven decades of institutional inertia to derail. Building market institutions would take time.

9.1. WHY HAS RESTRUCTURING BEEN SO DIFFICULT: MATTER OF POLICY OR INSTITUTIONS?

Many would now concur with Brian Mulroney's assessment that even the pessimists were too optimistic. What then went awry? The reasons for Russia's economic contraction are multifaceted and interwoven. At a very general level, retrospective analyses have frequently commented on the lack of coherent implementation of macro-level stabilization reforms and complementary micro-economic incentives to spur competition (Estrin & Bevan 2002; Nellis 2002).

At the macro-level, I have drawn attention to the political economy of shock-therapy and the structural reforms that included privatization. The shortcomings of the first generation market reforms included the following: (i) the concentration of enterprise ownership and control in the hands of insiders (i.e., Red Directors and financial-investment groups) and their resistance to restructure; (ii) a poorly regulated financial sector that insiders leveraged to subsidize unviable enterprises; (iii) a complicated and ineffective tax system leading to widespread evasion; (iv) a weak legal system and arbitrary enforcement; and, (v) lack of property rights which discouraged domestic and foreign investment (Estrin & Bevan 2002: 7-8).

At the micro-level, analysts and international donors have also directed their attention to the failure of the GoRF to institute competition policy that would reduce the barriers to new entrants into the fledgling private sector. Without the anticipated influx of new entrepreneurs, insider-controlled privatized enterprises faced weak domestic competition. In the economic 'disorganization' that ensued, entrepreneurs seeking to establish and manage new enterprises grappled with a rapidly changing environment.

Despite these shortcomings, donors invested heavily in physical, financial, and human capital needed to rebuild a new economic infrastructure. In the human capital field, management training programs were seen as a primary vehicle to reposition human capital insofar as it provided managers with the skills and knowledge to manage the transition to, and in, a market economy. The PMTP was initiated in 1997 with these objectives in mind.

The designers of the PMTP and its graduates anticipated positive individual- and firm-level outcomes based on the proposition that human capital investment returns dividends in the form of career advancement and firm-level leadership. Through the sheer scale of the PMTP, which was the largest federal training program of its kind, the architects also anticipated that it would nurture constructive trilateral relations among government, training institutions and the private sector.

The PMTP's federal government sponsors identified these expected multi-level outcomes as public policy priorities. Together, these outcomes would contribute to the strengthening of the

national economy. I re-emphasize the PMTP's national importance again to draw attention to the unique historical context the program was designed to respond to.

Early PMTP program evaluations showed encouraging individual- and firm-level outcomes. Given the selection criteria and standardized training program, differential outcomes could not be satisfactorily explained by human capital alone. In the donor consultation meetings convened by the FCS that I attended, donor agency representatives and management trainers most frequently cited firm-based explanations for varying outcomes. Among the most often cited reasons were the ownership structure of firms, the graduates' decision-making authority and their relation with top management, and the challenges graduates faced in initiating reforms in larger enterprises. When donor meetings turned to the question of sustaining the results of the PMTP, attention then turned to exploring the influence of ABAs.

When graduates in several regions began forming business networks, the designers of the PMTP program took note. There was anecdotal evidence that in some regions, typically where graduates were self-organizing to form ABAs, the firm- and societal-level impacts were more pronounced. As ABAs proliferated, members reported that their associations facilitated further learning, new opportunities, and created a platform to engage the wider business community and government on the reform agenda. The FCS sought to strengthen and replicate these efforts when it developed a post-program strategy in 2000.

In contrast to the supply character of training individual managers, the post-program component was iterative and unscripted. My description of how the training program evolved illustrated several notable features. First, the activities facilitated by ABAs and, in some instances supported by the FCS and donor programs, cultivated group learning. In contrast to the student-teacher relationship of the classroom, those graduates who became involved in ABAs cultivated horizontal networks among peers. Second, the FCS' post-program strategy extended the definition of management training to include business leadership in the public sphere. For instance, the FCS encouraged regional government agencies to involve graduates in the implementation of the PMTP. This signal also encouraged some regional governments to involve the PMTP graduates in hitherto closed policy domains. Vertical dialogue with government was not restricted to ABA members only but their organizational structure provided a basis for ongoing interaction. Thus, in what may be called a social capital approach to management training, the post-training component promoted relationship building among public, private and civil society organizations. In these ways, the post-program component marked a departure from the dominant management training model that invested in individual learning.

9.1.1. The Institutional Dimension of Russia's Triple Transition

Yeltsin's envisioned liberal order was initiated through legislation and executive decrees. Mid-way through the 1990s, Yeltsin lamented that his reforms had lost momentum and the obstacles to growth had parked the economy somewhere between a socialist and capitalist order. By endorsing the PMTP as a state priority and hoping that it would cultivate new working relationship between the private and public sector, the PMTP architects recognized that formal rules are blunt instruments of institutional change.

Yeltsin's reflection on his stalled liberalization agenda challenged the prevailing expectation that market-oriented reforms would lead to a capitalist market economy. This liberal prediction assumes that political and economic liberalization will dissolve impediments to their operation, and transform the social structure. From these expectations, proponents of market liberalization maintain that: (i) existing capitalist economies provide likely models for other liberalizing economies; (ii) future trajectories from socialist to market economies will resemble the passage by which existing capitalist economies arrived at their present state; and, (iii) prevailing institutional frameworks do not interfere with market-oriented policy directions.

The new institutionalism, a body of literature that I have drawn on to inform my investigation, is particularly well-suited to examining Yeltsin's question of why his exit from socialism did not arrive at the envisioned capitalist end state. Proponents of new institutionalism acknowledge that executive, legislative or regulatory powers are important sources of institutional change but they go beyond this focus. The new institutionalism pays close attention to the evolution, influence of, and interplay between, working rules and norms, on the one hand, and actors on the other. In the language of institutional analysis, this institutional framework constrains the strategies actors pursue in a given arena but opens the door for actors to devise new institutions. It follows from institutional analysis that: (i) existing policy frameworks of capitalist economies provide misleading models for societies emerging from decades of socialist rule; and (ii) the paths of liberalization will differ among transitional economies because history and institutional differences shape how actors will cooperate or compete in building a new social, economic and political order (Nelson, Tilly et al. 1997). These predictions offer a more plausible explanation for why Yeltsin's economic reforms did not result in the economic order he had envisioned.

