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**Stakeholder and Social Capital Approaches as Explanations
for Relationships between SMEs and State Officials in
Different Transition Economies**

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Stakeholder and Social Capital Approaches as Explanations for Relationships between SMEs and State Officials in Different Transition Economies

Abstract

This study targets the determination of support that small and medium enterprises (SMEs) provide to government representatives of their choice (in the form of donations, influence through their networks, information, and votes). The study tests stakeholder and social capital approaches as legitimate explanations for SMEs' relationships with state representatives in different transition economies, specifically Belarus as a state-controlled transition economy and Ukraine as a rent-seeking state (Aslund, 2002). The study shows that the stakeholder approach is sensitive to business environments and more applicable in a rent-seeking state where the parties can perceive value in their exchange. Social relations motivate the SMEs' support in both types of transition economies.

Key words

SME, state-controlled economy, rent-seeking states, state officials, social capital, stakeholders

1. Introduction

This study examines the relationship between the support that small and medium enterprises (SMEs) provide to government representatives in post-Soviet countries and their perceptions of these government representatives' characteristic and influence. The SMEs' required actions in their relations with these authorities are not the subject of this study. Rather, the study examines

not-officially-required actions -- donations, personal involvement, influence through their networks, information, and votes -- that SME decision makers give to state representatives of their choice. The results of this investigation will lead to suggested actions for government representatives in each type of economy to cultivate fruitful relations with SMEs.

The study also examines how this support of government representatives is affected by the type of transition economy – a state-controlled economy and a rent-seeking state.

Comprehensive studies of the post-Soviet economic transition (for review, Smallbone and Welter, 2001; Aslund, 2002; Iwasaki, 2004) identify economic development ranging from most progressive a market-oriented transition that integrates post-Soviet countries into the capitalistic world to the least progressive a state-controlled economy that stays close to Soviet management traditions. Between these two is a rent-seeking state (Aslund, 2002) that combines the intentions of a market-oriented economy with a continuation of Soviet-style management. While SME–government relations in a market-oriented economy involving joint efforts for the sake of market factors (c.f. Miettinen, 2004; Poucek and Wilda, 2006) have been widely studied, less progressive post-Soviet economic policies and their effect upon SME–government relations have received scant attention. The preponderance of existing research involves macro-level analysis that examines the role of government with the regard to SME development (see Smallbone and Welter, 2001; Aslund, 2002; Iwasaki, 2004). At the micro-level, the relationships between business people and state representatives have not been sufficiently studied. Previous studies of government–business relations focus on government actions towards businesses (e.g., McMillan and Woodruff, 2002; Istomina, 2005, Libman, 2006) rather than how businesses deal with government representatives seems to be ignored in academia. Given the difficulty of obtaining first-hand information from those in business who engage in such activities, this void in the literature is understandable.

This study refers to and tests two approaches that explain determination of interactions between SME managers and state representatives. The first approach is the stakeholder view. The stakeholder view is a “theory that purports to describe actual behavior” (Jones and Wicks, 1999: 207) and “theory that posits that certain outcomes will obtain *if* certain behaviors are adopted” (Jones and Wicks, 1999: 208). This theory assumes rational choice of organizations (SMEs in the framework of this study) in their relationships with stakeholders based on estimation of “who and what really counts” (Freeman, 1984), economy utilization (Mitchell et al., 1997; Powley and Moldoveanu, 2003), and resource dependence (Frooman, 1999; Mattingly, 2003; Neville et al., 2004). The second approach is a social capital view, where both the SME and the government representatives are actors within their social network. This view assumes that social relations, mutual trust, and goodwill provide social capital benefits for both sets of actors; therefore SMEs would support other actors of business environments if they have friendly and trustful personal relationships.

Within the above context, the purpose of this research is to (a) investigate relationships between SMEs and government officials in different types of transition economies such as a rent-seeking state and a state-controlled economy, (b) determine why SMEs provide support — donations, active involvement, influence through their networks, information, or votes -- to specific government representatives, (c) test two concepts -- a stakeholder view and a social capital view – in particular business environments, (d) provide recommendations for government representatives in each type of economy to assure fruitful relations with SMEs.

A structure of the paper is the following. First, the paper presents literature review on the SME-government officials’ interactions in a state-controlled economy and in a rent-seeking state. Then the paper presents a literature review of a stakeholder view and a social capital view as possible explanations of SME actions towards government officials. Next, the paper describes

methodology of the study, presents its findings, and provides discussion of the data. The paper concludes with managerial implications of the findings, study limitations, and directions for future research.

2. Context for SMEs-Government Officials' Interactions: the State-Controlled Economy vs. the Rent-Seeking State

Ukraine and Belarus were selected for this study based on their historical and cultural similarities and the difference in their approach to post-Soviet economic development, as suggested by John Stuart Mill (Copi and Cohen, 2001). Using Mills' joint method of agreement and difference, the cases for study should be similar in many aspects, but at the same time different in a key aspect – in this case, the method of post-Soviet development. Ukraine and Belarus are extremely similar in many ways: they are both Eastern Slavic countries; they have similar (Slavic) languages and speak Russian; both ethnic groups have similar cultures and follow the same religion; and, finally, both countries have the common, 70-year experience of being the closest satellites of Russia under USSR leadership. However, after the collapse of the Soviet Union in 1990, Belarus and Ukraine chose significantly different methods of economic development. Belarus still functions as a state-controlled economy: this country adopted minimal economic and political reforms and gradually reversed them. Politically, Belarus has returned to a dictatorship (Aslund, 2002). Belarus has also been described as an order state (Iwasaki, 2004) where government–business relations are tightly controlled and political power concentrated within a centralized agency, virtually equivalent to that of the Soviet era.

