



# BUSINESS AND ENTREPRENEURSHIP

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## **ASSESSMENT OF BUSINESS SOCIAL CAPITAL THROUGH EXPERT SURVEY (BY THE EXAMPLE OF THE REPUBLIC OF ARMENIA)**

*The relatively low level of trust and cooperation, as well as the analysis of its causes and effects continue to be extremely urgent issues in Armenia in the post-war and post-pandemic period. Though the level of social capital in a country can be assessed through various data (the World Values Survey, the Legatum Prosperity Index, the Caucasus Barometer (in case of Caucasian countries), social media connections or other data), in all these sources social capital is assessed on individual level, while the business sector – having central role in economic developments – is overshadowed. In this work, the assessment of the current level of business social capital in the Republic of Armenia, its causes and effects was carried out through an expert survey, as a result of which remarkable findings were obtained on the winning and losing directions of high cooperation and trust as well as in terms of identifying problems and their possible solutions as per expert opinions.*

**Keywords:** *trust, cooperation, business, social capital*

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would prefer everyone to have equal living conditions" (0.42). It is interesting that most of those who agree with the provision are from the rural communities of the settlement, with secondary education, mainly women and from the relatively low income per capita groups<sup>4</sup>.

Another work related to this topic is Melikyan's study on the interaction between corporate governance and social capital<sup>5</sup>. The results of the expert survey show that one of the reasons for resistance to the adoption of the core values of corporate governance is the "institutional deadlocks" that accompany the Armenian economy (corruption, shadow economy, non-competitive markets), which are caused by the mismatch between short-term and long-term interests, as well as misinterpretations of the existing economic model and the existing behavioral model. The long-term model of behavior is assessed as riskier in an uncertain and unstable economic situation, as well as in the atmosphere of distrust, and the results of the set goals become visible in the short-term model. In addition, no special moral distinction is made between legal and illegal actions when choosing the methods to implement them. The author concludes that one of the profound consequences of the failure of the long-term model of behavior is the loss of trust towards both the state and the law, as well as towards partners<sup>6</sup>. Note that this analysis is an attempt to enrich the few works on this key issues.

**Research Methodology.** In this paper, the assessment of business social capital in the Republic of Armenia is conducted through an online expert survey (period: September 2021). In case of 22 questions of the forty-question questionnaire it was required to evaluate the level of trust and cooperation in different directions on a scale of 1 to 10. The questionnaire also included open-ended questions and questions assessing attitudes constructed similar to the Likert scale. This method allows to systematically assess the issues on which there is a lack of quantitative data, which is the reason for the authors' choice.

Generally, there are different approaches for selecting experts, according to one of which experts are considered to be people who have professional / field / scientific knowledge or technical knowledge (for example, how to manage teamwork, how to write programs, etc.) or have remarkable assessments of the event, observations that are the result of professional, research or work experience. Note that in the framework of this analysis, we have been guided by the above-mentioned approach. In addition, the expert survey has subtypes, including the nominal group survey method, brainstorming, etc.<sup>7</sup>. Here we have used the method of individual expert survey, the guide of which is similar to the guide of indepth survey, except that the questions can be difficult, as the experts

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<sup>4</sup> See Ameria LLC (2019). *Global Entrepreneurship Monitor 2019/20: Armenia National Report*. <https://ameriaadvisory.am/wp-content/uploads/2020/08/GEM-EnglishFinal.pdf>, p. 41.

<sup>5</sup> See Melikyan N. (2013). Corporate Governance as a Factor of Trust, *CRRC-Armenia 2013 Proceedings of the Conference on Social Capital [Arm]*, pp. 75-89. [https://www.crrc.am/wp-content/uploads/2019/03/CRRC-Social\\_Capital-Conference-1.pdf](https://www.crrc.am/wp-content/uploads/2019/03/CRRC-Social_Capital-Conference-1.pdf)

<sup>6</sup> Ibid.