9.1.2. Institutional Builders in Russia's Transition

Much of the economic growth literature emphasizes the need for institutions that permit anonymous, impersonal exchange across time and space. Certainly many market transactions in capitalist economies characterize this mode of exchange. Indeed, the proliferating kiosk vendors that Mancur Olson (2000) observed in his walks around Red Square in the early 1990s operated on these market principles. However, reproducing commercial transactions is not the same as building markets. Whether the focus is building labour or commercial markets, I have argued that personal interaction across time and space is critically important. Institution builders rarely operate in isolation. Creating institutions for markets is not an anonymous and impersonal path but a collective exercise requiring actors to devise, test and learn from each other.

Perestroika and *glasnost* created important openings for limited public participation in shaping the future direction of economic policy. For those who lacked political influence or economic power, however, there were few opportunities to participate in the crafting of collective-choice rules for markets. Seven decades of state-led development and political censorship led to an inhospitable environment for organized society to emerge and to engage the state on policy alternatives for economic development. The political system also proved to be a weak vehicle to represent Russian voters. After a decade and a half following the fall of

the Soviet Union, students of Russia's political transition comment on its incomplete democratic consolidation. Political parties do compete for power but political parties have not provided the Russian voters an effective representative mechanism to influence the direction of economic policy.

The emergence of ABAs in the context of the PMTP prompted me to review the business community's post-Soviet experience in collective action. In comparative perspective, the growth and use of business associations differed among the Newly Independent States. In uncompetitive political regimes, such as Russia, there were fewer business associations operating in the public sphere than in competitive regimes. Russian business associations also reported proportionally greater use of informal channels to affect government policy and practices. These quantitative survey findings were consistent with research identifying what Alexei Yurchak referred to as the emergence of the hybrid public sphere. In this context, private sector interests cultivated the "personalized public sphere" for personal enrichment and influencing economic decision-making and regulatory practices behind the scenes. By contrast, the institution builders that this study concentrated on did not wield significant economic influence. Rather, the PMTP graduates' main asset was their human capital. The architects of the program also hoped that the next generation of private sector entrepreneurs would demand change in the officialized public sphere and would not reproduce the personalized public sphere.

Given the scope and intensity of the reforms, there was good reason to assume that the Soviet institutional framework for professional and enterprise development would change. During the Soviet period, graduating from an elite engineering or technical institute, and developing personal ties through the Communist Youth League were strategies for youths to advance professionally. These strategies were conditioned by the institutional framework and adapted to the unique features of the planned economy in a centralized state. With *perestroika*, the formal rules changed rapidly rendering the educational curriculum, management training and social networks less effective in the new economic context.

The government's investment in reorienting the education system to respond to and drive changes in the new economy indicated their continued awareness of the importance of human capital to economic development. The World Bank and other international donors supported the GoRF's efforts to establish new systems for management training through establishing the National Training Foundation and other initiatives. There is little question that reorienting human capital through education reform and training was important but as Robert Putnam noted in 1993, "current proposals for strengthening market economies and democratic institutions in the formerly Communist lands of Eurasia center almost exclusively on deficiencies in financial and human capital (thus calling for loans and technical assistance). However the deficiencies in social capital in these countries are at least as alarming." (Putnam 1993b).

According to Putnam and other proponents of social capital, entrepreneurs who access and mobilize resources embedded in social networks are more effective institution builders. Social capital understood as social resources such as referrals, information, and reputation may be particularly useful in a business environment characterized by Blanchard and Kremer as

‘disorganized’; that is, in an action arena where economic and social relationships have broken down, transaction costs are high, and there is uncertainty surrounding the pace and direction of change. For an entrepreneur facing these challenges, who you know may complement or magnify what you know. The challenge facing Russia was making social capital a positive force for economic development and second, finding entry points for constructing beneficial social capital.

9.2. SUMMARY OF RESEARCH DESIGN AND MAJOR FINDINGS

If social capital is to be more than a metaphor, research needs to demonstrate that networks facilitate both the ‘vocabulary’ and action of mutual cooperation. It also needs to illustrate that without access to social resources embedded in networks, private, club, or public goods would be undersupplied. Establishing a counterfactual for the case-study was aided by the research design and assessment methods used. As I have described, graduates entered the program with varying degrees of work-based social capital. The cohort surveyed in the Graduate Survey instrument also reported on their participation in ABAs, or what I called, association-based social capital. Consequently, graduates invested in different social network configurations through which they could access and mobilize social resources. These configurations created self-selected non-equivalent groups.

The design of this study provides an insight into the multifaceted character of social capital. The findings of this three-level analysis support the largely untested proposition that an actor’s social capital assets (e.g., extensiveness of association- and work-based networks) can be ineffectual in one environment but important in another or at a different level of analysis. To date, research has focused on the effect of an actor’s social capital assets in a given arena and at one level of analysis. For example, Mark Granovetter in the early 1970s investigated the relative effectiveness of strong and weak contacts in job searches. More recently, Ronald Burt used similar social capital measurements to test whether strong or weak contacts were more effective for entrepreneurs at the firm level. At the societal level, research by Robert Putnam argued that societies rich in social capital are better able to overcome collective action problems. This small sample of the growing literature illustrates the tendency to examine the value of social capital in distinct action arenas. As a result, empirical research has led to the accumulation of studies making an either-or determination on the value (or detriment) of various social capital variables, which have then been generalized across levels of analysis.

Theory building and policy would likely benefit from further exploration of the multifaceted character of actors’ social capital resources and their mobilization in different levels of analysis. Research in this direction would have consequences for development efforts seeking to scale-up micro-level interventions to the community, local and regional arenas. Michael Woolcock (1998) argues that one of the promising conceptual merits of social capital is its ability to link levels of analysis. This case-study provided a unique testing ground for making inroads in this direction. The young managers participating in the PMTP were active in each of the domains previously studied by Granovetter, Burt and Putnam, among others. The uniqueness of this present study is the ability to examine a cohort of managers in multi-level action arenas and explore how managers access and mobilize their social capital assets and to what effect. Institution builders are change agents who operate at multiple levels.