Ukraine is a rent-seeking state with a dominant interest in the redistribution of resources through the state's budget, with regulations that enrich a privileged few (Aslund, 2002). Ukraine

has also been described as a rescue state, where government and businesses “are in cozy terms” (Iwasaki, 2004: 232). Employing the joint method of agreement and difference, these countries provide an appropriate backdrop for examining managers’ decision-making behaviors, since the context of these behaviors is similar in many aspects, but at the same time, different in one key aspect—in this case, in their method of post-Soviet development.

Table 1 summarizes public data regarding the environment for SME operations and government–SME relations in Ukraine and Belarus in 2004/2005. Table 1 refers to the indicators that World Bank, International Financial Corporation, the IPM Research Center, Economic Overview apply in their annual reports and studies as criteria for a country’s business environment evaluation. These indicators include index of SME per 1,000 residents, business registration, licensing, paying taxes, inspections, fines as a result of inspections, regulations of SME activity, and other government actions towards SMEs. The following sources of information have been applied: reports of the International Financial Corporation (2003, 2004), the World Bank comparative analyses of business environment in 175 countries, the IPM Research Center reports (2003–2006), Economic Overview reports (2003, 2004), the Emerging Europe Monitor: Russia & CIS (2003–2006). The data of these international organizations has been enriched with findings of academic researches of Smallbone and Welter (2001), Smallbone (2002), Karbalevich (2002), Lynova (2002), Ivanova (2004), Redina (2004), Istomina (2005), and O’Meara (2006).

Insert Table 1 about here

Government–SME relations in the state-controlled economy of Belarus can be classified as stable suppression, and government–SME relations in the rent-seeking state of Ukraine are more

like ripples in turbulent waters. In Belarus, the government's failure to recognize the contribution of private enterprise to economic development, the prevalence of top-down governance methods and the proliferation of administrative barriers to the private sector are seen as the main obstacles to SME development (IFC, 2004; Istomina, 2005). From the perspective of Karbalevich (2002: 19), "war has been declared on the private sector," as inspections resulting in fines, strict licensing and certification requirements, and re-registrations are used by the state to control business operations.

In Ukraine, despite the government-sanctioning boom in private business development, political instability and corruption still hinder business development. "Ambiguous phrasing in guidelines covering most regulatory procedures...increases rent-seeking opportunities for government officials" (IFC, 2004: 6). Different officials interpret the same regulations quite differently. State tax agencies, customs authorities, local resources management agencies and local government are the least predictable agencies in interpreting legislation (IFC, 2004). Unofficial payments allow a firm to get maximum freedom to act with a minimum of accountability, the resulting in a high level of corruption. Libman (2006) describes this situation as the deficit of law.

With such a powerful position towards SMEs among state representatives, the question that must be highlighted is whether state representatives need or appreciate the support that SMEs are willing to provide. In both economies -- the rent-seeking economy and the state-controlled economy-- state representatives have formal and informal power to assure the SME's involuntary support through defined kickbacks, required donations, or required involvement in local infrastructure's support. The support that SMEs are willing to provide to state officials of their choice includes voluntary donations, active involvement, information, influence through their networks, and/or votes.

First, state representatives have to compete with each other for continuing and generous support of business organizations and business people. In Belarus, President Administration demands implementation of planned state programs and local projects on time in full regardless of available resources. Several projects are usually had to be completed concurrently, and state officials have to find resources to make it happen or be punished. They ask local businesses for extra help, and the businesses have hard time to refuse, but they do have a choice of what project to support. In Ukraine, implementation of programs and local projects is a way to earn electoral votes. State representatives serve different political parties and depend on their party's success in elections. They have to find resources for their own projects competing with other state representatives. In summary, in both economies state officials need SMEs' support that goes beyond the requested donations or involvement and is provided to a state representative of SMEs' choice.

Second, executives of successful SMEs belong to networks of accomplished business people that possess collective knowledge of how to assure high standards of quality of life (built environment, medical care, education, recreation and leisure time, and social belonging [Gregory et al., 2009]) regardless of the circumstances of transition economy. State representatives are interested in access to collective knowledge of business networks to assure their own high standards of quality of life (Zaiko, 2006).

Third, the unpredictability of Ukrainian politics and the autocratic style of politics in Belarus make state officials search for job security. They are aware that their jobs are completely unsecure and depend on a change in the cabinet's holder in Ukraine (Ged and Sviridenko, 2008) or on the will of a state official with a higher rank in Belarus (Portnikov, 2008). They prefer to have a "plan B", where they can work as business executives, using their competencies in administration and established connections within government organizations, and be paid higher

than they have been paid in state jobs. This is especially true for local administration in Belarus that is paid low but still has constant pressure from the central administration of President Vertical (KP, 2009).