<sup>7</sup> See Balasanyan S., Vardanyan N. (2019). *CSO Research Capacity Practice Development Guide*. pp. 24-25. [https://www.crrc.am/wp-content/uploads/2019/03/Research\\_Skills\\_for\\_CSOs.pdf](https://www.crrc.am/wp-content/uploads/2019/03/Research_Skills_for_CSOs.pdf)

can answer difficult or very specific questions. This survey is conducted among 17 experts, including officials from the Ministry of Economy, Ministry of Finance, Small and medium-sized enterprises (SME) Cooperation Association, business associations, investor associations, heads / experts of private business consulting companies, professors of business sciences and marketing; 75% of the experts carry out their main activity in the private sector, and 25% in the public sector, 62.5% of the participants belong to the 36-55 age group, and 37.5% belong to the 18-35 age group. Moreover, in the scope of the testing phase, the questionnaire was initially sent to 5 experts, whose answers did not reveal any significant problems in the questionnaire, and the total number of experts who received the questionnaire is 26 (participation rate - 65%) with an equal ratio of spheres of activity. Assessing the uncertainty about the independence of experts' opinions, it should be noted that the average standard deviation of the questions with 1 to 10 score answers is 0.38 (in the denominator we can take the average of the scores of the respondents, or  $\sqrt{\frac{(17-1)^2}{12}}$  assuming that we are dealing with a uniform distribution), which is a good result, given that when assessing the independence of opinions, it is necessary that the general variance be large, not vice versa<sup>8</sup>.

**Analysis.** The results of the survey will be presented below by the following grouping: answers to the questions about the level of cooperation, answers to the questions about trust, the changes over time, the interaction of social capital with economic indicators, and finally the results of open-ended questions.

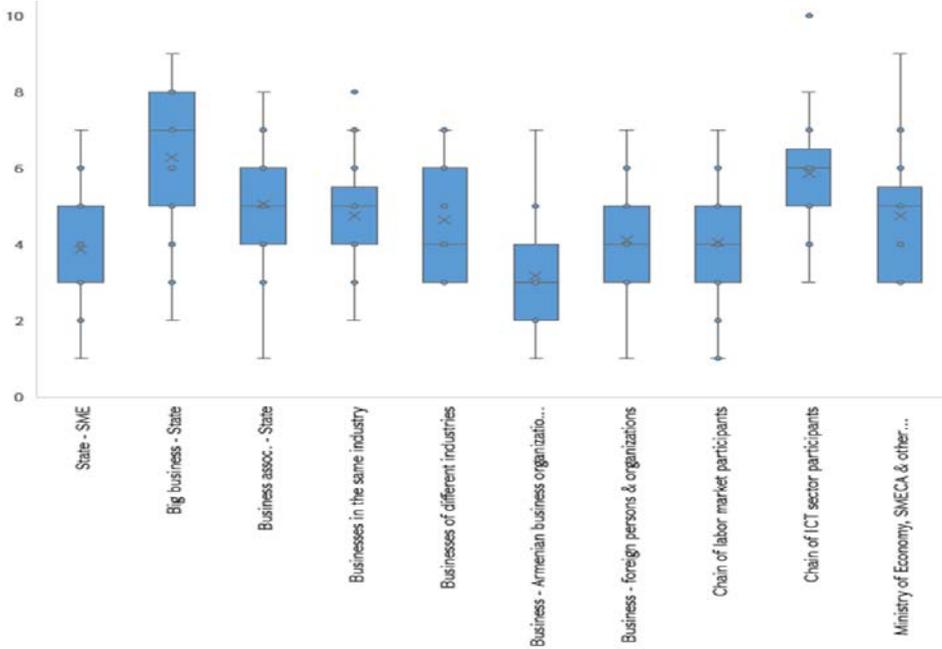
#### *Level of cooperation*

According to the results of the expert survey, the situation in terms of cooperation, one of the most important elements of social capital, is as follows (Figure 1). On average, the highest level of cooperation, according to the experts, exists between the big business and the state, in the case of which, however, we have the largest deviation of answers (standard deviation) and mean absolute deviation from the median (MAD). We have the lowest score of the level of cooperation in terms of cooperation between the business and diaspora. Moreover, the experts opinion is consensual: in the case of cooperation with diaspora and foreign organizations, we have the lowest variation and the lowest mean absolute deviation from the median, which can also be seen from the graph by considering the interquartile interval (IQR) containing 50% of the answers. In connection with the latter, it should be noted that according to the results of the GEM national report, Armenia is in the middle position (the 21st out of 50) by the share of starting businesses expecting to sell their products abroad<sup>9</sup>. Therefore, from the point of view of promoting social capital, this is a

<sup>8</sup> **Maestas Ch.** (2016). *Expert Surveys as a Measurement Tool: Challenges and New Frontiers*. The Oxford Handbook of Polling and Survey Methods, Edited by Lonna Rae Atkeson and R. Michael Alvarez, Online Publication Date: Jun 2016 DOI: 10.1093/oxfordhb/9780190213299.013.13.

