The Dynamics of Entrepreneurial Networks in a Transition Economy: The Case of Russia

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Working Paper Number 350
December 2000

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* I am grateful to the International Research & Exchange Board (IREX) for its financial support for this research. IREX is not responsible for the views expressed herein. I would like to thank seminar participants at the Davis Center for Russian Studies at Harvard University, Center for International Development at Harvard University and London Business School for constructive comments on earlier versions of the paper.

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ABSTRACT

The dynamics of personal networks of entrepreneurs in Russia are explored in this paper. Drawing on the *social embeddedness* perspective and social network theory, I examine the impacts of initial network range, previous occupational status of entrepreneurs and firm performance on the changes in structural, relational and resource dimensions of entrepreneurial social capital over time. The face-to-face interviews with 75 Russian entrepreneurs in 1995 and the follow-up study in 1999 comprise the empirical data of the paper. The dynamics of social capital are determined by the initial network range and firm performance: the better the initial network and firm performance the less the likelihood of increase in various elements of entrepreneurs' social capital.

KEY WORDS: *dynamics, entrepreneurial networks, Russia*

BACKGROUND

In his seminal essay, Granovetter (1985) postulated that actions of economic agents are *embedded* in concrete, ongoing systems of social relations and these relations *facilitate* and *constrain* agents' profit and rent seeking actions. Social capital defined as networks of relationships and assets located in these networks (Bourdieu, 1986, Burt, 1997a, Coleman, 1988) has been found positively influencing firm performance (Baker, 1990), product innovation (Tsai & Ghoshal, 1998), and industry-wide network formation (Walker, Kogut & Shan, 1997). Similarly, social capital of individuals facilitates job and status attainment (Lin, Ensel, & Vaughn, 1981, Marsden & Hurlbert, 1988), enhances individual's power (Krackhardt, 1990) and career mobility (Podolny & Baron, 1997), and impacts CEO compensation (Belliveau, O'Reilly III, & Wade, 1996). Research on personal networks of entrepreneurs revealed that entrepreneurs perceive and exploit business opportunities in disconnected networks (Burt, 1992), obtain information, advice and social support from network alters (Aldrich & Zimmer, 1986, Birley, 1985, Nohria, 1992), control and manage exchange structures through network dyads (Larson, 1992), access financial capital (Shane & Cable, 1999), and get an endorsement from prestigious players to influence perceptions of the quality of their ventures (Stuart, Hoang, & Hybels, 1999).

On the other hand, there is growing empirical evidence that the social embeddedness has a *negative aspect*: tightly controlled relationships reinforce obligations and expectations that may limit freedom of economic agents to recognize and exploit new opportunities (Light & Isralowitz, 1997, Podolny & Page, 1998). Previously instrumental relationships may turn into “dark resources” that constrain rent seeking activities of entrepreneurs affecting negatively their sales and other performance indicators (Bean & Bell-Rose, 1999, Portes, 1995). The bulk of the empirical research on social capital, thus, has been devoted to the aspect of instrumental utilisation of personal networks (Portes, 1998) and increasingly the “dark side” of social relations for entrepreneurship.

While understanding how social capital of economic agents does influence the outcome of their actions is vital, the explaining and decoding of how personal networks of entrepreneurs develop and evolve over time is crucial for entrepreneurial sustainability. Despite its practical and academic importance, the theme has attracted a very little attention of management researchers (Johannisson, 1996, Steier, 2000). In this paper, I examine the dynamics of entrepreneurs’ personal networks over time and assess the impacts of such indicators as initial network range, firm performance and social status of entrepreneurs on the development and evolution of social networks of entrepreneurs. The context of the study is a large transition economy - the Russian Federation. Since Russia is going through unparalleled social and economic changes, the country’s context is an appropriate research site for testing of research hypotheses on network dynamics of entrepreneurs. In the present study, I argue that entrepreneurial performance and original network range of entrepreneurs have significant impacts on the changes in structural, relational and resource parameters of networks whereas social origin does not affect network dynamics.

I seek to make two contributions to the research literature: First, by applying the embeddedness argument and social capital theory developed and tested in the Western social environment to the Russian reality, I expand the paradigm boundary to formerly communist societies. Second, I examine the dynamics of personal networks of entrepreneurs over time and explain the factors that determine structural, relational and resource changes of entrepreneurs' personal networks - an important but neglected area in network research and entrepreneurial studies.

Resources of individuals defined as valuable assets possessed by persons and embedded in social networks constitute the fundamental linkage between actors' purposive actions and their outcomes, e.g., entrepreneurial entry and exit (Abell, 1996). The pattern of dispersion of various resources among individuals at a given moment in time is a function of social structure (Stinchcombe, 1965). Different resources including knowledge and social resources are dispersed unevenly across the hierarchical as well as segmented groups in society (Anheier, Gerhards & Romo, 1995, Hayek, 1945). The volume of resources possessed by an individual or groups is contingent on the overall position of that individual or group in the social space. This uneven resource dispersion across social groups and individuals is referred to the *resource heterogeneity* of social actors. Economic agents including entrepreneurs are heterogeneous in terms of network range (Burt, 1983b), relations and contact resources (Lai, Lin & Leung, 1998). The resource heterogeneity forms the set of constraints that governs the functioning of society in a durable way determining the chances of success for instrumental actions of individuals (Bourdieu, 1986).

Social embeddedness is a dynamic continuous process as much as stable exchange relations. Social capital of entrepreneurs, therefore, evolves and develops over time as a function of venture life-cycle (Steier, 2000), industry and geographic region (Johannisson, 1996).