The last reason why state officials appreciate SMEs' informal support is because SMEs may directly support them in election campaigns. The Orange Revolution of 2004 in Ukraine provides a powerful example of SME's role in election. This reason is more relevant for a rent-seeking state (Hetman and Gould, 2008) than for a state-controlled economy where an election is dysfunctional (Balazova, 2004).

3. Two Views of SME Support Behavior

3.1 Stakeholder View: State Representatives' Salience as Determination for SME Support

The stakeholder view refers to the concept that was originally defined by Stanford Research Institute as 'those groups without whose support the organization would cease to exist' (Freeman, 1984: 31). Later, Freeman (1984) defined stakeholders as "any group or individual who can affect or is affected by the achievement of an organization's purpose" (53), emphasizing mutual influence of an organization and its stakeholders and strategic management capability of the organization in managing stakeholder relationships. The strategic management capability of an organization is based on the idea that "favorable and mutually beneficial relationships with...stakeholders enable a firm to create wealth, whereas conflict limits or destroys wealth" (Post, Preston, and Sachs, 2002). Freeman (1984) also pointed out that there are several levels an organization uses to manage the relationships with stakeholders: understanding from a rational perspective who the stakeholders of the organization are, mapping them, and then managing the organizational processes and transactions towards stakeholders.

Describing their stakeholders, SMEs mention central authority, local government, and state agencies (like tax, customs administration, or inspection agencies) among their socio-political stakeholders (agencies that provide or withhold “license for operations”) (Post et al., 2002). These government organizations are also strategic stakeholders for SMEs, affecting the SMEs operations more than they are affected by the SMEs (Frooman, 1999).

While the stakeholder analyses is a widely accepted procedure, Freeman’s principle of “who and what really counts” (Freeman, 1984) and still inspires discussions of how it should determine relations between organizations and their stakeholders. Mitchell et al. (1997) claim that perceptions of the stakeholders’ attributes affect the way business managers estimate the salience of these stakeholders and give priority to competing stakeholder claims.

Power is the first stakeholder attribute refers to its ability to “carry out his own will despite resistance” (Weber, 1947) or “ability of those who possess power to bring about the outcomes they desire (Salancik & Pfeffer, 1974: 3). *Legitimacy* as the second stakeholder attribute relates to a “normative core” and socially accepted and expected structures of behaviors. *Urgency* is the third stakeholder attribute and as defined by the Merriam-Webster Dictionary “calling for immediate attention” or “pressing.” The combination of all three attributes in their dynamic relations is defining feature of highly salient stakeholders. These stakeholders have the highest priority for managers. The moderately salient stakeholders are those possessing two attributes. They are called expectant stakeholders and have second level of priorities for organizations. Individuals and entities possessing one of the three attributes are perceived as low salient latent stakeholders and have lower priorities for organizations. Individuals or entities that are perceived possessing none of the stakeholder attributes are non-stakeholders (Mitchell et al., 1997).

For the rent-seeking economy of Ukraine, the stakeholder approach “who and what really counts” seems to be adequate explanations of SMEs’ attitudes towards the state representatives.

Having recourse-based relations with authorities is extremely beneficial for Ukrainian SME managers, since it allows them to operate under the most convenient interpretation of the law, to get access to the state-regulated resources (e.g., land, coal, iron, sugar), and to privatize potentially lucrative enterprises. It follows, then, that Ukrainian SMEs would support the state representatives that they perceive to have the highest salience – power, legitimacy, and urgency towards SMEs. As less attributes a state representative possesses in SMEs’ perception, as less support that state representative would receive from SMEs. This choice is rational and based on an assumption of future benefits that businesses could receive from these particular state representatives in an exchange for the support that SMEs provide.

However, in the state-controlled economy of Belarus, SMEs have little incentive to build stakeholder relationships with particular state representatives. On the one hand, a low level of corruption limits the potentials for unconscionable actions of state authorities. They know that they are under even closer scrutiny than business people, and any “wrong” decision could be punished. On the other hand, the stiff vertical hierarchy of the state administration does not allow independence or authority in decision making. It is the system that suppresses SMEs in Belarus, not individual state officials. Every state representative is just a part of a chain of command or a messenger of given directions. On the basis of these conditions, we suggest that:

Hypothesis 1. *In a rent-seeking state, SME managers’ perception of the state officials’ power, urgency, and legitimacy positively correlate with the SME support given to these officials.*

Hypothesis 2. *In a state-controlled economy, there is no positive correlation between the SME managers’ perception of the state officials’ power, urgency, and legitimacy and the SME support given to these officials.*

3.2. Social Capital View: State Representatives' Social Relations as Determination for SME Support

Social capital is “the goodwill available to individuals or groups” (Adler and Kwon, 2002: 23) that provides undoubted benefits for individual and collective actors in the form of timely access to information, political influence, solidarity, knowledge transfer, and ability to obtain financial capital (Adler and Kwon, 2002; Florin et al., 2003; Oh et. al, 2006). Actors with high levels of social capital are more likely to gain goodwill, cooperation, and resource exchange (Leana and van Buren, 1999; Tsai and Ghoshal, 1998; Fukuyama, 2001; Adler and Kwon, 2002). Their organizations have better chances of survival (Fischer and Pollock, 2004) and of getting financial resources (Florin et al., 2003). It is expected that state representatives with high social capital among SMEs would receive financial, human, and material support (e.g. donations or participation in a campaign), timely access to information, and recommendations within a business network. To test this assumption and clarify social capital dimensions that determine SMEs' actions towards state representatives, this study considers social capital as having three dimensions: structural, cognitive, and relational (Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998; Inkpen and Tsang, 2005).