Development practice and theorizing has for sometime framed institution builders in multi-tiered systems but empirical research has tended to compartmentalize actors in single-level action arenas.

I will now highlight some of the findings of the empirical chapters. In Chapter 5, I identified the changing features of the institutional framework in three action arenas. I compared these features before and after the tumultuous changes introduced by Gorbachev and Yeltsin between the mid-1980s to the mid-1990s. This historical institutional analysis suggested that the reforms changed the way young Russians entered the labour market and advanced their careers. With the elimination of education to work placement, there was a new labour market for employment. In the private sector, new skills were rewarded and job seekers could no longer rely on government mechanisms or preferential access to jobs through the *nomenklatura* system.

In terms of business development, the economy of shortage became a disorganized economy. For a manager of an enterprise, strategies to obtain goods and services changed dramatically. In the old system, enterprise managers traded favours among peers to 'meet' production targets. It was a closed network with known unwritten rules of reciprocity. Following the market-reforms, the new entrepreneurs faced uncertainties that could not be attended to through previous networking strategies. Some actors capitalized on their political connections to exploit contradiction in the transfer from the planned to the market economy. Those who succeeded at this game amassed fortunes but they were not the builders of a new market economy. In terms of shaping the economic development agenda, the institutional legacies of the one-party state were evidenced by the reluctance of the new entrepreneurs to engage the state. The low level of self-organization, particularly among small and medium size enterprises, was symptomatic of private-public distrust.

Against the backdrop of the changing institutional framework, Chapter 6 charted the development of ABAs and their structural and cognitive dimensions. The survey instruments and my direct observations indicated that graduates invested time developing their ABAs for a myriad of reasons. Some graduates sought friendship, others mentorship and still others expressed the desire to give something back to society and saw ABAs as an effective means to do so. Given the plurality of motives, the emergence and growth of ABAs cannot be fully explained as a rational response to overcoming missing markets. Organizationally, the majority of ABAs had governance structures, work plans, a record of activities, and growing membership and external networks. In terms of their functioning, ABA members reported their ability to tap into new information, build contacts through referrals and facilitate learning and commercial opportunities.

This chapter also explored the reasons that could explain why some graduates participated in ABAs while others did not. Through logistic regression, I wanted to determine the relative importance of individual, firm and program variables in explaining ABA participation. The results of this analysis suggested that individual and firm characteristics were not significant factors. Graduates' positive perception of regional government's role in program implementation and ABAs that had attracted greater percentage of graduates in the region had a positive re-enforcing effect. The results highlighted the importance of government's role in

encouraging network building among graduates. It also suggested that graduates were willing to invest their time in a relatively uncharted collective enterprise given the assurance that their peers were prepared to do likewise. These findings also served to minimize the risk of selection-bias. Had there been a consistent pattern of personal or firm characteristics associated with ABA participation, it would be reasonable to question whether ABA participation played any role whatsoever in creating opportunities for personal and business development. However, this analysis did not find any relationship between personal characteristics and ABA participation. Because of this finding, I am more confident stating that ABA participation had an independent affect on personal and business development outcomes.

Having mapped the organizational structure of ABAs, I turned to the market-supporting and complementing actions of ABAs in Chapter 7. I illustrated that ABAs provided graduates a platform for supporting market development by engaging government on policy issues. Importantly, data revealed that ABA members were active in the officialized rather than in the personalized public sphere. In other words, ABAs were what Nan Lin calls alternative institutionalizing organizations because they set new precedents in local political economies. For those graduates who did not participate in ABAs, they lacked the organizational platforms to affect change as I did not observe individual PMTP graduates actively engaging in collective-choice arenas. In terms of complementing markets, ABAs generated a range of expected club goods.

This chapter also explored the role of ABAs in building networks through which the above mentioned outcomes were evidenced. In probing the contribution of ABAs to forging new connections with government, business and social organizations, the data revealed numerous encouraging patterns. For example, ABA members pointed to the relative importance of ABAs over pre-existing pathways in establishing valuable economic, political and business contacts. In creating these contacts, the data also illustrated that ABA members provided commensurate support. There was also evidence that members were selective in whom they networked with and on what policy issues.

The quantitative analysis in Chapter 8 presented the strongest empirical basis for arguing that social capital matters, all other things being equal. While all graduates received the same rigorous training, the nature and extent of their social capital assets varied and differentially affected professional advancement and business development outcomes. Surprisingly, firm characteristics were not significant for either firm- or individual-level outcomes. Individual characteristics such as one's position in a company and motive were significant for labour mobility outcomes but not significant for firm-level outcomes. These findings departed from the conventional wisdom among PMTP donors that training graduates with certain individual and firm characteristics would be more effective. Specifically, there was a strong presumption that younger, motivated graduates working in smaller private sector firms would be best able to maximize the returns from training. In certain cases, some of these variables were important but having access to extensive work-based social relations and ABA participation proved significant and relatively more important than firm or individual characteristics.

9.3. LESSONS

Western observers have been reminded to be cautious about interpreting Russian history. During the reign of Catherine the Great, a Saxon nobleman publicly accused Prince Potemkin of constructing model villages to deceive European nobility into believing that Catherine's expanding empire was more prosperous than it was. We know now the Saxon's claims were libellous but the fact that the term Potemkin Village has entered vernacular suggests that the imagined community metaphor resonates with the contemporary Russian experience. Soviet propaganda, for instance, was notorious for promoting Potemkin Village-like tales of the glory of the revolution. A more contemporary cautionary example comes from the astute historian and politician Sir Winston Churchill. On the eve of the Second World War, Winston Churchill was at a loss to explain Joseph Stalin's position on Germany's militarism. Expressing his bewilderment, Churchill broadcasted to the British people that, "I cannot forecast to you the action of Russia. It is a riddle wrapped in a mystery inside an enigma." Even on my first visit to Moscow, my interlocutor described Russia as an onion that I would find difficult to unravel. Heeding these warnings, what lessons can be drawn from the case-study on the design of management training as a tool for economic development?