At the start-up stage of new venturing entrepreneurs are likely to seek out actively investors and business angels for capital, and their networking strategy will focus more on capital providers such as business angels (Steier, 2000). With new venture growth structural composition, relational content and resource volumes of networks will change: networks are likely to contain more clients and suppliers rather than initial investors; new investors are likely to be those with greater financial resources than initial investors; business relationships become more and more formal and institutionalised in contrast to initial informal relations based on individual acquaintances. Networks of failing entrepreneurs are likely to disintegrate, and the process may force them to adapt a different networking strategy.

Structural and other parameters of industries may produce particular networking patterns of entrepreneurs: retail trade firms are likely to have numerous and disconnected clients that make them less dependent on a certain client in contrast to manufacturing firms that usually have a few key clients upon whom their revenue depends. Urban entrepreneurs are likely to have more dynamic networks due to large pools of potential contacts whereas rural entrepreneurs may have less dynamic but stable networks due to the limited population of potential alters.

The dynamics of social capital are path-dependent (Granovetter, 1990, Stark, 1996). Those with higher initial social position are likely to have more high status and resource rich players in their network, and these network clusters may function as closed societies such as the Oxbridge network – "the old boys network" in England.

Arguably, venture development and entrepreneur development is a co-evolutionary process where entrepreneur influences firm performance as much as firm performance affects attributes of entrepreneurs such as experience, tacit knowledge or resource acquisition skills. While relatively successful entrepreneurs may adapt conservative or persistent networking behaviour (Aldrich, 1982), those that under perform may pursue more expansionist networking as a learning effect from successful peers. In this perspective, entrepreneurial performance may have a major effect on the dynamics of entrepreneurial social capital.

Sociologists elaborated three dimensions of individual's social capital: *structural embeddedness* - the structure of the overall network of relations, *relational embeddedness* - the extent to which economic actions are affected by the quality of actors' personal relations (Granovetter, 1990: 98), and *cognitive embeddedness* - the degree to which an individual shares common code and systems of meaning with a community or collective (Nahapiet & Ghoshal, 1998: 244). Fourth dimension of social capital may be articulated as *resource embeddedness* - the degree to which network ties contain valuable instrumental resources (Lai et al, 1998, Lin & Dumin, 1986, Marsden & Hurlbert, 1988). The resource embeddedness has been referred to "the material quality of ties" (Uzzi, 1996: 675), and it is a function of attributes and characteristics of individual alters, e.g., high status contact versus low status contact (Ibarra, 1993). In this study, I focus upon structural embeddedness, relational embeddedness and resource embeddedness of entrepreneurs' social capital.

I operationalize structural embeddedness as *network range* that include network size, heterophily (Burt, 1983b) and homophily. *Network size* is defined as the number of direct ties involving individual units (Burt, 1983b, Marsden, 1990, Moore, 1990). *Network heterophily* refers to the degree which an ego network contains diverse alters, e.g., demographic characteristics or occupational status (Burt, 1983b, Ibarra, 1993, Marsden, 1987, Renzulli, Aldrich & Moody, 1999). *Network homophily* is conceptualized as the extent to which pairs of alters in a network are similar in various attributes including occupational (Ibarra, 1992, 1993).

Relational embeddedness has been interpreted as relational content (Burt, 1983a, 1997b, Podolny & Baron, 1997), tie strength (Marsden & Campbell, 1984), and relational trust (Galunic & Moran, 1999, Tsai & Ghoshal, 1998). I operationalize relational embeddedness as "*the friendship domain*" indicating strong ties and "*the acquaintance domain*" indicating weak ties (Burt, 1983a, Krackhardt, 1992, Lin & Dumin, 1986).

Lai et al operationalized resource embeddedness as contact's resource characteristics that are contingent upon occupational status, authority position, and core versus peripheral sector (Lai et al, 1998). I operationalize resource embeddedness as the extent to which an egocentric network is comprised of actors of high socioeconomic status and the extent to which entrepreneurs have been able to marshal financial and material resources from their personal networks.

THE RUSSIAN CONTEXT

The instrumental use of personal connections characterized Soviet society at its core. *Blat* – the system of informal contacts has served as an alternative social mechanism for overcoming rigidities in Soviet factory's production and supply practices (Berliner, 1957) and obtaining consumer goods and services under the rationing system that characterized the Soviet economy (Ledeneva, 1998). The scale of informal ties and resources located in these networks were dependent on the political power of social actors (Shkaratan & Figatner, 1992). The transition to market economy, however, has changed fundamentally the way Russians build personal networks and utilize them for business and personal goals (Kosova, 1999, Ledeneva, 1998). Radaev, a leading Russian sociologist, said in an interview: "During the Soviet period Russians built and used personal networks partly to survive and partly to help each other (*vyruchit'*). But now the way people network in this country is becoming more and more *quid pro quid*. The material reciprocity and rational calculations about contacts' resources are the main selection factor for network recruitment. In other words, people are becoming more and more systematic in their networking strategy and pay much attention to recruit resource rich and powerful contacts in their personal networks" (Author's interview, May 1999, Moscow). This indicates that personal networks of Russian entrepreneurs are more turbulent and dynamic in comparison to entrepreneurial networks in relatively stable market economies such as the West.

Based upon the logic of social embeddedness and assumptions on the network dynamics, I propose a number of empirical hypotheses.