A primary source of social capital arises from the actor's *ties* within the networks (e.g. Burt, 2000; Inkpen and Tsang, 2005; Adler and Kwon, 2002; Grootaert and van Bastelaer, 2001). This structural dimension is based on the actor's centrality within the network (Ivanova, 2008), the frequency and nature of interactions (Adler and Kwon, 2002), network configuration and stability (Inkpen and Tsang, 2005), and associational activity such as membership and attendance in relevant prestigious organizations (Grootaert and van Bastelaer, 2001). The cognitive component of social capital includes *shared norms*, sanctions, and goals (Coleman, 1990; Putnam, 1995; Inkpen and Tsang, 2005) and shared meaning and understanding between the

members of a network (Nahapiet and Ghoshal, 1998; Grootaert and van Bastelaer, 2001; Fukuyama, 2001). It's expected, therefore, that state representatives with high social capital within SMEs' networks would understand and share the SMEs' values as well as be tolerant of the SMEs' goals and norms. Characteristics such as *personal attachments*, trustworthiness, mutual obligations, expectations, and identifications emphasize the relational dimension of social capital (Coleman, 1990; Burt, 1992; Tsai and Ghoshal, 1998; Nahapiet and Ghoshal 1998; Inkpen and Tsang, 2005) and serve as motivation for mutual gain (Adler and Kwon, 2002; Kostova and Ruth, 2003). Therefore, state representatives with social capital among SMEs have strong and frequent ties with business people, share their values, are tolerant to their goals and norms, and have personal trusting relations with particular business person.

In studying post-Soviet states, it is necessary to consider that the post-Soviet era is described as a low-trust society, where trust toward government institutions remains low and needs to be demonstrated by specific actions (Radaev, 2004). The social capital of particular people involved in a firm's business operations becomes a vital consideration for SME managers deciding whom they should give their support. SME managers try to build predictable relations with state representatives who they like and trust and who understand them. In both Belarus and Ukraine, the similar history of a low-trust Soviet society and an unstable legal environment renders social relationships between SME managers and state representatives extremely important for economic success. It follows, then, that:

Hypothesis 3. *In both state-controlled economies and rent-seeking states, ties, shared norms, and personal attachments between state representatives and members of business networks positively correlate with the amount of SME support given to these state representatives.*

4. Method

4.1. Approach to Data Collection

This survey was administered from December 2004 to January 2005 in Belarus and Ukraine by the Research Center of the Institute for Privatization and Management (Minsk, Belarus) in cooperation with the Institut pre privatizaciu a manazament (Bratislava, Slovakia), and supported by a research grant from the University of Alaska Southeast. The survey was validated by interviews with five SME executives and two state representatives from Belarus, and with four SME executives and three state representatives from Ukraine.

4.2. Respondent Sample

The initial sample of the study was defined as SME owners and CEOs and was randomly chosen from the databases of the IPM Research Center and the Institut pre privatizaciu a manazament. These databases comprise 1000 randomly selected SMEs in both countries. The choice of owners and CEOs as respondents of the study was determined because of their primary role as decision makers in relations with government representatives.

Two hundred fifty business owners and CEOs participated in the poll -- 150 business owners and CEOs from Belarus and 100 business owners and CEOs from Ukraine comprising a stratified random sample. The populations of small businesses in Belarus and Ukraine were divided into seven strata in Belarus and five in Ukraine. The sample size for each of the twelve strata was then selected to be proportional. This study found that 88.9% of the respondents said their companies had been founded with no foreign participation.

4.3. The Instrument

The questions used for this study were part of a larger questionnaire given to top managers and founders of small, independent businesses concerning their relationships with different groups of stakeholders. The 21 questions used for this study were included in the complete questionnaire in random order to avoid imposing a conceptual structure on the respondents. Each variable (power, urgency, legitimacy, ties, shared norms, personal attachment, and support) was measured with three questions. Specially trained employees and contractors of the IPM Research Center asked the respondents to evaluate their attitudes toward each of nine groups of stakeholders -- local population, customers, local government, founders/investors, suppliers, business partners, employees, inspections/tax/customs state agents, and central government officials -- using a Likert scale from 1 to 5 (1 = “do not agree at all”, 5 = “completely agree”). The IPM Research Center also specified that “we” meant “the management team of the respondents’ firms,” and “they” referred to “each of the nine groups of stakeholders from the questionnaire.” Three groups of state representatives -- inspections/tax/custom state agencies, local government, and central government) -- were analyzed for the purpose of this study.