I set out to explore whether the unique features of Soviet and Russian society affected the translation of human capital through social networks. I had little doubt that training in business administration would assist Russian entrepreneurs to restructure privatized enterprises or start new business ventures. I was unsure, however, whether the leadership model of individual training would enable graduates to apply their new skills in a constructive direction.

My empirical findings present certain challenges to the effectiveness of the dominant model as a tool for economic development. I have drawn attention to the differential impact of individual and collective pathways in the application of management training. The findings suggest that the designers of training programs should look beyond the acquisition of skills and knowledge and pay careful attention to the social networks and resources that learners can and could access.

While management trainers have recognized the importance of teamwork within the firm, the initial design of the PMTP focused on individual rather than organizational learning. Like most management training programs, the PMTP initially considered external business linkages beyond the scope of management training, even though the overarching goal of the training program was framed as contributing to the national economy. This study shows that such connections are important for attaining the labour mobility and business development results desired by many management training programs in transitional economies. In this study, the role of ABAs proved particularly valuable.

My investigation led to the conclusion that those who invested in different social network configurations were more likely to attain expected PMTP outcomes than those without access to the same social capital networks. Given this finding, the public policy question is whether the state has any role in or ability to facilitate social capital. Peter Evans asks the question whether the development of social capital is limited by initial conditions or can be

constructed. If social capital depends on the prior existence of social and cultural patterns historically rooted in society, then it may well be immune to external influence. A 'constructability' perspective is more optimistic. It frames social capital as a latent possibility, waiting to be created by institution builders (Evans 1996: 1124).

This question takes on great practical importance in countries of transition. In these societies, social networks have tended to be strong and durable at the family level but networks that span geography and organizational boundaries have been weak and fragile. Empirical work on social capital underscores the importance of social structure to innovation and exchange. The application of knowledge and goal achievement are partly determined by the social resources available to, or developed by, graduates. In the PMTP, some graduates actively created new networks to their advantage.

This book does not provide a road map for other management development programs to replicate but some characteristics likely had a bearing on the rise of social networks. First, efforts were taken to learn and share results among managers and organizers of the program. Repeated discussions nationally and regionally created opportunities for managers to share innovative ideas and network among themselves. Those regions with established ABAs were profiled and they in turn served as role models for others who were interested in their results and networking opportunities. The importance of models that graduates could observe was also reflected in the observations of graduates who participated in international training opportunities supported by PMTP donor partners. As the PMTP progressed, more and more international training programs were exposing managers to the role of intermediary institutions and business associations in capitalist markets. These important learning opportunities served as reference points for future institution building.

Second, in the early years of the program, officials made a deliberate attempt to promote the program and its graduates. The PMTP cultivated an identity around new managers that emphasized their leadership role. For example, recruitment drives broadcast on national television alerted the business community that the young PMTP managers would be the business leaders of the future. In post-training surveys, there was an almost unanimous perception that the program had elevated their self-esteem and empowered them. This enhanced self-confidence coupled with the desire of many to make a difference and do things differently, created favourable condition for experimenting with new forms of collaboration.

Third, the relational dynamic among groups that is so important to Mary Douglas' work was apparent in program implementation. While there exists a cautious attitude toward people of authority, graduates who positively evaluated the government's approach to post-training activities tended to get involved in post-training activities. In some regions, the constructive interest of government elicited a positive response from the private sector to continue a dialogue.

9.4. FINAL THOUGHTS

The research for this book was conducted during the early years of the first transfer of power from Boris Yeltsin to Vladimir Putin. It was a time of considerable optimism in Russia.

President Putin vowed to clean up the excesses of Yeltsin's term and work to build responsive and accountable government. His early presidential addresses also underscored the importance of supporting small and medium size business in Russia. Certainly, there were more pro-business political parties than Putin's, but the business community could find something in his economic policy statements that they could applaud. More than any specific policy issue, many hoped that Putin would strong arm the economy into order.

The young PMTP entrepreneurs I worked with between 2000 and 2003 were concerned about the present and tended to base business decisions with short-term calculations. At the same time, many graduates also held to a long-view of history. They appreciated that Russia had just emerged from a long experiment with socialism and that the ensuing political and economic turmoil would likely settle with time. If this was going to be the direction, their newly acquired skills and work-based social capital would continue to serve their individual interests. External work-based contacts would also assist managers as they moved up the ranks into more senior positions. In terms of sustainable legacies of the PMTP, social capital generated through ABAs would be the most vulnerable to external events. ABAs worked well when the PMTP was operational because ABA executives could expect new members to join, and continued direct and/or in-kind support from regional government and donor agencies.

At the time the YDF wound down its operations, Putin's government began to show less tolerance toward organized society. The openings created by *perestroika* and the 1995 law that provided the legal basis of civil society to organize in the public sphere began to close once again. In 2005, President Putin introduced legislation that increased the powers of local government to regulate the financial and operational activities of NGOs. While Putin's government made a simultaneous crack down on corrupt civil servants, perhaps allaying fears that increased local regulatory powers would not be abused, the state's encroachment into civil society reintroduced strong grid controls. The government's youth policy also has raised concerns. The ripple effect of Ukrainian youths' role in the Orange Revolution saw Russian authorities respond with a series of proposals to organize Russian youths. One commentary likened the GoRF's draft youth policy as a return to the Komsomol.¹³² The gains fledgling youth groups and young business leaders have made in collective-choice arenas over the past decade and a half will be threatened by further state control over society. If this is the future direction of state-society relations, the cognitive and organizational dimensions that sustain association-based societal capital will erode and become a latent possibility once again.

¹³² "Taking Youth Policy to the Next Level in Russia", *RFE/RL (Un)Civil Societies*, 5/16, Dec. 1, 2005.