<sup>9</sup> **América LLC** (2019). *Global Entrepreneurship Monitor 2019/20: Armenia National Report*, p. 100. <https://ameriaadvisory.am/wp-content/uploads/2020/08/GEM-EnglishFinal.pdf>,

really unrealized potential and hence it should be one of the most important targets to be addressed.



Source: the expert survey results.

**Figure 1. Distribution of answers to the question "Please assess the level of cooperation in Armenia in the following directions"**

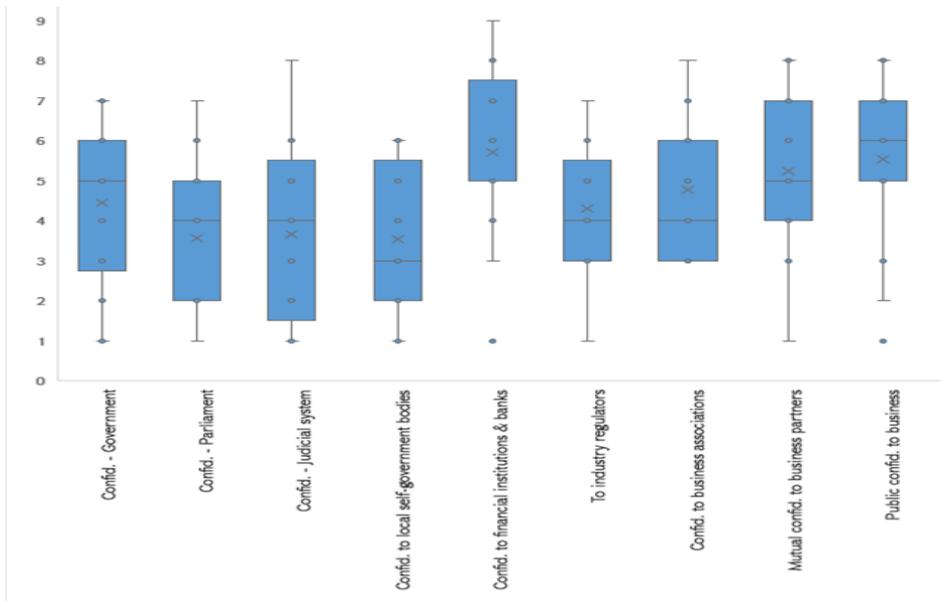
According to the average assessment of experts, cooperation in the field of state-SMEs is weak. According to the experts, the connection is highly personalized and not coordinated when assessing the level of cooperation between the Ministry of Economy, SMEs, business associations, investors and organizations. It is mentioned that after the change of the minister and deputy ministers, for a long time there was no deputy minister or head of the department regulating the SME sphere. Speaking about the level of cooperation in the chain of labor market participants (ministry -> universities -> trade unions -> businesses), one of the experts noted that during his professional career, starting from 2006, he has never noticed the role of trade unions in the labor market or other sectors. The expert thinks that the trade unions in the current situation are atavism of the Soviet model, whose role is not clear in the created values chain.

The second highest level of cooperation - according to the results of the survey - is between the participants in the field of Information and communication technology (ICT). It should be noted that on the cooperation in the chain of participants in the ICT sector (Ministry of High-Tech Industry (Ministry of HTI) -> educational institutions -> ICT companies -> investors -> startups) experts note that the existence of associations provides a higher level of cooperation. According to the experts, this field has stood out with its professionalism. Since the beginning of the 2000s, one of the most successful unions in Armenia, the Union of Advanced Technology Enterprises (UATE), has

been operating, which took the role of a locomotive in the state-private communication. Due to the increase of cooperation within the sector and the involvement of the members of the sector in the formation of the current team of the Ministry of HTI, an existing cooperation has been established between the sector and the public sector. At present, educational institutions play a weaker role in this regard. They do not stand out with the necessary initiative. The culture of investors and startups has developed in the last few years and now this sub-sector is showing steady growth.

#### *Level of trust*

The situation in terms of trust is as follows (Figure 2).



Source: the expert survey results.