Insert Table 2 about here

4.4. Validity

Following Gill and Johnson (2002) and then Ghobadian and O’Regan (2006), a five-stage process was employed to enhance the validity of the research instrument in line with best practice recommendations:

Stage 1. An extensive literature review was conducted to identify underlying concepts, relevant theories, hypotheses, research questions and variables, and previous empirical studies and scales used. For example, the list of statements that measure the perception of state

representatives' salience was established on the basis of the questionnaire used and tested by Angle et al. (1999). The statements that measure the perception of state representatives' social capital were established on the basis of existing descriptions of the three social capital dimensions – structural, cognitive, and relational (Tsai and Ghostal, 1998; Naphaet and Ghostal, 1998, Adler and Kwon, 2002).

Stages 2 and 3. Extensive discussions with SME owners and CEOs were undertaken to ascertain their views regarding the issues covered by the survey. Five statements for each category were prepared in the managers' native Russian language by a Russian–English bilingual researcher and subjected to careful validity checks using back-translations by an independent Russian-English interpreter. Two groups of Executive MBA students discussed the statements and eliminated the statements that sounded the least relevant for the given categories. The remaining three questions from each category were included in the questionnaire. One Executive MBA group was from Belarus (Institute for Privatization and Management) and the other was from Ukraine (International Institute of Business), and both groups represent the target sample of the study – SME top-managers from post-Soviet Ukraine and Belarus. The participants of these groups have not been included to the main survey.

Extensive discussions were held with government representatives (two representatives of state agencies, three representatives of local government, and one representative of a central government) to clarify/ confirm issues relevant to the objectives of the study.

Stage 4. Where possible, relevant constructs/scales were adopted from previous studies (see stage 1).

Stage 5. A pilot study was conducted by querying 18 SME owners and executives. All the questionnaires were administered personally. This enabled the research group to observe interviewees' reactions and discuss with them clarity of meaning, appropriateness of language,

relevance and comprehensiveness. The research group was also able to observe their involvement as independent informants. As a direct result of the pilot, the wording of some questions was altered to eliminate ambiguity.

The use of perceptual measures is common in management research (Ghobadian and O'Regan, 2006), and CEOs' perceptions of their operating environment, culture, and leadership style enjoy a high level of validity (Hillman and Keim, 2001). Taking into account that SME decision makers' perception of government representatives' characteristics is the focus of this study, the choice of measures seems appropriate.

Common method is inherent in this type of research design where a single informant is asked to report his perceptions of state representatives and expected to recall his actions towards these representatives. However, this method was essential to avoid the problems of knowledge deficiency and assure completeness and intended consistency of responses. Podsakoff et al. (2003) discuss the various ways to control for common method variance through the design of the study's procedure. These recommendations were taken in designing and applying the questionnaire: CEOs were selected as they were felt to be the most knowledgeable informants concerning the relationships between the SME and government representatives' relations. From the outset, respondents were advised that the results from the research would be published in international journals but all were assured of anonymity. The questionnaire was long and varied in its random placement of stakeholders and variables to reduce the likelihood that respondents could cross check for their own internal consistency.

5. Data

Factor analysis was conducted to assess the discriminant and convergent validity of the measures and to determine whether the responses to the 21 statements represented different categories. The factor analysis was conducted twice, once for the data gathered in the Belarus sample, and once for the data gathered in the Ukraine sample.

Seven factors emerged for the Belarusian SMEs' relationships with the representatives of the state organizations, accounting for 90.48 percent of the variance (table 3). Three of the seven factors correspond to the model of stakeholders' salience attributes. Three other factors correspond to the model of social capital dimensions. The last factor corresponds to the SME support given to the state representatives. Regarding the groups of state representatives, the results of the factor analysis are consistent: the SME managers perceive representatives of the central authorities, local authorities and state agencies all as state representatives.

Insert Table 3 about here

The Ukrainian poll data, with one exception, looks similar (table 4). The managers of Ukrainian SMEs distinguish the legitimacy of representatives of state agencies from the legitimacy of representatives of local and central governments. Since factor scores are used as variables in testing the model, the cross-loading does not cause any problems with multicollinearity. All the other factors are consistent: the managers of Ukrainian SMEs do distinguish between the seven factors, and they unite the representatives of the local authorities, the central authorities, and the state representatives into one category of state representatives.

Insert Table 4 about here

Conducting cooperative analyses, it is reasonable to combine the three groups of government officials into one group of SME–state representative relations in the state-controlled economy (Belarus) versus SME–state representative relations in the rent-seeking state (Ukraine).

Next, regression analysis was used to examine the relationship between the SMEs’ perception of state representative attributes and the support given to these representatives. The first regression was conducted in the Belarusian sample: the second regression studied these relations in the Ukrainian sample . The results of both regressions were highly significant: $F = 20.033$, $sig. = .000$ (Belarus) and $F = 27.327$, $sig. = .000$ (Ukraine). These results suggest that the six interrelated variables (SME managers’ perception of state representatives’ attributes) influence the support given to state representatives, accounting for 65 percent in Ukraine and 47 percent in Belarus.