HYPOTHESES

Network Dynamics

Original Network Range. The dynamics of personal networks of entrepreneurs are a function of the original state of networks (Burt, 1992, Johannisson, 1996, Steier, 2000, Uzzi, 1997). As network clusters evolve, friends of friends begin to be included and that expands cluster boundaries to contacts in other clusters pushing the size of ego networks further. Third-party referrals and past relationships bring in new ties to the cluster and this shapes the original network range, relations and resource configurations. As a venture develops, entrepreneurs focus on the quality of the network composition such as nonredundancy or heterophily changing their network morphology (Steier, 2000).

H1a. The greater the original network range the greater the increase in structural elements of entrepreneurs' networks.

H1b. The greater the original network range, the greater the increase in relational elements of entrepreneurs' networks.

H1c. The greater the original network range the greater the increase in resources of entrepreneur's networks.

Original Occupational Status. It is assumed that original social position of entrepreneurs, i.e., family background or status of first job, may be associated with patterns of change in networks: higher structural location within the social hierarchy enables them to screen better potential ties and recruit more diverse and resource-rich contacts (Lin, 1990). Prestigious location itself makes more attractive to other people, easing the network expanding effort (Burt, 1992: 23). In this perspective, the status of the original position may predict network development of entrepreneurs.

H2a. The higher the original social status the greater the increase in structural elements of entrepreneurs' networks.

H2b. The higher the original social status the greater the increase in relational elements of entrepreneurs' networks.

H2c. The higher the original social status the greater the increase in resourcefulness of entrepreneur's networks.

Firm Performance and Structural Dynamics of Networks. I predict the converse relationship between firm performance and changes in structural features of networks. Successful entrepreneurs are likely to be persistent in their networking since their networks are already sizeable and heterophilous providing profitable economic exchanges (Aldrich, 1982). Opportunistic entrepreneurs are likely to manage better the tension between network growth and effectiveness since efficiency may decline with the increase in size (Burt, 1992: 24). Less successful entrepreneurs may deliberately search out new alters to expand their opportunity horizons.

H3a. The better the firm performance the less the increase in network size of entrepreneurs.

H3b. The better the firm performance the less the increase in network heterophily of entrepreneurs.

H3c. The better the firm performance the less the increase in network homophily of entrepreneurs.

Firm Performance and Relational Dynamics of Networks. Changes in strong and weak ties are affected inversely by entrepreneurial performance. Making most out of spotted opportunities in networks will pressurize friendship ties resulting in either friends fleeing or excluding friends from business dealings. Past fruitful relationships precondition turning of previously weak ties into strong ties, and those weak ties that are instrumentally useless are likely to be dumped. Entrepreneurs who are lagging behind will try to develop strong ties with key clients and suppliers and intentionally keep many new and old relationships weak to preserve the structural autonomy for opportunistic behaviour. Ethnographic studies in Russia confirm that entrepreneurs exclude their friends from deals and keep a distance with acquaintances (Ledeneva, 1998: 196, 200).

> *H4a. The better the firm performance the less the increase in strong ties of entrepreneurs.*

> *H4b. The better the firm performance the less the increase in weak ties of entrepreneurs.*

Firm Performance and Resource Dynamics of Networks. Wealthy, powerful and prestigious actors are few and likely to reside centrally in clusters of successful entrepreneurs. These clusters are likely to have clear boundaries to protect relationships from opportunistic poachers from less resourceful clusters. Failing entrepreneurs, therefore, will have a moderate success in poaching of resourceful contacts. The perception of under performance also makes them unattractive to resource-rich alters such as venture capitalists and bankers perpetuating the vicious circle of being at the bottom. Well-do firms are likely to use formal and informal channels for additional finance since they are financially solvent in contrast to failing firms that are likely to seek more and cheaper financial resources from informal sources.

> *H5a. The better the firm performance the less the increase in network resourcefulness of entrepreneurs.*

> *H5b. The better the firm performance the less the increase in mobilized resources of entrepreneurs.*

METHODOLOGY

Sample and Data Collection

The empirical data of the study is composed of the face-to-face interviews with 75 Russian entrepreneurs in February-June 1995, and the follow-up interviews with 56 original respondents in March-May 1999. Pilot interviews with six Moscow firms were conducted in August 1994.

In three Russian cities, *viz*., Moscow, Ekaterinburg and Pterozavodsk, I selected firms on the basis of a stratified random sampling procedure. The computerised database of registered businesses of the Moscow City Committee of Statistics, Business Assistance Centre of the Sverdlovsk Regional Administration in Ekaterinburg, and the State Committee of Statistics of the Republic of Karelia in Petrozavodsk were used as sampling populations. I created twelve lists of firms (four industries and three sizes) each of which contained twenty firm names.

Banks were classified in accordance with the following criteria: small charter funds < US$50 000, medium charter funds US$50 001-250 000, and large charter funds > US$250 001. This grouping was confirmed in interviews with Russian experts and Central bank officials. A similar classification has been established in another study of Russian banks (Lapidus & van de Waal-Palms, 1997). In manufacturing and the resource sector, firms were grouped: small – < 100 employees, medium - 101-500 employees, and large - > 501 employees. Trade firms were classified: small - < 50 employees, medium – 51-200 employees, and large - > 201 employees. The classification is based on the definition of small firms in the Russian law and discussions with Russian experts (Rossiiskaya federatsiya, 1995).