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11. APPENDICES

Appendix 1: PMTP Partner Organizations

| |
|--|
| <p>Canada: Yeltsin Democracy Fellowship Program</p> <p>Funder: The Program of Cooperation with Central and Eastern Europe of the Canadian International Development Agency</p> <p>Executing Agency: University of Saskatchewan and SIGMA VI/Universalia</p> |
| <p>Denmark:</p> <p>Funder: Ministry of Business and Industry</p> <p>Executing Agency: Danish Agency for Trade and Industry and Danish Management Forum</p> |
| <p>The European Union: NIS Management Training Program (MTP)</p> <p>Funder: European Commission (TACIS and European Training Foundation)</p> <p>Executing Agency: The program is managed by a consortium of partners from eight European countries: Deutsche Management Akademie Niedersachsen, Fomento del Trabajo Nacional, Formaper, Special Agency of the Chamber of Commerce of Milan, Institut Francais de Gestion, Manchester Business School, Niels Brock Copenhagen Business College, SMEBA-Finnish College for SME Business Administration, WIFI de Wirtschaftskammer Osterreich.</p> |
| <p>Finland:</p> <p>Funder: The Ministry of Foreign Affairs and the Ministry of Trade and Industry</p> <p>Executing Agency: Helsinki School of Economics and Business Development</p> |
| <p>France: Multilateral and Bilateral Technical Assistance Initiatives for Russia</p> <p>Funder: Ministry of Foreign Affairs (International Cooperation and Development Department) and French Embassy in Moscow</p> |
| <p>Germany: President's Program for Russian Managers</p> <p>Funder: Bundesministerium fur Wirtschaft and Technologie and KfW – Kreditanstalt fur Wiederaufbau</p> <p>Executing Agency: Carl Duisberg Gesellschaft (CDG)/InWEnt</p> |
| <p>Italy: Russian Managers in Northern Italy & Managing Innovation for Russian SMEs Development</p> <p>Funder: Italian Ministry of Foreign Affairs</p> <p>Executing Agency: INFORMEST (Service and Documentation Center for the International Economic Cooperation) and the Science Park Area (Consorzio per l' Area di ricerca)</p> |
| <p>Japan: Dispatch and Training Program</p> <p>Funder: Ministry of Foreign Affairs</p> <p>Executing Agency: Japanese Embassy in Moscow and Japan Centres (based in Russia)</p> |

| |
|---|
| The Netherlands: Netherlands – Russian Management Development Program Funder: Ministry of Foreign Affairs Executing Agency: Bureau Cross and the Confederation of Netherlands Industry and Employers (VNO-NCW) |
| Norway: The Norwegian Presidential Initiative Funder: Norwegian Ministry of Foreign Affairs Executing Agency: Confederation of Norwegian Business and Industry and Norwegian Association of Local and Regional Authorities |
| Sweden: Nordpraktik Funder: Swedish International Development Cooperation Agency Executing Agency: Organization Norden |
| The United Kingdom: Russian President's Management Training Initiative (RPMTI) Funder: Department for International Development and British Russian Development Partnership Executing Agency: The British Council |
| United States: Presidential Management Training Initiative (PMTI) Funder: United States Agency for International Development Executing Agency: International Research and Exchange Board |

Appendix 2: Structure of the Leadership and Membership Surveys

| Categories | Sub-Categories | Data | Questions Directed at | |
|--------------------------------|---------------------|---|-----------------------|--------------|
| | | | Leaders (LS) | Members (MS) |
| Personal Information | Demographic | Age, Male/Female, Family, Employment | ✓ | ✓ |
| | Corporate | Kind of company, size of company, position in company | ✓ | ✓ |
| | Contact information | Email address | | |
| Organizational Characteristics | | | | |
| | Identity | Existence of website, business cards, logo, etc. | ✓ | |
| | Aims and Activities | Current / future | ✓ | ✓ |
| | | List of achievements | ✓ | ✓ |
| | Origins | Who was involved in establishing the ABA? | ✓ | |

| | | | | |
|----------------------------------|------------------------|---|---|---|
| | | Where did the idea originate? (gov't, graduates, from companies) | | ✓ |
| | | Knowledge of other ABA | ✓ | |
| | | | | |
| | Legal status | Non-profit/corporate status | ✓ | |
| | | Year established (informal / formal) | ✓ | |
| | Budget | Sources of support | ✓ | |
| | | Income trends (up/down) | | |
| | | Description of ABA physical assets (ie. Office equipment, meeting room space) | ✓ | |
| | Membership Composition | Number of original members/number of current members (trend) | ✓ | |
| | | Different categories of membership (full member, associated member, etc.) | ✓ | |
| | | Motives for joining / Benefits of membership | | ✓ |
| | | Do members belong to other organizations? | | ✓ |
| | | Obligations of membership | ✓ | |
| | | Composition of ABA members from different graduating classes / sectors | | ✓ |
| | | Exclusive PMTP graduate membership? | ✓ | |
| | Structure/ Governance | Selection process of leaders (voting, consensus) | ✓ | |
| | | Decision-making processes | ✓ | |
| | | Level of participation and quality of decision-making processes | | ✓ |
| | | Use of committees to organize activities | ✓ | |
| | | Effectiveness of Committees | | ✓ |
| | | Frequency of meetings | ✓ | |
| | | Participation in meetings | ✓ | ✓ |
| | | Presence of a Charter/Constitution | ✓ | |
| | | Knowledge of the Charter | | ✓ |
| | | Means of communication among members | ✓ | |
| | | | | |
| Organizational Influence / Reach | | | | |
| Internal | | | | |

| | | | | |
|----------|--------------------------------|---|---|---|
| | Resources created by the ABA | Identify assets and networks created by the ABA available to members | | ✓ |
| | Impact of ABA resources | Have ABA assets led to labour mobility, new business leads, further learning opportunities, sources of innovation, new business ventures, social support. | | ✓ |
| External | | | | |
| | Linkages | What external organizations are involved: in meetings, in activities | ✓ | |
| | | Does the ABA intend to expand its network? With who? | ✓ | |
| | | Activity / Participation table | ✓ | |
| | | Attitudes toward the development of a PMTP alumni association | | ✓ |
| | Impact on state capacity | On what issues do authorities involve the ABA in? | ✓ | |
| | | On what issues do the ABA involve local authorities in? | ✓ | |
| | | Members' perceptions on ABA influence on government policies/practices | | ✓ |
| | Impact on economic environment | On what issues do companies involve the ABA in? | ✓ | |
| | | On what issues do the ABAs involve companies in? | ✓ | |
| | | Members' perceptions on ABA influence on the business environment. | | ✓ |
| | | | | |
| | Impact on social environment | On what issues do organizations in the social sphere involve the ABA in? | ✓ | |
| | | On what issues do the ABAs involve organizations in the social sphere in? | ✓ | |
| | | Members perceptions on ABA influence on social development? | | ✓ |
| | Future Challenges /Objectives | Resources required to reach ABA objectives | ✓ | ✓ |