**Figure 2.** *Distribution of answers to the question "Please assess the level of trust in the Republic of Armenia in the following directions"*

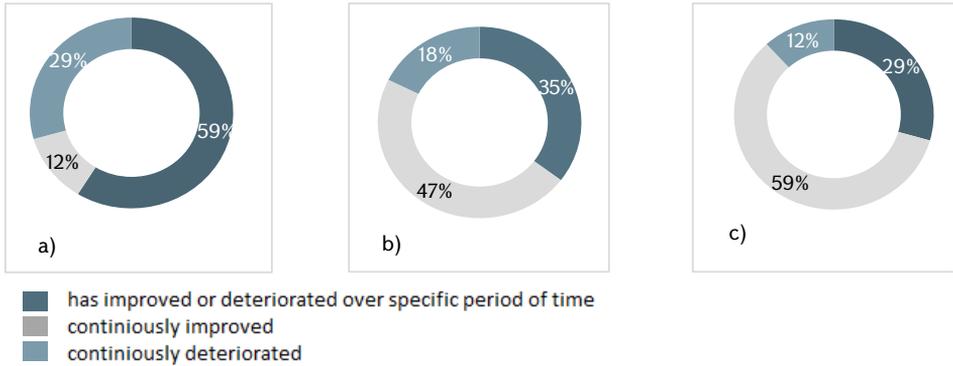
Strange as it may seem, financial institutions and banks are in the first place with an average rating of trust, which is probably due to the fact that it is compared with the trust mainly towards state structures, as well as the fact that the issue is discussed in the context of businesses social capital. And we have the lowest value of the average score in case of trust in state structures (relatively higher trust towards the judicial system which previously had the lowest score<sup>10</sup>). Moreover, here the opinions of the experts differ from each other. We have the largest variation and the largest mean absolute deviation from the median.

#### *Dynamics*

According to 60% of the surveyed experts, the cooperation between the state and business has improved or deteriorated over a specific period of time, and some believe that trust has increased from 2018 to the beginning of 2020: the formation of the new government in 2018 brought new hopes, but the

<sup>10</sup> See, for example, Caucasus Barometer 2019 Armenia, <https://caucasusbarometer.org/en/>.

ineffective struggle against COVID-19, as well as the catastrophic results of the military escalation in Artsakh, stopped and even worsened the trust in state bodies.



Source: the expert survey results.

**Figure 3.** *Answers to the question "How do you think the atmosphere of trust and cooperation in the country has changed in the last 30 years according to the mentioned directions?" (a. between state and business, b. from the point of view of relations between organizations, c. between business and community)*

Meanwhile, according to the other group of experts, the situation worsened right after 2018. One of the experts on business and community cooperation mentions that our society has different myths: on the one hand, doing business is considered honorable; on the other hand - inherited from the Soviet Union - the businessperson is considered a liar and a speculator. The results of the survey on attempts of businesses to solve public problems are as follows: the average score for individual support (for example, charitable) is 4.76 points, and for united, joint efforts is 4.47 points.

*The interaction between social capital and economic indicators*

The answers to the questions assessing the correlation between social capital and economic indicators are interesting. The majority of experts - 53% think that social capital in the country has definitely positive, while 35% think that it has a mainly positive impact on economic outcomes (economic growth, Gross domestic product (GDP) per capita, etc.). The consensus (average) assessment of experts on the impact of social capital on economic growth is 0.47 (from -1 to 1 scale). In turn, the impact of economic outcomes on social capital was unequivocally assessed as positive by 41% of experts, by 41% - mainly positive, and by 17.6% - without any impact. The impact of economic growth on social capital was estimated at an average of 0.64. For comparison note that there are a lot of well known works studying and proving the existing interaction between the two<sup>11</sup>. In addition our analysis of the interaction between social capital indices and economic outcomes showed a significant correlation only in terms of GDP per

<sup>11</sup> Knack, S. and Keeffer, P. (1997). Does social capital have an economic payoff? A cross-country investigation, *Quarterly J. of Economics*, v. 112, n. 4: 1251-1288, Inglehart, R, Baker, E. W. (2000), Modernization, Cultural Change, and the Persistence of Traditional Values. *American Sociological Review* Vol. 65, 9-51.

capita: 0.66<sup>12</sup>. In terms of income inequality, the impact of social capital was mostly negatively assessed by 83% of the participants, while the high level of social capital was considered by the majority of experts to have a mainly positive impact (bringing equality). The impact of social capital on income inequality is described by consensus assessment of -0.31, and the impact of income inequality on social capital is -0.31.