Every second firm on these lists was selected for contact. In 1995, 120 entrepreneurs were contacted and 82 agreed to be interviewed. The response rate was 68 percent. 7 respondents were discovered as ineligible in the field, so that the final sample consisted of 75 entrepreneurs and directors. There were 50 new ventures and 25 privatized companies. Interviews were conducted with a specially designed questionnaire that contained questions on entrepreneurial networks and firm characteristics. The follow-up study in 1999 concentrated on network dynamics and firm performance. I re-interviewed 56 original respondents.

Insert Table 1 and 2 about here

Financial data was collected from firms as well as other sources such as the Central Bank of Russia, Association of Russian Banks, the Foundation for Small Business Development in three cities, and local tax offices. About a half of the sample firms provided annual reports that contained accounting information. In most occasions, financial directors or chief accountants were interviewed additionally on financial issues. Accounting data in Roubles have been deflated by the year's average exchange rate of US$ and Russian Roubles published in *The Economist*. The reliability and consistency of company financial statements still remains questionable in Russia although significant progress has been made for the last few years to bring Russian accounting practices in the line with the Western standard.

Independent Variables

There are three independent variables in this paper that are assumed to influence the dynamics of personal networks of entrepreneurs: ***Original network range***, ***original occupational status*** and ***firm performance***.

Original network range. *Network size* is measured by the number of ties indicated by entrepreneurs. I presented a table where twelve types of occupations (high rank official in ministries and agencies, middle and low rank official in ministries and agencies, high rank official in local governments, middle and low rank official in local governments, managers of large banks, managers of medium and small banks, managers of large manufacturing plants, managers of medium and small manufacturing plants, managers of large trade firms, managers of medium and small trade firms, managers large resource sector firms, and managers of medium and small resource sector firms) were listed in rows, and two types of tie strength (friendship and acquaintances) were placed in columns (Lin & Dumin, 1986). I asked the respondents to indicate how many people were in each cell. This table was used in 1995 interviews and the follow-up interviews in 1999 to capture the egocentric network size and its dynamics.

Network heterophily measures the degree to which an egocentric network contains alters from different sectors, i.e., positions in ministries and local governments, banking, trade, manufacturing, and the resource sector. It is measured as the proportion of contacts from other industries.

Network homophily is measured as the percentage of contacts from the same industry.

Original occupational status. Status of first job is scaled as low status denoted "one", middle status denoted "two", and high status denoted "three". Those who started as workers and peasants were categorized as low status, and those who started in intelligentsia were regarded as middle status, and those who started in party and state bureaucracy were categorized as high status.

Firm performance. Organisational performance may be measured in various ways (March & Sutton, 1997, Meyer, 1994). In this paper, firm performance is measured by sales growth, operating profit margin, and return on assets (Earle et al, 1996). *Sales growth* for each year (1996, 1997 and 1998) and the *average sales growth* for three years were expressed in percentage. I use sales growth rather than sales figures because of the mixed sample of large, medium and small firms as well as firms from four different industries. *Operating profit margin* (PM) for each year, the *average operating profit*, *return on assets* (ROA) for each year and the *average return on assets* were expressed in percentage.

Dependent Variable

The dependent variable is ***network dynamics*** and it is measured by *change in network size, change in network heterophily, change in network homophily, change in strong ties, change in weak ties, change in network resourcefulness*, and *resources mobilized in 1999*.

Change in network size is measured by the difference between network size-95 and network size-99. *Change in network heterophily* captures the difference between network heterophily-95 and network heterophily-99. *Change in network homophily* scales the difference between network homophily-95 and network homophily-99.

Change in strong ties is measured by the difference between strong ties-95 and strong ties-99. Strong ties are the number of friends. *Change in weak ties* is measured by the difference between weak ties-95 and weak ties-99. Weak ties capture the number of acquaintances. I presented the Russian translations "*drug*" as friend and "*znakomyi*" as acquaintance due to the culture sensitive nature of these concepts. It is reasonable to assume that respondents have clearly distinguished their *drug* from *znakomyi* because of the Russian communal traditions as well as informal exchange practices (Ledeneva, 1998).

Change in resourcefulness is measured by the difference between resourcefulness-95 and resourcefulness-99. Network resourcefulness captures the number of high rank officials in ministries, high rank officials in local governments, managers of large banks, managers of large manufacturing plants, managers of large trade firms, and managers of large resource sector firms.

Financial resources mobilized 95 and *financial resources mobilized 99* are binary variables of one if resources were mobilized before and after 1995 interviews and zero if resources were not mobilized.

Control Variables

Industry (banking, trade, manufacturing, and the resource sector), *firm size* (large, medium and small), *region* (Moscow, Ekaterinburg, and Petrozavodsk) and *firm origin* (new venture versus privatized) are controlled in this study. Three cities represent Russia's regional economic diversity well. Moscow is the financial and commercial center whereas Ekaterinburg is famous for its heavy industry. In Petrozavodsk, the capital city of the Republic of Karelia, the timber industry and trade is highly developed. All control variables were turned into dummies and included in the regression analyses.

RESULTS

Descriptive Statistics

The performance indicators in Table 3 show that Russian firms performed poorly: the average sales growth for three years was 1% (s.d. = 0.33), average profit margin was – 22% (s.d. = 0.86), and average return on assets was – 9% (s.d. = 0.96).

Insert Table 3 about here

The mean network size in 1995 was 34 persons (s.d. = 9.42). The mean heterophily was 82% (s.d. = 0.06) whereas homophily was 18% (s.d. = 0.06). A typical entrepreneur had 12 friends (s.d. = 4.7) and 22 acquaintances (s.d. = 6.5). The mean of resource-rich ties was 16 (s.d. = 6.6), and 41% of entrepreneurs (s.d. = 0.49) had mobilized financial resources.