Appendix 3: Sample Characteristics of Leadership Survey (N=26)

| | | | n= | % |
|-----|----------|--|----|-----|
| Sex | Male | | 13 | 50 |
| | Female | | 13 | 50 |
| | Total | | 26 | 100 |
| Age | Under 30 | | 3 | 12 |
| | 30-39 | | 20 | 76 |

| | | | | |
|--------------------------------|--------------------------------|----|--|-----|
| | 40 and Over | 3 | | 12 |
| | Total | 26 | | 100 |
| Year of Graduation | 1988 | 8 | | 31 |
| | 1999 | 6 | | 23 |
| | 2000 | 7 | | 27 |
| | 2001 | 5 | | 19 |
| | Total | 26 | | 100 |
| Position in the ABA | President | 13 | | 54 |
| | Vice-President | 8 | | 33 |
| | Member of Council | 3 | | 13 |
| | Total | 24 | | 100 |
| Occupational Position | Senior Management | 17 | | 65 |
| | Functional Layer | 8 | | 31 |
| | Non-Managerial | 1 | | 4 |
| | Total | 26 | | 100 |
| Size of the Company | 100 or Less | 17 | | 65 |
| | Over 100 | 9 | | 35 |
| | Total | 26 | | 100 |
| Capital Structure | State Owned Enterprise | 5 | | 19 |
| | Privatised/Joint Stock Company | 10 | | 38 |
| | Private Company | 11 | | 42 |
| | Total | 26 | | 100 |
| | | | | |
| 2. Alumni Business Association | | n= | | % |
| Date of Establishment | 1998-1999 | 5 | | 20 |
| | 2000-2002 | 20 | | 80 |
| | Total | 25 | | 100 |
| Number of Founding Members | Less than 10 | 9 | | 38 |
| | 10-19 | 6 | | 25 |
| | 20-99 | 6 | | 25 |
| | 100 & Over | 3 | | 12 |
| | Total | 24 | | 100 |
| Number of Current members | Less than 30 | 6 | | 27 |
| | 30-39 | 5 | | 23 |
| | 40-99 | 6 | | 27 |
| | 100 & Over | 5 | | 23 |
| | Total | 22 | | 100 |
| Number of Active Members | Less than 10 | 2 | | 8 |
| | 10-19 | 14 | | 58 |
| | 20-29 | 5 | | 21 |
| | 30 & Over | 3 | | 13 |
| | Total | 24 | | 100 |

Appendix 4: Sample Characteristics of Membership Survey (n=299)

| | | | | | |
|--|----------------------------------|--|-----|--|-----|
| | | | n= | | % |
| Sex | Male | | 193 | | 65 |
| | Female | | 102 | | 35 |
| | Total | | 295 | | 100 |
| | | | n | | % |
| Age | Under 30 | | 84 | | 29 |
| | 30-34 | | 111 | | 38 |
| | 35 and Over | | 97 | | 33 |
| | Total | | 292 | | 100 |
| | | | n | | % |
| Year of Graduation from President's Training Program | 1988 | | 49 | | 17 |
| | 1999 | | 55 | | 19 |
| | 2000 | | 63 | | 22 |
| | 2001 | | 67 | | 23 |
| | 2002 | | 52 | | 18 |
| | Not in the Program | | 3 | | 1 |
| | Total | | 289 | | 100 |
| | | | n | | % |
| Year of Becoming Alumni Association Member | 1998-1999 | | 58 | | 21 |
| | 2000-2002 | | 218 | | 79 |
| | Total | | 276 | | 100 |
| | | | n | | % |
| Participation in ABA | Executive Position | | 33 | | 11 |
| | Active Member | | 63 | | 22 |
| | Member | | 197 | | 67 |
| | Total | | 293 | | 100 |
| | | | n | | % |
| Occupational Position | Senior Management | | 140 | | 48 |
| | Functional Layer | | 120 | | 41 |
| | Head of the Unit & Guild Level | | 15 | | 5 |
| | Non-Managerial | | 16 | | 6 |
| | Unemployed | | 1 | | 0 |
| | Total | | 292 | | 100 |
| | | | n | | % |
| Size of the Company | 100 or Less | | 162 | | 55 |
| | Over 100 | | 134 | | 45 |
| | Total | | 296 | | 100 |
| | | | n | | % |
| Capital Structure of the Company | State Owned/Municipal Enterprise | | 77 | | 26 |
| | Privatised/Joint Stock Company | | 92 | | 31 |
| | Private Company | | 124 | | 43 |
| | Total | | 293 | | 100 |
| | | | n | | % |
| Work Experience | Less than 5 Years | | 24 | | 9 |

| | | | | | |
|--|---------------|--|-----|--|-----|
| | 5 -10 Years | | 132 | | 48 |
| | 11 - 15 Years | | 70 | | 26 |
| | 16 - 27 Years | | 48 | | 17 |
| | Total | | 274 | | 100 |