*Open-ended questions on problems, reasons and solutions to the low level of social capital*

Within the framework of the analysis, the experts were also asked open-ended questions about the obstacles to the high level of the social capital of the Republic of Armenia, on the problems and solutions behind them, the answers to which are presented in Table 1.

Table 1

***Answers to open-ended questions on the obstacles to raising social capital in the Republic of Armenia, their causes and priorities for overcoming problems***

***a. "Please mention at least three obstacles that prevent Armenia to rank better"***

1. Unstable situation, 2. Unprofessional managers, 3. Lack of law

1. Lack of national ideology, 2. Systematic destruction of the educational sphere, 3. The indifferent attitude of the nation and government towards the homeland

1. State policy, 2. Traditional Soviet heritage, 3. Knowledge

1. Expenditures on education and the efficiency of the education system. 2. The inefficiency of the public administration system. 3. Cultural issues that affect the value system of society. 4. The passive attitude of the local government bodies in the issue of cooperation and dialogue with business.

1. Quality of education, 2. Difficulty in financing small business, 3. Insufficient digitalization

1. Trust, 2. Lack of cooperation, 3. Respect for each other

1. Social Disunity, 2. Lack of associations

1. Lack of social norms

1. COVID-19, 2. Unstable government

1. Quality of education, 2. Income inequality, 3. Emigration

1. Education, 2. Vision, 3. Culture

1. Immature and arrogant leadership that has achieved nothing in the life

1. Education, 2. Science, 3. State policy

1. Political crisis, 2. Social stratification

1. The whole problem is in the people who are jealous of each other, blame each other for their own failure to work for the other, to achieve the goals, therefore, there is no prosperity or opportunities within the country, and there are equal opportunities for everyone.

<sup>12</sup> Isayan L. (2021). Interaction between social capital and economic outcomes: Which elements of social capital lead to better economic results? [Rus] *Научные исследования современных проблем развития России: цифровая трансформация экономики. Conference Proceeding.*

**b. “Please indicate at least three reasons for the existing obstacle / problems”**

1. War, 2. Unfounded trust by ignorant rulers, 3. Populism

1. Lack of capital investments in education, 2. Underdevelopment of financial infrastructure and opacity of the economy, 3. Bureaucracy and indecision in the process of digitalization

1. Value system, 2. Culture

1. Systemic resistance to reform, 2. Non-inclusive economic growth, 3. National features

1. Development level, 2. Strategic Disappearance, 3. Will

1. Lack of long-term state strategy and 2. Policy

1. Absence of a leader, 2. Wrong economic policy

1. Indifference to the problems of others, 2. Lack of vision in people, 3. Jealousy and hatred

**c. “Please indicate at least three priorities / solutions to the problem”**

1. Adoption of correct laws, 2. Enforcement of laws, 3. Trust

1. Knowledge, 2. Relevant state policy incentivizing, trust building - success cases

1. Focus on the improvement of the general education sphere, aiming to educate a full member of the society, who realizes his rights and responsibilities, is free, is not afraid of responsibility, has a wide worldview.

2. To promote the development of science, to increase state expenditures on science.

3. Improve public administration, automate it, reduce the number of employees in the public sector, increase salaries in parallel and attract high-quality specialists due to the latter.

4. Give local governments the authority and incentives to develop their own relationships with businesses and to promote business development in their communities. Change the tax collection mechanism: the taxes will be collected by the communities and a part of the collected taxes will remain in the community budget.

1. Investments in social capital, 2. Educational programs, 3. Regulation of mutual assistance by the state

1. Implementation of relevant state policies

1. Promotion of the Christian value system, 2. Encouraging the perception of justice, 3. Generating a public demand for trust

1. Improving the legal framework, 2. Border security, 3. Subsidy:

1. Political will, 2. Ensuring equal economic opportunities, 3. Clarification of the national vision

1. From the right economic policy to 2. cultural revolution

1. State ideology, 2. Long-term goals, 3. Strategy, 4. Sectoral policy, 5. Appropriate action plan.

1. Overcoming the political crisis, 2. Policy of balanced and balanced economic development

1. Education, 2. Literacy, 3. Entrepreneurship

Source: the expert survey results.

It should be noted that if the answers to the questions on obstacles and problems are dominated by “education”, “quality of education”, “state policy”, “opportunity”, “something less...” words, then in case of solutions the experts use the words “community”, “trust”, “responsibility” and “incentives” the most.