Insert Table 5 about here

6. Data Analysis

It must be noted that not all the variables are individually significant in this study. The Ukrainian data suggests that all the attributes of the state representatives—as perceived by SME managers—have a significant effect on the SME support given to state representatives, with the exception of the attribute of power. The Belarus data suggests that state representative ties, shared norms, and personal attachments with SME managers have a significant effect on support given to state representatives. At the same time, no significant relationships are perceived by SME managers

between state representatives' power, legitimacy, and urgency and the support SMEs give to their state representatives.

Hypothesis 1 – that the perceptions of state representatives' power, urgency, and legitimacy positively correlate with SMEs' support in a rent seeking state -- is partially supported. As was previously stated, the salience of state representatives as stakeholders is important for SME managers as instrumental, rationally based incentives for providing support. This is especially true where redistribution of resources is active and driven by the interest of privileged actors. In an unstable legal environment with high rates of corruption, state representatives have the authority to provide interpretations that might work for or against a particular SME firm—they can give opportunities or prevent any chance for success. Both choices would be legal, based on the ambiguous state of the legal environment. The managers of SMEs in transition economies are aware that the time of transition is the time when resources previously owned by the government may be redistributed, and the most active business people with strong ties in governments might have access to these resources. This includes land, state-owned enterprises, mines (e.g., coal, salt, or marble), and other valuable resources. Relations with government representatives become a strategic goal for many SMEs.

However, individual salient attributes of the state representatives are not equally important for Ukrainian SME managers in their decision to provide support to state representatives: the representatives' urgency and legitimacy have a positive significant correlation with the SMEs' support, while power does not. This behavior may be explained by the following interpretation. The SME managers primarily provide their support to state representatives who are adamant and persistent. SME managers also support representatives who have high levels of legitimacy (official status). In SME managers' perception, this attribute of legitimacy for state officials equates to the attribute of power and guarantees the consistency of

power. Without legitimacy, power is temporary and decisions of state officials might be overruled by other state officials. The turbulent political environment of contemporary Ukraine with its multiparty political system and constantly changing political landscape provides additional support for such perception. Government officials in Ukraine usually have affiliation with this or that political party and can be assigned at their positions if their parties have enough votes at the local, regional, or national elections. Powerful today government officials become powerless when they lose their affiliation with a powerful party, if their parties lose election, or if their parties lose affiliation with a powerful coalition. The history of post-Soviet transitions shows that politicians or state officials who were powerful yesterday mean nothing today. However, the official documents these government representatives have signed, however, will be legitimate regardless of the fates of the people who signed them.

Hypothesis 2 — that in a state-controlled economy, there is no positive correlation between SME managers' perception of the state representatives' power, urgency, and legitimacy and the SME support — is supported. In a state-controlled economy, state representatives are just pawns in the game of highly centralized presidential politics. All resources have already been distributed, returned to the state or kept under the control of the Presidents' administration. Low levels of corruption and a highly centralized government system make the state representatives useless for resource exchange interactions in the state-controlled economy of Belarus.

Hypothesis 3 — that ties, shared norms, and personal attachments between state representatives and members of business networks positively correlate with the amount of SME support given to these state representatives in both state-controlled economies and rent-seeking states — is supported. Social relations and goodwill between state representatives and SME managers do determine to whom SMEs give their support. After the Soviet Union's collapse, society separated into two parts—"still Soviet" and "new Russians"—and the majority of SME

managers and state representatives were associated with different groups. SME managers believe that they work hard and make legitimate money relying only on their talent, energy, ability to take risks, and countless hours. They spend enormous amounts of time fulfilling everyday government requirements and inventing techniques to avoid state pressure and administrative measures (Ivanova, 2004). State representatives often resist accepting business people as honest hard workers and contributors to the country's development (Istomina, 2005). When SME managers meet government representatives who understand the needs of SMEs and earn goodwill and trust within a business community, they are willing to provide their support, even if the exchange value of such support is not evident.

Social relationships motivate SMEs' support in both a state-controlled economy (Belarus) and a rent-seeking state (Ukraine). All three attributes of social capital—structural ties, shared norms, and personal attachment—are individually significant as determinants of SME decision-makers' support. SMEs are aware that shared vision and resource sharing among members of their formal networks significantly benefit all the members' careers and businesses. These benefits are associated with a generalized perception of the advantages of network membership and positively affected members' future participation plans, thus furthering the likelihood of network continuance (Miller, Besser, and Malshe, 2007). As numerous publications on social capital show, actors with social capital possess the goodwill and trust of the members of their networks, and therefore are eligible for social capital benefits—influence, access to information and support (Adler and Kwon, 2002, Cope, Jack, and Rose, 2007; Anderson, Park and Jack, 2007; Ivanova, 2009).

7. Implications

The results of this study have implications for business–government relations and the analysis of the determinants of voluntary managerial support given to state representatives in different business environments. The first contribution of this study is deepening existing knowledge of relationships between SMEs and government officials in a rent-seeking state of transition economy and in a state-controlled economy. The study reveals that in a rent-seeking state, relationships between SMEs and state representatives are determined with both the rational, resource-based determinants and the social relations-based determinants. At the same time, in a state-controlled economy, relationships between SMEs and state representatives are determined mostly with social relation-based determinants, while resource-based determinants are less relevant.