Appendix 5: Mission Statement of Select ABAs Organized by Federal Districts

Central District (18)*

| | ABA Name | Abridged Mission Statement |
|--------------------------|---|---|
| Ivanovo | Ivanovo Association of Managers | To support the collaboration of managers in the economic development of Ivanovo region together with the local administration |
| Kostroma | Foundation for Promotion and Support | Formation of a network of PMTP graduates to: (1) support the operation of the PMTP, (2) further upgrading of management qualification, (3) attract investment into the local economy |
| Kursk | Association of the PMTP Graduates in Kursk Region | To assist the introduction of modern management practice in organisations and enterprises of the Kursk region |
| Lipetsk | Lipetsk Business Initiative | To promote the use of graduates in the restructuring of privatized and state-owned enterprises. To increase and strengthen external and internal links of enterprises and organizations in the Lipetsk region. To establish new relations with national and foreign businessmen |
| Moscow and Moscow region | Interregional Association of PMTP Graduates | To assist the implementation of the PMTP, further develop the qualification of Russian managers, and attract business investment to the region |
| Tver | Spector | To strengthen the social-economic development of Tver region and establish a sustainable business network |
| Voronezh | Voronezh Union of Managers and Executives – Perspective | To share and further develop the knowledge and skills of PMTP graduates. To provide assistance to members' joint activities, legal protection of their interests and improve access to public services and information |
| Yaroslavl | Yaroslavl Association of PMTP Graduates | To support continued learning of graduates in their field of specialization and the application of their skills; promote the interaction of members for mutual support; assist local and municipal authorities implement social and economic programs; and, support the restructuring of member's enterprises |

* indicates number of regional governments within the federal district. For the table above, there are 18 regions, of which 8 participated in the LS.

Northwest (11)

| | ABA Name | Abridged Mission Statement |
|--|----------|----------------------------|
|--|----------|----------------------------|

| | | |
|----------------|-------------------------------------|---|
| Kaliningrad | Kaliningrad Association of the PMTP | To support young managers, assist project development and investments into the Kaliningrad economy |
| St. Petersburg | St. Petersburg PMTP Club | To create a professional information platform that: provides assistance to businesses, supports dialogue among managers; and, promotes experiential learning exchange on developing and implementing management techniques, knowledge and skills |
| Vologda | Vanguard | To form a PMTP graduates network to share new knowledge and experiences, as well as to increase effective management practices; provide assistance to joint activities of members; raise awareness of business law and regulations; and, increase access to public services |

N. Caucasus (13)

| | ABA Name | Abridged Mission Statement |
|----------|-----------------------------------|--|
| Dagestan | Initiative | To provide opportunities and assist members in their career development; assist with the implementation of the PMTP; upgrade qualification of Russian managers; seek out new investment in the local economy |
| Rostov | Association of the PMTP Graduates | To establish a creative environment for further learning and professional development throughout the Rostov region |

Volga (15)

| | ABA Name | Abridged Mission Statement |
|---------|--|---|
| Kirov | Association of PMTP Alumni from Kirov Region | To support trainees, training institutions and regional commissions in the implementation of the PMTP program; and, improve the qualification of managers and executives |
| Mari-El | Mari-El Association of PMTP Graduates | To foster new business contacts between PMTP graduates; upgrade qualifications of Russian managers; consolidate, analyze and disseminate best practice in restructuring of Russian enterprises; monitor and support the career paths of the PMTP students and graduates; and expand the association's influence in the region |
| Penza | Penza Association of PMTP Graduates | To assist enterprise development in the Penza region through mutual support to, and creating new contacts for, PMTP graduates; establish new and develop existing relations between the members of the association; and, to play a supportive role in the continuation of the PMTP |
| Perm | Perm Association of PMTP Graduates | To support the economic restructuring in the Perm region |
| Samara | PMTP Club | To improve the business infrastructure and environment in Toliatti city |

Urals (6)

| | ABA Name | Abridged Mission Statement |
|------------|---|--|
| Sverdlovsk | Sverdlovsk Regional Association of PMTP Graduates | To strengthen social-economic development of Sverdlovsk region through identifying consulting and advisory opportunities for PMTP managers in regional enterprises and government bodies |

Siberia (16)

| | ABA Name | Abridged Mission Statement |
|-------------|------------------|---|
| Krasnoyarsk | Directors' Union | To implement socially important projects and provide support to members |
| Novosibirsk | Leaders Resource | To foster the social, economic and cultural development of the Novosibirsk region |

Far East (10)

| | ABA Name | Abridged Mission Statement |
|------------|---|---|
| Amur | Centre For Business Support | To establish a network of highly qualified managers and executives to support management capabilities, and to foster the development of local enterprises |
| Khabarovsk | Khabarovsk Regional Association of PMTP Graduates | Initiate positive improvements in the state and society through activities of a graduate association, and to contribute to members' personal and professional development |

Source: LS open ended question

12. SUMMARY

The Context: From the early to mid-1990s, President Boris Yeltsin introduced a slate of stabilization and structural reforms seeking to extract the state from the market. For a period, Russia's capitalist revolutionaries enjoyed popular support. Moreover, there were encouraging signs that liberalization was stimulating market activity. Despite seven decades of communist doctrine, when commercial restrictions were lifted, the Russian people exhibited a Smithian propensity to truck, barter and trade.

The street-level trading and proliferation of kiosks across Russia, however, masked a more troubling development. The exit from socialism and the initiation of market-based economic policies resulted in a sharp and protracted decline in economic output and ensuing market dislocation. Even President Yeltsin acknowledged that after years of overhauling Soviet legislation and implementing structural reforms, the transition was stuck somewhere between a socialist and capitalist order.

The slow pace of enterprise restructuring and private sector development was typically explained by poor policy implementation and inadequate physical, financial, and human capital. In this context, management training programs were seen as a primary solution to the repositioning of human capital insofar as they provide entrepreneurs with the skills and knowledge needed to successfully manage the transition to, and in, market economies. The role of social capital in these regards, however, is less well understood.

Motivation and Theoretical Debate: Understanding why Russia's exit from socialism has been so arduous has attracted significant scholarly attention. Liberal and institutionalist theories are at the core of the debate. Liberal theories maintain that: (i) existing capitalist economies provide likely models for other liberalizing economies; (ii) future trajectories from socialist to market economies will resemble the passage by which existing capitalist economies arrived at their present state; and, (iii) prevailing institutional frameworks do not interfere with market-oriented policy directions.

Institutional theories, on the other hand, are: (i) sceptical that existing policy frameworks of capitalist economies provide models for societies emerging from decades of socialist rule; and (ii) the paths of liberalization will differ among transitional economies because history and institutional differences shape how actors will cooperate or compete in building a new social, economic and political order. These predictions offer a plausible explanation for why Yeltsin's economic reforms did not result in the economic order he had envisioned.