The figures in Table 3 suggest that changes in all network indicators except homophily (x = - 5, s.d. = 0.11) and strong ties (x = -6, s.d. = 5.7) are positive. Thus, network size (x = 7.3, s.d. = 11.6), heterophily (x = 5, s.d. = 0.11), weak ties (x = 13, s.d. = 9.69) and resourcefulness (x = 4, s.d. = 8.05) have increased over four years.

Network Dynamics

Table 4 provides the results of the multivariate regression predicting changes in network size as a function of initial network attributes, controlling for industry, firm size, firm origin and region. Considering the significant correlation coefficients, I included initial network size and resourcefulness as independent variables in the regression analysis.

Insert Table 4 here

The baseline model (1) includes industry dummies, size dummies, new venture dummy, and region dummies. Petrozavodsk dummy, resource sector dummy, medium size dummy, and privatized firm dummy were excluded in the regression analysis because of their overall weak contribution to the model. Model 1 is not significant. Model 2 shows that initial network size (B = -0.77, $p<0.001$) is negatively related to changes in network size, and the overall model is also significant (F = 5.40, R^2 = 0.44). Model 3 reveals that initial network resourcefulness ($B = -0.95$, $p<0.001$) is negatively associated with changes in network size. The model is significant ($F = 3.62$, $R^2 = 0.34$). Models 2 and 3 illustrate that trade and manufacturing dummies are associated significantly and positively with increase in network size over time. Model 4 examines the two independent variables with size, new venture and region dummies. The model indicates that network size ($B = -0.96$, $p<0.05$) and new venture dummy ($B = -6.13$, $p<0.05$) have strong negative impacts on network size increase. The overall model is significant ($F = 3.28$, $p<0.05$).

Insert Table 5 about here

Table 5 presents the results of regression analysis predicting network dynamics (other than size) as a function of initial networks and original occupational status, controlling for industry, firm size, and firm origin. Region dummies were excluded in regressions because of their weak contributions to the model. Model 1 demonstrates that initial network heterophily ($B = -1.04$, $p<0.01$) has a significant but negative impact on changes in heterophily, and the model is significant ($F = 7.24$, $R^2 = 0.51$). Model 2 shows that network homophily ($B = -1.04$, $p<0.001$) is negatively associated with increase in homophily, and the model is also significant ($F = 7.24$, $R^2 = 0.51$). Models 3 and 4 report that network size ($B = -0.47$, $p<0.01$) and resourcefulness ($B = -0.55$, $p<0.001$) negatively affect changes in strong ties. Both models are significant ($F = 8.71$, $R^2 = 0.56$, $F = 4.35$, $R^2 = 0.38$).

Models 5, 6 and 7 in Table 5 reveal that network size ($B = -0.36$, $p<0.01$), resourcefulness ($B = -0.59$, $p<0.001$), and occupational status ($B = -0.02$, $p<0.5$) are negatively associated with changes in resourcefulness. Model 5 ($F = 3.19$, $R^2 = 0.31$) and model 6 ($F = 3.88$, $R^2 = 0.36$) are significant whereas model 7 is not. Model 8 indicates that network size ($B = 0.01$, $p<0.05$) is associated positively with resources mobilized 99, and the model is significant ($F = 2.29$, $R^2 = 0.25$).

Among control variables, trade and manufacturing dummies are significantly correlated to changes in network variables, and all associations except change in heterophily are positive.

Insert Table 6 about here

Table 6 provides the results of regression analysis predicting network dynamics as a function of firm performance, controlling for industry and firm size. Models 1 and 2 demonstrate that the average sales growth ($B = -11.11$, $p<0.5$) and return on assets 98 ($B = -2.34$, $p<0.5$) negatively affect increase in network size although both models are insignificant. Model 3 reveals that the average profit margin ($B = -0.03$, $p<0.5$) has a significant but negative impact on changes in network heterophily, and the model is significant ($F = 3.03$, $p<0.5$). Model 4 shows that the average profit margin ($B = 0.03$, $p<0.5$) is positively correlated to change in homophily, and the model is significant ($F = 3.03$, $p<0.5$). Models 5, 6 and 7 indicate that the average sales growth ($B = -10.78$, $p<0.5$), sales growth 97 ($B= -6.16$, $p<0.5$), and sales growth 98 ($B = --6.68$, $p<0.5$) negatively affect changes in weak ties although all three models are insignificant. Models 8 and 9 confirm that sales growth 98 ($B = -6.16$, $p<0.5$) and the average sales growth ($B = -7.04$, $p<0.5$) do influence negatively increase in network resourcefulness, and the models are insignificant.

DISCUSSION

The decline in number of friends is consistent with the general trend of declining trust in interpersonal relationships among the Russians (Ledeneva, 1998: 195). It may be speculated that taking advantage of spotted opportunities in friendship ties pressurizes relationships that result in friends' flee (Burt, 1992). An alternative explanation for the finding may be that entrepreneurs become calculative and less friendly species over time due to the time pressure and work overload.

The decreased homophily in entrepreneurs' network reveals that as business develops various needs rise, and these needs force entrepreneurs to diversify their personal and business networks.

Original network range predicts network changes in a reverse manner: the greater the original network range the less the increase in structural, relational and resource elements of entrepreneurs' networks. The hypotheses H1a, H1b and H1c are not affirmative. This finding suggests that there is a *ceiling effect* on network dynamics: the actual number of ties that could be managed by a person limits the absolute number of contacts in any personal networks.