The second contribution of the study testing two concepts -- the stakeholder approach and the social capital approach -- as legitimate explanations for determination why SMEs provide support (donations, active involvement, influence through their networks, information, or votes) to specific government representatives in the contexts of two different business environments. These results suggest that a stakeholder approach of “who and what counts most” (Freeman, 1984) is sensitive to specific business environments and more applicable in an environment where the parties can perceive value in their exchange and hope benefit from their contributions. A highly centralized and autocratic system eliminates the salience attributes from many actors and decreases the value of their power, legitimacy or urgency. At the same time, a social capital concept has more universal implication and is applicable in both a rent-seeking state and in a state-controlled economy.

The study also provides practical implications. Specific recommendations can be offered to state representatives about what they can do to determine SMEs’ support. In a state-controlled economy, some SMEs still pay attention to the salience of state representatives, despite the fact

that in a centrally administered system, nobody but the President has binding authority, and anybody can be dismissed from a state position promptly and without explanation. Trusting and personal relations with not-so-salient state representatives would be more enjoyable and useful for SMEs in the long run. At the same time, state representatives (if they are interested in SME support), should be aware of the importance of trusting personal relationships with the business community. As the Belarus case shows, their interest in such relationships is limited now because the Belarusian voting system is not effective (Burger, 2003) and SMEs are not salient stakeholders for the state representatives. However, if the situation in Belarus changes (e.g. a voting system becomes legitimate), and SMEs have a choice as to where to contribute their voluntary time, effort, and financial support, the findings of this should hold practical implications.

In the rent-seeking state of Ukraine, both SMEs and state representatives must remember that both exchange-based relationships and social relationships determine SME support. Because of their interest in SME votes and their involvement in community/society oriented projects, state representatives should rely on their legitimacy, maintain a sense of urgency regarding social needs, and pay special attention to social relations with business communities. The period of post-Perestroika chaos is over, and SMEs need predictability in their relationships with the state. The findings of this study suggest that state representatives should prioritize their legitimacy, because legitimacy is associated with power and therefore has double importance in state representatives' salience for businesspeople.

8. Limitations and Future Research

The study's results are limited by the nature and size of the sample. First, only small and medium enterprises have been covered in this study in the framework of government–business relations. Undeniably, large enterprises are more significant actors in government–business relations in the post-Soviet era than small and medium ones. The Soviet Union's industry was heavily based on large production enterprises, and these enterprises still have a significant impact on the economies of Belarus and Ukraine. Many large state enterprises are under new ownership; some of them remain state-owned. It would be valuable to know how relations between businesspeople and state officials differ in regard to size and type of ownership and how large vs. small enterprises build relationships with state officials in state-controlled economies and in rent-seeking states.

Second, the study investigates only two types of transition economies—the state-controlled economy of Belarus and the rent-seeking state of Ukraine. It would be interesting to extend this study to include other types of transition economies. Among these are economies undergoing radical market reforms (e.g., Poland), or economies in transition from resource and federal government-dependence to self-sustainability (e.g., Alaska).

Third, this study is based on a variable-oriented approach (Ragin, 2000), in which a small number of variables is tested across a large number of observations and causality is inferred from a pattern of correlation. The strength of this approach is that it reveals trends that are relevant to specific environmental characteristics. The focus of this investigation is on the independent variables, despite variable outcomes (Ragin, 2000). At the same time, particular situations (say, relations between a particular SME and a particular state representative) are rendered more or less invisible. Identifying cases with clear identities (e.g. state representatives who do have SMEs' support vs. state representatives who do not have SMEs' support) and investigating causation conjecturally is a subject for future research.

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Table 1. Business Environment for SMEs in Belarus and Ukraine (2004)

	Belarus	Ukraine
Doing Business rank	129 (of 175 countries)	128 (of 175 countries)
SMEs per 1,000 residents	3	6
Business registration	30 days	3 days
System of tax reporting	125 payments a year 1,188 hours spent per year	98 payments a year 2,185 hours spent per year
Inspections	12 per year 60 days in average per year	10 per year 13 days in average per year
Fines as a results of inspections	\$812	\$358
Complicated and expensive licensing	Yes Vague and complicated	Yes Expensive
Corruption	Low	High
Legislation	Unstable	Unstable
Political instability	Low	High
Regulation of entrepreneurial activity	High	Low
Meddling of local authorities	High	Low
Interference of central authorities	High	Low