Case-Study: The entry point for investigating Yeltsin's conundrum why liberal reforms did not translate into a liberal market is through a national training program for young Russian managers. The President's Management Training Program (PMTP) sought to invigorate economic growth through equipping the next generation of entrepreneurs with the skills needed to restructure privatized enterprises and lead the new private sector. At the societal level, the PMTP developed a post-training component to focus graduate and stakeholder attention on the wider economic reform objectives. In contrast to the supply character of the

training program, the post-training component was iterative, with an emphasis on promoting beneficial connections and policy debate. Thus, in what may be called a social capital approach to management training, the post-training component promoted relationship building among public, private and civil society organizations. When graduates in several regions began to self-organize and form alumni business associations (ABAs), the designers of the PMTP program supported the strengthening and replication of these efforts. It was hoped that ABAs would generate business opportunities, and create an enduring platform for social learning and collective action.

Indeed, early PMTP program evaluations showed that graduates were accruing these expected benefits, but some were not, or at least not to the same degree. Given the standard training program and entry qualifications, differential outcomes could not be adequately explained on the basis of human capital alone.

These training outcomes identify processes of social stratification, of market-building and of the development of supporting institutions. In researching these developments, I seek an institutional explanation (i) why some graduates were more upwardly mobile than others, (ii) why some graduates contributed more to business development than others, and (iii) why graduates in some regions made a more significant contribution to economic development than others.

Research Design and Methods: The case study of a human capital development program and of the role of social capital in individual advancement, enterprise and economic development offers a vantage point to explore institutional change. Identifying factors that help to explain the drivers of change at these three-levels of analysis are complicated but important questions. They are complicated by the fact that outcomes are embedded in political, cultural, social, historical, and economic life. For these reason, institutional analysis confronts the methodological challenge of teasing out and identifying the catalysts and constraints of change amid a number of contending individual, organizational and institutional contexts.

The uniqueness of this present study is the ability to examine a cohort of managers in multi-level action arenas and explore how managers access and mobilize their social capital assets and to what effect. Institution builders are change agents who operate at multiple levels. Development practice and theorizing has for sometime framed institution builders in multi-tiered systems but empirical research has tended to compartmentalize actors in single-level action arenas.

Using new survey data from a Russian business management training program and a quasi-experimental design for non-equivalent groups, I examine the relative importance of social networks, firm and personal characteristics. In framing the conceptual model, I draw on insights from the new institutionalism and the emerging social capital literature. Proponents of social capital argue that social networks contain valuable resources that can confer beneficial individual and firm-level outcomes. Consequently, the probe into the ability of social capital to translate human capital led to examining the relative influence of graduate's association- and work-based social capital.

Findings and Contribution: Employing qualitative and quantitative methods, I find that while all graduates received the same rigorous training, the nature and extent of their participation in work- and association-based social networks varied and differentially affected their professional advancement and business development outcomes. I conclude that active participation in social capital networks catalyzes the individual and firm-level benefits of investments in human capital.

The design of this study provides an insight into the multifaceted character of social capital. To date empirical studies exploring social capital outcomes have tended to select outcome indicators that are closely related and located in a single level of analysis. As a result, research has led to the accumulation of studies making an either-or determination of the value of various social network characteristics. However, this approach has been unsatisfactory in illuminating the relative importance of social network characteristics in different contexts or levels of analysis. I make inroads toward a multi-faceted understanding of social capital by examining how a cohort of entrepreneurs seek change at different levels of analysis, what social networks/resources they have access to, and the relative significance of these. The findings of this three-level outcome analysis support the largely untested proposition that certain relational characteristics are more important than others in different environments. There is not a single pathway but multiple pathways through which managers cultivate and mobilize social resources to their advantage and, occasionally, to the advantage of others. An important finding from this approach is that social capital should be conceived as a heterogeneous form of capital. Theory building would likely benefit from the further exploration of the multifaceted character of one's social capital resources and their reach.

In terms of policy, this study has drawn attention to the differential impact of social networks in management training. The findings suggest that designers of human capital development programs should look beyond the acquisition and application of skills and pay careful attention to the social networks and resources that learners can and could access.

While the importance of teamwork within the firm has long been recognized and promoted in management training, less attention has been given to the importance of external linkages for achieving business development goals. This case-study shows that such connections are important for attaining the labour mobility and business development results desired by many management-training programs in transitional economies. In this study, the role of ABAs proved particularly valuable. What is more, although they emerged spontaneously at first, it proved possible to facilitate the emergence and development of ABAs. Such facilitation is, therefore, a policy instrument for fostering network coordination, a coordination mechanism that, in contrast to hierarchy and market, is only slowly beginning to be recognized.

13. ABOUT THE AUTHOR

David O'Brien began his studies at the University of British Columbia. In 1992, he obtained a Bachelor of Arts with a specialization in International Relations. He pursued graduate studies at the Institute of Development Studies (IDS) at the University of Sussex from 1993-1995. For his thesis, he designed an action research project examining local and international efforts to link post-war reconstruction, reconciliation and development in Central America. He graduated in 1995 with a Masters of Philosophy with Distinction in Development Studies.

For the next two years, David continued at the IDS as a Research Assistant and Officer. He worked on research reports and consultancies on topics of democracy promotion, the politics of economic and political liberalization, and trade regimes.

In 1997, he returned to Canada, working briefly at the International Centre for Human Rights and Democratic Development. In the following year, he joined the Centre on International Cooperation, New York University. There, he investigated the financing and organization of multilateral cooperation for humanitarian action, and continued his formal training at NYU's Politics Department taking graduate courses in quantitative research methods. In 2000, David started his four year involvement in Russia as the Director of the Yeltsin Democracy Fellowship Program (YDFP). He worked extensively in Russia from 2000-2003.

In 2001, David entered the PhD program at the Wageningen University. The questions and empirical base for this book began with a research project developed in collaboration with the Department of Sociology at the UofS and the staff of Federal Commission of the President's Management Training Program.

After the YDFP concluded, David continued at the UofS as Manager of International Research and lecturer in the Department of Political Studies. In early 2006, David joined the International Development Research Centre in Ottawa, Canada. At IDRC, he joined the Innovation, Policy and Science Program Area.