Original occupational status has a limited explanatory power for network dynamics. Although the variable affects significantly and negatively changes in resourcefulness, the overall finding does not support hypotheses H2a, H2b and H2c. The evidence demonstrates that initial high status does not provide advantages in network building, and structural barriers, therefore, do not hamper active networking. The finding that the higher the original social status the less the increase in resourcefulness seems to suggest that high status entrepreneurs already do possess resource-rich networks, and therefore, they are conservative in networking whereas low status entrepreneurs seem to seek out resource-rich contacts.

Industry may predict network changes: trade and manufacturing entrepreneurs increased their network range. The nature of trading that the greater the number of acquaintances the greater the number of potential buyers and suppliers who are socially bound seems to be the case in Russia. The finding on manufacturing may be country-specific: Russian manufacturing plants are hugely indebted and inter-enterprise arrears are prevalent, and therefore, many entrepreneurs deliberately look for new and better clients and business partners.

Entrepreneurial performance has differentiated effects on structural changes in networks: increase in size and heterophily are conversely affected by performance whereas homophily is positively affected by performance. Hypotheses H3a and H3b are confirmed, and hypothesis 3c is not supported. The assumption that performance success motivates entrepreneurs to preserve their networks (size and heterophily) whereas failure leads to more active networking seems to have some empirical ground in Russia at least. The evidence that average profit margin predicts homophily increase suggests those who buy at cheaper prices and sell at higher margins network more actively with entrepreneurs of the same industry because of the information and other benefits about the market dynamics.

Sales growth predicts decrease in weak ties while strong ties are unaffected. Hypothesis H4a is not affirmative but hypothesis H4b is confirmed. Successful entrepreneurs may stick to their old embedded weak ties whereas less successful ones recruit more and more weak ties to create new opportunities.

The findings on the relationship between firm performance and resource dynamics of networks are mixed: hypothesis H5a is supported whereas hypothesis H5b is not confirmed. Well-do entrepreneurs do not "chase" resource-rich new ties whereas those who are lagging behind enrich their social capital by engaging in relationships with powerful alters. Sales growth or higher profit margin does not affect the volume of mobilized resources.

CONCLUSION

The dynamics of social capital is determined by the initial state of personal networks and firm performance: the better the initial network and firm performance the less the likelihood of increase in various elements of entrepreneurs' social capital. Successful entrepreneurs are more likely to conserve their networks whereas less successful ones are likely expand their personal networks.

Several limitations should be emphasized. The sample size is relatively small, and therefore, one should be cautious of over-generalization of the results. The research site is Russia, which is going through simultaneous social, economic and political crises, and therefore, this limits the generalizability of the findings to more stable Western societies.

The research implies that further research should focus on how persistent/conservative networking behaviour of successful entrepreneurs affects firms' performance over time. The practical implication is that entrepreneurs should be aware of the influences of firm performance or venture life-cycle on their social behaviour such as networking.

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TABLE 1
The Number of Entrepreneurs Interviewed in 1995

		Industry				Total
		Banking	Trade	Manufac.	Resource sector	
Moscow		7	9	12	2	30
Size:						
	Large	6	4	3	1	14
	Medium	1	2	2	1	6
	Small	-	3	7	-	10
Ekaterinburg		10	4	6	3	23
Size:						
	Large	4	1	4	1	10
	Medium	2	1	1	1	5
	Small	4	2	1	1	8
Petrozavodsk		5	8	4	5	22
Size:						
	Large	1	1	1	3	6
	Medium	2	5	2	2	11
	Small	2	2	1	-	5
Total		22	21	22	10	75

TABLE 2
Follow-up Interviews in 1999

	"Location" after 4 years	
No-Contact:		9
	Murdered	2
	Committed suicide	1
	Left the country	2
	Hiding from criminal charges	2
	Unreachable	2
Not in Business:		7
	Hired middle managers	2
	Civil servant	1
	Local politician	1
	Unemployed	1
	Retired	1
In Business:		59
	Refusal	3
	Interviewed	56

TABLE 3
Means, Standard Deviations and Pearson's Correlations

	Variables	M	SD	1	2	3	4	5	6
1	Network size	34.4	9.42						
2	Change in network size	7.3	11.6	-.52¶					
3	Network heterophily	0.82	0.06	.06	-.03				
4	Change in network heterophily	0.05	0.11	-.05	-.10	-.61¶			
5	Network homophily	0.18	0.06	-.06	.03	-1¶	.61¶		
6	Change in network homophily	-0.05	0.11	.05	.10	.61¶	-1¶	-.61¶	
7	Strong ties	12	4.70	.78¶	-.48*	.04	-.00	-.04	.00
8	Change in strong ties	-6	5.70	-.66¶	.56¶	-.03	-.02	.03	.02
9	Weak ties	22	6.44	.89¶	-.40¶	.05	-.10	-.05	.10
10	Change in weak ties	13	9.69	-.23	.87¶	-.01	-.11	.01	.11
11	Resourcefulness	16	6.6	.88¶	-.46¶	.07	-.03	-.07	.03
12	Change in resourcefulness	4	8.05	-.39¶	.72¶	-.17	.01	.17	-.01
13	Resources mobilized 95	0.41	0.49	.18	-.02	.15	-.10	-.15	.10
14	Resources mobilized 99	0.30	0.46	.33*	.03	-.01	-.19	.01	.19
15	Occupational status	1.9	0.81	.48¶	-.19	-.06	-.15	.06	.15
16	Sales growth 96	0.19	0.58	.08	-.21	-.07	-.10	.07	.10
17	Sales growth 97	0.04	0.37	-.06	-.21	.08	-.12	-.08	.12
18	Sales growth 98	-0.19	0.43	.20	-.22	-.12	.13	.12	-.13
19	Average sales growth	0.01	0.33	.11	-.30*	-.06	-.05	.06	.05
20	Profit margin 95	-0.32	2.66	-.04	.01	-.05	.02	.05	-.02
21	Profit margin 96	-0.32	1.85	-.05	-.02	.01	-.10	-.01	.10
22	Profit margin 97	-0.71	3.23	-.10	.03	-.10	-.05	.10	.05
23	Profit margin 98	-0.46	1.16	.27	-.14	.26	-.24	-.26	.24
24	Average profit margin	-0.22	0.86	.04	-.07	.15	-.34*	-.15	.34*
25	Return on assets 95	0.13	0.83	-.04	-.03	.25	-.24	-.25	.24
26	Return on assets 96	0.02	1.01	.12	-.13	.13	-.17	-.13	.17
27	Return on assets 97	-0.13	0.99	.16	-.14	.08	-.13	-.08	.13
28	Return on assets 98	-0.40	1.40	.29*	-.28*	-.01	-.01	.01	.01
29	Average return on assets	-0.09	0.96	.17	-.20	.10	-.13	-.10	.13