**Conclusions.** Assessing business social capital in Armenia through expert survey, we showed in this work that on average the highest level of cooperation - according to the experts - exists between the big business and the state, in the case of which, however, we have the largest deviation of answers. The second highest level of cooperation - according to the results of the survey - is between the participants in the field of ICT. Meantime, we have the lowest score of the level of cooperation in terms of cooperation between the business and diaspora which should be one of the most important targets to pay attention. Cooperation in the field of state-SMEs and in the chain of labor market participants is also weak. In terms of trust, we have the lowest value of the average score, and in case of trust in state structures the largest variation among answers can be seen. Moreover, the experts' opinions on the changes in the dynamics are divided into two parts. According to the first group, the situation has improved after the revolution, while the other part thinks that after 2018 we have a deterioration. When addressing main obstacles to the increase of social capital in Armenia the experts point education and opportunities. It is believed that with the help of the state incentives and policy, as well as investing in education and science the country may have more cooperating and trusting society and rank better by its social capital indicators, moreover, it may have positive impact on economic indicators.

In summary, it should be noted that the assessment of multielement social capital still allows a huge open field for analysis (eg. assessment of social capital inside the company, cooperation between the state, community, non-governmental organizations (NGOs), labor unions, etc.) which we will try to cover in our future works.

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## ՖԻՐՈՒՀԱ ՄԱՅԻԼՅԱՆ

Հայաստանի պետական ​​​​ունիվերսիտետի տնտեսագիտության ֆակուլտետի տնտեսագիտության ամբիոնի վարիչի պաշտոնակատար, տնտեսագիտության դոկտոր

## ԼԻԱՆԱ ԻՍԱՅԱՆ

Հայաստանի պետական ​​​​ունիվերսիտետի տնտեսագիտության ֆակուլտետի տնտեսագիտության ամբիոնի ասպիրանտ

**Քիզնեսի սոցիալական կապիտալի գնահատումը փորձագիտական ​​​​հարցման միջոցով (ՀՀ օրինակով).**– Հետապատերազմյան և հետհամաճարակային ժամանակաշրջանում ՀՀ-ում շարունակում են չափազանց արդիական հիմնախնդիրներ մնալ վստահության և համագործակցության ոչ այնքան բարձր մակարդակը, դրա պատճառների ու ազդեցությունների վերլուծությունը: Թեև երկրում սոցիալական կապիտալի մակարդակը կարելի է գնահատել Համաշխարհային արժեքների հարցման, Լիգաթում բարգավաճման ինդեքսի, Կովկասյան բարոմետրի, սոցիալական ցանցերում կապերի կամ այլ տվյալների միջոցով, նշված բոլոր աղբյուրներում սոցիալական կապիտալը գնահատվում է անհատական ​​մակարդակում, մինչդեռ տնտեսության շարժից ուժ հանդիսացող քիզնես հատվածը ստվերվում է: Սույն աշխատանքում ՀՀ-ում քիզնեսի սոցիալական կապիտալի արդի մակարդակի, դրա պատճառների և ազդեցությունների գնահատումն իրականացվել է փորձագիտական ​​​​հարցման միջոցով, ինչի արդյունքում ստացվել են ուշագրավ տվյալներ խնդիրների բացահայտման և դրանց հնարավոր լուծումների առումով:

**Հիմնարաներ.** *Վարկառություն, համագործակցություն, քիզնես, արհեստական կապիտալ*

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### **ФИРУЗА МАИЛЯН**

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#### **Оценка социального капитала бизнеса путем экспертного опроса (на примере Республики Армения).**

— Не очень высокий уровень доверия и сотрудничества, анализ его причин и следствий продолжают оставаться чрезвычайно актуальными вопросами в Армении в послевоенный и постпандемический период. Хотя уровень социального капитала в стране можно оценить с помощью различных данных (Global Values Survey, Legatum Prosperity Index, Кавказский барометр, связи в социальных сетях или другие данные), во всех этих источниках социальный капитал оценивается на индивидуальном уровне, в то время как деловой сектор, играющий центральную роль в экономическом развитии, остается в тени. В данной работе оценка текущего уровня социального капитала бизнеса в Республике Армения, его причин и следствий проводилась посредством экспертного исследования, в результате которого были получены заслуживающие внимания результаты, направленные на выявление проблем и предложение возможных путей их решения.

**Ключевые слова:** *доверие, сотрудничество, бизнес, социальный капитал*

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