Table 2. Dependent and Independent Variables

Variable	Variable description	Source
<i>Support</i>	<p>We are always ready to help them and/or provide recommendations.</p> <p>We support them in their projects and endeavors.</p> <p>We have already helped some of them, and we will help them in the future.</p>	Extensive discussions with the SME executives and state representatives (see <i>Validity</i> , stage 2 & 3)
<i>Social Capital</i>		
Structural (Ties)	<p>They establish and support frequent contacts with us.</p> <p>We belong to the same social networks (parties, official and unofficial groups and clubs).</p> <p>Our management team and they have strong ties that connect us.</p>	Nahapiet and Ghoshal, (1998);
Cognitive (Shared norms)	<p>There are values and goals that they and we share.</p> <p>They and we share professional language and codes; we apply similar systems of meaning.</p> <p>They and we share a similar vision of economic development.</p>	Nahapiet and Ghoshal, (1998); Tsai and Ghoshal (1998)
Relational (Attachment)	<p>We trust them and we hope they trust us.</p> <p>We have personal relationships with many of them.</p> <p>We feel an obligation to help them if it is necessary.</p>	Nahapiet and Ghoshal, (1998); Tsai and Ghoshal (1998)
<i>Saliency</i>		
Power	<p>They have power, whether used or not (definition: the ability to apply a high level of direct economic reward or punishment [money, goods, and services] and/or coercive or physical force and/or positive or negative social influence [on reputation or prestige] to obtain one's will).</p> <p>They have access to, influence on, or the ability to impact our firm, whether used or not.</p> <p>They have the power to enforce their claims,</p>	Agle, Mitchell, and Sonnenfeld (1999)
Legitimacy	<p>We view their claims as proper or appropriate.</p> <p>They have all legal and moral rights to demand our attention.</p> <p>Their claims are legitimate in our eyes.</p>	Agle, et al., (1999); correction at the pilot study
Urgency	<p>They exhibit urgency in their relationship with us.</p> <p>They actively seek our attention.</p> <p>They urgently communicate their claims to us.</p>	Agle, et al., (1999);

Table 3. Rotated Factor Matrix of SME Managers' Perceptions of Their Relations with State Representatives (in the Environment of the State-Controlled Economy)

	Factors							Extraction
	1	2	3	4	5	6	7	
Attributes of Stakeholders' Saliency								
Power_ Central Gov.			.889					.867
Power_ Agencies			.891					.949
Power_ Local Gov.			.880					.899
Legitimacy_ Central Gov.							.865	.822
Legitimacy_ Agencies							.901	.873
Legitimacy_ Local Gov.							.878	.910
Urgency_ Central Gov.					.807			.886
Urgency_ Agencies					.879			.932
Urgency_ Local Gov.					.896			.939
Dimensions of Stakeholders' Social Capital								
Ties_ Central Gov.	.858							.832
Ties_ Agencies	.923							.884
Ties_ Local Gov.	.917							.836
Shared Norms_ Central Gov..						.807		.868
Shared Norms_ Agencies						.856		.922
Shared Norms_ Local Gov.						.842		.937
Attachment_ Central Gov.				.866				.911
Attachment_ Agencies				.880				.962
Attachment_ Local Gov.				.924				.949
Support_ Central Gov.		.842						.917
Support_ Agencies		.900						.950
Support_ Local Gov.		.857						.956
Variance	36.37	21.34	10.02	7.89	6.14	4.43	4.31	
Cumulative variance	36.37	57.70	67.72	75.61	81.75	86.17	90.48	

Extraction method: Principal Component Analysis. Rotation method: Varimax with Kaiser Normalization. Factor scores < .4 are not shown

Table 4. Rotated Factor Matrix of SME Managers' Perceptions of Their Relations with State Representatives (in the Environment of the Rent-Seeking State)

	Factor								Extraction	
	1	2	3	4	5	6	7	8		
Attributes of Stakeholders' Salience										
Power_ Central Gov.						.615				.817
Power_ Agencies						.868				.892
Power_ Local Gov.						.904				.935
Legitimacy_ Central Gov.							.850			.889
Legitimacy_ Agencies								.864		.935
Legitimacy_ Local Gov.							.851			.895
Urgency_ Central Gov.				.763						.875
Urgency_ Agencies				.930						.918
Urgency_ Local Gov.				.880						.928
Dimensions of Stakeholders' Social Capital										
Ties_ Central Gov.		.748								.873
Ties_ Agencies		.826								.872
Ties_ Local Gov.		.840								.928
Shared Norms_ Central Gov.					.736					.876
Shared Norms_ Agencies					.869					.935
Shared Norms_ Local Gov.					.751					.906
Attachment_ Central Gov.	.870									.862
Attachment_ Agencies	.890									.877
Attachment_ Local Gov.	.943									.920
Support_ Central Gov.			.795							.925
Support_ Agencies			.785							.916
Support_ Local Gov.			.791							.941
Variance	38.77	17.49	11.07	8.23	5.49	3.57	2.90	2.56		
Cumulative variance	38.77	56.26	67.33	75.57	81.05	84.62	87.52	90.07		

Extraction method: Principal Component Analysis. Rotation method: Varimax with Kaiser Normalization. Factor scores < .4 are not shown

Table 5. Regression* of SMEs' Support to the State Representatives' Attributes

Variables	State-Controlled (Belarus)			Rent-Seeking State (Ukraine)		
	Beta	t	Sig.	Beta	t	Sig
Power	.050	.592	.555	-.030	-.384	.702
Legitimacy	0.13	.178	.859	.155	1.969	.052
Urgency	.074	.836	.405	.272	3.741	.000
Ties	.150	1.855	.066	.336	3.269	.002
Shared Norms	.199	1.793	.075	.460	4.556	.000
Personal Attachment	.393	3.706	.000	.174	1.772	.080
F	20.033	sig.= .000		27.327	sig.=.000	
Sum of squares	55.665			66.466		
R ²	.490			.669		
Adjusted R ²	.466			.645		

Coefficients are standardized beta weight

*Dependent variable: Support given for state representatives