TABLE 3
Means, Standard Deviations and Pearson's Correlations (Con't)

	Variables	7	8	9	10	11	12	13	14	15	16	17
8	Change in strong ties	-.83¶										
9	Weak ties	.41¶	-.36¶									
10	Change in weak ties	-.09	.09	-.28*								
11	Resourcefulness	.61¶	-.54¶	.84¶	-.24							
12	Change in resourcefulness	-.22	.31*	-.40¶	.73¶	-.46¶						
13	Resources mobilized 95	.10	-.15	.19	.05	.17	-.12					
14	Resources mobilized 99	.20	-.07	.34¶	.08	.16	.02	.23				
15	Occupational status	.25	-.26*	.52¶	-.76	.51¶	-.27*	.40¶	.41¶			
16	Sales growth 96	.08	-.18	.05	-.14	.01	-.03	.17	-.02	.10		
17	Sales growth 97	-.16	.13	.02	-.34*	-.09	-.25	.17	.08	.26	.32*	
18	Sales growth 98	.00	.01	.29*	-.28*	.27*	-.37¶	.35*	.15	.44¶	.03	.48¶
19	Average sales growth	-.00	-.05	.16	-.34*	.09	-.28*	.32*	.09	.35¶	.72¶	.78¶
20	Profit margin 95	-.15	.17	.05	-.09	-.03	-.07	-.13	.10	.19	-.06	.27*
21	Profit margin 96	-.13	.05	.01	-.05	-.09	-.01	-.17	.16	.10	.16	.23
22	Profit margin 97	-.19	.17	-.02	-.06	-.14	-.04	-.23	.18	.19	.06	.32*
23	Profit margin 98	.09	-.20	.33*	-.05	.20	-.19	.03	.29*	.26	-.06	.20
24	Average profit margin	-.02	-.13	.07	-.01	-.08	-.06	-.10	.25	.14	.22	.20
25	Return on assets 95	-.00	-.06	-.06	-.00	-.06	-.11	.17	.04	.12	-.03	.13
26	Return on assets 96	.07	-.17	.13	-.06	.06	-.15	.21	.17	.17	.15	.17
27	Return on assets 97	.06	-.12	.18	-.22	.07	-.21	.18	.17	.21	.19	.34*
28	Return on assets 98	.17	-.24	.29*	-.20	.20	-.04	.21	.25	.18	.18	.20
29	Average return on assets	.09	-.17	.17	-.14	.09	-.18	.21	.19	.19	.14	.23

TABLE 3
Means, Standard Deviations and Pearson's Correlations (Con't)

	Variables	18	19	20	21	22	23	24	25	26	27	28
19	Average sales growth	.64¶										
20	Profit margin 95	.27	.18									
21	Profit margin 96	.01	.19	.81¶								
22	Profit margin 97	.15	.22	.83¶	.87¶							
23	Profit margin 98	.30*	.16	.18	.36¶	.26						
24	Average profit margin	-.05	.19	.40¶	.82¶	.87¶	.62¶					
25	Return on assets 95	.25	.14	.24	.24	.19	.32*	.28*				
26	Return on assets 96	.24	.26	.21	.32*	.22	.46¶	.41¶	.82¶			
27	Return on assets 97	.39¶	.41¶	.14	.24	.25	.47¶	.47¶	.75¶	.87¶		
28	Return on assets 98	.38¶	.35*	.00	.10	.03	.50¶	.32*	.59¶	.79¶	.90¶	
29	Average return on assets	.35¶	.33*	.14	.23	.17	.49¶	.40¶	.83¶	.94¶	.96¶	.92¶

Two-tailed tests.

**p* < 0.5

¶*p* < 0.01

TABLE 4
Regression Analysis Predicting Increase in Network Size as Function of Initial Networks (N=56)

	Model 1	Model 2	Model 3	Model 4
Industry dummies				
Banking	9.42	10.88	9.80	
	(5.86)	(4.35)	(4.69)	
Trade	5.57	12.25¶	9.64*	
	(5.42)	(4.41)	(4.67)	
Manufacturing	5.48	12.22¶	10.9*	
	(5.57)	(4.43)	(4.78)	
Size dummies				
Small	2.69	-1.10	-1.01	2.17
	(3.99)	(3.19)	(3.48)	(3.37)
Large	-0.18	1.23	1.48	0.22
	(4.01)	(3.14)	(3.40)	(3.40)
New venture dummy	-5.55	-5.96	-4.90	-6.13*
	(3.59)	(2.67)	(2.90)	(2.98)
Region dummies				
Moscow	-0.95			2.77
	(4.33)			(3.59)
Ekaterinburg	-1.97			-0.55
	(4.45)			(3.82)
Independent variables				
Network size		-0.77‡		-0.96*
		(0.14)		(0.39)
Resourcefulness			-0.95‡	0.01
			(0.22)	(0.47)
Model *F*	0.78	5.40‡	3.62¶	3.28*
R^2	0.11	0.44	0.34	0.35

Values represent unstandardized coefficients; standard errors are in parentheses.

* $p < .05$
¶ $p < .01$
‡ $p < .001$

TABLE 5
Regression Analysis Predicting Network Dynamics as Function of Initial Networks and Social Status (N=56)

	Change in heteroph.	Change in homoph.	Change in strong ties		Change in resourcefulness			Resources mobilized 99
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Industry dummies								
Banking	-0.09*	0.09*	4.32	3.64	6.07	5.76	0.32	-0.03
	(0.04)	(0.04)	(1.88)	(2.21)	(3.31)	(3.19)	(0.37)	(0.20)
Trade	-0.11¶	0.11¶	4.74*	3.06	5.25	4.74	0.36	0.30
	(0.04)	(0.04)	(1.91)	(2.20)	(3.35)	(3.18)	(0.36)	(0.20)
Manufacturing	-0.10*	0.10*	6.06¶	5.15*	6.42	6.77*	0.64	0.11
	(0.04)	(0.04)	(1.92)	(2.25)	(1.90)	(3.25)	(0.36)	(0.20)
Size dummies								
Small	0.01	-0.01	-3.06*	-2.94	0.88	0.35	-0.31	-0.06
	(0.02)	(0.02)	(1.38)	(1.64)	(2.43)	(2.37)	(0.27)	(0.14)
Large	0.01	-0.01	-1.07	-0.95	-2.51	-2.12	0.02	-0.12
	(0.03)	(0.03)	(1.36)	(1.60)	(2.38)	(2.31)	(0.27)	(0.14)
New venture dummy	-0.03	0.03	-0.60	0.02	-3.89	-3.25	-0.02	-0.25*
	(0.02)	(0.02)	(1.16)	(1.36)	(2.03)	(1.97)	(0.23)	(0.12)
Independent variables								
Network size			-0.47¶		-0.36¶			0.01*
			(0.06)		(0.11)			(0.00)
Network heterophily	-1.04¶							
	(0.21)							
Network homophily		-1.04‡						
		(0.21)						
Resourcefulness				-0.55‡		-0.59‡		
				(0.10)		(0.15)		
Occupational status							-0.02*	
							(0.01)	
Model F	7.24¶	7.24‡	8.71‡	4.35¶	3.19¶	3.88¶	1.27	2.29*
R^2	0.51	0.51	0.56	0.38	0.31	0.36	0.15	0.25

Values represent unstandardized coefficients; standard errors are in parentheses.
* $p < .05$
¶ $p < .01$
‡ $p < .001$

TABLE 6
Regression Analysis Predicting Network Dynamics as Function of Firm Performance (N=56)

	Change in network size		Change in heterop	Change in homop	Change in weak ties			Change in resourcefulness	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Industry dummies									
Banking	5.51 (6.03)	5.20 (6.18)	-0.10 (0.05)	0.10 (0.05)	2.24 (4.87)	4.55 (4.85)	3.43 (4.96)	3.15 (3.95)	2.52 (4.04)
Trade	3.09 (5.48)	4.83 (6.18)	-0.13* (0.05)	0.13* (0.05)	1.93 (4.42)	3.06 (4.43)	2.40 (4.53)	1.28 (3.60)	1.08 (3.67)
Manufacturing	5.28 (5.49)	6.03 (5.57)	-0.03 (0.05)	0.03 (0.05)	2.77 (4.43)	3.68 (4.45)	3.12 (4.54)	3.97 (3.62)	3.79 (3.68)
Size dummies									
Small	2.89 (4.09)	-0.63 (4.27)	0.01 (0.03)	-0.01 (0.03)	4.08 (3.30)	2.54 (3.28)	2.67 (3.35)	2.22 (2.66)	3.17 (2.74)
Large	1.62 (4.12)	0.44 (4.14)	-0.08 (0.03)	0.08 (0.03)	3.74 (3.32)	2.40 (3.30)	3.95 (3.45)	-1.61 (2.75)	-2.15 (2.76)
Independent variables									
Average sales growth	-11.11* (5.05)				-10.78* (4.07)				-7.04* (3.38)
Return on assets 98		-2.34* (1.29)							
Average profit margin			-0.03* (0.01)	0.03* (0.01)					
Sales growth 97						-6.16* (2.54)			
Sales growth 98							-6.68* (3.19)	-6.16* (2.54)	
Model F	1.15	0.88	3.03*	3.03*	1.49	1.41	1.04	1.96	1.68
R^2	0.13	0.10	0.27	0.29	0.16	0.15	0.12	0.20	0.18

Values represent unstandardized coefficients; standard errors are in parentheses.
* $p < .05$
¶$p < .01$
‡ $p < .001$

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